

CONFIDENTIAL LIBRARY

E
1685

Department CAB

Series 133

Piece 535

PMVF

CONFIDENTIAL

PMVF(84) Series

CABINET
 ANGLO-ITALIAN SUMMIT
 26-27 JANUARY 1984

MEMORANDA

Serial No.	Date	Brief Description
	23.1.84	LIST OF BRIEFS TO BE ISSUED IN THE PMVF(84) SERIES
1	20.1.84	GENERAL BRIEF Brief by the Foreign and Commonwealth Office
2a	23.1.84	EUROPEAN COMMUNITY: GENERAL Brief by Foreign and Commonwealth Office
2b	20.1.84	EC FINANCING Brief by the Foreign and Commonwealth Office
2c	24.1.84	COMMON AGRICULTURAL POLICY Brief by Ministry of Agriculture, Fisheries and Food
2d	20.1.84	EUROPEAN QUESTIONS: ENLARGEMENT Brief by Foreign and Commonwealth Office
2e	23.1.84	INTERNATIONAL TRADE ISSUES/ PROTECTIONISM Brief by Department of Trade and Industry
2f	20.1.84	NEW POLICIES (INCLUDING INTERNAL MARKET) Brief by the Foreign and Commonwealth Office
2g	16.1.84	STEEL Brief by the Department of Trade and Industry
2h	20.1.84	STRUCTURAL FUNDS Brief by the Foreign and Commonwealth Office

(This column to be left blank)

Serial No	Date	Brief Description
2i	23.1.84	EMPLOYMENT ISSUES: VREDELING AND FIFTH COMPANY LAW DIRECTIVES Brief by the Department of Employment
2j	20.1.84	ITALIAN DISCRIMINATORY TAXATION OF SPIRIT DRINKS Brief by the Foreign and Commonwealth Office
3a	23.1.84	EAST/WEST RELATIONS: GENERAL Brief by Foreign and Commonwealth Office
3b	23.1.84	EAST/WEST RELATIONS: EASTERN EUROPE Brief by Foreign and Commonwealth Office
3c	23.1.84	EAST/WEST ECONOMIC RELATIONS AND TECHNOLOGY TRANSFER Brief by Foreign and Commonwealth Office
4a	23.1.84	ARMS CONTROL: INF/START , CDE, NPT Brief by Foreign and Commonwealth Office
4b	17.1.84	ITALIAN DEFENCE POLICY Brief by Ministry of Defence
4c	20.1.84	BILATERAL DEFENCE MATTERS (EXCLUDING EH - 101) Brief by Ministry of Defence
4d	24.1.84	TRILATERAL DEFENCE CONSULTATION AND ITALIAN OBJECTIONS Brief by Ministry of Defence
5a	23.1.84	LEBANNON AND ARAB/ISRAEL Brief by Foreign and Commonwealth Office
5b	23.1.84	IRAN/IRAQ Brief by Foreign and Commonwealth Office

(This column to be left blank)

Serial No	Date	Brief Description
6a	24.1.84	MALTA Brief by Foreign and Commonwealth Office
6b	24.1.84	CYPRUS/GREECE/TURKEY Brief by Foreign and Commonwealth Office
6c	20.1.84	LIBYA Brief by Foreign and Commonwealth Office
7a	20.1.84	OTHER REGIONAL ISSUES: ARGENTINA Brief by Foreign and Commonwealth Office
7b	23.1.84	CENTRAL AMERICA/CARIBBEAN Brief by Foreign and Commonwealth Office
7c	19.1.84	HORN OF AFRICA Brief by Foreign and Commonwealth Office
7d	20.1.84	SOUTHERN AFRICA: NAMIBIA Brief by Foreign and Commonwealth Office
7e	24.1.84	SOUTH EAST ASIA Brief by Foreign and Commonwealth Office
7f	23.1.84	OTHER REGIONAL ISSUES: NIGERIA Brief by Foreign and Commonwealth Office
8a	23.1.84	WORLD ECONOMIC PROSPECTS Brief by HM Treasury
8b	20.1.84	UNITED NATIONS CONVENTION ON LAW OF THE SEA Brief by Foreign and Commonwealth Office
9a(i)	18.1.84	EH 101 - HELICOPTER Brief by Ministry of Defence

Serial No	Date	Brief Description
9a(ii)	16.1.84	AIRBUS Brief by Department of Trade and Industry
9a(iii)	23.1.84	ANGLO-ITALIAN INDUSTRIAL AND R AND D COLLABORATION Brief by Department of Trade and Industry
9a(iv)	23.1.84	JOINT RESEARCH CENTRE (JRC), ISPRA Brief by Foreign and Commonwealth Office
9b	23.1.84	BILATERAL RELATIONS: ANGLO-ITALIAN ROUND TABLE Brief by Foreign and Commonwealth Office
10a	20.1.84	ITALIAN INTERNAL POLITICAL SCENE Brief by the Foreign and Commonwealth Office
10b	23.1.84	ITALIAN ECONOMY Brief by HM Treasury
	25.1.84	LIST OF BRIEFS ISSUED IN THE PMVF(84) SERIES

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO

50

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

LIST OF BRIEFS TO BE ISSUED IN THE PMVF(84) SERIES

1. **GENERAL BRIEF**
Brief by Foreign and Commonwealth Office
2. **EUROPEAN COMMUNITY TOPICS**
 - a. **EUROPEAN COMMUNITY - GENERAL**
Brief by Foreign and Commonwealth Office
 - b. **EC FINANCING**
Brief by Foreign and Commonwealth Office
 - c. **AGRICULTURE/CAP**
Brief by Ministry of Agriculture, Fisheries and Food
 - d. **ENLARGEMENT**
Brief by Foreign and Commonwealth Office
 - e. **INTERNATIONAL TRADE ISSUES/PROTECTIONISM**
Brief by Department of Trade and Industry
 - f. **NEW POLICIES (INCLUDING INTERNAL MARKET)**
Brief by Foreign and Commonwealth Office
 - g. **STEEL**
Brief by Department of Trade and Industry
 - h. **STRUCTURAL FUNDS**
Brief by Foreign and Commonwealth Office
 - i. **EMPLOYMENT ISSUES (INCLUDING VREDELING DIRECTIVE)**
Brief by Department of Employment
 - j. **ITALIAN DISCRIMATORY TAXATION OF SPIRIT DRINK**
Brief by the Foreign and Commonwealth Office

CONFIDENTIAL

3. EAST WEST RELATIONS
 - a. GENERAL EAST/WEST AND CSCE
Brief by Foreign and Commonwealth Office
 - b. EASTERN EUROPE INCLUDING POLAND
Brief by Foreign and Commonwealth Office
 - c. EAST/WEST ECONOMIC RELATIONS AND TECHNOLOGY TRANSFER
Brief by Foreign and Commonwealth Office
4. ARMS CONTROL AND DEFENCE
 - a. INF, START, CDE, NPT
Brief by Foreign and Commonwealth Office
 - b. ITALIAN DEFENCE POLICY
Brief by Ministry of Defence
 - c. BILATERAL DEFENCE MATTERS
Brief by Ministry of Defence
 - d. TRILATERAL DEFENCE CONSULTATIONS AND ITALIAN OBJECTIONS
Brief by Ministry of Defence
5. MIDDLE EAST
 - a. LEBANON AND ARAB/ ISRAEL
Brief by Foreign and Commonwealth Office
 - b. IRAN/IRAQ
Brief by Foreign and Commonwealth Office
6. MEDITERRANEAN ISSUES
 - a. MALTA
Brief by Foreign and Commonwealth Office
 - b. CYPRUS/TURKEY/GREECE
Brief by Foreign and Commonwealth Office
 - c. LIBYA
Brief by Foreign and Commonwealth Office

7. OTHER REGIONAL ISSUES

a. ARGENTINA

Brief by Foreign and Commonwealth Office

b. CENTRAL AMERICA/
CARIBBEAN

Brief by Foreign and Commonwealth Office

c. HORN OF AFRICA

Brief by Foreign and Commonwealth Office

d. SOUTHERN AFRICA:
NAMIBIA

Brief by Foreign and Commonwealth Office

e. SOUTH EAST ASIA

Brief by Foreign and Commonwealth Office

f. NIGERIA

Brief by Foreign and Commonwealth Office

8. INTERNATIONAL
ECONOMIC ISSUES

a. WORLD ECONOMY
(INCLUDING PROSPECTS
FOR LONDON SUMMIT)

Brief by Treasury

b. UNITED NATIONS CONVENTION ON LAW OF THE SEA

Brief by Foreign and Commonwealth Office

9. BILATERAL RELATIONS

a. COLLABORATIVE
PROJECTS

i. EH101 HELICOPTER

Brief by Department of Trade and Industry and Ministry of Defence

ii. AIRBUS

Brief by Department of Trade and Industry

iii. ANGLO-ITALIAN
INDUSTRIAL AND
R AND D
COLLABORATION

Brief by Department of Trade and Industry

iv. ISPRA JOINT RESEARCH CENTRE

Brief by Department of Trade and Industry

CONFIDENTIAL

b. ANGLO-ITALIAN ROUND TABLE

Brief by the Foreign and Commonwealth Office

10. ITALIAN SCENE

a. POLITICAL

Brief by Foreign and Commonwealth Office

b. ECONOMIC

Brief by Treasury

Cabinet Office

23 January 1983

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

PMVF(84)1

COPY NO 50

20 January 1984

ANGLO ITALIAN SUMMIT
26-27 JANUARY 1983

GENERAL BRIEF

Brief by the Foreign and Commonwealth Office

Introduction

1. This will be the first bilateral Summit since the Athens European Council in December and the first since the start of INF deployment in Europe. After France and Germany, Italy is the most important to us of our Community partners. The Italians are, acutely sensitive to the form as well as the substance of our relationship. They can be expected to attach great importance to the Summit.

2. Eleven months have elapsed since the last Anglo-Italian summit was held in London (25 February) when the Prime Minister met Signor Craxi's predecessor, Fanfani. The pattern for Summits agreed in 1981 with the Italians was that meetings should be held twice a year. We have, however, deliberately allowed this to slip to an interval of about 9 to 10 months. Craxi's visit to London on 16 September, shortly after he took office, made it easier to postpone the Summit last autumn. The Italians hold Summits twice a year with the French and Germans and are consequently well exposed to their views. (The next German-Italian Summit is 23/24 February.) We have ourselves recently had plenty of contact with the Italians at all levels. There are many interests in common. The Summit will provide a useful opportunity to underline the

importance we attach to Anglo-Italian relations generally, and to tackle bones of contention.

3. Italy's first Socialist Prime Minister, Signor Craxi, heads a five party coalition in which the Christian Democrats predominate: they have been in every government since 1945 and any coalition without them would need active support from the Communist Party. The price Craxi had to pay for the premiership was a reduced PSI presence in the Cabinet. After five months of government, his position still looks relatively secure. Ambitious and capable, Craxi still suffers from his lack of previous Ministerial experience and some of his decisions reveal this. The economy is his top priority, in particular the reduction of the PSBR (which threatens to rise to 20% of GDP in 1984) and of Italy's inflation rate, double the EC average. Early expectations of radical action have not been fulfilled: no action was taken to curb the 1983 deficit and Craxi's economic programme for 1984 falls some way short of his original target. The Government now appears to pin most of its hopes on an incomes policy and the locomotive effect of recovery in the rest of the world. Differences within the coalition and the need to avoid a major clash with the unions while pay negotiations are in progress may lead Craxi to abandon any onslaught on public expenditure, which is where Italy's main problem continues to lie. The IMF has been extremely critical of the failure to curb public spending and has warned the Government that Italy may be unable to join in the general economic recovery.

4. Craxi has given prominence to foreign policy, an area in which Italy has adopted an increasingly high profile, particularly as an INF basing country and a major MNF participant. His main recent concern has been the safety of the 2,200 strong Italian contingent in the Lebanon. This will now be progressively reduced, although Italy remains committed to maintaining a contingent of at least 1,100 men, as specified in her agreement with the Lebanese Government. There are strong domestic pressures for complete withdrawal

(including public statements by President Pertini) and a serious incident of the kind suffered by the French or US contingents would put the government in great difficulty. On defence, and on INF in particular, Craxi has held firm and enjoys the support of his Foreign Minister, Andreotti, and Defence Minister, Spadolini, both of whom are former Prime Ministers. His Atlanticism and robustness on INF have earned him credit in Washington.

5. The Italians are likely to field a strong team: including Andreotti (Foreign Affairs), Spadolini (Defence). In addition, Gorla (Treasury) is likely to take part and possibly Pandolfi (Agriculture) and Altissimo (Industry). British Ministers attending will be Sir Geoffrey Howe, Mr Lawson, Mr Heseltine, and Mr Jopling. The Summit is expected to follow the normal pattern. The Prime Minister will have a short tête-à-tête with Signor Craxi on arrival, followed by dinner. The following morning the two Prime Ministers will have a further tête-à-tête. There will be a Plenary Session and a Press Conference before lunch.

UK Objectives

6. Our primary objective will be to seek an agreed way forward on Community issues following the Athens European Council. On East/West relations and defence we will wish to ensure that our views on INF are as close as possible. We shall also want to consult closely with the Italians on the Middle East and Lebanon and to exchange views on views on certain regional issues on which Italy has something to contribute (eg the new Argentine Government, the Horn of Africa). We shall want to rehearse with Craxi the prospect for the London Economic Summit and seek his full co-operation.

Italian Objectives

7. The main Italian objective will be to cut a good figure, to present the Summit as a success, and to demonstrate that they are valid top-table partners. They will have in mind the fact that the last Franco-Italian summit in November ended on a sour note when Andreotti publicly criticised the French for their reprisal raid in Lebanon, carried out during the Summit without the Italians receiving prior notice. They are likely to press again the Italian case for inclusion in the tripartite meetings of Defence Ministers. This may be raised both by Craxi and Spadolini. Lebanon and the future safety of the MNF will also be very much on Craxi's mind. He has in the past not mastered Community matters but may show a greater interest now that future Community financing is at stake.

8. More specific objectives are likely to be as follows:

Community

9. After the failure of the Athens European Council and Craxi's performance there, it will be best to concentrate on a few essential points. The aim should be to bring home to the Italian Government the need for decisions at the March European Council. Otherwise the Community will be in increasingly serious difficulty not only on its financing but also in relation to farming opinion and to the European Parliamentary elections. We shall want to persuade him that the United Kingdom is fully committed to the development of the Community, as shown by the paper which we have tabled in Brussels on new policies, and that our objective is to establish sound conditions for this development. That is why we made clear at Stuttgart that we would be prepared to consider an increase in own resources (which the Italians want immediately and would involve a fundamental change in the 1970 Own Resources Decision) but only on condition that there was a fairer sharing of the budget burden and effective control of agricultural and other expenditure. It

is time now to be forward-looking and not to limp along with the financing arrangements which were appropriate to the quite different circumstances of the Community in 1970. The Community - and not only the United Kingdom - needs a lasting system to correct the present budget inequity. The United Kingdom expects to remain a modest net contributor. In view of the importance of the Italian agricultural interest, the common agricultural policy could figure prominently at the Summit. We should seek to persuade the Italians that they also have an important interest in establishing the operation of the common agricultural policy on a sounder, long-term basis. It is clear that some limits on the open-ended guarantees and restriction on prices are necessary, if the policy is to be safeguarded in the viable form. We should also press for a rapid conclusion of the substantive part of the enlargement negotiations.

East/West Relations, Defence and Arms Control

10. The Italian Government has proved robust on the question of INF deployment and has not so far had to face the kind of difficulties encountered by other western European coalition governments. But the risks are there. Cruise missiles are due to be operationally deployed in Sicily during spring 1984. The Summit will provide an opportunity to discuss how to maintain European resolve and Alliance unity in the immediate future and in the absence of arms control negotiations covering INF. Craxi will argue for flexibility over tactics. He attaches some importance to CDE, and may wish to discuss bilateral contacts with Eastern Europe. Like the Prime Minister he is due to visit Hungary early this year. It would be useful to put defence and arms control questions in perspective within the broader context of East/West relations.

Other International Issues

11. Lebanon remains a major Italian preoccupation. Like the other contributors the Italians have confirmed their commitment to remain in Lebanon, but by the time of the summit they will have begun the process of reducing their MNF Contingent. They will hope for full discussion of both the political and practical problems at the Summit.

12. The Italians have a particular interest in Latin America. They are keen that a solution to the Falklands problem should be found and may see themselves having a role as intermediaries. We will need to bring them up to date on our efforts to normalise our relations with the new government in Argentina, and to engage Italian support for our policy of a step by step normalisation of bilateral relations. This will also be an opportunity to discuss international developments, particularly the Mediterranean (Cyprus, Malta and Libya), Nigeria, Central America and the Horn of Africa, one of the few areas of the world where the Italians can claim special expertise and knowledge.

13. The backdrop to many of these issues will be the general problem of maintaining good transatlantic relations during the election year in the USA and the prospects for the world economy with the Economic Summit taking place in London in June. (In reply to the Prime Minister's letter of 14 December, Craxi has suggested that the Summit should be discussed in Rome.) Although recovery remains patchy, the general outlook is encouraging.

Anglo-Italian Relations

14. Our bilateral relations are generally good. During the preceding months the Italians have been left in no doubt of our commitment to the EH 101, (the Anglo-Italian helicopter) which is proposed for the needs of the two navies and for the commercial market. The MOU for the military version was

signed on 13 January and Mr Lamont will sign the civil version MOU in Rome on 25 January. The Italians will probably again express interest in collaborative ventures, especially on the future European fighter aircraft (FEFA). Italy (a partner in Tornado) is one of the five European nations which agreed on the military requirements (Outline European Staff Targets) for such an aircraft. They are also likely to press for the sale of the Otomat surface to surface guided weapon system, for which they have offered 100% offset arrangements. On 10 January the UK signed a Memorandum of Understanding on fast reactor collaboration with the Italians, as well as with the French, Germans and Belgians.

15. The Anglo-Italian Round Table, conceived at the last Summit and due to be launched with a first meeting in Rome during the first half of this year, should receive some encouragement from both sides. There is a fair measure of agreement on the size and scope of the Round Table, the themes to be tackled and the modest finance to be provided. We have told the Italians that we will treat its early meetings on an experimental basis.

Handling the Meeting

16. If there is time for two tête-à-têtes, the Prime Minister may want to cover on the first evening one or two subjects on which we share common ground and concerns (i.e. INF, East/West relations and Lebanon) and perhaps the Economic Summit. She could then deal fully with Community affairs the next morning.

17. The Foreign Ministers might then join the Prime Ministers for further discussion of Community and regional issues, including Argentina and the Falklands on which Craxi may be more receptive to our arguments than Andreotti. Bilateral issues might conclude the meeting before the Plenary begins. All participating Ministers might be asked to devote a portion of their time in their bilateral meetings to getting over our message on the Community.

CONFIDENTIAL

Programme

18. (Subject to amendment.)

26 January

1545 Leave the House of Commons
1645 Depart LHR (south side) by VC10
2005 Arrive Rome airport (Ciampino).
To be met by a Minister (not Craxi)
2100 Brief tête-à-tête with Signor Craxi
Dinner hosted by Signor Craxi
(at Castel Sant' Angelo for 40 guests)

27 January

0930 Tête-à-tête with Signor Craxi (at Villa Madama
accompanied by note takers and interpreters.)
Separate talks between other Ministers
1030 Joined by Sir G Howe and Signor Andreotti
1115 Plenary
1205 Plenary Ends (British side considers Press line)
1215 Leave Villa Madama
1230 Joint Press Conference at Palazzo Chigi
1310 Prime Minister's briefing of British TV and Radio
1340 Depart Palazzo Chigi
1415 Lunch at HMA's Residence
(Villa Wolkonsky)
1610 Depart Villa Wolkonsky
1630 Call on President Pertini (at Quirinale)
1715 Depart Quirinale
1740 Motorcade departs for airport
1800 Depart Rome airport by VC 10

CONFIDENTIAL

19. The following Annexes are attached:

Annex A - Personality Notes

Annex B - List of Briefs

Annex C - Basic Statistics on Italy

Foreign and Commonwealth Office
23 January 1984

RESUME OF BRIEFS

2. European Community Topics

European Community - General

Brief No 2(a)

1. The Italians have not been prominent in the negotiations. Nor has Craxi mastered the detail or shown any inclination to do more than urge an increase in own resources and exemptions for Italy from any proposals designed to secure savings. Although the Italians will not offer us any support on budget imbalances they do share many of our problems over the CAP and may be open to persuasion that its reform is in their interests. It may be possible to interest them in the Community's future development. We shall wish to impress on the Italians both the urgency of the need to reach an agreement and the stringency of the two conditions which we have attached to our agreement to an increase in own resources.

EC Financing

Brief No 2(b)

2. Our objective is to convince the Italians that we stand firmly by our two prior conditions for considering an increase in own resources. On budget imbalances, we cannot accept a degressive, time-limited solution of the kind proposed by President Mitterrand at Athens. As for control of Community expenditure, we should emphasise the importance we attach to building on the progress made shortly before Athens, including the French proposal (which is anathema to the Italian), provided that whatever arrangements are agreed are formally embodied in the Community's budgetary procedure.

Agriculture/CAP

Brief No 2(c)

3. The CAP imposes substantial non-budgetary costs on both Italy and the UK and the two countries therefore have to some extent a similar interest in reform. We would hope to

persuade the Italians to take more account of this fact than they have done hitherto. Traditionally, they tend to concentrate more on securing improvements in support for Mediterranean agricultural products than in pursuing reforms. In any event we will wish to persuade the Italians that reform is inevitable, and agreement on what is necessary can only be reached on a non-discriminatory basis with all CAP regimes (including "Mediterranean" regimes) bearing a share of the burden. We will wish to register with the Italians that we will not accept any changes to the system of MCAs which would involve increased budgetary costs in the short or long-run.

Enlargement

Brief No 2(d)

4. The Prime Minister will wish to reaffirm our commitment to completing the substantive part of the accession negotiations by the summer break with a view to achieving Spanish and Portuguese accession, as they wish, by 1 January 1986.

International Trade Issues/Protectionism

Brief No 2(e)

5. We should encourage Italian independence from French protectionist attitudes to rollback and other GATT issues, especially agriculture; and seek better Italian understanding of the political importance for Britain of services liberalisation and of adequate duty-free supplies of Canadian newsprint.

New Policies (including Internal Market)

Brief No 2(f)

6. This will be an opportunity to underline our commitment to the future of the Community and to show that it can develop by pursuing cost effective policies (eg completion of the internal market in goods and services, removal of trade barriers and liberalisation of road and air transport) in ways which involve little or no budgetary expenditure. We can also confirm our interest in industrial co-operation

and more effective Community R and D, to which the Italians attach particular importance.

Steel

Brief No 2(g)

7. Italy is required under the EC steel aids regime to make capacity cuts of 5.8m tonnes. It is important that the requirement is now translated into a firm commitment by the Italians to undertake effective and specified capacity cuts.

Structural Funds

Brief No 2(h)

8. This is not a subject we want to raise. But as major beneficiaries from the structural funds, and in view of their important interest in integrated Mediterranean programmes, the Italians may well raise it themselves. If they do, we shall have to make it clear that we cannot agree to a doubling of the structural funds in real terms in the next five years and avoid any commitment on IMPs.

Employment Issues (including draft "Vredeling"
and Fifth Company Law Directives

Brief No 2(i)

9. The UK Government are opposed in principle to both these draft Directives. The Italians are publicly in favour although, especially in "Vredeling", they are believed to have certain reservations which they could be asked to elucidate.

Italian Discriminatory Taxation on Spirit Drinks

Brief No 2(j)

10. The Italians have yet to comply with two European Court rulings against discriminatory taxation of imported spirits - harmful to UK exports of whisky and other spirits. The Italian Agriculture Ministry confirm that an announcement of compliance is in the offing: we need to stress our concern that the Italian should remove all discrimination as soon as

possible.

3. East/West Relations

General East/West and CSCE

Brief No 3(a)

11. We seek a more constructive relationship with the Soviet Union. Arms control will remain a central issue, but progress is more likely if there is a broader agenda for dialogue between East and West. We recognise the need to create opportunities for talking: Sir G Howe suggested to Gromyko at Stockholm that they should meet later this year for more substantive talks in London or Moscow. Expectations must however be realistic. Progress will not be quick. Dialogue is not an end in itself, but can help to make our views clear to Soviet leadership and avoid dangerous misunderstandings. We shall not compromise on principles, and will talk plainly about major issues which create difficulties:- especially military build-up, Afghanistan, human rights. Important also to talk to Russians about regional issues such as Middle East, where we should urge the Soviet Union to play a more constructive and co-operative role.

Eastern Europe (including Poland)

Brief No 3(b)

12. The brief describes the state of our relations with key Eastern European countries, especially Poland and Hungary (the latter shortly to be visited by both the Prime Minister and Signor Craxi). It also sets out the background to current UK/US efforts, known to and accepted by the Italians, to settle the separate but related issues of claims against Albania and the restitution of "Albanian" gold.

East/West Economic Relations and Technology Transfer

Brief No 3(c)

13. We need to maintain in both COCOM and nationally our efforts to control West/East transfer of strategically sensitive goods and technologies. We should continue to press the Americans to be flexible in negotiation and to respect need for multilateral consensus. And we should aim for shorter, more precise COCOM lists of what the Russians are aiming for, and then ensure that these items are properly protected

4. Arms Control and Defence

INF, START, CDE, NPT

Brief No 4(a)

14. On defence and disarmament issues, the leaders will wish to take stock of the situation following the deployment of NATO's first INF missiles (Italy is one of the INF basing countries). They will discuss the hiatus in existing arms control talks to ensure that our views on INF in particular remain as close as possible. They will also need to discuss ways of ensuring that the newly opened CDE is used for the negotiation of concrete measures rather than a platform for Soviet propaganda.

15. With the Non-Proliferation Treaty Review Conference coming up in 1985, it is essential that the Italians should focus on its successful preparation, both in bilateral and multilateral fora. There is growing criticism of the NPT in the developing world, which major supplier countries must try to allay over the coming 18 months and Italy must be seen to play her full part.

Italian Defence Policy

Brief No 4(b)

16. We hope that, like the UK, Italy can continue to give defence a high priority in view of the increasing Warsaw Pact threat. We recognise the strategic importance of the Southern Region and the need for stability in the area.

Bilateral Defence Matters

Brief No 4(c)

17. We value our defence relations with Italy and look forward to greater co-operation on European equipment matters which Mr Heseltine stressed at the NATO DPC meeting in December. In particular, we welcome developments on the Future European Fighter Aircraft (FEFA).

Trilateral Defence Consultation

Brief No 4(d)

18. We note the concerns which Italy has expressed over exclusion from the trilateral defence talks in September 1983. The Defence Secretary is considering how best to handle this: options include the hosting of a Ministerial meeting of all 5 FEFA nations in lieu of the previously publicised tripartite Ministerial meeting.

5. Middle East

Lebanon and Arab/Israel

Brief No 5(a)

19. On Lebanon Ministers will want to follow up Sir Geoffrey Howe's conversation with Signor Andreotti in Stockholm on ways of securing wider UN involvement as an alternative to the MNF, and the discussion between Foreign Ministers of the Ten on 23 January. The Italians will be interested in exchanging views on recent meetings with Mr Gromyko and Mr Rumsfeld.

20. On Arab/Israel, we should report the main points arising from Sir G Howe's visit to the Middle East, particularly the moderate Arabs' call for a prominent

Western role in the peace process. We should seek Italian agreement that the Ten should respond positively to Egyptian efforts to move the US on the question of Palestinian self-determination and we should discuss whether the latest developments present any chance of breaking the deadlock.

Iran/Iraq

Brief No 5(b)

21. The war has entered its fourth year and the stalemate continues. Though Iran retains the military initiative, US assurances that it would not be in American interests for Iraq to lose the war have boosted Iraqi confidence in their ability to go on fighting. UK is anxious to see an early end to the conflict and remains concerned to prevent its escalation in the Gulf.

6. Mediterranean Issues

Malta

Brief No 6(a)

22. Some disturbing internal developments. It is important to keep an eye on Malta's relations with the Soviet bloc and other communist countries. Firm dealing with the Maltese Government is the best policy.

Cyprus/Turkey/Greece

Brief No 6(b)

23. It is important to keep in touch on Cyprus. The way forward is through the efforts of the UN Secretary-General. The UK stands ready to help him. We are disturbed at continued tension between Greece and Turkey.

Libya

Brief No 6(c)

24. The Italians have extensive commercial links with Libya and a large community of 15,000. Their relations with Libya went through a bad patch in late 1983. They are well placed to assess Qadhafi's position and policies, both internal and external. Concern about US policy on exports to Libya.

7. Other Regional Issues

Argentina

Brief No 7(a)

25. We should acknowledge and exploit specific Italian expertise in relations with Argentina. In particular, we should engage Italian support for our policy of a step by step normalisation of bilateral relations with Argentina and the recreation of confidence. Conversely, we may need to discourage any Italian initiative that could be unwelcome to us.

Central America/Caribbean

Brief No 7(b)

26. Italy has stayed with the EC pack, while seeking like us to avoid public disagreements with the US. We wish to argue against any ill-considered EC initiative towards Central America (especially one leading to increased aid). We would welcome Italian views on the Kissinger Commission report, Sandinista intentions and the desirability of sending observers to the El Salvador elections. On Grenada both sides can agree on the need to look to the future and to support the interim administration.

Horn of Africa

Brief No 7(c)

27. We wish to elicit the latest Italian assessment on the Horn, and to inform them of our plans for a more active role there. We look forward to official-level bilateral talks on Africa in March/April.

Southern Africa/Namibia

Brief No 7(d)

28. The immediate problem is to secure Southern African withdrawal from Angola. Proposals on the table must be fully explored and the climate for negotiations re-established.

South East Asia

Brief No 7(e)

29. We deplore the continuing Vietnamese occupation of Cambodia and will maintain our support for ASEAN efforts to bring about a Vietnamese withdrawal. We are concerned at reports that the Vietnamese may again launch a dry-season offensive against Coalition Government forces and refugee camps on the Thai border; in this event, we would be prepared to join in a Community condemnation of the Vietnamese action.

30. The situation in the Philippines remains worrying. Key elements are the Government's efforts to restore economic confidence and doubts over the succession to President Marcos. The maintenance of political stability is a general Western interest.

Nigeria

Brief No 7(f)

31. The Italians may ask about Nigeria. Major-General Mohammed Buhari's new government seems to enjoy widespread internal support. Buhari has sent a delegation to Washington, London (where they had talks with Sir Geoffrey Howe), Paris, Bonn, Moscow and Jedda (but not Rome). In particular, we have made clear our willingness to continue discussions on ways to solve short term debt problem.

8. International Economic Issues

World Economy (including Prospects for London Summit

Brief No 8(a)

32. Progress against inflation has contributed to the recovery in the major countries which began last year. Vigorous growth in the US and lately Japan has not so far been matched elsewhere but recovery is expected to broaden and inflation to remain moderate. The US budget deficit and its effects on interests rates remains a prime concern. New

US budget proposals for 1985 are expected shortly. International debt problems have stabilised though some individual debtors still give cause for concern. The London Summit is expected to consider how policies can sustain recovery and the interaction between international debt and trade questions. Discussions on international monetary reform, led by the Italian Treasury Minister, are being taken forward within G10.

United Nations Law of the Sea Convention (UNLOSC)

Brief No 8(b)

33. We need to work together to obtain improvements to the Law of the Sea Convention on deep seabed mining regime. It is essential that we should not change our policies on refraining from signature until these improvements have been obtained. We hope that Italy will be amongst the signatories of the Provisional Understanding to avoid overlapping of deep seabed mining sites.

9. Bilateral Relations

Collaborative Projects

EH101 Helicopter

Brief No 9(a)(i)

34. EH101 is an Anglo-Italian helicopter project to be developed for the two Navies and the commercial market. The project is of considerable importance: some 900 sales - worth £12 billion, with spares - are forecast and at its peak it will generate about 10,000 UK jobs. UK Ministers approved the project last year; the Italian approval process was delayed by the 1983 Italian elections but the Italian Government agreed in December 1983 to sign the necessary documents. The main inter-MOD MOU was signed on 13 January. Mr Lamont and Signor Altissimo will sign the DTI Confidential MOU on 25 January.

Airbus

Brief No 9 (a)(ii)

35. Note Italian interest in participating in A320. There is close accord in HMG's and Italian views that the project must show good prospects of commercial viability before a commitment is made. HMG's decision on the question of government financial support for UK participation will be reached very soon. We regard the question of additional participation as essentially one for the industrial partners to decide on industrial merit.

Anglo-Italian Industrial and R and D Collaboration

Brief No 9(a)(iii)

36. We should make clear our continued interest in promoting collaborative projects with Italy, either directly or via multilateral fora, but that we continue to see industrial and R and D collaboration as essentially a matter for the potential industrial partners.

Joint Research Centre (ISPRA)

Brief No 9(a)(iv)

37. The Research Council on 13 December, agreed a programme for the Joint Research Centre. However, the European Commission, with Italian support, wants to establish a tritium handling laboratory at the JRC facilities at Ispra which the FRG, France and the UK believe is unnecessary.

Anglo-Italian Round Table

Brief No 9(b)

38. We and Italians have been exploring proposal of the Round Table (one seminar a year for non-governmental, eminent figures) since it was endorsed by Prime Ministers at the last Anglo-Italian Summit. We wish to underline our interest now that the stage is being reached when they will have to focus their ideas and make arrangements for inaugural meeting in Italy. Government financing modest (£5,000 on UK side for first meeting).

10. Italian Scene

Political

Brief No 10(a)

39. After nearly six months in office the Craxi coalition Government seems secure for the time being. It faces the same fundamental economic difficulties as beset its predecessors - high public deficit and high inflation.

Economic

Brief No 10(b)

40. Little progress has been made in tackling Italy's underlying economic problems (required for improving her longer term prospects). The 1983 targets for the budget deficit and inflation were both missed and those for 1984 are already at risk. But a turning point may now have been reached. IMF's recent critical appraisal reflects general concern over Italy's poor economic management. The Government's decision to postpone further fiscal action until satisfactory progress is achieved on reform of the wage indexation system may prove shortsighted.

PERSONALITY NOTES

1. President Alessandro (Sandro) Pertini
2. Signor Benedetto (Bettino) Craxi
3. Signor Giulio Andreotti
4. Signor Renato Altissimo
5. Senator Francesco Cossiga
6. Signor Francesco Forte
7. Signor Giovanni Goria
8. Signor Filippo Mario Pandolfi
9. Senator Giovanni Spadolini
10. Signor Bruno Visentini
11. Signor Bruno Bottai
12. Signor Andrea Cagiati
13. Signor Renato Ruggiero

PERTINI, ONOREVOLE ALESSANDRO

President of the Republic (Socialist).

Born Stella (Savona) 1896. Graduated in Law and Social Sciences.

A Socialist from youth, he was condemned for anti-Fascist activities in 1925 and took refuge with Turati in France in the following year. He returned clandestinely to Italy but was arrested at Pisa in 1929. Remained in prison until August 1943 when he was liberated. Captured by the Germans, he escaped from the Regina Coeli prison in Rome and joined the Resistance in which he played a very prominent part, particularly in Genoa. Subsequently, received the highest award for bravery, the Gold Medal of the Resistance. Also holds the United State Silver Staff and the Croix de Guerre.

Deputy for Genoa in every post-war legislature until he became President, and a leading figure in the PSI. He held various positions in the party, but was always something of a loner. He opposed an electoral alliance with the Communists in the late 1940s, but also opposed the Socialists' entry into government with the DC in the 1960s. Elected President (Speaker) of the Chamber of Deputies in June 1968, a post which he filled with distinction until June 1976.

He was elected President of the Republic on 8 July 1978 with (in the end) the support of all parties of the five-party majority, though the DC had initially refused to support him or any other Socialist. He is the first Socialist ever to be

/elected

elected President (although there has been a Social Democrat). He is enormously popular with ordinary people throughout Italy, not least because of his obvious integrity, unusual in Italian politicians.

Pertini is a pleasant, obstinate, old-fashioned figure. He has done much to restore the prestige of the Presidency. He is a man of simple habits. Wears a cloth cap and smokes a pipe. His first action at the Quirinale was to reduce ceremonial and protocol. He speaks his mind and in doing so often embarrasses the Government of the day (eg after the November 1980 earthquake). He has a number of fixed ideas, one of them being that Italian terrorism is directed from abroad by hostile powers and another being that the Italian troops in the Lebanon MNF should be withdrawn. He takes his responsibilities for Government-making very seriously. He has the knack of expressing what the public feels on issues of the day. He likes youth, receiving hundreds of young people every day and inviting them to question him on any subject. He takes a fancy to people (eg the Duke of Edinburgh, the King of Spain). His staff never know what he will say next.

Is very fond of the cinema. Speaks French but no English. Friendly to Britain. Despite his age he appears to be in robust health: in March 1982 he managed two gruelling State Visits, to Japan and the United States, within a few days of each other and showed considerable stamina during his State Visit to Jordan in November 1983. Married a girl partisan during the Resistance period. She is a qualified psychologist and takes very little part in public life: when she does (eg during his trip to China in 1980), the results are very

/mixed

CONFIDENTIAL

mixed. Exceptionally friendly to us. Awarded the GCB and Collar during the 1980 State Visit. Due to visit London and meet The Queen and Mrs Thatcher in February 1984.

CONFIDENTIAL

CRAXI, ONOREVOLE BENEDETTO (KNOWN AS BETTINO)

Prime Minister, and Secretary of the Socialist Party (PSI).

Born in Milan on 24 February 1934. Career as a full-time party official. Milan City Councillor 1960-70. Party Directorate Member since 1965. Deputy for Milan-Pavia since 1968.

He replaced De Martino as Party Secretary in July 1976, when the latter was removed following the PSI's disappointing performance in the general election the previous month. Craxi at this time aligned himself with the small 'Autonomist' faction of the party, led by Nenni, and his election as Secretary was due to the support of all the younger (ie less than about 45 years old) members of the PSI National Council, and of Mancini.

The National Congresses of the PSI in 1978 and 1981 overwhelmingly confirmed Craxi's leadership and backed his policy of asserting the party's independence of the PCI. Craxi always wanted to take the Socialists back into government with the DC, but had to bide his time because there was vocal opposition among the rank and file.

In early 1980, he narrowly defeated the left wing in a power struggle within the party; since then he has consolidated his position. In April 1980, he took the PSI back into government and was thus able to reward some of his supporters with Ministerial jobs. His relations with the PCI, and especially Berlinguer, are bad and the left wing of the DC also regard him as an untrustworthy ally and threat to DC supremacy. Craxi made no secret of his ambition to become Prime Minister as quickly as possible. Electoral

/results

results in the last 3 years suggest that his line is paying modest electoral dividends: in June 1980 the PSI gained 2% to poll 12% in local elections, and they got 11.4% in the general elections of June 1983. He was able to achieve his ambition of becoming Italy's first Socialist Prime Minister because of the drop in the DC vote and morale following the 1983 elections.

A tall, dominating figure, he looks older than his years. Fond of good living, and eloquent in private conversation, but spends too much of his time with close party colleagues, isolated from criticism. Held in respect by other PSI Deputies though not greatly loved; generally distrusted by other politicians. Something of a bully. The joke that he was really christened Benito (like Mussolini) says much about his style. But he chooses his words carefully and his salvos are never accidental. Scathing in his attacks on the inequalities and inefficiencies of Italian society, but less eloquent when forced to suggest remedies. Has a difficult relationship with the Socialist President Pertini (qv). A clever self-publicist. Regarded as pro-American. A staunch supporter of NATO's 'double track' policy on INF.

Visited UK as guest of HMG, and attended Labour Party Conference at Blackpool, in September 1976. Caused us a lot of trouble over the Falklands affair in 1982, but has taken a more restrained line since then. Craxi visited London for talks with the Prime Minister in September 1983, and hosted the Anglo/Italian Summit in Italy in January 1984.

Little English. Fair French.

Married with children.

ANDREOTTI, ONOREVOLE GIULIO

Minister for Foreign Affairs (Christian Democrat).

Born Rome 1919, and still lives in the centre of the city. Graduated in law. Served in the army for 12 months 1940-41, and was released for health reasons. He then made his mark in Catholic University politics and student journalism. He worked for a time in the Vatican library, where he was noticed by De Gasperi and taken up as a protégé. Was one of the founders of the DC newspaper 'Il Popolo' during the clandestine period. Appointed a member of the DC National Council at the party's 1944 Congress in Naples. Member of the Constituent Assembly 1946-48 and a Deputy for Rome since 1948. Under-Secretary in the Prime Minister's office under De Gasperi and Pella, 1947-54; Minister of the Interior 1954; of Finance 1955-57; of the Treasury 1958; of Defence 1959-66; and of Industry 1966-68. DC group leader in the Chamber 1966-72. He was asked to form a government during the political crisis of August 1970 but failed because he was thought too close to the Socialists. Prime Minister of a minority DC government February to June 1972, and of a centre-right coalition June 1972 to July 1973. Minister of Defence under Rumor March 1974 to November 1974; Minister for the Budget, Economic Planning and Mezzogiorno under Moro November 1974 to August 1976, when he formed a minority DC government without a parliamentary majority. In early 1978 the PCI were included for the first time ever in the parliamentary majority, supporting Andreotti's fourth government. In January 1979, the withdrawal of the PCI precipitated a crisis and Andreotti headed a caretaker government (his fifth) to prepare for elections. President of the Chamber's Foreign Affairs Commission from 1979 to 1983, he became Foreign Minister in the first Craxi Government (1983).

/Andreotti

CONFIDENTIAL

Andreotti is a supreme political tactician. In 1974 Andreotti let it be known that he was one of those Christian Democrats who could envisage a working relationship with the Communists. He was thus the right man for the DC to field as their Prime Ministerial candidate when, after the General Election of June 1976, a parliamentary majority could not be found for a DC-led government. He maintained this delicate balance with the Communists, allowing them to make the step forward in March 1978 from abstention to inclusion in the parliamentary majority. He retains respect from the PCI and is widely believed to be courting their support for the next Presidential elections. Above all, he is good at getting things done; this is a major reason for the success of his career (no Italian has wider political experience). He operates an enormous and efficient patronage system. He has also proved adroit enough to resist several attempts to implicate him in scandals - so far.

Andreotti remains a potent political force with a reputation as perhaps the most adroit and possibly the least scrupulous of DC leaders, with very close links to the Vatican. He almost became President of the DC party in late 1980, of the IPU in September 1982, and Foreign Minister in Fanfani's fifth government in November 1982. He used his position on the Foreign Affairs Commission to maintain his good contacts with many foreign leaders. He has his eye on the Presidency when Pertini goes.

Although physically unimpressive, with rather a hunch back, Andreotti is a witty and effective speaker, appearing regularly on television. He masters a brief quickly, does his homework thoroughly, and pushes his staff hard. Sometimes initially chilly, he improves on longer acquaintance and is generally

/very

CONFIDENTIAL

CONFIDENTIAL

very courteous. Friendly towards Britain. He paid an official bilateral visit to the UK in March 1962, and was in Britain for Prime Minister Craxi's working visit in September 1983. As Prime Minister, received Mr Heath on his visit to Italy in October 1972, and Mr Callaghan in September 1977; he also met Mr Pym in July 1982 in Rome. Married with three children. Speaks no English but quite good French. A devout Catholic who attends mass every morning and makes sure that his supporters know that he does. He is a prolific author, writes a weekly magazine column, and takes a keen interest in football (he is active in the management of AC Roma). He keeps a detailed diary, which is feared by his enemies and friends alike even though the published version is sanitised.

CONFIDENTIAL

ALTISSIMO, ONOREVOLE RENATO

Minister for Industry (Liberal).

Born in Portogruaro (Venezia) on 4 October 1940. Degree in Political Science from Turin University. Joined the PLI in 1963. Municipal Counsellor in Turin from 1964-72. In 1968 he was elected President of the Group for Young Italian Industrialists and subsequently became Vice President of Confindustria.

Deputy since 1972 for the constituency of Turin-Novara-Vercelli.

He became responsible for economic affairs within the PLI and then National Vice-Secretary of the PLI, but gave up the latter position at the 1981 PLI Congress because of his Ministerial responsibilities.

He first served as Minister for Health in the first Cossiga Government (1979) but lost the post when the PLI left the coalition. Re-appointed Minister for Health in I and II Spadolini Governments and in V Fanfani Government (1981-83).

Commercial director of an industrial firm. Author of a book on 'Development without Inflation'. Married with three daughters. Lives in Rome. He maintains a permanent sun tan, and is one of the few Ministers seen to circulate in Roman Social life; indeed he enjoys the reputation of being a ladykiller. Speaks English.

COSSIGA, SENATOR FRANCESCO

President of the Senate (Christian Democrat).

Born Sassari (Sardinia) 1928. Professor of constitutional law at the University of Sassari. Deputy for Cagliari since 1958. DC Provincial Secretary 1956-58. Member of the DC National Council since 1958. Under-Secretary at the Ministry of Defence in three successive governments from February 1966 to July 1969. Minister without Portfolio responsible for Public Administration in Moro's fourth government, 1974-76. Minister of the Interior in Moro's fifth government (January-August 1976).

It was as Minister of the Interior that Cossiga first caught the public eye. His handling of the Friuli earthquake relief operations, and television appearances at that time, enhanced his own reputation for efficiency and contributed to his party's success in the June 1976 election. Andreotti kept him on when he formed his single-party DC government in August 1976, as a Minister with a proven ability to get things done. He is a member of the leftish "Base" faction of the DC. Despite some criticism (mainly from the right-wing of his own party) of his handling of law and order he was reappointed in Andreotti's fourth government in March 1978. He resigned in May 1978, shortly after Moro's body was found, taking Ministerial responsibility for the failure of the security forces to come to grips with the Moro kidnapping. After others had failed, he succeeded in forming a second Government, including the PSI, in April 1980. But PCI opposition to the DC at this time was severe and Cossiga also had to cope with damaging scandals within his own party, including one

/concerning

concerning the terrorist son of Donat Cattin (qv) which touched Cossiga personally and hurt his Sardinian pride. In September the Government was defeated over its economic package and Cossiga, characteristically, resigned on principle rather than continue the struggle. He was not a tough or inspiring leader but his integrity and ability were much admired even by his political adversaries. He remained a Deputy but took life quietly from 1980-83. In 1983 he entered the Senate and was elected President of the Senate for the 9th Legislature. He therefore ranks second only to President Pertini in protocol terms.

He is exceptionally friendly, and gives an impression of down-to-earth competence unusual in a DC politician. Considerable knowledge of constitutional history, including English and military uniforms. Also a radio amateur.

Visited England in 1976 as the guest of Mr Roy Jenkins (then Home Secretary) and again in 1977 as the guest of Mr Merlyn Rees (whom he took great trouble to entertain personally during the return visit to Rome). He also met Mrs Thatcher. A sincere Anglophile: his role in solving the EC budget problem during the Italian Presidency in the first half of 1980 was of critical importance.

Cossiga is married, with one son and one daughter, whom he has sent to England to study. He is related to the PCI Party Secretary, Berlinguer. Speaks some English and French. His fall in 1980 embittered him and destroyed his health. His morale remains low, and he looks older than his years. The present job, prestigious but not stressful, suits him.

Awarded an Honorary GCMG during the 1980 State Visit.

FORTE, ONOREVOLE FRANCESCO

Minister for Community Policy (Socialist).

Born in Busto Arsizio (Varese) on 11 February 1929. Now lives in Turin. Graduated in Law from Turin University and subsequently became Professor of Science at that University. A respected economist.

Vice President of ENI from 1971-75.

Member of the Chamber of Deputies since 1979 for the Como/Sondrio/Varese constituency. Member of the Chamber's Finance and Treasury Commission. Minister of Finance in the V Fanfani Government (1982).

At only 23 years old, he wrote his first book - 'Taxation in Italy'. Editor of two economic magazines 'Successo' and 'Micros', and writes regularly in the PSI newspaper 'Avanti'. He came into politics after a successful academic career. Has for some time been close to the PSI leader Craxi; as a result his advice to the Prime Minister is now more influential than one might expect from one in his lack-lustre Ministerial post.

He is small, with lined features and a shock of white hair. Loquacious and self-confident without being aggressive, and is something of a gastronome with a particular liking for wine and whisky. Is said to have an exceptional capacity for hard work. Hobby is cross-country ski-ing. Speaks fluent English.

GORIA, ONOREVOLE GIOVANNI

Minister of the Treasury (Christian Democrat).

Born in Asti, where he still lives, 30 July 1943.

Graduated in Economics and Commerce. Administrator of the Asti Branch of the Cassa di Risparmio from 1974-76.

Joined the DC at the age of 18. Elected DC Secretary for the Province of Asti in 1975 and held this position until 1976 when he was elected to the Chamber of Deputies for the Cuneo/Alessandria/Asti constituency.

Economic adviser to Andreotti during the last Andreotti Government in 1979.

Under-Secretary for the Budget in Spadolini's first government (July 1981-August 1982). He was then put by De Mita in charge of the DC economic department. Is on record as believing that Spadolini was too soft on the Unions and as preaching the need for austerity and government intervention on labour costs and wage indexation. He has been accused by the Communists of 'neo-liberalism'. Minister of the Treasury in Fanfani's V Government, of which he was the youngest member at 39. Has retained his post in the new Government thanks to firm backing from De Mita, and has slowly grown in the job.

Member of the Chamber's Finance and Treasury Committee, specialising in budget control.

Married with two children. Bearded and slightly untidy. Speaks English. He visited Britain as a member of Fanfani's summit team in February 1983. He represents the younger generation of the Northern DC: quiet but determined with a touch of 'English under-statement', and a relaxed, informal style.

PANDOLFI, ONOREVOLE FILIPPO MARIA

Minister of Agriculture (Christian Democrat).

Born 1927 in Bergamo. Degree in Philosophy. Began career in business, and has been a Deputy for Brescia since May 1968. Specialised in Treasury and financial matters. Under-Secretary at the Ministry of Finance (the tax-gathering Ministry) during Moro's fourth and fifth Governments (November 1974 - July 1986), and Minister of Finance in the third Andreotti Government (July 1976 - March 1978). Promoted to succeed Stammati in the more international job of Minister of the Treasury in Andreotti's fourth and fifth Governments in March 1978.

In July 1979, he was given a mandate to form a government but did not succeed, primarily because of PSI opposition. He remained at the Treasury until the fall of Cossiga's second Government, when he was the sacrificial victim because it was failure to get an economic package through Parliament which led to that defeat. Here Pandolfi's lack of a faction worked to his disadvantage. However, his ability, honesty and energy are recognised and Forlani was glad to bring him back as Minister of Industry after the resignation of Bisaglia (qv). He lost his Ministerial post with the resignation of the Forlani Government in May 1981. At the beginning of 1982 he was front runner for the post of OECD Secretary General but despite Britain's support he did not get the job. With the formation of the fifth Fanfani Government in December 1982, was brought back as Minister of Industry. He was moved to become Minister of Agriculture in the Craxi Government (1983).

Has a reputation as a technician, and of someone who works hard as a Minister rather than spending his time politicking. Originally a protege of Visentini (qv) who, though a Republican, asked to have Pandolfi as his junior Minister

/when

CONFIDENTIAL

when Visentini became Minister of Finance in 1974. He claims that the two of them worked a twelve-hour day for months, putting some order into the Italian indirect taxation system. A man determined to achieve tangible administrative results, a rarity among Italian politicians.

Reads English newspapers assiduously, speaks English and has been friendly to us. Married with four children. Likes to visit Britain on holiday and went there as one of Fanfani's Summit team in February 1983. A classical scholar. A civilised and likeable man who tries to stay out of the scrum in Italian politics, but finds this difficult in the highly political Agriculture portfolio.

CONFIDENTIAL

SPADOLINI, SENATOR GIOVANNI

Minister of Defence and former Prime Minister (Republican).

Born Florence 1925.

Professor of History at Florence University, and President of the Bocconi University of Milan. 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 to 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. Continues to edit the party newspaper, La Voce Repubblicana, and to write extensively for it.

Senator for Lombardy since June 1972, Spadolini continued to write articles for the press and to give lectures, even when Prime Minister. He has been the leader of the PRI group in the Senate and Chairman of the Education Commission of the Senate. Was Minister for Cultural Affairs and Environment under Moro, 1974-76, and Minister for Education under Andreotti in 1979.

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.

Spadolini formed his first government in June 1981. He surprised most observers by his energy and capacity for
/coalition

CONFIDENTIAL

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. He formed a second government in August 1982 but resigned in November 1982 after failing to resolve the dispute between his two key economic Ministers Andreatta and Formica, over Italy's uncontrollable public deficit. The excellent performance of the PRI in the June 1983 elections owed much to the reputation and image Spadolini acquired as Prime Minister.

Consistently friendly towards Britain, which he visited as Prime Minister in November 1981. He played host to Mrs Thatcher in July 1982, and met Mr Heseltine in London in November 1983. Overweight, loquacious and somewhat pompous in manner, but can perform effectively on television and is popular with journalists and with the public at large. A gift to cartoonists. Hard-working. Food is his main recreation. Highly intelligent and occasionally witty. Speaks French and some social English. Unmarried, Very friendly to us.

CONFIDENTIAL

VISENTINI, ONOREVOLE BRUNO

Minister of Finance (Republican). President of the PRI.

Born Treviso 1914 and educated at Padua University.
Lecturer in business law at Urbino University.

In 1942 Visentini was one of the founders of the Action Party. He was made an Under-Secretary at the Ministry of Finance in De Gasperi's first government from December 1945 to July 1946. Thereafter, he turned his attention from politics to business. For some years a Vice-Chairman of IRI and from 1963 Chairman of the Olivetti Company. Republican Deputy Pisa 1972-76; Minister of Finance 1974-76; Senator for Turin from 1976-83; elected Deputy for Venice in 1983. Member of the Senate Commission on Finance and Treasury Affairs from 1979-83. President of Pirelli SpA.

Already a Vice-Chairman of Confindustria (the private employers' organisation), Visentini was thought likely to become Chairman early in 1974 but his appointment was said to have been blocked by Fanfani and others; instead, the job went to Giovanni Agnelli (qv). He was expected to be in the running for the succession to Agnelli, when the latter's one year term was due to run out in Spring 1975, but his appointment as Minister of Finance (the tax gathering Ministry) in November 1974 entailed giving up his business positions. Though hardly a technocrat, he was the one member of Moro's fourth government (1974-76) whose background was not entirely party politics. Worked hard, as Minister in charge of taxation, to bring in and implement important reforms. In September 1979 he became President of the PRI. His remarks on political

/subjects

CONFIDENTIAL

subjects often cause a storm: in February 1981, for example, he proposed a Government of 'Technicians' and his relationship with Spadolini (qv) is difficult.

He was brought back to the Ministry of Finance in the Craxi Government of 1983.

A retiring individual, he speaks some English. Married.

CONFIDENTIAL

BOTTAI, BRUNO

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 confirmed bachelor seen about frequently in Roman society. He is an able and hard-working man hand-picked by Emilio Colombo (qv) to be Political Director. He quickly won the respect of his new Minister, Andreotti. Speaks several languages fluently, including English, French, German and Spanish, and is widely read. Differed from us - politely - over the Falklands affair.

CAGIATI, ANDREA

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 (later 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 now knows a good deal about Britain. Tall and impressive, but his haughty style is not always popular with visiting Italian Ministers. His wife is German; they make a handsome couple.

RUGGIERO, RENATO

MFA Director-General for Economic Affairs.

Born in Naples in 1930. He graduated in Law from Naples University in 1953, and joined the Foreign Service in 1955. Vice Consul and Third Secretary in San Paolo 1956-58. Second Secretary in Moscow 1959-60. First Secretary in Washington 1962-64. He then returned to the Ministry working in both the Economic and Political Sections. Counsellor in Belgrade 1966-68. Returning to the Ministry, he became head of the Under-Secretary's Private Office in 1968, and then went as Counsellor to the Italian Mission to the EC in Brussels in 1969 with responsibility for emigration and social affairs. In 1970 he became Chef de Cabinet of the President of the Commission and in 1973 Director General responsible under Mr George Thomson for Regional Policy. In 1977 he was seconded as Spokesman and Director-General of Information to the Commission. Returning to the Ministry in 1978, he worked on economic affairs until seconded as Diplomatic Counsellor to the Prime Minister in April 1979. He became head of the Private Office of the Minister of Foreign Affairs in August 1979 and remained there until posted to Brussels as Permanent Representative to the European Community in mid-1980. He returned to Rome in January 1984 to become Director-General of Economic Affairs at the MFA.

In the Commission he has cooperated very closely with British colleagues in attempting to develop the Regional Fund as an effective instrument to benefit disadvantaged areas, notably in the UK and in Italy. In 1979/80 and in 1983 he had the principal say in determining Italian policy on Community issues, hogging the subject and making it his own. Deeply

/committed

CONFIDENTIAL



committed to the European Community, he has a fund of constructive ideas, many of them sound, and was very helpful to the UK over the budget problem in 1980. Can intrigue and conspire effectively which makes him an awkward opponent if Italian interest conflict with ours. Awarded the KCMG during the 1980 State Visit.

Speaks good English and French. Ebullient, oversize and still very Neapolitan.

Married.

CONFIDENTIAL

CONFIDENTIAL

List of BriefsSubject

1. General Brief
(and resumé of briefs)
2. European Community Topics:
 - (a) European Community -
General
 - (b) EC financing
 - (c) Agriculture/CAP
 - (d) Enlargement
 - (e) International Trade
Issues/Protectionism
 - (f) New policies (including
internal market)
 - (g) Steel
 - (h) Structural funds
 - (i) Employment matters
(including Vredeling
directive)
 - (j) Italian Discriminatory
Taxation of Spirit
Drinks
3. East/West Relations:
 - (a) General East/West
and CSCE
 - (b) Eastern Europe
including Poland
 - (c) East/West Economic
relations and
technology transfer
4. Arms Control and Defence:
 - (a) INF, START, CDE, NPT
 - (b) Italian Defence Policy
 - (c) Bilateral Defence
Matters
 - (d) Trilateral Defence
Consultation and
Italian objections
5. Middle East:
 - (a) Lebanon and Arab/
Israel

CONFIDENTIAL

(b) Iran/Iraq

6. Mediterranean Issues:

- (a) Malta
- (b) Cyprus/Turkey/Greece
- (c) Libya

7. Other Regional Issues:

- (a) Argentina

- (b) Central America/
Caribbean
- (c) Horn of Africa
- (d) Southern Africa:
Namibia
- (e) South East Asia
- (f) Nigeria

8. International Economic Issues:

- (a) World Economy
(including prospects
for London Summit)
- (b) United Nations Law of
the Sea (UNLOSC)

9. Bilateral Relations:

- (a) Collaborative Projects:
 - (i) EH101 helicopter

 - (ii) Airbus
 - (iii) Anglo-Italian
Industrial and
R and D
Collaboration
 - (iv) Joint Research
Centre (ISPRA)
- (b) Anglo-Italian Round
Table

10. Italian Scene:

- (a) Political
- (b) Economic

CONFIDENTIAL

ITALY: BASIC STATISTICS

		<u>ITALY</u>	<u>UK</u>
Population (millions)	1980	56.2	55.9
	1981	56.2	56.0
Labour Force (millions)	1981	22.5	26.2
	1982	22.6	26.0
Unemployed (per cent of civilian Labour Force)	1981	8.8	9.6
	1982	10.6	11.1
	October 1983	12.2	11.8
Gross Domestic Product (Billion dollars)	1981	350.2	497.8
	1982	344.8	471.2
GDP per capita (dollars)	1981	6198	8889
	1982	6092	8414
Annual Rate of Growth of GDP (%)	1981	-0.2	-2.0
	1982	-0.3	1.2
Annual Rate of Growth of Industrial Production (%)	1981	-2.1	-4.0
	1982	-2.6	2.1
Consumer Prices (change over year earlier (%))	1981	19.5	11.9
	1982	16.6	8.6
Balance of Payments on Current Account (Million dollars)	1981	-8605	12657
	1982	-5766	6996
<u>Defence</u>			
Spending (% of GDP)	1982	2.6	5.1
Total Armed Forces	1983	373100	320600
<u>Trade</u>			
United Kingdom Exports to Italy	1982	£2,022.7 million	
	ten months 1983	£1,866.0 million	
United Kingdom Imports from Italy	1982	£2,745.1 million	
	ten months 1983	£2,613.1 million	

Sources: World Bank Atlas, 1983
Eurostat: Data for Short-Term Analysis, December 1983
IMF: International Financial Statistics, November 1983
IISS: The Military Balance, 1982/83
Overseas Trade Statistics of the UK, 1982 and October 1983

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

PMVF(84)1
20 January 1984

(REVISE)

COPY NO
50

ANGLO ITALIAN SUMMIT
26-27 JANUARY 1983

GENERAL BRIEF

Brief by the Foreign and Commonwealth Office

Please note the following revision of Para 18

PROGRAMME

18.

26 January

1545 Leave the House of Commons
1645 Depart LHR (south side) by VC10
2005 Arrive Rome airport (Ciampino).
To be met by Signor Craxi (Brief Military Honours)
2100 Brief tête-à-tête with Signor Craxi
Dinner hosted by Signor Craxi
(at Castel Sant' Angelo for 40 guests)

27 January

0930 Tête-à-tête with Signor Craxi (at Villa Madama
accompanied by note takers and interpreters.)
Separate talks between other Ministers
1030 Joined by Sir G Howe and Signor Andreotti
1115-1205 Plenary
1205 Plenary Ends. British side considers Press line
1215 Leave Villa Madama
1245-1330 Joint Press Conference at Palazzo Chigi

1340 Depart Palazzo Chigi
1400 Lunch at HMA's Residence
(Villa Wolkonsky)
1530-1615 Prime Minister's interviews with British and
Italian TV and Radio (Villa Wolkonsky Library)
1610 Depart Villa Wolkonsky
1630 Call on President Pertini (at Quirinale)
1715 Depart Quirinale
1740 Motorcade departs for airport
1800 Depart Rome airport by VC 10

Foreign and Commonwealth Office
25 January 1984

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT
PMVF(84) 2a
23 January 1984

COPY NO 50

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

EUROPEAN COMMUNITY: GENERAL

Brief by Foreign and Commonwealth Office

Introduction

1. The Prime Minister and Italian Prime Minister last met at the European Council in Athens. This meeting will be our principal opportunity before the March European Council to influence Italian thinking. Craxi has not taken a close interest in Community issues during the negotiation. He made few interventions at the European Council. Where he did intervene it was usually to insist that Italy be exempted from any measures likely to achieve savings in Community expenditure. Our main concern at this meeting will therefore be to persuade Craxi that there is a real need for reform in the Community, that our position is a reasonable one, that we stand by the two conditions set by

the Prime Minister at Stuttgart and that we could not afford to allow the increase in Own Resources, which the Italians seek, to take place unless these conditions are met.

Italian Attitudes

2. Italy is doing well out of membership of the European Community. Although her net receipts from the budget are gradually diminishing, Italy remains the largest net recipient in the Community (1600 million ecus in 1982). These gains from the budget are almost exactly off-set by substantial non-budgetary costs (the latter greater than our own). Overall however Italy does substantially better out of the Community than we do since we are net contributors to the budget and make a net loss on non-budgetary costs as well. Although Italy has conflicting interests in respect of the Common Agricultural Policy (see below) she sees her main objective as being to increase CAP expenditure, particularly on Mediterranean products. She has been quite successful in this. Italy has also received substantial benefits from the Regional and Social Funds.

3. The present shape of the Community therefore suits Italy well. The Italians believe that the relaunch of the Community need not involve any significant changes in its present operations, but merely the raising of more revenue to enable the Community to finance greater public

expenditure as well as new policies. Despite these attitudes, which have so far led the Italians to resist any stringent measures to curb agricultural expenditure, or to control Community spending overall, the Italians ought to share some of our interest in reform, at the very least on the CAP.

CAP

4. The Italian attitude towards the CAP inevitably reflects the nature of her agriculture. This is characterised by a low degree of self-sufficiency in Northern Temperate products, which nevertheless account for well over half the value of her production; substantial production of Mediterranean products mainly by peasant farmers; a very high proportion (three-quarters of her usable land area) of mountain or hill land; and a highly fragmented farm structure. The Italians see themselves as poorly done by in a CAP devoted largely to guaranteed payments for Northern products. As a Member State with a large national food deficit, it would be logical to expect that Italy, like Britain, would be pressing for lower prices for cereals and milk. But high prices mean greater self-sufficiency about which the Italians are obsessed, and, in any case, Italy seems prepared to carry the burden of high import costs in exchange for help on the structural side and support for her

inefficient Mediterranean production (the Mediterranean lobby in Italy is strong).

5. For these reasons, the Italians have so far argued:

- that a strict financial guideline is out of the question since agricultural expenditure flows from agreed policies and cannot be cash limited without forsaking Article 39 of the Treaty of Rome.

- that the first priority in fixing prices must be the maintenance of farm incomes.

- that "Community preference" is essential. Imports must be disciplined, and new export markets won: (though the Italians are not leading the pack against the import of cereal substitutes).

6. Other Italian positions which have emerged in the negotiation include:

- strong opposition to a milk super levy - or at least an exemption for Italy.

- support for the proposed oils and fats tax

- support for automatic dismantling of MCAs

- maximum discrimination in favour of small farmers and against "those who produce the surpluses"

- guarantee thresholds to apply only to annual products and not perennial ones (such as grapes, olives and fruits).

Control of Community Expenditure and Budget Imbalances

7. Because of their preoccupation with maximising their receipts from the Common Agricultural Policy the Italians are not prepared to contemplate effective control of agriculture and other expenditure of the kind embodied in our proposal for a strict financial guideline. At the most, the Italians would be prepared to consider a non-binding commitment to control of expenditure. Their preferred solution is to raise more money rather than to spend less. They have proposed that the VAT ceiling be increased to 2 per cent, and they claim that the UK's approach is purely budgetary and contrary to the commitments of the Community.

8. On Budget Imbalances, the Italians have opposed the safety net, because they dislike the concept of net contributions and a system which would inevitably reduce their receipts (while still leaving them as a major net recipient). They are not prepared to see Italy financing compensation to the FRG. They have also argued that countries protected by the safety net would have no incentive to press for New Policies. But we should not forget that a former Italian Foreign Minister, Colombo, played an important role in the Community agreement of May 1980 which brought us substantial refunds.

9. The Italians tabled their own paper on New Policies in

the Post-Stuttgart negotiations. There is not much common ground between the Italian position and that of the UK. In particular, the Italians wish to see the Regional and Social funds grow at a substantial rate (though they have not sought a doubling of resources in real terms by 1990 as have some other Member States). We agree with the Italians on industrial policy (the need to remove legal and fiscal obstacles to cooperation between firms) and on the need for a solid fuels strategy as part of their Community Energy Policy. However, whereas we place the emphasis on cost effectiveness, the Italian proposals involve significant increases in expenditure.

UK Objectives

10. Since Italian attitudes are entrenched and since Craxi does not have a detailed grasp of Community issues, the Prime Minister may wish to concentrate on a few essential points, building on those areas where we and the Italians have, or should have, interests in common (development of Community policies; the interests of the Italians, as a net importer of agricultural produce, in curbing the growth of agricultural expenditure). The Prime Minister may wish to explain to Craxi that the two conditions which she laid down at Stuttgart for our willingness to consider an increase in our own resources (control of agricultural and other

expenditure, and equitable sharing of financial burdens) are not designed to inhibit the development of the Community but to ensure that the Community develops on a sound basis. Moreover, there could be no possibility, after 11 years of UK membership of the EC which have been dogged by these recurrent problems, of HMG asking Parliament to agree to any increase in own resources without having secured the essential reforms which we are seeking.

Detailed Briefing

11. Against this background, our objectives will be:

(i) to bring home to the Italian Government the need for decisions at the March European Council.

Otherwise the Community will be in increasingly serious difficulty financially, in the management of the CAP and in relation to the European Parliamentary Elections.

(ii) To make clear that we recognise why the Italians want an immediate increase in the Community's own resources but that this represents a fundamental change in the 1970 own resources decision which can only be agreed once we have taken the necessary steps to avoid recurrence of the present problems.

(iii) To make clear to Craxi in particular that there can be no agreement to an increase in own resources

unless a solution is found to our present budget inequity (brief no 2b): a system that worked for the Community of six, does not work for the Community of ten; nor would it work for a Community of twelve.

(iv) To persuade Craxi that we and the Italians, as net importers of agricultural produce, have a common interest in curbing the growth of agricultural costs, particularly by working for lower prices for cereals and milk (brief no 2c).

(v) To convince Craxi that reform of commodity regimes is not enough by itself and that we must have a guideline for the control of agricultural and other expenditure. Simply to raise more money would not ensure that resources were more equitably distributed as between different EC policies (brief no 2b and 2c).

(vi) To explain why we do not believe that the problems of the CAP can be solved by distortion of overseas markets or by putting at risk our trading relationship with non-EC countries (brief no 2e).

(vii) To persuade Craxi that the United Kingdom is fully committed to the development of the Community, as shown by the paper we tabled at Athens on New Policies (brief no 2f) but that these policies can be fully implemented only if the Community has put right

the balance and structure of this spending.

(viii) To remind Craxi of the importance of the payment of the bulk of our 1983 budget refunds before the end of March and to seek his cooperation in ensuring this. We appreciated Italian help in bringing about the May 1980 agreement on UK refunds. We hope that they will now put their weight behind an effort to agree a lasting arrangement which will be available for all Member States (brief no 2b).

(ix) To press for an early announcement that the Italian Government will remove discriminatory taxation harming our whisky exports (brief no 2j).

[This is something which could appropriately be raised with their opposite numbers by Mr Lawson and Mr Jopling.]

Foreign and Commonwealth Office

23 January 1984

20 January 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

EC FINANCING

Brief by the Foreign and Commonwealth Office

United Kingdom Objectives

1. (i) To convince Mr Craxi that we must have lasting and equitable solution to the problem of budget imbalances not another ad hoc, time-limited arrangement
- (ii) to persuade him that effective arrangements for establishing control over Community expenditure must be agreed and formally incorporated in the Community's budgetary procedures
- (iii) to stress that we cannot agree to an increase in Own Resources without satisfaction on both these points
- (iv) to remind him of the importance we attach to getting the bulk of our 1983 refunds by the end of March and to seek his cooperation in ensuring this.

Points to Make

2. We stand firmly by our two prior conditions before we can consider an increase in own resources: achievement of effective control of agricultural and other spending and an arrangement to ensure a fair sharing of financial burdens so that no country has to bear a burden disproportionate to its relative national wealth. After history of past 11 years could not possibly ask UK Parliament to approve new own resources without watertight assurances on both these points.

3. Problem of budget imbalances is one that affects Britain acutely but it is not purely a British problem. Present budgetary arrangements do not provide a sound basis for the Community's future development. Arrangements that worked for a Community of Six do not work for a Community of Ten and will not work for an enlarged Community of Twelve.

4. Problem has arisen because burden on the net contributors has become inequitable. Britain has become one of the two major net contributors even though we are one of the less prosperous Member States. We were given a commitment when we first entered the Community that should an unacceptable situation arise, action would be taken to deal with it. This commitment was recognised in the Stuttgart Declaration which stated that the objective of the negotiation was 'to agree measures which, taken as a whole, will avoid the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing'.

5. What we are looking for is not a special deal for Britain. Problem is endemic and requires a systematic solution, not just an arbitrary, ad hoc arrangement. Hope you can agree that what is needed is a system which will deal with the problem for as long as it lasts, is based on objective measurement of the budgetary burden and will ensure a fair sharing of financial burdens in relation to relative prosperity. This is what our safety net proposal does. Quite prepared to consider proposals other than our own provided they satisfy these essential requirements.

6. Not seeking juste retour. Do you realise that at the moment we are contributing 2000 million ecu (before refunds) to the Community budget while you get a substantial net benefit. Although we are not much richer than you, as I said at Athens, we are willing to make a net contribution of 400-500 mecu. Expect you would be horrified if Italy was

asked to pay that much. Under our proposals Germany, as the wealthiest nation in the Community, would also remain a major net contributor at a much higher level than other Member States. Our proposals are designed to ensure that payments to the Community correspond rather more closely to ability to pay as measured by relative prosperity (GDP per head) than under the present system. This is not only reasonable but is in conformity with the principle of convergence enshrined in the Treaty of Rome.

(If financial burden on Italy is raised)

7. Clearly detailed arrangements for financing reliefs are not for us to determine. Realise that Member States will not be willing to consider a new mechanism without considering its impact on their own budgetary position. The fact that they approach the issue in this way is itself proof of the extent to which the problem of inequitable budgetary burdens is a real one. Our safety net proposal leaves open possibility of financing reliefs according to special key which could reduce burden on Member States with a relatively low GDP per head.

(If suggested that expansion of non-agricultural policies would solve British problem)

8. Simply would not be possible to provide sufficiently large sums in present budgetary circumstances. In any case, we are unlikely to derive much net benefit from most of the structural funds after enlargement.

9. Effective control of Community spending is the other condition we attach to our willingness to consider increase in own resources. Most Community governments are striving to contain domestic public expenditure. Does not help if Community expenditure is not subject to proper control. Irresponsible to raise more revenue without some guarantee that it will not immediately be wasted on run-away expenditure.

Developments during 1983 have reinforced the need for stringent steps to curb the growth of both agricultural and other expenditure. Agricultural guarantee expenditure increased by some 30% over the level of 1982. Essential to find a systematic means of controlling the growth of agricultural spending so that it grows markedly less rapidly than the Community's resources overall.

10. Encouraged by the development of the negotiations in the last weeks before Athens. A number of delegations (the Commission, the Dutch, the French) came forward with practical suggestions for establishing control over Community spending which together with those we ourselves tabled, should now be looked at further. As I indicated at Athens, the French Government's proposals first tabled at the Special Council on 28 November in particular merit further study and development. To be effective any guideline must be more than a declaration of intent. Essential to incorporate whatever is agreed in the Community's formal budgetary procedures.

11. Would remind you that we expect to receive bulk of our 1983 refund by end of March as in previous years. We are looking for early agreement on the necessary Regulations. Hope that transfers to the lines of money now in reserve chapter of budget can be made before end of March or if not that it should be clear that only Parliament and not our partners are standing in the way of implementation of agreement. Trust we can continue to count on your support for implementation of what was agreed at Stuttgart. This is a politically sensitive issue in the United Kingdom. It would make an overall settlement more, rather than less, difficult if this question were now linked to the outcome of the negotiations overall.

12. We also look to Community to meet its remaining obligations on outstanding element of our 1982 risk sharing refunds, which should have been paid to us in 1983. As you

may know, we have taken this up formally with Commission and look to them to propose remedial action.

Background

1. An increase in the Community's own resources (they have suggested an increase of 2%) is a major objective for Italy which is by far the largest net recipient from the budget and benefits from almost all types of Community expenditure. In 1982 Italy's GDP was 14% of Community GDP but it contributed 11% of Own Resources and received 20% of Community expenditure [equivalent figures for Britain are 20% (GDP share), 24% (Own Resources share) and 13% (receipts share)]. Like us however the Italians do suffer a large non-budgetary deficit on agricultural trade as a result of their imports of agricultural products from Northern Europe at high Community prices.

2. The Italians regard the UK as taking a narrowly budgetary approach to the Community. They believe that the best way of resolving the problem of financial imbalances is by increasing own resources and developing new Community policies.

3. The Italians recognise that there is a British budget problem in the sense that we receive less than our share of Community spending and have a GDP below the Community average. Their main reservations about our safety net proposal are:

- (a) they believe that the calculation of net contributions is bound to lead to juste retour.
- (b) They do not want to see the UK get 100% correction since they consider this would relieve the UK of any responsibility for new Community expenditure while Italy would have to pick up part of the alleviation.
- (c) They are concerned that the financing of safety net reliefs for the UK would substantially increase the

financial burden on Italy, particularly if it was agreed that the burden on France should be reduced by using a special key. They are especially worried by the possibility that they might have to contribute to substantial German relief.

As to the method of correcting the imbalance, the Italians now seem to accept that this should be done principally on the revenue side of the budget, although they earlier favoured correction on the expenditure side.

4. On the question of controlling Community expenditure, the Italians dislike the idea of any guideline on the grounds that agricultural expenditure flows from the agreed policies and cannot be cost limited without forsaking Article 39. They regard the French proposal to restrain overall expenditure as incompatible with the Treaty and insulting to the European Parliament. They would hope to get away with a non-binding political commitment to restrain expenditure.

5. There is a risk that the Italians like the French, might be tempted try to delay the implementation of our 1983 refunds. In the Financial Questions Group which has been discussing the refund Regulations, the Italians, have maintained their reserve on the alleged link with the post-Stuttgart negotiation, thus leaving open the possibility that they will refuse to adopt the Regulations until agreement has been reached in the post-Stuttgart negotiations. We should therefore impress on Mr Craxi that the prospects for a successful outcome to the negotiation will be jeopardised if this issue is dragged into the negotiations.

Foreign and Commonwealth Office
23 January 1984.

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF (84) 2c

COPY NO. 50

24 January 1984

ANGLO-ITALIAN SUMMIT

26 - 27 JANUARY 1984

COMMON AGRICULTURAL POLICY

Brief by Ministry of Agriculture, Fisheries and Food

POINTS TO MAKE

1. Because of our relatively low self-sufficiency for some products the CAP imposes substantial non-budgetary burdens on both Italy and the UK. In some respects the two countries have, therefore, a joint interest in reform. Together we would stand a better chance of bringing CAP spending under control, which is essential because such a large percentage of Community spending goes on agriculture.
2. Believe that there is now a better appreciation in the Community of this requirement. UK remains firmly of the view that the adoption of a financial guideline is essential. To be properly effective this must be brought formally within the Community's budgetary procedure. Further discussions are needed as to how this might be achieved as part of better discipline in the budget as a whole.
3. However on its own a financial guideline could not be effective. It will need to be implemented by reforms to the individual commodity regimes. This is especially important for milk, but the regimes for all other products must be scrutinised carefully to see where economies are possible. Reform can be achieved by the application of realistic guarantee thresholds or by other methods. All sectors must bear a

CONFIDENTIAL¹.

fair share of the burden.

4. Only way in which it will be possible to reach agreement on reforms is on a non-discriminatory basis. Demands for special treatment are bound to lead to a proliferation of such claims. Progress cannot be made in this way.

[If necessary]

5. Recognise the Italian interest in Mediterranean products. The UK is not seeking to undermine the continued viability of the EC regimes for such products, but expenditure on them has increased enormously in recent years and they, too, must bear some of the burden of adjustment.

[If necessary]

6. Know that some member states attach particular importance to reducing the impact of MCAs. The UK does not see this as a first objective. In our view MCAs have in fact allowed for the continuation of the CAP over a period of great monetary disturbance. The UK will judge any proposals for reducing the impact of MCAs according to whether they are consistent with the need to contain CAP costs both in the short and longer term. For this reason we are opposed to any proposals to base CAP prices on the "strongest currency".

BACKGROUND

7. Because of their relatively low self-sufficiency for certain ("northern") products the CAP imposes a substantial non-budgetary burden on Italy, and therefore in theory they have a common interest with us in reducing the costs of, for example, the EC milk regime. It is worth making the most of this point with Craxi, especially since there are reports suggesting he may be more susceptible to arguments about the disadvantages of the CAP than most other Italian Ministers.

8. However, historically the Italians have taken a very different attitude to the CAP from ourselves. They have seen it as a means of helping, with Community financial support, a needy section of the Italian population especially in the South of the country. Italian interests cover not only the "northern" products like milk, beef and cereals but also the so-called Mediterranean products notably durum wheat, olive oil, wine and fruit and vegetables. In practice the Italians normally attach first importance to the Mediterranean regimes and over a period of years Italian Ministers have succeeded in negotiating major increases in the support for these products. They have apparently decided that extra support for Mediterranean producers is their first aim and that this is also the best means of improving their financial position in the CAP.

9. Thus to secure an improvement in their relative position, the instinctive Italian negotiating tactic is to seek specific cash benefits for them, rather than to secure economies which impinge on the interests of other member states. An illustration has been their approach on the milk superlevy. Despite the substantial cost both budgetary and non-budgetary that the milk regime imposes on Italy, they chose to place much of their negotiating weight behind an attempt to secure an exemption for them rather than securing an overall reduction in the cost of the regime. We should try to wean the Italians away from this approach.

10. Consistent with their traditional approach the Italians have so far shown a distinct lack of enthusiasm for our proposal for a strict financial guideline. They have claimed that the principal need is to increase own resources so as to be able to provide extra support especially for Mediterranean agriculture.

CONFIDENTIAL

11. The Italians have been firm supporters of moves to phase out MCAs. This reflects both their desire to improve the competitive position of their milk and beef producers especially in relation to their very large imports of beef and milk products from Germany, and also the fact that with a depreciating currency they have been able, when necessary, to improve the incomes of Italian producers by suitable devaluations of the "green" lira.

12. Some relevant background statistics are annexed.

Ministry of Agriculture, Fisheries and Food

24 January 1984

BACKGROUND STATISTICS

Agricultural Employment as
proportion of total civil employment

	<u>1981</u>
<u>UK</u>	2.8%
<u>Italy</u>	13%

Agricultural share of GDP

	<u>1981</u>
<u>UK</u>	2.1%
<u>Italy</u>	6.4%

MAFF estimates of:-

	<u>1982</u>
(a) Budget contribution to CAP	<u>Italy</u> + 1,100 mecu
	<u>UK</u> - 1,800mecu
(b) Non-budgetary cost of CAP, ie trade cost of buying agricultural products at EC prices from other member states;	- 1,600 mecu
	- 250mecu
	(+ = gain; - = loss)

CAP Guarantee Expenditure on Certain Mediterranean Products (mecu)

	<u>1977</u>	<u>1982</u>	<u>% change</u>
Olive Oil	177	493	+ 175
Fruit and Vegetables	178	914	+ 413
Wine	90	570	+ 534
All Products	6830	12405	+ 82

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT
PMVF (84) 2(d) COPY NO: 50
20 January 1984

ANGLO/ITALIAN SUMMIT

26 - 27 JANUARY 1984

EUROPEAN QUESTIONS: ENLARGEMENT

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. (a) To reaffirm our commitment to completion of the substantive part of the accession negotiations with Spain and Portugal by the summer break,
- (b) To probe the Italians as to how they see the timetable for enlargement and French intentions in particular.

POINTS TO MAKE

2. Politically important for both Spain and Portugal that the accession negotiations be completed during 1984 with the aim that they can become members of the Community by 1 January 1986. Both countries disappointed by outcome of Athens Summit and we cannot ask them to wait again while Community sorts out its internal problems. Wider Western interests will be at risk if major obstacles remain in the way of enlargement at the time of the 1985 Spanish referendum on NATO membership.
3. Hope Italians share our view that key dossiers (particularly agriculture and fisheries) must be substantially completed by June European Council for this timetable to be credible.
4. Do not dispute that a great deal of work remains to be done in accession negotiations, particularly with Spain; nor do we under-estimate the political sensitivity of the issues for some

/Member

CONFIDENTIAL

CONFIDENTIAL

Member States. How do Italians see French intentions?

Further Points for Use as Necessary in Discussion

Spanish Agriculture

5. Greatly welcome the fact that Agriculture Ministers were finally able to agree on revised regimes for Mediterranean fruit and vegetables in October and thus unblock internal Community discussion on Spanish agriculture. Sure Italians will agree that Community must get on fast with dossier.

6. We think it important that Community declaration on Spanish agriculture should take account both of particular problems for Member States and the concerns expressed by Spaniards. Unconvinced that Commission proposals for phased approach satisfy this requirement. How do Italians see it? In any case, there will have to be a long transitional period for olive oil as agreed by European Council. And the present Community regime on olive oil will need to be adapted to meet the needs of a Community of 12 and to take account of the need to control Community expenditure. Italians know our views on proposed oils and fats tax.

Link between Accession and post-Stuttgart Negotiations

7. Regard Stuttgart conclusions as requiring the earliest possible progress on both the post-Stuttgart negotiations and the accession negotiations. (If necessary) This certainly does not imply that either set of negotiations should mark time to keep in step with the other. Both should be finished as soon as possible.

BACKGROUND

8. No agreement was possible at the Athens European Council on a formal timetable for enlargement, but the Community recognises in practice, that negotiations must be completed during 1984 if

CONFIDENTIAL

the 1 January 1986 accession timetable is to be met. The French are so far refusing to commit themselves to any timetable at all. They now say that the Community owes the applicants an answer to their applications soon, but their own answer is so far sympathetic but non-committal. However, recent French statements suggest that the French Presidency hope to be able to complete work on the key dossiers (for France) of Spanish agriculture and Spanish fisheries with a view to a positive signal to the applicants at the June European Council. The Italians are political supporters of Spanish and Portuguese accession, but like the French fear competition from Spanish wine, fruit and vegetables.

9. We have interpreted the link in the Stuttgart conclusions between ratification and the accession treaties and the outcome of negotiations on Community financing as requiring progress on both fronts. We reject the implication, which the Germans (and Spaniards) see, that it would involve delaying implementation of the decisions arising from the post-Stuttgart negotiations to coincide with an accession timetable which, however accelerated, could not involve ratification of treaties before 1985 (too late to help us with 1984 refunds which would be due for payment in the 1985 budget). (The Germans are now evidently thinking in terms of implementing a new own resources decision only in 1986, i.e. the prospective date of enlargement).

10. The Community are currently working their way through Commission proposals on Spanish agriculture which would involve a phased approach for Spanish fruit and vegetables by which these products would not receive any greater access to EC markets than at present for 4 or possibly 6 years after accession. Indeed, Spanish exports would face throughout the first phase the increased barriers against third country imports agreed as part of

/the

CONFIDENTIAL

the revised arrangements for Mediterranean agriculture. Only in a second phase (after 4/6 years) would Spain start increasing her access to the Community. The Spaniards have lobbied against these proposals and we have some sympathy with their views. The key to reaching agreement will be the French attitude; followed by the Italians. So far, the Italians are taking a low profile in the agriculture discussion and pressing their case for compensation for Spanish competition instead through the proposed Integrated Mediterranean Programmes (see Brief No 2h). Italian interests on olive oil are dramatically opposed to our own; they want to ensure that any arrangements to take account of the huge increase in Community output after Spanish accession do not adversely affect Italian receipts under current arrangements. For this reason they support proposals for an oils and fats tax which could offset the costs of applying generous EC regimes to Spain: we have made it quite clear that our opposition to the tax remains unabated.

Foreign and Commonwealth Office

20 January 1984

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF(84)2(e)

COPY NO 50

23 January 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY

INTERNATIONAL TRADE ISSUES/PROTECTIONISM

Brief by Department of Trade and Industry

OBJECTIVE

To encourage Italian independence from French policy and respect for British interests.

POINTS TO MAKE

Rollback of protectionism

2. Rollback likely to be an important theme at London Summit (see brief No. 8). A new GATT round offers opportunities, but would need thorough preparation.

EC-USA trade relations

3. Important in US election year to show Community determination in self-defence, but not otherwise to provoke US protectionists. Anglo-Italian unity on steel; delicacy of agricultural issues.

Services

4. Liberalisation has become an active issue. All can gain.

CONFIDENTIAL

Newsprint

5. UK newspaper publishers willing to consider (without commitment) offers from Italian producers, but remain dependent on Canadian supplies, for which satisfactory arrangements must soon be agreed.

BACKGROUND

Rollback and possible new GATT round

6. Lack of full support from Italy was a factor in France's welcome acquiescence in the Community's December 1983 agreement on initial steps to implement the "rollback" declaration.

7. ES Committee is to consider early in February further possibilities for rollback and also the Japanese-American call for preparations for a (late-1980s) round of general GATT negotiations.

EC-USA

8. Italy strongly supports the Community's current preparations for measured retaliation (from 1 March) against the import restrictions on special steels introduced by the USA in July 1983 (after Williamsburg).

9. On agricultural issues (Commission proposals for import restrictions on cereal substitutes, and for an oils and fats tax) Italy supports France.

Services

10. Italy has the world's fifth largest surplus on

CONFIDENTIAL

invisibles. But so far she has been lukewarm, though not entirely negative, towards US-UK-inspired pressure for GATT negotiations for liberalisation.

Newsprint

11. Unable to sell some poor quality production of her own, Italy has made continual difficulties about Canada's duty-free access to the Community. The issue is not at present immediate, but a high-level reversal of Italian policy will be required later in 1984 if British newspapers are to avoid substantial tariff bills.

Department of Trade and Industry

17 January 1984

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT
PMVF(84) 2(f) COPY NO

20 January 1984

50

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

NEW POLICIES (INCLUDING INTERNAL MARKET)
Brief by the Foreign and Commonwealth Office

Objective

1. To demonstrate that the UK has constructive ideas about the development of the Community and that our interest is not purely budgetary; and to register our New Policies priorities in the post-Stuttgart negotiations. The Italians may maintain that New Policies require significant additional financial resources.

Points to Make

2. We attach particular importance to the future development of the Community: much common ground between UK and Italy about priorities and objectives. New Policies remains a key section of the post-Stuttgart negotiations. Disappointing that so little was achieved on this before and at Athens. The Community should agree on a short, realistic list of priorities for the next European Council, at which concrete decisions can be taken.

3. The Community can make progress rapidly in a number of important and worthwhile ways, within the inevitable financial constraints. European businessmen rightly expect

the Community to do more for them than express good intentions. Their priorities, like ours, are to remove the obstacles to trade which prevent a Community-wide home market. To achieve this involves little or no budgetary expenditure, and can therefore go forward in parallel with the Community's urgent work to resolve the question of future financing.

4. A renewed impetus for the Community's standards making programme and the reduction of frontier formalities for goods traffic are important steps. Hope the French Presidency will give these issues adequate Council time. We already have Commission proposals in these and related areas, such as free trade in services (including insurance, road haulage and air transport). What is needed is the political will to reach decisions. On transport, we need to see early progress towards free lorry movement. We hope that during the French Presidency the Community can determine a timetable for the abolition of all road haulage quotas.

5. (Only if raised) ESPRIT: We attach importance to increased industrial cooperation in Europe, particularly in high technology areas like information technology. But ESPRIT is a major long term commitment and the budgetary implications need careful consideration.

Background

6. There was no time to discuss New Policies at the Athens European Council. The following are some of the UK priorities which we stressed in the run-up to Athens:

Internal Market Removal of barriers to intra-Community trade in goods and services (eg renewed impetus to the Community's standards harmonisation programme; simplification of frontier formalities; early and genuine liberalisation of non-life insurance services in line

with Treaty requirements).

Adoption (on the right terms) of the Common Commercial Policy Regulation - the French have made this the price of unblocking the standards programme.

Transport Free lorry movement by:

- (a) increasing the EC road haulage quota, and
- (b) deciding on a timetable for the abolition of all road haulage quotas.

Early liberalisation of air transport services. We hope that the French Presidency will arrange a Special Transport Council which would report to the March European Council.

Environment A firm deadline (no later than 1990) for the introduction of unleaded petrol.

Energy A solid fuels policy to promote the economic production and use of coal.

7. Our priorities are based largely on existing Commission proposals, and concentrate on areas involving little or no budgetary expenditure. A key priority is to make a reality of the Common Market as a significant contribution to economic recovery in Europe. Italian proposals before Athens showed little regard for budgetary considerations. The Italians may question our attitude to the ESPRIT Programme for collaborative industrial Research and Development in information technology.

8. The Italians do not share our enthusiasm for the removal of non-tariff barriers to trade and liberalisation in the services field (including road and air transport). This reflects in part an instinctive protectionism, and partly administrative limitations - the latter can often be overcome

CONFIDENTIAL

only by allowing Italy longer transitional periods for the introduction of Community liberalising measures. On the other hand, we agree entirely that where legal and fiscal barriers prevent co-operation between firms within the Community they should be removed; and on the need to develop a strategy for solid fuels.

Foreign and Commonwealth Office
20 January 1984

RESTRICTED

THIS DOCUMENT IS THE PROPOERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF(84)2(g)
16 January 1984

COPY NO 50

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

—
STEEL
Brief by the Department of Trade and Industry

United Kingdom Objective

To emphasise the need for the Italians to undertake significant cuts in their steel-making capacity.

Points To Make

2 If EC steel industry is to overcome present crisis, all Member States must bear their share of capacity cuts. The Commission have set down general requirements in their Decisions of 29 June 1983. Success of EC steel policy depends on each Member State now translating those requirements into specific commitments to undertake closures and restore the companies to viability. Italian position, as a major EC steel producer, is critical.

Background

3 EC steel policy consists of a battery of short term market arrangements, intended to provide a period of stability in which to carry out the essential process of restructuring. The short term measures were strengthened in December following a sharp decline in prices for certain products and now comprise:

RESTRICTED

- mandatory quotas on production and EC sales, under Article 58 ECSC. The Steel Council is meeting on 26 January to decide on their renewal, as the present regime expires on 31 January.
- mandatory minimum prices, introduced on 1 January for certain products (accounting for about 40% of EC output), backed up by non-obligatory guide prices for the main steel products.
- a requirement, introduced on 1 January, for larger producers to lodge deposits each quarter, which would be frozen in the event of evidence that they had infringed the price or quota rules.
- strengthened monitoring of cross-border deliveries.

4 Restructuring: under the Steel Aids Decision, all State aids to steel companies must be phased out by the end of 1985, with any aid granted in the meantime firmly linked to capacity cuts. On 29 June 1983 the Commission issued separate Decisions under the aids regime to each Member State, making the approval of aid conditional upon capacity cuts totalling 26.7m tonnes. The Italian share was 5.8m tonnes (the UK figure was 0.5m tonnes, in addition to the 4.0m already undertaken). Member States were given until 31 January 1984 to notify the Commission of the closures they proposed in order to comply with these requirements.

RESTRICTED

5 After a fierce initial reaction, the Italian Government appear ready to offer cuts of 5.8m tonnes. However, there are signs that:

(i) they may evade some difficult decisions over closures in the State sector (where the need for cuts is greatest) and instead offer more reductions in their private sector.

(ii) they will seek to make their closures conditional upon obtaining extra Article 58 quota at the 26 January Steel Council.

Department of Trade and Industry

16 January 1984

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT
PMVF (84) 2(h) COPY NO 50
20 January 1984

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

STRUCTURAL FUNDS

Brief by the Foreign and Commonwealth Office

UK OBJECTIVES

- (i) To avoid detailed discussion if possible.
- (ii) To make it clear that we cannot agree to a doubling or even a substantial increase in the Structural Funds in real terms over the next five years.
- (iii) To make clear our continuing doubts about the IMPs proposal.

POINTS TO MAKE

General

1. We have always attached great importance to the development of the Community's Structural Funds, such as the Regional Fund, as useful instruments of convergence within the Community. We regard the Structural Funds as an important element of the post-Stuttgart negotiations. There was encouraging progress on a number of aspects before Athens, and we are moving in the right direction, but much work remains to be done before final decisions can be taken.

Size of Funds

2. Believe it would be wrong to pre-judge the optimum size by setting arbitrary targets. This would be inconsistent with our objective of increased cost effectiveness and greater financial discipline. We could support a modest increase in the size of the Funds, but this must clearly be related to the available financial resources and real needs.

IMPs

3. The IMP proposals must be looked at in the overall context of the continuing review of the Structural Funds. ^{We} are clearly not in a position to take decisions on the Structural Funds as a whole, let alone the role of IMPs within them. But there is undoubtedly substantial overlap and interconnection. IMPs also need to be looked at in the context of enlargement. It is inconceivable that Spain and Portugal would not expect to qualify for support from these programmes. The cost implications for the Community, as well as implications for the workings of the Structural Funds, have scarcely been examined. They must be.

4. To take agriculture as a specific example, we have always accepted that there is a case for special programmes for agriculturally disadvantaged regions of the Community. ^{But} it is essential that these are part of a coherent Community policy on agricultural structures. This too is currently under review and it would clearly not be right to reach any decisions on IMPs save in the context of agricultural structures generally.

5. Quite apart from these considerations, the scale and ^{cost} of the proposals are excessive, particularly against the current background of the Community's budgetary problems.

ERDF

6. We attach importance to early agreement on a new ERDF regulation. Discussion of the Commission's latest proposal should be carried forward for the relevant specialist forum.

ESSENTIAL FACTS

1. Although the UK and Italy have traditionally had a close identity of views and interests in the ERDF, our positions in the post-Stuttgart negotiation have been quite divergent. On the size of the structural funds, the Italians want "an increase" in real terms, probably much larger than we could accept. On IMPs, from which Italy will be a major beneficiary, they are pressing for agreement as soon as possible.

2. The Stuttgart European Council stressed the need for control of expenditure in areas other than agriculture and called for the development of policies within the bounds of financial feasibility. It asked the Commission to propose ways of increasing the cost effectiveness of the structural funds (ERDF, Social Fund and the FEOGA Guidance Section) with the aim of avoiding duplication of effort and expenditure. The Commission duly produced a paper recommending inter alia better coordination between the various funds and between Community and national policies, more Commission involvement in the programmes and more concentration of the funds resources, in the sense of concentration on areas of need and higher rates of intervention.

ERDF

3. Negotiations on a new ERDF Regulation became bogged down mainly over the question of national quota shares. In the light of the call by Stuttgart for a review of the structural funds, the Commission produced revised proposals, the main features of which are greater concentration; experimental financing by programmes as opposed to projects as at present; and replacement of the present system of quotas, whereby each Member State has a set quota of nationally allocated ERDF and, by brackets or 'fourchettes', whereby each Member State

would have both a guaranteed minimum share and a maximum which it could obtain if its applications met the right criteria. Discussions of these and other detailed points have now begun at expert level. We need to ensure that the UK does as well out of the new system of 'fourchettes' as we did out of the quota system. We do not expect early agreement.

FEOGA Guidance Section

4. The FEOGA Guidance Section, representing about 5% of total FEOGA funds, is devoted to achieving the first objective of the CAP as set out in Article 39, (to increase productivity through technical progress and other means). The money is channelled through a number of different regulations and directives, the most important of which concern: modernisation of farms; measures to encourage cessation of farming and amalgamation of small farms; job training; help for farmers in 'less favourable areas'; measures to improve processing and marketing. These measures were originally to expire at the end of 1982. In that year they were extended to December 1983 (and, for the Marketing Directive to the end of 1984). The Commission put forward proposals for a revised Regulation last autumn. Discussions are still at an early stage.

IMPs

5. These proposals cover agriculture and other sectors in designated rural areas of Italy, Greece and France. Their aim is to increase income levels and employment, primarily through an extension of existing Community schemes under the Regional, Social and FEOGA Guidance Section Funds. The Commission propose to devote 6.5 billion ecu over the period 1985-1990. The money would go primarily to agricultural structural programmes, as well as to infrastructure projects, industrial development programmes, and job creation. Our objective is to block the proposals as currently formulated. We could agree to some agricultural development programmes

CONFIDENTIAL

but on a much reduced scale. We have no objections in principle to integrated programmes (though we have doubts about their effectiveness in practice). But the constituent parts of each programme must be fully coordinated with existing Community action.

Foreign and Commonwealth Office
20 January 1984

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF (84) 2(i)

COPY NO 50

23 JAN 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

EMPLOYMENT ISSUES: VREDELING
AND FIFTH COMPANY LAW DIRECTIVES

Brief by the Department of Employment

UK OBJECTIVE : To convince the Italians of the UK's opposition
in principle to both draft Directives.

POINTS TO MAKE

- Emphasise that the UK Government is opposed in principle to the draft Directives; since it believes employee involvement is best achieved voluntarily in the UK.

- Stress that the Directives would increase management's workload at a time when all efforts should be on improving competitiveness and reacting to technological change.

CONFIDENTIAL

- CONFIDENTIAL
- Stress also that the Directives, especially 'Vredeling', are poorly drafted and could mean many employee involvement questions being settled by the courts.

 - Seek further information on the Italian position on both Directives.

BACKGROUND

VREDELING DIRECTIVE

1 The draft 'Vredeling' Directive on procedures for informing and consulting employees was originally published by the Commission in 1980. It would require head offices of large organisations (including multinationals) regularly to inform employee representatives of subsidiaries and separate establishments and to consult them about matters seriously affecting employees' interests.

2 The Commission published a revised text of the Directive in July 1983. The new proposals include many amendments to the original, some of which have moderated the first draft. However, the basic requirements of the draft Directive remain the same.

3 The revised text is now being considered in detail by a Working Group of officials in the Council of Ministers. It will probably be some years before final decisions by Ministers are needed.

4 The UK Government is firmly committed to the principle of employers informing and consulting their employees about matters which affect them. However, it believes that this is best done voluntarily, and it therefore opposes the rigid procedures envisaged by the draft Directive. The Government will not accept legislation in the UK which would damage industrial relations or adversely affect investment.

ITALIAN POSITION

5) The Italians have formally reserved their position on 'Vredeling', but are known to see no reason to resist the principle of a Directive. Nevertheless they have important reservations about the present drafts. In particular, they dislike the prospect of bringing the courts into settling employee involvement disputes, and are concerned about increasing burdens on employers (the Italian employers are firmly opposed to 'Vredeling').

FIFTH DIRECTIVE

6) The draft Fifth Directive on the Harmonisation of Company Law was first published in 1972. The Commission's final revised text, published in August 1983, contains both employee participation and a number of other significant company law proposals. The Department of Trade and Industry takes the lead on this Directive.

- CONFIDENTIAL
- 7) The draft Directive is now being considered in detail by a Working Group of officials in the Council of Ministers. Consideration of the complex issues involved **is** expected to take several years.
- 8) The UK Government has similar reservations about the employee involvement provisions of the Fifth Directive as about 'Vredeling' and is also concerned about the detailed company law provisions which seem likely to harm the competitiveness of industry in the European Community.

ITALIAN POSITION

- 9) The Italians have given us welcome but low key support in opposing the Fifth Directive's requirement that worker-directors must have a place on company boards. We should encourage the Italians to take a more vigorous line in Brussels negotiations.

Department of Employment
20 January 1984

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT
PMVF(84) 2(j) COPY NO 50
20 January 1984

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

ITALIAN DISCRIMINATORY TAXATION OF SPIRIT DRINKS
Brief by the Foreign and Commonwealth Office

Objective

1. To press for an early public announcement of rapid legislation to remove discriminatory taxation harmful to UK spirits exports. Mr Lawson and Mr Jopling are expected to raise this issue with their Italian counterparts; the Prime Minister need not do so (unless a clear opportunity presents itself).

Points to Make

2. Would mention one matter of particular concern to UK exporters: existing Italian tax regimes which discriminate against imports of whisky and other UK spirits.
3. Of fundamental importance to the free Internal Market of the Community that our exporters should be allowed to compete on an equal basis. Understand that Italian Government may now be ready to make an announcement of compliance with two European Court judgments condemning discriminatory taxation of spirits. Grateful to know precisely when such action will take effect. Assume that thereafter, there will be no tax discrimination of any sort between domestic spirits, eg Grappa, and imported spirits.

[Only if raised]

European Court Ruling Against UK on Wine/Beer Excise Duties

4. This Court judgment, which post-dates the two rulings affecting Italian spirits taxation, will be taken into account in the 1984 UK budget - the earliest practicable occasion for changing the relevant excise duties.

Background

5. Italy and the UK are both faced with the domestic problem of compliance with adverse European Court rulings on their tax structures as they affect imported alcoholic drinks; we wish the Italians to comply immediately and fully with the judgment of the ECJ, and vice versa.

6. The Italians have been condemned twice by the ECJ for discriminatory taxation which protects the production of domestic spirits. They have yet to comply with the judgments. The Italians charge VAT at 38 per cent on whisky and similar drinks with a registered denomination of origin, while Italian brandy and Grappa are charged at only 20 per cent. The ECJ condemned this tax structure in March 1983; and ruled against Italy in July 1982 on the State tax (Diritto Erariale) which also penalises cereal-based alcoholic drinks. The Italian Agriculture Ministry have said recently that a long overdue announcement of full compliance is imminent; but we have heard this before. We are concerned that the Italians should not replace the present discriminatory taxation by another scheme eg a "luxury tax" - which would maintain the present protection of the domestic product, or try to phase compliance over several years. (The Italians say that this is not their intention.)

7. The Foreign Secretary reminded Mr Andreotti of our

concern when he visited Rome last October. Mr Jopling has also spoken to his counterpart, Mr Pandolfi, in the margins of recent Agriculture Councils, and will do so again during the Summit. The Commission too are pressing the Italians to comply. The Italians have previously argued that they need to see how the UK reacts to the ECJ ruling on UK wine/beer excise duties (delivered in July 1983) before making any changes themselves. (Italy intervened on the side of the Commission in the Court case against the UK.) But the judgment that the UK's excise duties discriminate against wine is more recent - and we have undertaken to take account of it in the 1984 budget - the first practicable opportunity, as the Commission acknowledge.

8. The Commission took Court action against the UK on our wine/beer duties in 1978. It took the European Court five years to reach a decision in a particularly complex case; but their ruling was that by any yardstick for comparison (price, volume or alcoholic strength) our excise duties placed a disproportionate burden on (imported) light wine, and therefore had the effect of protecting domestically-produced beer, contrary to the Treaty.

9. The Chancellor of the Exchequer's decision on UK beer and wine excise duties is subject to budget confidentiality. Clearly we cannot predict whether the Italians will respond positively and fully to our representations; but if they do, they will expect the United Kingdom to do likewise at the earliest opportunity.

Foreign and Commonwealth Office
20 January 1984

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF(84) 2(j), ADDENDUM

COPY NO 50

25 January 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

ITALIAN DISCRIMINATORY TAXATION OF SPIRIT DRINKS

Brief by the Foreign and Commonwealth Office

1. The attached telegram from HM Embassy, Rome (telegram number 42 of 24 January) provides up-dated background on Italian intentions for their discriminatory tax regime for spirits imports.

Foreign and Commonwealth Office

25 January 1984

CONFIDENTIAL

VF

TOP COPY

RESTRICTED

GRS 500

RESTRICTED

FM ROME

TO IMMEDIATE FCO

TELNO 042

OF 240905Z JANUARY 1984

AND TO IMMEDIATE MAFF, DTI, TREASURY

INFO PRIORITY UKREP BRUSSELS

MWT 106/11		
RECEIVED IN THE SECRETARY'S OFFICE		
25 JAN 1984		
DESK OFFICER	DATE	
INDEX		
		RA

MY TELEGRAM NUMBER 25: DUTY ON SCOTCH WHISKY

- FORTE, MINISTER WITH SPECIAL RESPONSIBILITIES FOR EUROPEAN QUESTIONS, RAISED THIS WITH ME WHEN I CALLED ON HIM ON 19 JANUARY TO DISCUSS SUBJECTS WHICH MIGHT COME UP AT THE SUMMIT ON 27 JANUARY.
- FORTE SAID THAT HE THOUGHT IT LIKELY THAT THE MINISTER OF FINANCE WOULD DEAL WITH EXCISE/DIRITTO ERARIALE PROBLEMS BY REDUCING THE LATTER TAX ON WHISKY, AND INCREASING EXCISE DUTIES ON OTHER SPIRITS, SO THAT THE LEVEL OF THE TWO TAXES WAS HARMONISED. IVA WAS A MORE DIFFICULT MATTER. THE MINISTER OF FINANCE WAS NOT ABLE TO SOLVE THE PROBLEM BY A GENERAL RE-ARRANGEMENT OF IVA, AS HE HAD HOPED, BECAUSE OF TIMING DIFFICULTIES; AND A REALIGNMENT OF THE RATES TO EQUATE IMPORTED WHISKY AND LOCAL BRANDY WAS STRONGLY OPPOSED, ON THE GROUNDS THAT SPIRITS LIKE GRAPPA WERE "THE POOR MAN'S DRINK". FORTE SAID THAT IT WOULD OF COURSE BE EASIER FOR ITALY TO MOVE IN THAT DIRECTION IF THE BRITISH TAX ON WINE WERE REDUCED. I SAID THAT WE BOTH HAD OUR RESPONSIBILITIES AS A RESULT OF JUDGEMENTS MADE BY THE COURT. IT SOUNDED AS IF THE MINISTER OF FINANCE MIGHT BE ON THE WAY TO SOLVING THE DIRITTO ERARIALE PROBLEM, BUT I WAS NOT SURE THAT THE SAME COULD BE SAID FOR THE DISCRIMINATORY RATE OF IVA. I RECALLED WHAT THE CHANCELLOR OF THE EXCHEQUER HAD SAID ABOUT CONSIDERING THE COURT'S JUDGEMENT WHEN PREPARING HIS BUDGET PROPOSALS AND MENTIONED THAT HE WOULD BE ONE OF THE MINISTERS ACCOMPANYING THE PRIME MINISTER. FORTE TOOK NOTE. HE ALREADY PLANNED TO DISCUSS THE CREATION WITH MR TUGENDHAT IN FEBRUARY.

RESTRICTED

/2 THIS

RESTRICTED

2. THIS IS SOMEWHAT AT VARIANCE WITH THE LINE TAKEN BY THE MINISTRY OF AGRICULTURE (MY TUR) AND ITALIAN INTENTIONS REMAIN UNCLEAR. IT IS NOT FAR REMOVED, HOWEVER, FROM REVISED INDICATIONS OBTAINED BY MY AGRICULTURAL ATTACHE FROM THE CHEF DE CABINET AT THE MINISTRY OF AGRICULTURE YESTERDAY, WHEN THE EQUALIZATION OF THE FISCAL DUTY WAS CONFIRMED, AND WHEN THE LINKAGE BETWEEN ITALIAN ACTION ON IVA ON WHISKY, AND OUR OWN ACTION ON WINE, WAS QUITE AGGRESSIVELY MADE. EVANS PROTESTED THAT JUDGEMENT ON WHISKY WAS MUCH EASIER, AND THAT WHILE ANY UK BUDGETARY ACTION ON WINE WOULD HAVE IMMEDIATE EFFECT, ITALIAN ACTION WOULD ON THEIR OWN ADMISSION BE SUBJECT TO PARLIAMENTARY AND BUREAUCRATIC DELAYS. THE CHEF DE CABINET'S REACTION WAS THAT ITALY WOULD HONOUR ITS OBLIGATIONS, AND "IF FULL SATISFACTION WAS RECEIVED ON WINE", IE IF DUTIES WERE HARMONIZED ON WINES WITH ALCOHOL STRENGTH OF UP TO AND EVEN ABOVE 15 DEGREES, THEN A DECREE FOR IMMEDIATE EQUALIZATION OF IVA COULD BE CONSIDERED.
3. PLEASE INFORM PS/CHANCELLOR OF EXCHEQUER AND PS/MINISTER OF AGRICULTURE.

ADVANCE COPIES:

FCO - HEAD OF ECD(1), FEAN

MAFF - HOLLIS

DTI - FISHER

BRIDGES

(ADVANCED AS REQUESTED)

MINIMAL

ECD(1)

WED

2
RESTRICTED

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

PMVF (84) 3(a)

COPY NO 49

23 JANUARY 1984

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

EAST/WEST RELATIONS: GENERAL

Brief by Foreign and Commonwealth Office

UNITED KINGDOM OBJECTIVE

1. To compare assessments following first week of CDE. To underline need for consistent and long term policy.

POINTS TO MAKE

2. Must get perspective right. No movement on INF or START:- none was expected. Russians also determined to keep public pressure on Reagan as Presidential election approaches. Can expect "warmongering" theme to become even more strident.
3. But willingness to resume MBFR talks mildly encouraging. Also some signs that Russians do not wish to forego chances of talking at high level to US and to European Governments. Five hour discussion with Shultz, range of subjects discussed and generally businesslike atmosphere just as telling as harsh anti-American polemic in Gromyko's opening statement.

CONFIDENTIAL

CONFIDENTIAL

4. Clear from Sir G Howe's meeting with Gromyko that Russians prepared to do business with INF stationing countries. Attempts at wedge-driving (denigration of US) still recurring theme, but Gromyko evidently ready for wider range of political contacts with Europe. This - together with possible return to a more substantive dialogue with US - a welcome move.

5. Room for realistic satisfaction: consultation in Ten and in NATO has worked well. President Reagan's speech of 16 January marked by sensitivity to European concerns. Hope this sets tone for statements on East/West relations during presidential election campaign.

6. Must now exploit the openings for renewed dialogue with East. Hope to encourage broadening of agenda, discussion of regional issues, identify common interests. Equally must not shy off sensitive subjects like human rights. But progress will be slow. Must guard against unrealistic public expectations of short term success.

7. Look forward to substantive and wide-ranging discussions during visit to Hungary (2-4 February). Important selectively to develop contacts with Eastern European countries where we have some common political and economic interests.

BACKGROUND

8. Progress on arms control at opening session of CDE minimal. No movement on INF or START, although some signs of Soviet willingness to return to MBFR. Wide difference in approach to CDE evident.

9. Gromyko's focus was as expected on superpower relationship. Gromyko's CDE speech and contrasting lengthy meeting with Shultz illustrated ambiguity of Soviet approach: unremitting efforts to blacken Reagan, but cautious interest in moving back to substantive dialogue.

CONFIDENTIAL

CONFIDENTIAL

Rate of movement will be slow. Russians will not wish to be seen as demandeurs. Gromyko agreed in principle to further meeting with Shultz as he did with Sir G Howe, but no date fixed. Russians unlikely to consider US/Soviet summit this year, since they would see it as giving political credit to Reagan. Also uncertainty over Andropov's health.

10. Evolution of US policy as brought out in Reagan's speech of 16 January has given further impetus to strong and resilient Alliance common view. Will if sustained have some effect on Soviet thinking, although immediate response (notably Gromyko's speech) was predictably negative. Most pressing need now encourage both Americans and our European partners to adopt consistent and long term policy resting on close consultation. At same time will be important to encourage realistic expectations among informed public: western scope for influencing Soviet Union limited. Progress will be gradual. Hope to bring out these points in NATO study on East/West relations commissioned for next meeting of Foreign Ministers in Washington in May.

11. Despite the vocal Italian Peace Movement, the newly elected Socialist government of Senor Craxi has stood firm on INF deployment and more generally on East/West issues. Italian/Soviet Mixed Economic Commission met in Moscow on 19-20 December. Delegations headed at Deputy Minister level. Atmosphere described as "very favourable", but little political significance.

12. No visible rapport between the Italian Communist Party (PCI) and Moscow since the split of 1982. Russians are irritated at the PCI's independent policies in particular over Afghanistan and Poland.

Foreign and Commonwealth Office
23 JANUARY 1984
HGMAAU

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

PVMF(84)3(b)

COPY NO 50

23 JANUARY 1984

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

EAST/WEST RELATIONS: EASTERN EUROPE

Brief by Foreign and Commonwealth Office

OBJECTIVES

1. To exchange views on key Eastern European countries. Signor Craxi will be interested in the Prime Minister's forthcoming visit to Hungary, since he also has plans to visit Budapest.

POINTS TO MAKE

2. Eastern Europe is uneasy at the state of East/West relations and the consequences of new INF deployments, concerned about the leadership question in Moscow, and in severe economic difficulties. British policy is to discriminate in favour of countries which show independence internally (Hungary) or in foreign policy (Romania).

(a) Hungary

Will use forthcoming visit (2-4 February) to underline Western concern about East/West relations and to stress our serious approach to arms control. Shall acknowledge

and encourage distinctive Hungarian economic policies.
Mr Craxi's objectives?

On EC approach, Hungarians have moderated their requests a little. Hope that other EC Member States, including Italy, can demonstrate similar flexibility. Otherwise EC's proclaimed wish to encourage economic liberalisation in Eastern Europe will not be taken seriously.

(If appropriate) The proposed agreement with Hungary is sui generis. No reason why the Community should allow it to form a precedent for other Eastern European countries, with less liberal economic policies, to have special arrangements; if we do not differentiate, we remove the incentive to liberalise. The UK would require to be convinced of the individual merits of any future proposals for agreements with Eastern European countries.

(b) Poland

Despite legacy of martial law, still unique and liberal features internally. Must continue to show our distaste for much of regime's record but also consider most effective way to urge authorities back to dialogue and reform. Important to agree a long term Western strategy (including the US) that will enable us to regain influence.

(c) Yugoslavia

Important to support Yugoslavia's independence and

CONFIDENTIAL

non-alignment by helping with the debt problem.

(d) Albania (only if raised)

Grateful for helpful Italian attitude over claims/
gold issue.

BACKGROUND

3(a) Hungary

Signor Craxi expected to visit Budapest in March;
Chancellor Kohl in June. Significant that Hungarians
feel able to envisage visits by Heads of Government
of the 3 INF basing countries in present East/West
climate. Liberal economic/internal policies deserve
encouragement, especially Hungarian wish for closer
relations with EC.

It appears from the Commission's most recent discussions
(Haferkamp's meeting with the Hungarian Foreign Trade
Minister on 17/18 January) that the Hungarians have
somewhat moderated their requests for a trade agreement
with the EC, and will now reflect (until after the Prime
Minister's visit to Hungary) on the ideas the Commission
have put together. Nevertheless they will certainly
insist on substantial liberalisation of quantitative
restrictions and will not be content unless the agreement
has significant economic content. Although EC Ministers
have repeatedly affirmed the political importance of
negotiations, there have been few indications that EC
Member States have yet reconsidered their positions to
a degree that would enable the Commission to put forward

a draft negotiating mandate likely to be accepted by Hungary.

The UK national position remains the most forthcoming: we are prepared in principle to see the EC offer concessions on most of the major areas in which the Hungarians have made requests. The Italians, however, are still dragging their feet; they profess to be concerned that concessions to Hungary might be interpreted as a precedent for other Eastern European countries to seek improvement in their arrangements with the EC.

(b) Poland

Polish political landscape darker than before martial law but still some internal moderation (travel, press, harsh laws not enforced) and a strengthened Church. are gradually resuming official/technical contacts but economic sanctions remain in place. No progress yet over official debt rescheduling or IMF membership: Polish demands unacceptable.

(c) Yugoslavia

Yugoslavia in midst of chronic debt problem (\$19 bn), austerity programme and export drive. Western creditors agree in principle to refinance maturities falling due this year. Further injections of special credit, as organised in 1983, are probably not necessary.

CONFIDENTIAL

(d) Albania

British/US representatives discussed with Italians in 1982 proposed UK/US initiative to resolve question of so-called Albanian gold, currently held by Tripartite (UK/US/France) Gold Commission. UK/US proposed to offer gold to Albania if latter pays minimal sums in settlement of outstanding claims (including ICJ award to UK over Corfu Channel case). Italians have claim to gold originating before World War Two. UK/US needed Italian assurance that latter's claims would not be pressed. An oral 'political' assurance was given. We expect that our proposal will be put to the Albanians by a senior French official in Tirana in March.

Foreign and Commonwealth Office

23 January 1984

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF (84) 3c

COPY NO 50

23 January 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

EAST/WEST ECONOMIC RELATIONS AND TECHNOLOGY TRANSFER

Brief by Foreign and Commonwealth Office

United Kingdom Objective

1. To check that Italian views on control of West/East transfer of strategically sensitive technology remain similar to our own; to confirm shared goal of an effective COCOM in which there is respect for multilateral consensus; to confirm common view of need to persuade US to maintain flexible negotiating stance; to discuss views on US China initiative.

Points to Make

1. We acknowledge US concerns about COCOM and technology transfer. We are committed to controlling this, and to a strong COCOM operating on basis of precise lists effectively enforced at national level. We have been working towards this end.

2. But our legitimate national industrial and commercial concerns also need protecting. We should continue to remind US of this, and of need to develop flexible negotiating stance in COCOM. Effective controls only work if based on consensus,

/not

CONFIDENTIAL

CONFIDENTIAL

not unilateral action.

3. Broadly welcome US initiative to liberalise trade with China. Share their assessment of degree of threat which China presents to West. But important that we all, and not just American firms, benefit from new liberal regime.

Background

4. Focus of East/West Economic Relations debate remains on COCOM and technology transfer to the Soviet bloc. US Administration continues to press hard for controls, particularly on computers, which are sometimes tighter than we think justified by COCOM strategic criteria. Americans have in past threatened unilateral action in this area; it is important to avoid this if a further dispute similar to that over the Siberian Gas Pipeline is to be averted.

5. COCOM operates on the basis of multilateral consensus and compromise, best achieved through discussions based on flexible negotiating stances. Important that Americans keep this in mind.

6. COCOM would in UK view be most effective on basis of shorter lists targeted precisely on what the Russians want. These lists could then be effectively enforced at national level. Italians by and large share this view.

7. More recently, the Americans have announced the liberalisation of some of their domestic export controls to China. Mr Shultz wrote on 15 January about this to Sir G Howe (and, we believe, to Foreign Ministers of other COCOM members,

/including

CONFIDENTIAL

CONFIDENTIAL

including the Italians). These should allow COCOM applications by all countries for exports to China to be processed more speedily, and should permit companies to bid for contracts in areas which were previously closed. But there have been some fears that this unilateral American declaration could lead in practice to commercial advantage for US firms; for the policy to be successful, it is important that all COCOM members benefit. We are reviewing our response to this initiative, but it would be interesting to know whether the Italians yet have a view.

Foreign and Commonwealth Office

23 January 1984

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

PMVF(84) 4 (a)

COPY NO 50

23 January 1984

ANGLO-ITALIAN SUMMIT
26-27 January 1984

ARMS CONTROL: INF/START, CDE, NPT

Brief by Foreign and Commonwealth Office

Objective

1. To encourage Italians to participate fully in NATO arms control consultations, despite the suspension of INF and START talks, and to be an effective party to the Non-Proliferation Treaty.

Points to Make

2. Need for continued Western consultation on arms control negotiations, despite temporary suspension. Important to maintain successful coordination of 1983. NATO Governments have upper hand in public relations terms following Soviet suspension of talks, but perhaps not for long.

3. Need for closely coordinated Western position before Soviet Union offers to resume START/INF on its own terms. But NATO should not offer concessions to the Russians to entice them back into negotiations.

CONFIDENTIAL

3. Welcome full turn-out of Foreign Ministers at Stockholm for opening of CDE. Should help East/West relations but must guard against raising too high expectations of this narrowly-focussed negotiation.

4. Caution needed in response to pressure for limitations on anti-satellite weapons if United States not to be alienated.

5. Important to coordinate Non-Proliferation policy before Non-Proliferation Treaty Review Conference in 1985.

Background

6. Major items of equipment are arriving at the Italian cruise missile base in Sicily although the first missiles will not be operational until March 1984. The Italian Government appear to be under little domestic pressure on this issue. Craxi may however refer to his consultations with us, the Germans and Americans in November following a call by Berlinguer, the Italian Communist Party leader, for a postponement of Pershing II and cruise missile deployments and the beginning of Soviet dismantling of SS20s. The UK echoed the Italian Government's scepticism of the value of such an idea.

7. The Italians favour Western initiatives on control of anti-satellite weapons. The US (and we) are cautious given the danger of codifying the present Soviet lead in anti-satellite systems.

8. We are in close consultation with the Italians about policy towards all the arms control negotiations and the forthcoming NPT Review Conference.

Foreign and Commonwealth Office

23 January 1984

CONFIDENTIAL

PMVF(84)4(b)

COPY NO

50

17 January 1984

ANGLO-ITALIAN SUMMIT
26-27 January 1984

ITALIAN DEFENCE POLICY

Brief by Ministry of Defence

UK OBJECTIVE

To encourage Italy to accord a high priority to defence expenditure and to recognise her contribution to Southern Flank security.

POINTS TO MAKE

1. Important to Alliance as a whole to maintain and improve capability against an increasing WP threat.
2. UK has given defence high priority, despite economic difficulties. Hope Italy can continue to do likewise. Continuing economic pressures underline need to ensure we make best use of resources.
3. Appreciate strategic importance of Southern Region for Alliance as a whole and need for stability in the area.

BACKGROUND

4. Italy is a strongly committed member of NATO and a firm supporter of the deterrent strategy as evidenced by her commitment to GLCM deployment in Sicily. She is seriously concerned

about the steadily increasing gap between NATO and Warsaw Pact forces, particularly on the Southern Flank, and bases her defence policy on the principle that security and stability are dependent on the strengthening of the Alliance. The scale of effort does not match the strength of her commitment (see para 7). There has been no essential change in defence policy since Sr Craxi's Government took office.

5. Italy is conscious of an increased threat from the Soviet Mediterranean Squadron and from Libya, but her land and air forces remain deployed to face the main threat via the traditional invasion routes in the north-east. We have no recent information about Italian out of area policy, though there were indications some time ago that they would reject suggestions that their forces should be deployed outside the NATO area in support of NATO interests. Since then of course they have contributed to the Sinai peacekeeping and Lebanon Multinational Forces.

6. The Italian Government has confirmed its intention to fulfil the commitment to a 3% annual increase in real terms of defence expenditure for the period 1985-88, but this is likely to prove difficult in an economic climate characterised by very high inflation and a high deficit in public expenditure. The average annual real growth in the period 1979-1982 was 2.5%, (higher than FRG 1.6%) but GDP declined by 1.4% in 1983 and rapid expansion is not likely for the foreseeable future.

7. Italy currently spends 2.6% of its GDP on defence, one of the lowest proportions in the Alliance. In addition, a reduction of 1250 billion lire (7%) in the 1984 defence budget was announced in October 83. There are significant weaknesses in her forces

(publicly admitted to be at the minimum acceptable level), notably in the areas of sustainability, readiness, maritime forces and NBC defences. Although the revised 1984 budget is still nominally higher than in 1983, it constitutes a marked decline in planned expenditure in real terms (inflation is still around 13% p.a.) and is worrying in its possible implications for the capability of Italy's armed forces.

Ministry of Defence

17 January 1984

4C

PMVF(84)4c

COPY NO

50

20 January 1984

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

BILATERAL DEFENCE MATTERS (EXCLUDING EH-101)

Brief by Ministry of Defence

UK OBJECTIVE

To reinforce existing good bilateral defence relations; to promote greater European equipment collaboration; to welcome developments on the Future European Fighter Aircraft (FEFA).

POINTS TO MAKE

1. Value the good bilateral defence relations which exist between our two countries.
2. Emphasise the seriousness of the UK's concern to enhance Europe's industrial capabilities, to promote greater European cooperation and to aim for a "genuine two-way street" with the US.

(If pressed on follow-up to Mr Heseltine's DPC comments):

Of course a number of complex issues need to be considered to which our Ministries of Defence will need to give careful thought.

3. Glad to see that an Outline European Staff Target (OEST) has been agreed by the 5 nations for FEFA. Hope the 5 nations can agree to proceed to a full collaborative project.

4. If raised: Options are still being considered for the UK's second generation surface-to-surface guided weapon (SSGW). Cannot anticipate decision. Hope it will be made soon.

BACKGROUND

5. Bilateral defence relations with Italy are good, the one major problem being the Italian reaction to exclusion from last year's Trilateral Defence Ministers meeting (see Brief No. PMVF(84)4d). We are collaborating with the Italians on a number of major equipment projects such as Tornado, EH-101 (Brief No. PMVF(84)9(a)(i)) and the SP 70 self-propelled gun; and there are possibilities for the future such as FEFA described below. Bilateral contacts include RM, Army and RAF units training in Italy, Italian officers on UK training courses and ship visits. While useful, contacts are somewhat more limited than those with eg. Germany and the Netherlands.

Equipment Cooperation

6. Mr Heseltine stressed at the December 83 meeting of the NATO DPC the need for a more urgent political approach to European cooperation so as to make the two-way street with the US on equipment matters more of a reality. There are a number of issues which need to be clarified before substantive discussions with NATO Allies on Mr Heseltine's initiative are possible, but the Italians should be left in no doubt as to the UK's concern to promote greater European cooperation in equipment matters.

Future European Fighter Aircraft (FEFA)

7. An Outline European Staff Target for the Future European Fighter Aircraft (FEFA) was agreed by the Chiefs of Air Staff

of the 5 nations, (UK, France, Germany, Italy and Spain) in December 1983. Earlier this month procurement staff met and agreed on how the necessary follow up work with national industries should be handled at this stage. The Defence Secretary is considering whether to invite Ministers of the 5 nations to meet in London in May 1984 to consider reports on progress and determine the way ahead. Feasibility studies would follow the ministerial meeting if the 5 nations can reach agreement on a satisfactory way forward. The project would be a very major one of cardinal importance to the European aircraft industry; but many difficult problems especially of funding and industrial jockeying for position will need to be surmounted. Italy - a partner, along with Germany and the UK in the Tornado project - is sensitive to what she sees as a possible danger that with French participation in the project and pressures to keep management arrangements as simple as possible, she might be "elbowed out" or, along with Spain, relegated to a subordinate status by the trilateral nations. (see also Brief PMVF(84)4d). So far as UK (and, as we believe, Germany) is concerned these fears would have no foundation. Both of us attach great importance to full Italian participation in procurement discussions; indeed the UK at least see this as a useful countermeasure to possible French attempts to dominate any consortium.

Surface to Surface Guided Weapons

8. OTOMAT (Oto Melara (Italy) and MSDS(UK)) is in competition with HARPOON (US), SEA EAGLE (UK) and EXOCET MM40 (France) for the second generation SSGW for the Royal Navy. Oto Melara's bid was very professional and attractive offset arrangements were offered. Ministers are currently considering which missile

to choose but OTOMAT would be less cost-effective than HARPOON and would add yet another family of missiles to the RN inventory with obvious logistic penalties. It is therefore unlikely to be chosen but a final decision has not been made.

Sales

9. There are no current major sales prospects with Italy. The UK's main opportunities lie in the component and sub-system areas. Apart from collaborative projects they look to their own well-established defence industry for the bulk of their requirements.

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF(84)4d

COPY NO

50

24 January 1984ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984TRILATERAL DEFENCE CONSULTATION AND ITALIAN OBJECTIONS

Brief by Ministry of Defence

UK OBJECTIVE

To assuage Italian sensitivities over their exclusion from the Tripartite Ministerial meeting in September 83; and to prevent the UK being blamed for their exclusion while maintaining the option of continuing the trilateral forum.

POINTS TO MAKE

1. Note concerns which have been expressed over Italian exclusion from trilateral defence talks in September 83.
2. We intend that there should be a Ministerial meeting of all five nations concerned with Future European Fighter Aircraft (FEFA), in May 84 in lieu of previously publicised Tripartite Ministerial meeting.
3. (If raised) Defence Secretary plans to attend meeting to celebrate 30th Anniversary of WEU in October in Rome.
4. (If pressed) Cannot rule out possibility of trilateral meetings in future as 3 major powers on the Central Front may have legitimate issues to discuss.

BACKGROUND

5. The Italians reacted strongly to their exclusion from the Tripartite Anglo/French/German Defence Ministerial meeting in Paris last September and have put particular pressure on the UK because of the public announcement that the next round would take place in

London in May 84. None of the trilateral Ministers is keen to see the forum diluted by expansion; we particularly value our political and military relationships with France and Germany, especially in the longer term perspective of European defence matters. Abandoning trilateral meetings and reverting to more bilateral meetings carries the risk that the Paris/Bonn axis would develop probably at our expense.

6. Clearly we cannot ignore Italian sensitivities. Not only is she a solid member of the Alliance, firm on INF and an important partner in procurement matters, but there is more than a little substance to her complaints. The trilateral meeting did, among other equipment issues, discuss FEFA in which the Italians have been involved from the outset. There would probably be a major political row if the trilateral meeting in London scheduled for May were to continue as such. The Secretary of State for Defence therefore plans to host a meeting of the five nations (UK, France, Germany, Italy, Spain) concerned with the FEFA project in May in London. This would replace the publicised Tripartite Ministerial meeting but would still give the opportunity for trilateral discussions in the margins. Should these meetings become known to the Italians it would be possible to argue that there were legitimate issues which the three European Central Region powers wished to discuss. Equally discussions in the margins would not pose the Italians with severe domestic political problems that publicised, separate and institutionalised Tripartite meetings do.

7. Further Ministerial meetings on FEFA are likely to be required in 1984 and 1985 which would enable trilateral discussions to be continued, as would the WEU meeting in October, if it takes place.

8. Initial reactions from our Embassies are that the Germans will go along with this approach; the French are content that a Ministerial meeting on FEFA should replace the trilateral meeting

but have suggested Madrid as the location rather than London. We would much prefer London and will be considering how best to pursue this.

MINISTRY OF DEFENCE

24 January 1984

5A

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF(84)5a

COPY NO 50

23 January 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

LEBANON AND ARAB/ISRAEL

Brief by Foreign and Commonwealth Office

United Kingdom Objective

1. Exchange of views on prospects for Lebanon and the Multinational Force. Both sides will wish to reaffirm their common views on Arab/Israel matters and discuss the latest developments in the region.

Points to Make

2. We remain opposed to premature withdrawal of MNF. Determined to avoid vacuum. But have stressed again to Lebanese that MNF is temporary and urged them and US to be flexible, especially on 17 May Israel/Lebanon agreement.

3. Have also stressed to Lebanese that any military

action to extend Government's authority by force would create new situation in which we would have to reconsider our MNF contribution. Hope Italians can make same point.

4. Glad we share objective of early replacement of MNF by UN forces. Not ruled out by Soviet Union or Syria. Will stay in touch on best way forward.

5. Stagnation in Arab/Israel peace process undermines moderate Arabs who deserve our support. They see Reagan/Shamir meeting of November 1983 as alarming US shift towards Israel. We should press Americans to reassure Arabs; perhaps by a revival of Reagan plan and particularly its call for a freeze on Israeli settlements in the Occupied Territories.

6. Arafat/Mubarak talks, recall of Jordanian Parliament, prospects of resumed Arafat/Hussein talks indicate possible new life in the peace process. Saudis and Egyptians told Sir G Howe they were keen that West seize opportunity to steer PLO into new constructive phase. Encourage them to work with Hussein, make commitment to negotiation and explicitly recognise Israel's right to exist.

Background

7. In Lebanon, the security situation has deteriorated since mid-January with renewed retaliation by US warships for Druze attacks on US Marines (15 January), heavy exchange of fire between Druze and Christian militias and heavy shelling of East Beirut by the Druze. In Beirut, Islamic Jihad (assumed to be Lebanese Shia operating with Iranian support responsible for October 1983 bomb attacks on US and French contingents) have claimed responsibility for the assassination of the President of the American University of Beirut, Mr Kerr (18 January) and the kidnapping of the Saudi Consul. There have been a number of other recent attacks on French diplomats.

8. There has been no progress towards national reconciliation. Even the implementation of the latest security plan involving the deployment of Lebanese Army and Internal Security Forces outside Beirut is still held up, with the Druze leader Jumblatt under Syrian influence insisting on reinstatement with promotion of Druze officers who deserted in September 1983. The Syrian veto on all progress before the abrogation of the 17 May Israel/Lebanon agreement was confirmed during Sir G Howe's visit to Damascus 11-12 January.

CONFIDENTIAL

9. At a meeting in London on 20 January Sir G Howe stressed to Lebanese Foreign Minister Dr Salem the need for implementation of the security plan and progress towards national reconciliation. He also warned Salem against attempts by Lebanese Army (LAF) to implement their plan to extend their authority by force to the southern suburbs of Beirut and the Shouf. Salem claimed that this was only a distant possibility and that MNF contributors would be fully consulted first.

10. Reductions in Italian (2200 to 1500) and French (1800 to 1250) contingents are due to be completed in 1984, leaving total MNF strength at 4,360 (US 1500, UK 110). The Italian decision has for the time being reduced public pressure for full withdrawal. But President Pertini's (personal) call at Christmas for the Italians to dissociate themselves from the US in Lebanon and withdraw struck a popular chord. A major incident involving high Italian casualties would probably make full withdrawal of the Italian contingent irresistible. At present the official Italian position remains that their contingent will be withdrawn when the reconciliation talks end, whether in success or failure.

11. The Italians have therefore enthusiastically

CONFIDENTIAL

welcomed the idea of replacing the MNF by UN forces, which was discussed by Sir G Howe and Foreign Minister Andreotti in Stockholm on 16 January. Discussion of a UK paper on various options for wider UN involvement in Lebanon continues, through regular meetings of MNF representatives in London. The Italians have themselves proposed a UN presence in the Palestinian camps in Beirut (which they guard at present). The UN Secretariat sees little chance of achieving a wider role for UNIFIL (to which the Italians also contribute a logistic unit of 40 men) or UN observers except as part of a wider package including a timetable for the withdrawal of all forces, including the MNF. In a meeting with Sir G Howe on 19 January Mr Gromyko gave some encouragement to the idea of wider UN involvement, provided the MNF withdrew fully.

12. President Reagan's Special Representative Mr Rumsfeld stopped off in MNF capitals on his way back to Washington after almost three weeks of Middle East shuttling. In London on 20 January he argued that MNF resolve must be maintained to induce Syrian flexibility. Neither we nor the Italians share the US view that replacement of the MNF by UN forces should not be pursued at present for fear of encouraging Soviet/Syrian intransigence.

Arab/Israel

13. The Italians take a keen interest in Arab/Israel matters and feel much sympathy with the Palestinian cause. But they do not have any new ideas. They have relatively close relations with the PLO dating from Arafat's visit to Rome in September 1982 when he was received by the Pope, President Pertini and Ministers. The Italians provided a hospital ship for the evacuation of Arafat and his fighters from Northern Lebanon on December 22.

14. Arafat met Mubarak on 22 December and spoke of the need to 'force a polarisation' of the PLO and consolidate his leadership. He has since held a series of internal PLO meetings and appears to have made some progress to this end. He may well be able to achieve majority support at a meeting of the Palestine National Council (the Palestinian 'parliament') which he hopes to convene in February, and which his implacable opponents in the PLO will no doubt boycott. But doubts remain whether he will be able to get a mandate sufficiently flexible to make a success of a renewed dialogue with King Hussein. Arafat says he will go to Amman soon. King Hussein may choose to use the Jordanian parliament, recalled on 9 January, to give himself a mandate to speak for the

Palestinians of the West Bank if Arafat should let him down as he did in April 1983.

15. Sir G Howe's visit to the Middle East (8-12 January) included substantial discussion of Arab/Israel matters. The Egyptians did not envisage any substantive progress before next year, but hoped to maintain some momentum this year by encouraging a dialogue between Arafat and King Hussein and thereafter working with the Europeans (or just France) to get the US to move towards acceptance of self determination for the Palestinians. Prince Saud pressed for collective 'resonance' in European and Arab policies, to jolt the Americans out of their preoccupation with the Lebanon and bring them back to the main question. He agreed that the Reagan plan remained the Palestinians' best bet but claimed that it was threatened by the US/Israeli strategic cooperation agreement. Khaddam made it clear that the Syrians saw no chance of early movement and indeed make a virtue of the long haul. He claimed that King Hussein's recall of the Jordanian Parliament would only increase tension, and that Arafat was finished.

Foreign and Commonwealth Office

23 January 1984

PMVF (84) 5(b)

COPY NO 50

23 JANUARY 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

IRAN/IRAQ

Brief by Foreign and Commonwealth Office

UNITED KINGDOM OBJECTIVE

1. To express our wish to see an early end to the war and concern at the threat to freedom of navigation through the Gulf. To exchange views on the prospects for renewed mediation. The Italian objective is likely to be the same.

POINTS TO MAKE

Ending the Conflict

2. UK keen to see an early end to the conflict. Immediate aim must be to prevent escalation of attacks on economic targets. Iranians may be preparing spring offensive. Support any diplomatic efforts which may help end the war. Mediation by the Secretary-General may eventually offer best hope. What is the Italian view?

Current Iraqi Position

3. Signs of increased Iraqi confidence in ability to continue war. Must continue to urge Iraq, as well as Iran, to avoid escalation.

/Iranian Strategy

Iranian Strategy

4. Iranian reaction to any Iraqi attack on their oil exporting facilities is unpredictable. Iranians more cautious recently, presumably because they fear provoking Western intervention. How do Italians see Iranian intentions?

Contingency Planning

5. If the conflict spreads first recourse must be to diplomatic action. But some form of eventual Western military action cannot be ruled out.

Threat to Oil Supplies (Defensive)

6. UK concerned to preserve safe passage of neutral shipping. We share Italian concern to see the uninterrupted flow of oil supplies from the Gulf.

Arms Sales (Defensive)

7. We remain strictly neutral and have not supplied lethal items of equipment to either side. (If asked: MV Kharg is a naval auxiliary vessel. Iranians have assured us it will not be used to support operations against Iraq.)

BACKGROUND

The War

8. Due to wintry weather the land war has slowed down but Iraqi attacks on civilian targets and Iranian convoys in the Gulf continue. The Iraqis have not so far used their five French Super Etendard aircraft equipped with Exocet, though they have refused to provide assurances that they will avoid action which might goad Iran into retaliating against Gulf States or trying to close the Straits of Hormuz.

/9.

9. The United States have told the Iraqis it is not in the US interest to see Iraq defeated. This and renewed support from the Russians and the Gulf States may reduce the immediate likelihood of Iraqi attempts to escalate the war; but in the longer term confidence in US support might make the Iraqis more inclined to risk escalation.

Mediation

10. Iran has denounced UNSCR 540, passed in October 1983, which called for an end to hostilities in the Gulf area, yet until recently, has observed its provisions. Iraq insists on implementation, yet violates it by attacks on shipping in the Gulf and on Iranian civilian targets.

11. The UN Secretary-General, with UK encouragement, has been considering how best to combine the Iranian request for another UN mission to visit the area to examine civilian casualties and the evidence of Iraq's use of chemical weapons (rejected by Iraq) and the Iraqi wish for a UN mediator to visit the area to follow up SCR 540 (rejected by Iran). At the recent Casablanca Islamic Conference (Iran refused to attend), the Secretary-General proposed to the Iraqi Foreign Minister that such a combined mission should be undertaken by his assistant, Cordovez. The aim would be to lay the ground for a further mission by his Special Representative, Mr Palme. The Iraqis refused to accept any mission that investigated civilian casualties. Cordovez will now speak to the Iranian representative in New York: we shall be kept in touch with developments.

Contingency Planning [Not for use]

12. Consultation with the Americans has been close and frequent, though the French remain reluctant to engage in contingency planning, even on a bilateral basis. We have had no discussions with the Italians.

/Arms Sales to Iran

Arms Sales to Iran

13. There have been a number of stories that the UK is supplying arms to Iran. This is untrue, though we may soon reach agreement with Iran on a package under which some blocked tank spares (but no ammunition or gun-related items) and two unarmed naval support ships may be released. A third support ship, the Kharg, which was completed in 1980, but detained here because of the US hostage issue, is now being taken over by the Iranians, though it is unlikely to leave for several months. It has one Italian-supplied gun, which we have stipulated should be removed before it sails.

Threat to Oil Supplies

14. The shortfall in supplies arising from an interruption of oil exports from the Gulf would be around 9 mbd (million barrels per day) out of a total free world demand of 44 mbd. Non-Gulf countries could probably increase production to make up about half of this shortfall. This, coupled with the International Energy Agency (IEA) emergency sharing scheme and other international agreements on demand restraint would probably contain physical supply problems. 40% of Italy's oil comes from the Gulf.

Italian View

15. Italy maintains a position of neutrality in the war and has preserved relations with, and interests in, both Iran and Iraq throughout the war. Italy was concerned that French delivery of five Super Etendard to Iraq might lead to an escalation of the conflict. However, Italy has supplied arms to both belligerents. She is currently building three Lupo class frigates for Iraq.

Foreign and Commonwealth Office

23 January 1984

ome

d.

ion
on
bd.

aint

at
plied
ee

6A

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

PMVF (84) 6(a)

COPY NO 50

24 January 1984

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

MALTA

Brief by Foreign and Commonwealth Office

UK Objectives

1. To show understanding of Italian concerns about Malta and to persuade them unity and firmness pays.

Points to Make

2. Maltese society seems to be increasingly divided. Despite the ray of hope offered by the Nationalist Party's lifting of their boycott of products advertised on the broadcasting media, relations between them and Mintoff's Labour Party do not seem to be improving much.
3. We need to keep a close eye on Malta's relations with the Soviet Bloc and other communist countries. At the moment, there seem to be problems in USSR/Maltese relations and relations with the US are improving.
4. Experience shows that best way of dealing with Maltese perversity is generally a united and firm stand. Understand that you have had difficulties in negotiating a new Financial Protocol. What is the latest position?

Background

5. After General Election of December 1981 in which they gained 51% of popular votes but not a majority of seats,

CONFIDENTIAL

CONFIDENTIAL

the Opposition Nationalist Party refused to take their seats in Parliament and claimed that their constituencies had been gerrymandered. They returned to Parliament in March 1983 in return for inter-party talks. Talks were suspended by Government on 1 July for three months but have not yet resumed. On 30 December, as a New Year gesture of goodwill the Nationalist Party lifted a boycott of products advertised on broadcasting media (which had in turn been a protest at a boycott by the broadcasting union against the Nationalists). Mintoff has interpreted this as a sign of weakness and has not reciprocated by restarting the inter-party talks.

6. Mintoff's Government is also in dispute (largely of his own making) with the Church, the educational establishment and other groups in Maltese society such as farmers and business. The problems with the Church are the most serious. Mintoff wants to take over all Church property to which the Church has no registered title and to restrict the rights of Church schools.

7. Although Italian and UK views on Malta, particularly her strategic importance, are similar, the Italians tend to believe that the best way to influence the Maltese for the better is to meet Maltese demands. Until last year Italy gave \$16 million per annum bilateral aid linked to a Neutrality Agreement. The Financial Protocol expired on 31 December 1983 and a new Financial Protocol has not yet been concluded. The Italians offered to negotiate one in good time, but the Maltese wanted to resolve differences on the earlier Financial Protocol first. The Maltese

appear to believe that the Neutrality Agreement expired with the Financial Protocol but the Italians do not. Following a meeting between Sr Craxi and Mintoff on 13 January a communiqué was issued which Craxi said 'vested Italy's declaration recognising Malta's status in neutrality with a lasting value.' Craxi also said that Italy was ready to negotiate a new Financial Protocol.

8. Malta tries to maintain a policy of 'equidistance' between the two super powers. In 1981 she signed a bunkering agreement allowing the Soviet Union to refuel merchant ship vessels using facilities on the island. But USSR/Maltese relations seem to have run into some difficulties recently and US/Maltese relations have improved. The Soviet Union was as annoyed as the US at Malta's antics during the CSCE Conference last summer; and Malta voted in favour of the UN Security Council resolution on the Korean airline disaster forcing the Soviet veto. The US Administration are under no illusions that their improved relations with Malta will necessarily last.

Foreign and Commonwealth Office

24 January 1984

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF(84) 6(b)

COPY NO. **50**

24 January 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

CYPRUS/GREECE/TURKEY

Brief by Foreign and Commonwealth Office

UK Objectives

1. To ensure that Italian thinking on questions involving the region is similar to our own.

Points to Make

2. Important that we should keep in touch on Cyprus. Regular confidential discussions have been useful.

3. Denktash's and Kyprianou's proposals have some positive aspects but will need development if they are to form the basis of a settlement.

4. Only sensible way ahead is now through the UN Secretary-General's efforts (his mandate of good offices was endorsed by the UN Security Council on 18 November). We have encouraged him to be more active and are ready to support him as he sees fit.

5. [If necessary] We remain ready to hold tripartite consultations with Greece and Turkey under the Treaty of Guarantee. But the Greeks currently refuse to talk to the Turks. No advantage in UK acting as mediator: UN Secretary-General is best placed.

CONFIDENTIAL

6. Concerned at continuing tension between Greece and Turkey. Serious effect on NATO's Southern flank. Also potentially explosive. We should all encourage resumption of direct dialogue.

Background

Cyprus

7. President Kyprianou saw the Prime Minister on 18 January. He gave her a copy of the proposals (put to the UN Secretary-General on 11 January) for the framework of a comprehensive settlement to the Cyprus problem. The proposals contain little that has not been put forward previously by the Greek Cypriots. But the fact that he has been prepared to put considered views to the Secretary-General so soon after UDI is a step in the right direction. He claims that major new elements are on offer, ie that the Turkish Cypriots should control 25 per cent of the territory of the Republic of Cyprus (put forward formally for the first time) and a willingness to offer the Turkish Cypriots a greater degree of autonomy. The Prime Minister welcomed the fact that Kyprianou had put forward detailed proposals. She reiterated our support for the efforts of the UN Secretary-General. On Guarantor Power consultations Kyprianou said that he wanted them to take place in some form; but he did not specifically request the parallel bilateral consultations which the Greeks seem to favour.

8. The Secretary of State met the Turkish Foreign Minister in Stockholm on 19 January. Halefoglu said that Turkey wanted a solution but that the main problem was Papandreou. Turkey had encouraged Denktash to put forward his Varosha proposals and were also encouraging him to consider carefully proposals put forward by others.

CONFIDENTIAL

9. Sr Perez de Cuellar himself has recently seen both President Evren and Denktash in Casablanca during the Islamic Summit. We are encouraging him to be more active, and in particular to appoint a successor to Dr Gobbi as his Representative in Cyprus.

10. Italians broadly share our views on Cyprus. We have regular confidential discussions with them at Head of Department level.

Greece/Turkey

11. A complex of disputes between Greece and Turkey over territorial sea, airspace, Flight Information Regions, the continental shelf and the demilitarization of islands in the Aegean. These have seriously disrupted NATO exercises in the Aegean. A regular dialogue about these problems was broken off by Papandreou when he came to power in October 1981.

12. In spite of meetings between Foreign Ministers in the first half of 1983, there has been no resumption of dialogue except for a meeting of officials on tourism and economic (but not political) matters in July 1983.

13. The prospect of a real dialogue receded further with Turkish Cypriot 'UDI' on 15 November. Papandreou then ruled out further talks with the Turks. The Greeks tend to see the Cyprus question in terms of their dispute with Turkey. Bilateral relations are now very strained.

14. On assuming office, the new Turkish Prime Minister, Ozal, said he wanted to extend the hand of friendship to Greece and suggested trying first to resolve some of the less difficult issues. But he made clear that political concessions were not on offer. Papandreou has welcomed the 'olive branch', but

CONFIDENTIAL

stressed that the existing legal regime in the Aegean was not negotiable, and has made it clear that he is in no hurry to resume dialogue. There is little prospect of movement towards dialogue in the short term.

Foreign and Commonwealth Office

24 January 1984

6C

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT
PMVF(84)6(c)

20 January 1984

COPY NO

50

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

LIBYA

Brief by Foreign and Commonwealth Office

Objectives

1. United Kingdom: to probe latest Italian thinking on Libyan policy, internal and external. To mention concern about US policies on exports to Libya.
2. Italy: to hear UK views on relations with Libya.

Points to Make

1. No illusions about Qadhafi's ability to cause trouble, though past track record unimpressive. Main objective in 1984 likely to be securing gains in Chad. Economic retrenchment will encourage caution.
2. Favour cautious dialogue. Recent improvement in bilateral relations but setbacks are always likely.
3. Concerned about problems caused by US controls on the export of goods to Libya. Wish to avoid a public row with the Americans and will continue to discuss problem with them.

Background

1. Italy remains Libya's largest trading partner (Italian exports in 1980 \$2,100 million). About 15,000 Italians work in Libya. Bilateral relations, while extensive, have been frequently bedevilled by colonial past: in October 1983 Qadhafi demanded reparation for colonial "misdeeds". Italy is owed about \$1 billion from exports. An attempt was made to assassinate the Secretary of the Libyan People's Bureau

CONFIDENTIAL

(Ambassador equivalent) in Rome on 21 January.

2. UK relations with Libya improved since 1980 low point when Libyans were murdered in London. We have since received assurances that there will be no repeat of assassinations. UK exports to Libya in 1983 were approximately £300 million. Relations suffered a setback in October when Libya threatened to resume active support for the IRA. Sales of even the limited range of the non-lethal equipment we were prepared to sell the Libyans were suspended. Mr Luce received the Libyan Foreign Minister equivalent, Ubaydi, in December, the first such meeting since 1969 revolution marking the resumption of more reasonable relations.

3. Libyan economy was hard hit by drop in oil prices (revenue 50% of 1980 figure) and lack of coherent planning. Development and consumer spending have been held down though spending on arms and military works has remained at same level. Qadhafi has, however, decided to go ahead with the expensive Coastal Belt Water Project to pipe water from Saharan aquifers 2,000 km to the coast. Foreign debts and reserves in ration 1-1.

4. US see Qadhafi's Libya as a monolithic regime like Soviet Union and their policy towards Libya is one of confrontation. They are seeking to extend this by using US domestic legislation to prevent UK and other European countries from exporting goods using US parts or licenced technology. UK does not accept US right to do this. We are concerned to avoid public row and split in alliance.

Foreign and Commonwealth Office
23rd January 1984

CONFIDENTIAL

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

OTHER REGIONAL ISSUES : ARGENTINA

Brief by Foreign and Commonwealth Office

UNITED KINGDOM OBJECTIVE

1. To bring the Italians up to date on our policy of seeking to normalise relations with Argentina and to engage their support for our step-by-step approach.

POINTS TO MAKE

2. The Prime Minister's message to President Alfonsin on the occasion of his inauguration was intended to pave the way for the development of better relations.

3. Cannot enter into negotiations about sovereignty. Realistic way ahead is to discuss areas of bilateral relations in which agreement should be attainable without difficulty. Rebuild confidence step by step.

4. Italians could help by confirming to the Argentines that they see merit in our approach, ie discussion of certain clearly-defined areas in bilateral relations.

5. Continue to believe that the reciprocal removal of remaining commercial and economic restrictions should be the first step. Hope Argentines will respond positively to proposals put forward by Presidency and Commission.

CONFIDENTIAL

Will continue to consult closely within Community about this.

6. Other possible subjects include air services; arrangements for the return of the Argentine dead from the Falklands, or failing that, for a visit by Argentine next of kin to the Islands; the resumption of cultural scientific and full sporting contacts; and the gradual up-grading of our official relations - though full diplomatic relations out of the question without a formal declaration of cessation of hostilities.

7. [FOR USE IF RAISED) Content of recent meeting between Chile and Argentina about Beagle Channel suggests Argentines may agree on value of creating confidence. But many obvious differences between Falklands and Beagle Channel disputes.

8. We replaced the Total Exclusion Zone by the Falkland Islands Protection Zone as early as July 1982. We do not envisage keeping the Protection Zone indefinitely but we cannot be rushed into lifting the Protection Zone prematurely.

9. Out of the question to "freeze" work on Mount Pleasant Airfield. Its construction will enhance capability to reinforce the Islands, but also meets recommendations made by Lord Shackleton for their economic development. Hope that in the longer term its role will be predominantly civilian.

10. A formal declaration of a definitive cessation of hostilities would give a welcome impetus to the normalisation of bilateral relations, and would help to reduce tension. Cannot commit ourselves to any specific

CONFIDENTIAL

response to such a declaration. We need a convincing demonstration over a period of time that Argentina has renounced the use of force and have noted statements by the new Government to pursue their claim by peaceful means.

BACKGROUND

11. The Italians have always sought to play a rôle in restoring relations between Britain and Argentina. Their actions have sometimes been unhelpful especially in the UN context. HM Ambassador in Rome reported in early January that, following his attendance at President Alfonsin's inauguration, Craxi was tempted to make some proposals to us about negotiations and the way forward. His staff have sought to persuade him that it would be better to discuss this question informally at the Summit. The Minister at the Italian Embassy has recently been reassuring on Italian intentions, and it remains our aim to exploit their expertise and interest in Argentina.

12. The Italians may still seek to press us to negotiate about the Falkland Islands. We should deflect them from this by explaining that our policy of normalising bilateral relations is the only realistic way ahead. We can remind them of Argentine failure to respond to approaches made by EC Presidency on various occasions (most recently in July 1983) suggesting normalisation of economic and commercial relations.

13. The Summit will be preceded by a visit to the Holy See by the Argentine and Chilean Foreign Ministers to agree to move towards a definitive solution to the Beagle

CONFIDENTIAL

Channel dispute. The Italians will expect us to recognise the significance of this development.

14. Even in early 1983, the Italians were urging us to lift the Falkland Islands Protection Zone. They will have noted that President Alfonsin described the Prime Minister's recent comment on the Protection Zone and a declaration of a cessation of hostilities as "an important step". The Minister at the Italian Embassy has said that Alfonsin probably does not seriously believe that there can be a direct and immediate linkage. But some Italians may still wish to press for the early lifting of the Zone.

Foreign and Commonwealth Office

20 January 1984

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

PMVF(84)7(b)

COPY NO 50

23 January 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

CENTRAL AMERICA/CARIBBEAN

Brief by Foreign and Commonwealth Office

UNITED KINGDOM OBJECTIVE

1. To argue that an EC initiative towards Central America at this stage would be misplaced.

POINTS TO MAKE

Central America

2. No role for Ten at present: Contadora and Kissinger proposals both active. Not a priority for increased EC aid.
3. Congress likely to accept Kissinger proposals, resulting in increased economic aid but leaving present policy essentially unchanged. Your view?
4. (Nicaragua) Recent internal political concessions largely cosmetic. Your view?
5. (El Salvador elections) If invited, shall consider positively sending official observers.

CONFIDENTIAL

Grenada

6. Future not past; reconstruction not recrimination.

7. We support the interim administration and look forward to free and fair elections; we have resumed an aid programme aimed especially at the Grenada Police, together with infra-structural projects.

BACKGROUND

8. (Not for use) Italy has little intrinsic interest in Central America, but the Government must heed human rights and pro-Nicaraguan lobbies. They would go along with determined pressure in the Ten for some European gesture, but without much enthusiasm.

9. (May be used freely) Congress has yet to consider the Kissinger Report of 11 January, on which President Reagan is to base proposals for greatly increased economic assistance (\$8 bn over 5 years). The Report tends to confirm present policies of confrontation and tough, probably unrealistic negotiation with Nicaragua. Despite its claim to affinity with Contadora, the Report embodies a markedly different outlook. The two approaches will co-exist uneasily. Nicaragua has announced elections for 1984; like other recent Sandinista moves, this is regarded as window-dressing: the elections will be conducted only to rubber-stamp the Directorate's existing hold on power. The Salvadorean Presidential elections are due on 25 March; insurgent attacks are increasing but the army should be able to hold out.

CONFIDENTIAL

10. (May be used freely) On Grenada, United States combat troops have withdrawn. The Advisory Council, despite some weaknesses, is slowly getting to grips with the administration. The Governor-General is playing a less prominent role but still exercises much influence behind the scenes. Politicians have begun campaigning for elections due by end of 1984. Britain has announced aid totalling £750,000 to meet immediate needs, especially the rehabilitation of the Police. Within the Caribbean, relations between the states which intervened, and Guyana, remain extremely frosty; moves continue to exclude Guyana from CARICOM. There are also some tensions with Trinidad. Many of the rifts caused by the Grenada affair seem, however, to be healing.

Foreign and Commonwealth Office
23 January 1984

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF
HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF (84) 7(c)

COPY NO.

50

19 January 1984

ANGLO-ITALIAN SUMMIT 26-27 JANUARY 1984

HORN OF AFRICA

Brief by Foreign and Commonwealth Office

UK OBJECTIVES

- a) To elicit the latest Italian assessment of the general situation.
- b) POINTS TO MAKE [We expect the Italians to lead on this]
 1. Our interests in the Horn require a more active policy than in the past. We want to concert this with our allies.
 2. We look forward to a detailed exchange of views on the Horn during official-level bilateral talks on Africa in March/April this year in Rome.
- c) BACKGROUND
 1. For historical reasons Italy has always had a special relationship with the Horn of Africa and has been at pains to maintain a balanced relationship with both Ethiopia and Somalia, giving aid to both. Many people from the Horn, both Somalis and Ethiopians, use their grasp of Italian to live, study, and work in Italy.

/2. Ministers

CONFIDENTIAL

2. Ministers decided in September 1983 on strategic and trade grounds to unfreeze our relations with Ethiopia, eg by re-starting a small bilateral aid programme, but that this should not be at the expense of our relationship with Somalia and our (much larger) aid programme there. This is in line with what our European partners are already doing. Ministers agreed that we should also concert our policy with our western allies, including the Italians.

3. Bilateral official talks on Africa are due to take place in Rome in March/April, led by Sir J Leahy. These will provide an opportunity for a detailed exchange of views with the Italians on the Horn and in particular to assess Mengistu's recent policies and attitudes; and ways in which Soviet influence in the region might be reduced.

Foreign and Commonwealth Office

19 January 1984

CONFIDENTIAL

y

70

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF (84) 7(d)

20 January 1984

COPY NO 50

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

SOUTHERN AFRICA: NAMIBIA

Brief by Foreign and Commonwealth Office

OBJECTIVE

To stress importance of South African withdrawal from Angola and improved prospects for a settlement that would follow from this; to confirm the French have not left the Contact Group.

POINTS TO MAKE

South African Offensive

1. We deplored SADF offensive. But opportunity to re-establish climate for negotiations now exists. Opportunity must not be missed.

Security Concerns

2. Continue to reject linkage. But legitimate security concerns of Angola and South Africa must be met. Immediate priority is for South African withdrawal from Angola and an end to hostilities across the Angola/Namibia border. Confidence so created would facilitate serious negotiations on remaining obstacles to a Namibia settlement.

Disengagement Proposals

3. Important that SAG and Angola have not rejected each other's proposals. Elements of posturing in each. But must be explored thoroughly in discreet diplomacy. Angolans should recognise South African offer was due to US pressure.

4. Need for a broker. UNSG is involved. But US/Angola dialogue probably the key.

Contact Group

5. French have not withdrawn from Five: merely suspended participation. We are confident they will play full part when Five again have role to play.

ESSENTIAL FACTS (for use freely except where marked otherwise)

Italian Views

1. Interested but not involved in Namibia negotiations.

Will appreciate general steer from us on prospects. Good relations with Angola. Support efforts of the Five.

South African Offensive

2. SAG claim to have completed main withdrawal of task force to bases in Northern Namibia. Defence Minister Malan said on 8 January operation had achieved its objective in disrupting SWAPO preparations for traditional rainy season infiltration into Namibia.

Disengagement Proposals

3. SAG offered on 15 December to disengage from Southern Angola on 31 January for 30 day period on condition that Angolans, Cubans and SWAPO did not exploit resulting situation. Reaffirmed willingness to implement SCR 435 if satisfied on Cubans. Angolans responded by offering a 30-day 'truce' subject to conditions, including full SADF withdrawal and SAG implementation within 14 days of truce of UN Plan for Namibia. There have also been related but conflicting and not immediately relevant offers by SWAPO and the SAG to talk to each other.

4. South African negotiating position is very strong. Their offer of disengagement (unlinked to Namibia settlement) offers the best prospects for progress. So SAG appear not to be insisting on formal Angolan undertaking to restrain SWAPO. But if they do pull out their remaining forces by 31 January, it will be essential that SWAPO and

Angola exercise restraint. But if stand off in Southern Angola/Northern Namibia can be achieved and maintained, this will improve climate for negotiations and assist substantive discussion of issues holding up Namibia settlement.

US/Angola dialogue

5. US/Angola contacts continue.[Not for use unless US/Angola talks become public knowledge: Angolans have proposed meeting with US in Cape Verde on 20 January. Wide agenda including SAG disengagement proposal, reduction of SAG support for UNITA and possibilities for arrangements on Cubans. Undoubtedly offers best prospect for building on SA disengagement offer.]

MPLA/UNITA

7. MPLA counter offensive in December had some success, but UNITA advances continue in East. Neither side likely to 'defeat' the other in foreseeable future. Still no sign of early reconciliation.

Soviet Involvement

8. Soviets warned South Africans in November that they should cease attacks on MPLA Government and implement SCR 435. Agreement signed in Moscow with Angolans on 11 January to supply further military and economic assistance. Unclear whether this presages deeper military commitment. But

CONFIDENTIAL

Russians probably wish to affirm publicly their support for MPLA and their determination to preserve it in power.

Foreign and Commonwealth Office
20 January 1984

CONFIDENTIAL-5-

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

PMVF(84) 7(e)

"COPY NO 50

24 January 1984

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

SOUTH EAST ASIA

Brief by Foreign and Commonwealth Office

UK OBJECTIVES

1 Only two countries in the region are likely to figure in the minds of the Italians: Cambodia and the Philippines. Our general objective on both is to maintain and strengthen a common position with a like-minded member of the Community. The Italian objective is likely to be the same.

POINTS TO MAKE

2 We deplore continuing Vietnamese occupation of Cambodia. Concerned at reports of possible Vietnamese dry season offensive against Coalition Government forces and refugee camps on the Thai border. In this event, we would agree to a joint Community statement of condemnation.

3 Continued Western support for Coalition Government of Democratic Kampuchea important in maintaining pressure on the Vietnamese to withdraw, and preserving ASEAN solidarity. The ASEAN countries look for continued support from the Community.

/PHILIPPINES

CONFIDENTIAL

PHILIPPINES

4 Situation is worrying.

5 Forced austerity measures may provoke further political difficulties for President Marcos.

6 Doubt over who will succeed Marcos and when. His ill-health may require situation to be faced before too long.

7 Period of uncertainty and even instability quite likely.

BACKGROUND (may be drawn on freely)

Cambodia

8 The Vietnamese invaded Cambodia in December 1978 and overthrew the Khmer Rouge Government of Pol Pot: Pol Pot and his followers fled to Western Cambodia and the Vietnamese set up a puppet regime in Phnom Penh, headed by Heng Samrin. That Government is still supported by a Vietnamese occupation force of about 150,000 troops. The Thais are especially worried by the threat the Vietnamese pose for them.

9 The present situation is a diplomatic and military stalemate. Heng Samrin is recognised by few Governments outside the Communist world. Democratic Kampuchea has continued to hold the UN seat since 1979. The standard ASEAN resolution, calling for the withdrawal of Vietnamese troops from Cambodia, was adopted (105-23-19) by the General Assembly last autumn by a wide margin. The UK again co-sponsored and Italy voted in favour. Since 1982 a loose Coalition, led by Prince Sihanouk, Son Sann (Khmer People's National Liberation

/Front)

CONFIDENTIAL

Front) and Khieu Samphan of the Khmer Rouge, has nominated Cambodia's representatives at the UN. It controls only a small part of Cambodian territory.

10 The guerrilla forces of the Coalition (of which the Khmer Rouge is the most effective component) continue to operate against the Vietnamese from bases on the Thai border. They harass the Vietnamese but are unable to drive them out. The Vietnamese may again attack the camps (which the guerrillas share with over 300,000 refugees) in the dry season, which has just begun. In this event, Belgium has suggested that the European Community should issue a joint statement of condemnation (as happened last year). We agree.

11 UN Relief Agencies have predicted that there may be a severe food shortage in Cambodia following last year's damaging monsoon. The FAO are to send a Mission there shortly to report. Any humanitarian relief would inevitably bolster the position of Heng Samrin. Unless there is a clear emergency need, we could well antagonise ASEAN by giving aid.

Philippines

12 President Marcos' prospects are a little brighter than immediately after the assassination of the Opposition Leader, Aquino, in August. But his health is uncertain (kidney problems) and there is no obvious successor.

/Mrs Marcos

CONFIDENTIAL

Mrs Marcos is unpopular but ambitious. A senior military figure or one of Marcos' business associates may be the eventual successor. The opposition is divided and unlikely to provide an impressive candidate. It may however coalesce as the elections (in May) approach.

13 A large budgetary deficit and foreign debt (around \$30bn) and a sharp loss of business confidence in the Marcos regime have induced massive capital outflows. The Government are still seeking to agree a standby agreement with the IMF, which will almost certainly be followed by a request for debt rescheduling (the amount owed to the UK is significant). There is a moratorium on the servicing of short and medium term loans with private banks. Stringent austerity measures have been imposed; resultant shortages of raw materials and rising unemployment are likely to exacerbate the Government's political problems. The economic difficulties will not be overcome easily.

14 The United States has two large military bases in the Philippines. They are of considerable strategic importance. It is in the general Western interest that the Philippines remain stable and the bases be retained.

Foreign and Commonwealth Office

24 January 1984

e

n)

e

ich

ere

e

ng

7F

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF (84) 7(f)

COPY NO 50

23 January 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

OTHER REGIONAL ISSUES: NIGERIA

Brief by Foreign and Commonwealth Office

United Kingdom Objective

1. To exchange views on political and economic developments in Nigeria following the coup on 31 December 1983, and on the prospects for short-term debt-restructuring.

Points to Make

2. Made clear our concern at overthrow of any democratic Government. But military action widely welcomed in Nigeria. Ready to work with new Government who seem to be serious people facing serious problems. (If raised). No ethnic motivation in coup. Have been reports that senior ranks were forestalling action by more junior ranks.

3. Welcome Buhari's public declaration of commitment to international organizations and to honour debts. Stressed to Nigerians first priority must be agreement with IMF. Also ready to work with others to restructure arrears of short term trade debts. Nigeria not overborrowed in medium/long term.

/Background

CONFIDENTIAL

Background

4. President Shagari's Government was overthrown by junior Generals (ie one level from the top) only four months after landslide victory in across-the-board elections. The coup came at a time of increasing economic difficulties and the military claimed that their action was prompted by 'corruption and economic mismanagement'. The action was widely welcomed in Nigeria. But it is difficult to see what policies the new government can pursue other than those that Shagari had espoused (austerity at home, negotiations with the IMF and principal creditors). New Ministers (a mixture of military men and civilians) were sworn in on 18 January.

5. Buhari has reaffirmed membership of OPEC, negotiations with the IMF and a commitment to honour 'genuine' debts. Latter is a prime concern for the UK: Nigeria is one of our three largest Third World export markets - (£780m 1983: a bad year, previously in excess of £1 billion annually); investments total £2 billion; and a 20,000 strong expatriate community. Although not overborrowed in medium/long-term, a large arrears of short-term commercial debt has built up (possibly \$4 billion). ECGD is a major creditor, and we have been discussing with the Nigerians possible multilateral restructuring. Italian officials have shown concern also at Italy's exposure in the market.

6. On 13 January the Foreign and Commonwealth Secretary

/received

CONFIDENTIAL

received a Nigerian delegation which delivered a message from Buhari to the Prime Minister. The delegation also visited Washington, Paris, Bonn, Moscow and Jedda (but NOT Rome). During the meeting Sir Geoffrey confirmed our willingness to work with the new regime.

Foreign and Commonwealth Office

23 January 1984

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF(84)8a
23 January 1984

COPY NO 50

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984WORLD ECONOMIC PROSPECTS
Brief by HM TreasuryObjective

To discuss prospects and to secure the full co-operation of the Italian government over the forthcoming London Economic Summit.

Points to make

- (i) Economic recovery in industrial countries continuing but progress remains uneven. US and Japan growing rapidly but European upturn much weaker. Prospects for sustained recovery more encouraging than for sometime but risks and uncertainties remain.
- (ii) Lower inflation contributing to recovery. Essential to continue with prudent economic policies to maintain confidence and contain inflationary pressures as activity rises. This is important part of sustaining and broadening the recovery. Also important for all to achieve lower and sustainable structural budget deficits but US has a particular responsibility.
- (iii) Recovery in developed economies and firm adjustment has contributed to a calmer international debt scene. But further problems among large individual debtors cannot be ruled out. New IMF resources now in place. Reducing protectionism would help developing countries and promote healthy world trade recovery.
- (iv) Welcome work now underway in G10 to identify possible improvements to international monetary system. Hope that with Italian chairmanship will be useful exercise. Doubtful over need for conference as past difficulties mainly the result of imprudent policies. Convergent and responsible policies, as agreed at Summit, offer best prospects for monetary stability and sustained recovery.

CONFIDENTIAL

Background

Growth has slowed recently in the US and also Germany while in the rest of Europe the upturn remains weak. Export growth led the Japanese recovery but domestic demand has now picked up. Slower destocking, higher personal consumption and housebuilding have been the major sources of growth. Lower inflation and reduced interest rates are contributing to recovery. The rise in business investment evident in some countries last year was partly due to government incentives though recent intentions surveys suggests the pick up will continue this year.

2. Recovery is expected to strengthen this year but doubts persist over its durability thereafter. More moderate US growth is likely to continue from now on with year on year growth rising to over 5 per cent. Japan's growth is put at over 4 per cent. Growth in the Community is likely to remain sluggish at $1\frac{1}{2}$ per cent though both the UK and Germany are expected to grow rather faster. Unemployment should continue to fall in the US but in Europe it is expected to rise further although at a slower rate.

3. Inflation in the major countries has more than halved since 1980 and is now around $4\frac{1}{2}$ per cent, a slight rise over the artificially low rate last summer. Inflation differentials remain wide. Some fear a re-acceleration of US inflation given the monetary spurt in late 1982 and early 1983. But OECD and others see US inflation rising only slightly next year and being partly offset by further deceleration elsewhere leaving the $5\frac{1}{2}$ per cent average in the main industrial countries broadly unchanged.

4. US interest rates fell sharply in 1982 but edged up last summer as the Fed tightened policy. Short rates at times approached 10 per cent but have now eased back to $9\frac{1}{2}$ per cent. Other countries have been unwilling to match higher US interest rates given their more fragile recovery and have kept their domestic rates broadly flat but at the cost of exchange rate depreciation which risks renewed inflationary pressures.

5. Last year world trade started to recover slowly after the fall in 1982. Imports by industrial countries, especially in North America have risen, though elsewhere the rise is less marked. Trade growth of 5-6 per cent is expected this year. Lost competitiveness and rapid domestic recovery has caused a large US current account deficit (possibly doubling this year to around \$80 billion) which contrasts with the improvement expected elsewhere, particularly in Japan. The French balance of payments targets were met easily as the trade deficit more than halved last year. The Italian current account is near balance. No improvement is expected in the OPEC deficit in the short term.

6. The dollar's strength and the possibility of an eventual slide has been the focus of concern over exchange rates. The dollar has touched new peaks again this year particularly against the major European currencies. Its effective rate is now some 40 per cent higher than in 1980. The underlying causes (good relative US inflation, interest rate differentials and the safe haven status) may start to reverse soon and the large and growing US current account deficit should also exert downward pressure. The timing and extent of any depreciation however remains highly uncertain.

7. Firm adjustment, lower interest rates and recovery in the industrial countries has allowed non-oil developing countries to cut their current account deficits considerably since 1980. Bank lending may not have recovered much last year after the sharp fall in 1982. Debt prospects generally should be improved by the continuing world recovery and any further pick up in commodity prices. Export earnings should start to recover but increased imports are expected to forestall any further improvement in their current account deficit. Their outlook also depends on continuing access to new borrowing. To ease longer term debt problems the UK looks to longer debt maturities, greater direct investment and a larger World Bank role.

Policies

8. Interpretation of monetary conditions last year was hampered by the effects of distortions particularly in the US and Germany. Rapid monetary growth in the US between mid-1982 and early 1983 led the US Federal Reserve to tighten policy last summer. All the major US aggregates ended the year within target with M1 at the bottom of its (revised) 5-9 per cent target range. Some have argued the slowdown was too sharp and if continued may seriously weaken the recovery. In Europe monetary growth was towards the top or slightly above target ranges last year. The US, France and Germany have all announced tighter targets for 1984.

10. Recession has thwarted most government's efforts to reduce budget deficits. Structural deficits have been lowered in Japan and parts of Europe but have risen in the US and Canada. Concern has focussed on the US Federal deficit (6 per cent of GDP in fiscal 1983 compared to the 2 per cent average in the 1970s) and the failure to agree how it should be reduced.

11. Large prospective US deficits combined with rising private credit demand carries the risk of renewed inflation, still higher interest rates (which are already high in real terms by post-war standards) or both. The US Administration's budget proposals for fiscal 1985 (starts 1 October 1984) are expected shortly. Preliminary details suggest the President is

CONFIDENTIAL

not prepared to take radical steps to cut expenditure or raise taxes ahead of the November election though defence expenditure is to rise sharply. If correct the Federal deficit is likely to remain close to \$200 bn in the medium term. Further interest rate pressures are therefore more likely which will further jeopardise US and world recovery.

12. Most outstanding IMF issues have been resolved. The new resources from the quota and GAB increase are in place and the BIS loan has been agreed. The decisions on access to these new resources have also been finalised.

13. In response to the Williamsburg invitation the G10 under the chairmanship of Sig Goria, the Italian Treasury Minister, are considering how the international monetary system could be improved. A first meeting of Deputies last November agreed to study the functioning of floating exchange rates, how to strengthen multi-lateral surveillance, the management of international liquidity and the role of the IMF. Deputies are to meet again on 16-17 February and Ministers in May to consider an interim report for Summit leaders. The major international institutions are also taking part in the studies. The work is still at a preliminary stage.

14. The London Economic Summit is scheduled for 7-9 June 1984. Preparatory meetings between personal representations have already begun - the next is in February. It is still rather too early to say what broad issues will be discussed. But it is likely to focus on the need to maintain the existing strategy of prudent economic policies in order to consolidate the gains against inflation and contribute to sustaining and broadening the economic recovery. Discussions may also cover longer-term questions on international debt and trade and their interaction.

HM Treasury
23 January 1984

the
the
erest
world

quota
ss to

p of
etary
y the
the
gain
lers.
at a

ings
still
the
date
mic
rade

8B

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF(84)8(b)

COPY NO 50

20 January 1984

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

UNITED NATIONS CONVENTION ON LAW OF THE SEA

Brief by Foreign and Commonwealth Office

OBJECTIVE: To make sure the Italians abide by their policy of non-signature of the Convention until improvements are made. To encourage them to sign the Provisional Understanding on Deep Seabed Matters.

POINTS TO MAKE

1. Need to continue to work together in order to obtain improvements in Law of the Sea Convention deep seabed mining regime. Cooperation at the Preparatory Commission between countries with deep seabed mining interests (in the so-called Group of Seven) will be important in making headway.
2. Essential that we should not change our policies of refraining from signature (or indeed accession) until these improvements are obtained. Any change would lead the G77 to assume that the issue was of no great interest to us.
3. Very much hope that Italy will be amongst the signatories of the Provisional Understanding on Deep Seabed Matters (to avoid overlapping of mining sites). Clearly necessary to have an understanding which deals with practical problem of overlapping and takes account of the fact that US (likely to be amongst the first to carry out mining operations) will not be involved in the Convention system. We regard the Understanding as consistent with the Convention.

CONFIDENTIAL

CONFIDENTIAL

THE UN LAW OF THE SEA CONVENTION: BACKGROUND

The Convention

1. There are 132 signatories, including 4 non-state entities, and 38 non-signatories. Convention will come into force one year after 60 ratifications or accessions. So far 9 instruments of ratification deposited.

UK Policy

2. UK has not signed because of difficulties with present deep seabed mining regime. This likely to create an unwieldy, over-complex and expensive structure, and financial commitment required from states and companies would be very large. These problems likely to discourage investment. There are also serious objections to other aspects such as provisions for transfer of technology.

3. Within the EC, FRG, Belgium, Italy and Luxembourg have not signed the Convention. However, there has been concern that Italy and FRG may sign during 1984, perhaps as a balance to signature of Provisional Understanding (see para 5 below). Another EC signature would make the Community eligible to sign the Convention in its own right.

Preparatory Commission

4. We are exploring with the international community at the Preparatory Commission (set up to prepare for implementation of the Convention) prospects for improvements to the regime. Italy and the UK participate in the so-called Group of Seven countries (also FRG, France, Netherlands, Belgium, Japan) interested in deep seabed mining who work together at the Commission. Commission is due to begin substantive work this year. Not possible to change the text of the Convention

itself at the Commission. It may be possible to affect rules, procedures and understandings relating to mining on the deep seabed.

Provisional Understanding on Deep Seabed Matters

(formerly known as Reciprocating States Agreement and Exploration Agreement)

5. UK participating in negotiations with US, FRG, France, Italy, Belgium, Netherlands and Japan on the Provisional Understanding, under which these countries would enter into a negative obligation not to grant authorisation under national legislation (or seek registration) for deep seabed mining areas for which one of the other countries had given an authorisation. Meetings and names of participating countries are confidential. The text is almost finalised and will shortly be submitted to Ministers.

Foreign and Commonwealth Office

20 January 1984

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC
MAJESTY'S GOVERNMENT

PMFV(84)9(a)(i)

COPY NO

50

18 JAN 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

EH-101 HELICOPTER

Brief by Ministry of Defence

OBJECTIVE

To reaffirm UK's support for this very important bilateral project which demonstrates the high level of Anglo-Italian relations.

POINTS TO MAKE

1. The EH-101 project represents an excellent example of Anglo-Italian cooperation at government and industrial levels.
2. This collaboration is a major development on which we hope to build.
3. Glad Signor Spadolini was able to take the necessary steps to take this project forward.

BACKGROUND

1. EH-101 is the Anglo-Italian helicopter project which is to be developed for the 2 Navies and for the commercial market: Westland (UK) and Agusta (Italy) forecast total sales of around 900 - worth some £12 billion including spares. It will be financed by both defence and industrial funds supplemented by Dept of Industry aid in both countries; at its peak it will generate some 10,000 jobs in the British aerospace industry and probably a similar number in Italy. The long term health of Westland and Agusta depend on its being a success.
2. UK ministers approved the project last year but the Italian approval process was disrupted by their June elections which in particular caused the loss of the finance bill (DDL) allocating additional funds to the defence budget for the project. Strong pressure on the new Italian administration, especially by the Prime Minister on Signor Craxi on 16 September 1983 and subsequently by other ministers, bore fruit in December when the Italian government agreed to sign the necessary documents in January and that the full development contract be placed

after Signor Spadolini took specific steps to authorise development launch, even though the DDL has not yet been passed. The main inter-MOD MOU was signed on 13 January; the MOU between the 2 Departments of Industry will be signed on 25 January by Mr Lamont and Signor Altissimo and the development contracts signed within the next few weeks.

Ministry of Defence
18 January 1984

9A(II)

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF (84) 9 (a) (ii)

COPY NO **50**

16 January 1984

ANGLO ITALIAN SUMMIT

26-27 JANUARY 1984

AIRBUS

Brief by Department of Trade and Industry

CONFIDENTIAL

CONFIDENTIAL

AIRBUS

Objectives

To make clear that HMG while wishing A320 to be a success, will not support a "political" aircraft and is adopting a rigorously commercial approach to the question of Government financial support for UK participation.

To encourage the Italians to keep in touch with the UK on their possible participation and not only to deal with the French.

Line to take

- 1 Pleased to note Italian interest in participating in the development and manufacture of the Airbus A320.
- 2 Italian view that the project must demonstrate good prospects of commercial viability before any commitment can be made accords very closely with HMG's position. Recent orders from British Caledonian and Yugoslavia, though not large, provided encouraging indications of the A320's commercial appeal.
- 3 Decision by HMG on the question of Government financial support for UK participation in the A320 project will be reached very soon.
- 4 The question of new partners joining Airbus for the A320 project is initially for the industrial partners to consider. If it is to be successful, the A320 must be capable of winning sales to airlines in a freely competitive market. Similarly, decisions on participation and work-sharing should be made strictly on industrial merit. We would keep in touch with any such discussions and Governments would be

CONFIDENTIAL

involved should the industrialists have proposals to make.

Background

The Italian aerospace industry does not participate in the current Airbus (A300 and A310) programme. Its international collaborative links on civil projects are predominantly with US companies on a sub-contract basis eg with Boeing on the 767 and with McDonnell Douglas on the DC9 series.

2 Though the Italian industry is not involved in the current Airbus programmes, Alitalia, the national airline, operates 8 A300s and Airbus Industrie are vigorously pursuing prospects of a further order.

3 Italian interest in prospective participation in the Airbus new technology 150 seat A320 project was originally stimulated by the French as a follow up to Franco-Italian collaboration on the ART 42 feeder/commuter aircraft programme.

4 Since the summer of 1982 there have been two rounds of discussions at official level between the three major Airbus partner countries (France, Germany and the UK) and the Italians about Italian participation in the A320. Similar discussions have also taken place at the industrial level. No decisions have yet been taken. In bilateral discussions during the Anglo-Italian summit in February 1983 and subsequent official discussions in August 1983 it was clear that the Italian Government's attitude remained one of cautious interest and that, like the British and German Governments, they would wish to be satisfied about the commercial viability of the project before making any commitment. In particular, the Italians regard a new technology engine as the key to commercial viability for the A320. Recently, however, there have been reports of keener Italian interest as they face

CONFIDENTIAL

the prospect of dwindling work from McDonnell Douglas (who have abandoned plans for any new civil aircraft programmes, to concentrate only the current DC9-80 for the foreseeable future), technology transfer difficulties with the US and increasing political pressure from the French. It is understood that the Italian Government is seriously considering seeking a 10% participation in the A320.

5 Fiat, as a junior partner (together with MTU of Germany) of Pratt and Whitney, has an 8% equity stake (6% workshare) in the collaborative V2500 engine project in which Rolls Royce has 30% share. The advanced technology V2500 is designed as a suitable powerplant for the A320.

6 The potential advantage of extending collaboration on the A320 beyond the existing Airbus partners to new participants will be to spread the burden of heavy development costs more widely. To this end there have also been discussions with the Canadians and, in a lower key, with the Dutch.

Department of Trade and Industry

January 1984

RESTRICTED

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

PMVF(84)9(a)(iii)

COPY NO 50

23 January 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

Anglo-Italian Industrial and R & D Collaboration

Brief by Department of Trade and Industry

UNITED KINGDOM OBJECTIVES

- 1 To re-affirm our continuing interest in fostering industry led co-operation.
- 2 To avoid any commitment to long term Official Committees beyond the aerospace sector.

POINTS TO MAKE

3 In many areas - particularly advanced technologies - future success of Europe's industries will depend on co-operation. But industry must be the judge whether and where the opportunities exist; role of Government is to encourage and create the climate in which co-operation can occur naturally.

Industrial Co-operation

4 Very much welcome conclusion of agreement on the EH 101, and continuing success of Rolls Royce in collaboration with

RESTRICTED

RESTRICTED

Italian partners. Planned Aerospace Committee could provide forum for discussion of issues beyond aerospace.

Research and Development

5 Welcome Italian participation in European co-operation to develop fast nuclear reactor.

6 Note useful discussion last month between Chief Scientist and Engineer at the Department of Trade and Industry and London Embassy. Important that ideas for follow-up are pursued.

7 Community programmes, if properly conceived and executed, and wider international fora (eg biotechnology and Versailles initiative) may present good opportunities for stimulating co-operation.

Background

8 At the last Summit, both Signor Pandolfi (Industry) and Signor Romita (Scientific Research) pressed for greater industrial and R & D collaboration, with particular emphasis on aerospace, information technology, microelectronics and biotechnology. Italian expressions of interest have continued, with suggestions for seminars, hints of Anglo-Italian Committees and Working Groups on Industrial Collaboration, and discussions last month between their London Embassy and the Chief Scientist and Engineer at the Department of Trade and Industry. (These discussions confirmed continued mutual interest but, despite previous indications, no Italian list of companies interested in co-operation emerged).

RESTRICTED

RESTRICTED

9 On the industrial side there have been some achievements. The undoubted success of Rolls Royce (RB199/Tornado, Spey/AMX, V2500 engine and continued Italian interest in the RTM 322 helicopter engine) and the EH101 (See Brief 9(a)(i)). And Italy is a partner with the UK, France, Germany and Belgium in the programme to develop a fast nuclear reactor to meet energy needs in the next century. However, there has been little interest from UK firms in, for example, co-operation on information technology and microelectronics - Italian priorities. This is a reflection of the fact that UK industry's natural partners lie either elsewhere in Europe, or with Japan and the USA.

10 But Italian industry is too important to be ignored. While co-operation must remain essentially a matter for the judgement of the potential industrial partners, both Governments have a role to play in reminding industry of the potential, and realities. Community industry needs to examine the prospects for co-operation if the competitive threat from non-industrial countries and the NICs is to be met; in a number of areas essential critical mass will only be achieved through co-operation.

11 But we see no need at this time for additional official committees. On the industrial side an Aerospace Committee which will flow from the EH101 will provide first forum for wider, but aerospace linked, sectors to be considered. In R & D, once the budget implications have been resolved the Community ESPRIT (European Strategic Programme for Research in Information Technology), if agreed, will present suitable opportunities

RESTRICTED

RESTRICTED

for co-operation in a rapidly expanding field of vital interest to both countries. Links already established between CSELT and Plessey exemplify what can be done. Existing contracts in science and engineering (eg those sponsored by the British Council) provide a good basis for developing bilateral R & D co-operation.

Department of Trade and Industry
23 January 1984

RESTRICTED

9A(IV)

CONFIDENTIAL

SUBJECT:

PMVF (84) 9(a) (iv)

Copy No **50**

23 January 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

JOINT RESEARCH CENTRE (JRC), ISPRA

Brief by Foreign and Commonwealth Office

UNITED KINGDOM OBJECTIVE (DEFENSIVE)

1. To avoid being drawn on the future of the Ispra establishment of the JRC.
2. To avoid discussion of other matters.

Points to Make (if raised)

3. Convinced of the value of collaborative research in the Community, but to be credible this must be cost effective. These considerations are particularly important for Joint Research Centre of which ISPRA is the most important component.
4. Recognise Italian interest in tritium handling laboratory. UK has offered to supply non-sensitive tritium handling data. Look forward to discussion in the Committee of Experts.

Background

5. The Italians attach considerable importance to a continued secure future for ISPRA (the Community's largest Joint Research Centre Establishment): the decision to stop the Super Sara project last year leaves the Italians

CONFIDENTIAL

CONFIDENTIAL

concerned for ISPRA's future. While the UK remains convinced of the value of collaborative research in the Community we are concerned that it must be credible and cost-effective. These considerations apply to the Joint Research Centre of which ISPRA is the most important component. Since the cancellation of the Super Sara programme, the European Commission has been looking for an alternative prestige project for the JRC at Ispra. Of its suggestions, the main one still being considered is a tritium handling laboratory.

6. The Research Council on 13 December agreed an overall programme for the JRC in 1984-85. Discussion continues on other aspects including the tritium handling laboratory, for which provision has been made for expenditure of 12.5 mecu in the agreed programme.

7. Italy is pressing for a firm commitment for the laboratory to be sited at Ispra, but the UK is sceptical about the need for the laboratory and Ispra's competence to manage it.

8. The Research Council will take a final decision on how the money should be spent after the Consultative Committee on the Fusion Programme (CCFP) has given an opinion on the aim, work programme and timing of a tritium handling laboratory. France and the FRG, supported by the UK, have proposed that CCFP should also examine the need for a separate tritium laboratory.

9. The UK met Commission officials in November to discuss what information on tritium handling could be made available from the UK. These discussions are continuing.

Foreign and Commonwealth Office

23 January 1984

ck

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

PMVF(84)9(b)
23 January 1984

COPY NO 50

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

BILATERAL RELATIONS: ANGLO-ITALIAN ROUND TABLE

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To underline our interest in the proposal to set up an Anglo-Italian Round Table and to encourage the Italians who will be responsible for the first meeting.

POINTS TO MAKE

2. Very glad the Round Table is finally taking shape. This could be a useful forum for developing links between Italian and British politicians, businessmen, journalists, academics and the like. Does Italian side agree that Round Table should now be launched?

3. (If the Italians confirm invitation for Rome meeting in April/May.) We look forward to the first meeting in Rome. We would like the Round Table to develop on degree of autonomy, attracting support from outside Government.

BACKGROUND

1. The Prime Minister and the then Prime Minister of Italy, Senator Fanfani, endorsed a proposal at the February 1983 Anglo-Italian Summit for the establishment of an Anglo-Italian Round Table. Preparatory discussions with the Italians came to a halt in June 1983 at the time of their elections, but have since been resumed. The change in Government in August gave us the opportunity to scale down the Italians' rather grandiose plans.

2. The British Embassy at Rome have been discussing with Italian officials the details of the first meeting, which will take place in Italy. We hope that Italian plans are sufficiently advanced for it to be possible to arrange the first meeting for April or May 1984. It is being made clear to the Italians that we regard the first one or two meetings (there will be one a year in alternate countries) as experimental with no open-ended commitment at this stage. A very modest budget of £5,000 has been allocated by the UK for the first meeting.

3. A certain amount of preparatory work has already been undertaken and lists of potential participants on the British side drawn up following consultations with academics, journalists and politicians. Co-ordination of the British side will be in the hands of Sir Alan Campbell, former Ambassador to Rome.

4. The two Prime Ministers could usefully refer to the forthcoming first meeting of the Round Table at their joint press conference.

Foreign and Commonwealth Office
24 January 1984

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

PMVF(84)9(b)

(ADDENDUM NO 1)

COPY NO

50

25 January 1984

ANGLO ITALIAN SUMMIT

26-27 JANUARY 1983

BILATERAL RELATIONS: ANGLO-ITALIAN ROUND TABLE
Brief by the Foreign and Commonwealth Office

Addendum

The attached copy of Rome telegram no 046 should be attached
to Brief 9(b).

Foreign and Commonwealth Office
25 January 1984

CONFIDENTIAL

RESTRICTED

GRS 140
RESTRICTED
FM ROME
TO IMMEDIATE FCO
TELNO 046
OF 241630Z JANUARY 1984

FITZHERBERT'S TELELETTER OF 20 JANUARY TO WED: ANGLO-ITALIAN
ROUND TABLE.

1. THE FARNESINA CONFIRMED TODAY THAT ANDREOTTI WAS CONTENT THAT THE SUMMIT ON 26/27 JANUARY SHOULD CONFIRM THE ROUND TABLE PROPOSAL ALONG THE LINES SUGGESTED IN TELELETTER UNDER REFERENCE. CRAXI'S ASSENT HAD NOT YET BEEN OBTAINED BUT THE FARNESINA DID NOT ANTICIPATE DIFFICULTY. THEY ADVISED US TO GET IN TOUCH WITH CRAXI'S DIPLOMATIC ADVISER TOMORROW, WHICH WE WILL DO.
2. ASSUMING THERE IS NO DIFFICULTY WITH CRAXI, IT SHOULD THEREFORE BE POSSIBLE TO INCLUDE A SENTENCE ABOUT THE ROUND TABLE IN THE USUAL AGREED STATEMENT MADE AT THE START OF THE JOINT PRESS CONFERENCE ON 27 JANUARY. THERE SHOULD BE NO NEED FOR THE PROPOSAL TO BE DISCUSSED FURTHER BETWEEN MINISTERS.

BRIDGES
MINIMAL
WED.

RESTRICTED

10A

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF (84) 10(a)

COPY NO 50

20 January 1984

ANGLO-ITALIAN SUMMIT

26-27 JANUARY 1984

ITALIAN INTERNAL POLITICAL SCENE

Brief by the Foreign and Commonwealth Office

BACKGROUND

1. The present Government, led by Signor Bettino Craxi (Italy's first Socialist Prime Minister since the War), took office in August 1983. The four party coalition Government of his Christian Democrat predecessor, Signor Fanfani, essentially a caretaker administration, fell when Craxi, judging the moment right, withdrew Socialist support from the coalition in April and called for elections in June 1983.
2. The elections proved a shock for the Christian Democrats (CD) whose share of the vote dropped by 5% to 32.9%. Continually in Government since the War, the CDs were probably worst affected by the electorate's apparent disillusionment with entrenched political privilege and inefficiency. Diminished fear of the Communists (PCI) whose vote also declined slightly to 29.9%, may also have contributed. The Socialists (PSI) also did less well than they hoped, increasing their share of the vote only slightly to 11.4%. The Communists constitute the main opposition party in Parliament. They are, however, strongly represented in Government at regional and local level.
3. Craxi's five party coalition Government (composed of Socialists, CDs (who predominate), Republicans, Social Democrats and Liberals), was formed on 4 August 1983. In his

introductory programme statement to Parliament, Craxi indicated that the key areas would be foreign policy, 'healing' the economy to promote growth and employment, social policy, the fight against organised crime (more of a problem now than urban terrorism), and institutional reform.

4. After five months in Government, Craxi enjoys a relatively secure position. His two major headaches are the economy and Lebanon. He faces a particularly bumpy ride on the economic front, which remains his top priority. The government has failed to meet its targets of reducing the public sector deficit (at present 17% and threatening to rise to 20% of GDP in 1984) and of reducing the inflation rate (1983 average of 15% against a 13% target). Craxi's success in passing the budget before the end of the year (only the 4th time since 1948) was qualified by having to accept more modest cuts in public expenditure than envisaged. Increases in petrol prices at the end of December drew adverse criticism from the unions and some members of the Government, as a mistaken and inflationary way of increasing Government revenue. The Government are now engaged in a difficult round of pay talks with employers and unions.

5. The continued presence of the Italian MNF contingent in Lebanon is also becoming increasingly controversial and any serious incident affecting the safety of Italian troops would put the Government in great difficulty. President Pertini (a fellow Socialist) has also entered the debate on whether they should remain, thereby causing Craxi a certain amount of embarrassment. The Government has declared its intention of reducing its original 2200 strong force in Beirut but remains committed to maintaining a contingent in Beirut of at least 1100 men.

6. Craxi has proved to be a firm Atlanticist demonstrating Italy's steadiness as a NATO ally by his commitment to the stationing of Cruise missiles in Sicily in 1984. The opposition never campaigned hard against deployment and the debate has proceeded without serious domestic tension.

CONFIDENTIAL

7. Despite indications that, like its predecessors, Craxi's coalition is finding it difficult to sustain its initial unity, particularly over economic policy, there are as yet no signs of any major change in the political scene. Because of the balance of forces within the legislature the leader of the Socialists enjoys a relatively strong position in that PSI support is essential for any parliamentary majority which excludes the Communists and neofascists.

8. Urban terrorism by the Red Brigades and to a lesser extent by the extreme right, remains a continuing if now considerably reduced threat. The security forces have had a number of successes. Organised crime is a growing problem. The 'black economy' continues to flourish and may account for as much as 20% of GDP. Many areas of Italy remain unaffected by what is decided in Rome.

9. Craxi visited London in September 1983. President Pertini will visit the UK as a Guest of Government on 22-24 February to attend the Genius of Venice Exhibition at the Royal Academy. The Prince and Princess of Wales will visit Italy 14-29 October (announced).

Foreign and Commonwealth Office
23 January 1984

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVF(84)10b
23 January 1984

COPY NO 50

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

ITALIAN ECONOMY
Brief by HM Treasury

Objective

To echo recent criticism of Italian economic policies particularly on budgetary matters as further inaction would only weaken longer term growth prospects.

Points to make

- (i) Most forecasters see output recovering this year but how do authorities judge prospects thereafter?
- (ii) Action to reduce Italy's high budget deficit, the largest amongst the major countries, vital as recent IMF report makes clear. Difficulties in reducing public expenditure underline need for determined stand. Does recent announcement indicate some reappraisal of the fiscal stance or are further measures expected soon?
- (iii) Government's inflation target more than twice current average for major countries. What are prospects for substantial modification of scala mobile without major fiscal concessions? How far would this contribute to achievement of this year's inflation target?
- (iv) Important that Italy join her major partners in achieving greater convergence towards non-inflationary growth as agreed at the Summit.

Background

In recent years Italy has suffered from poor economic management and has been less successful than its Summit partners in reducing inflation. Successive governments have failed to curb the rising fiscal deficit or secure significant amendments to the wage indexation system. Italy's underlying structural problems remain unresolved and longer term prospects are endangered. The risk is that this year's cyclical upturn may prove temporary and recovery may fade thereafter.

2. GDP fell by $1\frac{1}{2}$ per cent in 1983 after two years of stagnant activity. Domestic demand dropped sharply last year as consumption declined and investment slumped. The economy may have turned round in the third quarter of 1983 as industrial production picked up slightly. Business intentions surveys have also improved. Most agree with the government's forecast of 2 per cent growth this year but OECD see growth slowing markedly in the second half. Prospects thereafter are particularly uncertain. Unemployment, now around 12 per cent is expected to rise further.

3. The scale of the 'black or underground' economy in Italy is allegedly one of the reasons why, despite gloomy national economic statistics, parts of the economy seem, to other observers to be relatively buoyant and to have survived the recession particularly well. IMF recently quoted estimates suggesting the figure could be as high as 20 per cent of GDP. These figures are not easily confirmed but small unincorporated firms, reportedly noted for flexibility and innovation, are particularly prevalent.

4. The modifications to Italy's wage indexation system (the scala mobile) agreed last January at the cost of fiscal concessions, helped reduce inflation which ended the year at around 13 per cent. But the government's targets of 13 per cent for 1983 as a whole was missed by some 2 points. The indexation system accounts for over 70 per cent of pay increases and its inflexible operation is one of the major reasons why inflation has remained stubbornly high despite falling activity. Italian inflation is almost treble the $4\frac{1}{2}$ per cent average for the major countries in aggregate.

5. Attainment of the government's 10 per cent inflation target this year, of which many are sceptical will depend on further modifications to the scala mobile. Industry is already arguing for drastic changes. The government hopes that by limiting public sector price increases and granting other concessions (eg greater efforts against tax evasion by the self-employed) it can persuade the unions effectively to suspend indexation and accept a 10 per cent maximum increase this year. The major unions are already divided over the need for such reform.

6. The need to finance the large fiscal deficit and high inflationary expectations has kept interest rates near to 20 per cent over the last three years whilst elsewhere they have fallen considerably since 1981. Successive devaluations of the lira within EMS realignments, have not fully compensated for Italy's higher inflation. Competitiveness has deteriorated as a result. In common with others the lira has fallen sharply against the dollar but remains strong within the EMS for the moment at least. The current account deficit has improved (from \$10 billion in 1980 to \$1½ billion in 1983) but mainly through lower activity. Poor competitiveness combined with the recovery in domestic demand is likely to mean the deficit will worsen again.

7. Monetary policy has been undermined by the financing of the large public sector deficit. Last year the authorities turned to moral suasion to control credit expansion as formal credit ceilings had become increasingly ineffective. The authorities have established a fairly tight target of 12½ per cent for credit growth to the private sector but total domestic credit however is expected to rise faster than nominal GDP growth.

8. Recently both the IMF, in the article IV consultation, and the Bank of Italy have criticised the failure to curb public expenditure and reduce the large budget deficit. The draft IMF report was leaked, allegedly by Gorla, the Treasury Minister, in exasperation with his Cabinet colleagues. Last year's failure to implement all the 1983 budget proposals and weaker than expected activity meant the deficit target of Lit 71 trillion was missed with an outturn of Lit 90 trillion (17 per cent of GDP as compared with 10 per cent in 1980). Italy has the highest deficit amongst

the major countries. Interest rates account for 9 per cent of GDP and the ratio of government debt to GDP has risen to 80 per cent. The damaging consequences of such deficits for private sector activity and growth potential were well illustrated in the IMF report.

9. Forecasts made last year put the 1984 deficit in excess of Lit 120 trillion. Craxi's 1984 budget sought to hold the deficit to its 1983 figure by cutting expenditure (particularly health and social security), raising taxes and granting a once only tax amnesty. However, even before the details were finally agreed the IMF and others had called, and the government had accepted the need for further fiscal measures if the target was to be met. But the government is concerned it might jeopardise the forthcoming pay talks. Craxi seems to have postponed any further announcement, publishing instead a bland scene-setting policy document which gives less emphasis than before to the need to cut borrowing. This seems the outcome of a conflict between the Treasury (who lost) and the Prime Minister who apparently believes that the deficit may be smaller than the Treasury suggests and that it does not matter much anyway.

10. Whilst there appeared to be growing recognition within the new government that radical policy decisions must be taken Craxi's 1984 budget measures were as ineffective as those of his predecessors. Moreover, his recent decision to postpone further fiscal restraint may prove short-sighted. The discussions ahead on wage reform and over fiscal policy could prove critical for Italy's longer term development.

9/2

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO 50

ANGLO-ITALIAN SUMMIT
26-27 JANUARY 1984

LIST OF BRIEFS ISSUED IN THE PMVF(84) SERIES

1. GENERAL BRIEF
Brief by Foreign and Commonwealth Office
2. EUROPEAN COMMUNITY TOPICS
 - a. GENERAL
Brief by Foreign and Commonwealth Office
 - b. EC FINANCING
Brief by Foreign and Commonwealth Office
 - c. COMMON AGRICULTURAL POLICY
Brief by Ministry of Agriculture, Fisheries and Food
 - d. ENLARGEMENT
Brief by Foreign and Commonwealth Office
 - e. INTERNATIONAL TRADE
ISSUES/PROTECTIONISM
Brief by Department of Trade and Industry
 - f. NEW POLICIES
(INCLUDING INTERNAL MARKET)
Brief by Foreign and Commonwealth Office
 - g. STEEL
Brief by Department of Trade and Industry
 - h. STRUCTURAL FUNDS
Brief by Foreign and Commonwealth Office
 - i. EMPLOYMENT ISSUES:
VREDELING AND FIFTH COMPANY LAW DIRECTIVES
Brief by Department of Employment
 - j. ITALIAN DISCRIMINATORY TAXATION OF SPIRIT DRINKS
Brief by the Foreign and Commonwealth Office

CONFIDENTIAL