



10 DOWNING STREET

cc PS x3
 PS/Lady Young
 PS/Mr Ristkind
 PS/Mr Luce
 PS/PJS

RECEIVED
 27 FEB 1985
 15 February 1985
 Mr Renwick
 Mr Maud
 Mr Egerton
 Mr David Thomas
 Mr Weston

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Memo
 Mr. Craxi
 Mr. Leavelle
 Lord Bridges
 should have
 an account
 less discussion
 with
 appropriate
 17/2

My

From the Private Secretary

Mr Braithwaite
 Mr Derek Thomas
 Sir W. Harding
 Mr Ferguson
 Mr Goodall

Dear Colin,

MEETING BETWEEN THE PRIME MINISTER AND THE
PRIME MINISTER OF ITALY AT 10 DOWNING STREET
ON 14 FEBRUARY AT 1800 HOURS

The Prime Minister held an hour of talks with Signor Craxi at 10 Downing Street yesterday evening followed by a working supper. Signor Craxi was accompanied at the talks by Signor Ruggiero and Signor Badini. Mr Williamson was also present. The Italian Ambassador and Professor Acquaviva on the Italian side and the Foreign Secretary and the Chief Secretary on the British side joined the working supper.

The announced purpose of Signor Craxi's visit was to explore the scope for moving forward the European Community's enlargement negotiations with Spain and Portugal. One can only say that he appeared to be at a rather early point on the learning curve on this subject and much of the time available was taken up with Signor Ruggiero explaining to Signor Craxi what it was all about. However, the Prime Minister was able to get a number of basic points across. As Signor Craxi left he observed that he had clearly understood that his main task was to tell the Spaniards that they could not have any more of our fish.

EC enlargement

Signor Craxi said that an early break through was needed. The Commission had recently produced new proposals on fish and on Spanish agriculture. These seemed to open possibilities for progress. The Prime Minister said that there was no question of the United Kingdom's accepting the Commission's proposals on fish. We were the member state with the biggest interest in this matter and it was essential to stick to the principles of the Common Fisheries Policy. We might be able to suggest some minor modifications to the Community position but the Commission's proposals went well beyond anything we could agree.

Signor Ruggiero suggested that if the Spaniards gave a firm commitment not to increase the size of their fleet and to carry out restructuring, the Community might be more flexible in limited areas. The Prime Minister observed that they were our areas which Signor Ruggiero was prepared to treat in such a carefree manner. The choice was between some modest changes in the Community position which we would

shortly be proposing or sticking to the existing position. Signor Craxi asked whether he had understood correctly that the Commission's proposals were not acceptable to the United Kingdom. The Prime Minister said that he should make this clear to the Spaniards straightaway. Their expectations should not be aroused. Spain had to be brought to realise that nothing more was on offer and to accept the package that was on the table. Signor Ruggiero said that his fear was that Spain would accept the terms of entry and then renegotiate them from within the Community.

The Prime Minister asked where matters stood on Spain's transition to Own Resources. Signor Ruggiero said that there was no Commission proposal yet. The Prime Minister said that any proposal must respect the Fontainebleau agreement. M. Noel had been making some peculiar remarks which, if taken seriously, would undermine that agreement and would mean that the Community could have no new Own Resources. The Prime Minister continued that the Community must find the means to help Portugal and ensure that it was a net beneficiary.

The Prime Minister observed that life would not be easy in an enlarged Community. Spain and Portugal would bring many new problems and complicate the business of the Community greatly.

Integrated Mediterranean programmes

Signor Craxi said that this matter too had to be settled. He understood that the Commission were working on new proposals. The Prime Minister commented that it frightened her to think about it. Signor Craxi continued that some governments had been taken aback by the extent of opposition to the Commission's original proposals. While the size of IMPs might be negotiable, the proposal could not be brushed off the table. The Prime Minister said that no-one should have been under any illusion about our attitude to IMPs. She was not in a position to offer more than had been proposed at the Dublin European Council. Greece already was a substantial net beneficiary from the Community. We must also stick to the agreement that money for IMPs should be found from within the structural funds. Her advice to Signor Craxi was to try to settle the issue in the Foreign Affairs Council. She saw little prospect of an agreement being reached in the European Council. Some behind the scenes negotiation was required. Signor Craxi said that the offer made at the Dublin European Council had been paltry. The matter did not concern Greece alone. Others had received promises and would expect to benefit. The Prime Minister said that she assumed that Italy would agree that the greater part of IMPs should be for Greece. Certainly there was no case for France to receive anything. The most which she could envisage was 600 million écu over five years. One had to take account of the enormous increase in spending on Mediterranean agricultural products in recent years. Signor Ruggiero said that the increase had come from a very low base. Signor Craxi looked unhappy.

Community budget for 1985

Signor Craxi said that it seemed to him the only way to solve the Community budget problem in 1985 was to have another Inter-Governmental Agreement. The Prime Minister said that she did not necessarily accept this and would certainly much prefer to avoid it. The alternative was to persuade Germany to bring forward the introduction of new Own Resources. She acknowledged however that Chancellor Kohl remained firmly opposed to this as evidenced in his recent speech to the Bundesrat. Signor Craxi said that he had reached the same conclusion.

The Prime Minister said that one Inter-Governmental Agreement was tolerable but two was habit-forming and undermined the integrity of the Treaty. The first thing to be clear about was the amount to be financed. The sum agreed was 1.3 billion écu and we would not be prepared to go above that. The other essential point was that the UK abatement must be on the revenue side. If the only way to achieve this in 1985 was through an Inter-Governmental Agreement she might be prepared to consider it. But her information was that other member states were unlikely to agree. Signor Ruggiero said that the Italian assessment was that a second Inter-Governmental Agreement was the solution which in the end would cause the least difficulty to everyone though he admitted that France at least was opposed at present. The Prime Minister acknowledged that an Inter-Governmental Agreement might be the only way out. But it would only be acceptable if it covered both the overrun and our abatement. Otherwise it would be impossible to get the new Own Resources Decision through Parliament.

CAP Price Fixing

The Prime Minister said that this year's agricultural price fixing seemed bound to be difficult in view of German attitudes. The Germans spoke with two voices: one piping up for budget discipline, the other for higher agricultural prices. Signor Ruggiero noted that Chancellor Kohl had expressed determination to defend the income of German farmers. The Prime Minister agreed that we might well be confronted with demands for special measures for German farmers as had been the case at Fontainebleau. The United Kingdom would support the Commission's proposal for zero price increases.

International economic questions

The Prime Minister referred to the difficulties created by the surge of the dollar. In the short run this enabled the European countries to increase their exports to the US. But in the longer term it would increase raw material prices and the costs of European industry. Her main fear was that when the dollar eventually turned, its fall would be steep. But for the moment, the United States was enveloped in a euphoria to which no end was in prospect. Signor Craxi agreed with the Prime Minister's analysis while adding that he thought that the deutchmark had been undervalued. He

also revived the idea, which he had put forward in his talks with the Prime Minister last autumn, that European countries should seek long term contracts with oil suppliers denominated in a basket of currencies.

Libya

The Prime Minister thanked Signor Craxi for Italy's help in securing the release of the British hostages in Libya. It had not been an easy matter to handle. But with Italy's help and that of Terry Waite, the story had turned out well. Signor Craxi said that he had recently met Jalloud in Rome (a meeting lasting some 4½ hours: the longest he had ever taken part in) and Jalloud had promised that the hostages would be released. He had the impression that Libya was in a state of difficulty and embarrassment in its relations with the United Kingdom and was anxious to get back to normality. The Prime Minister said that the Libyan Government continued to pursue Libyan dissidents overseas and had clearly learned nothing from experience. But perhaps the very fact that he had released the hostages showed that Gadaffi recognised that his behaviour was unacceptable. Signor Craxi pointed out that Libyan dissidents were no less ready to mount attacks on Libyan officials. A member of the Libyan Embassy in Rome had recently been gunned down. He thought that the situation within Libya was unstable with a general malaise and rumours of further coup attempts.

Argentina

Signor Craxi said that he wished to raise the matter of torpedoes for Argentina about which he had only learned in the course of his journey to London. It seemed that an American company, a subsidiary of Fiat, held an old contract dating from 1980 for the sale of torpedoes to Argentina. Attempts were being made by the Argentinians to revive it. In his view, torpedoes could not rank very high among Argentina's needs and in principle he was against selling them. He would look further into the matter. He would also be seeing President Alfonsin in Montevideo. The Prime Minister said that she was grateful for Signor Craxi's information. Although the view seemed to be current that the Argentinians were not interested in arms purchases the truth was rather different. They were seeking new weapons in Israel and Germany. Signor Ruggiero added that the Italians had also had reports that the Argentinians were shopping for modern torpedoes in the United States. The Prime Minister said that she would raise this during her visit to Washington next week.

Middle East

Signor Craxi gave an account of his meeting with Arafat last December. He had tried to convince Arafat that progress towards a Middle East settlement could be made only if the PLO reached agreement on a convincing and coherent platform with Jordan. The Prime Minister and the Foreign Secretary pointed out that there had been intensive

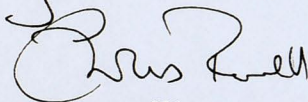
discussions and apparently some agreement between Jordan and the PLO in the last few days though it was uncertain what this amounted to. Signor Craxi continued that Arafat wanted Europe to take some action. He had that day received a message from Arafat about his recent meetings with King Hussein. He would be meeting Peres in Rome on Monday and would thereafter send the Prime Minister an account of his exchanges. The Prime Minister asked him to do this before her departure for Washington. Signor Craxi said that it appeared that the PLO were edging towards acceptance of Security Council Resolution 242. The Prime Minister said that her understanding was that Arafat was still shying away from this. She admitted that Arafat had a difficult hand to play particularly with the Syrians. The prospects for progress depended on the PLO agreeing to allow King Hussein to negotiate with Israel with non-PLO Palestinians as part of his negotiating team. This was an essential consideration for President Reagan. The Prime Minister continued that she was anxious that President Reagan should take an initiative soon. There was only a limited amount of time available before Peres was replaced by Shamir, which would put paid to any hope of a settlement. Signor Craxi said the problem was to set a process in motion. The Foreign Secretary said that this was why the discussions between King Hussein, President Mubarak and Arafat were important. There had to be activity by the people on the spot. Signor Craxi pointed to the likelihood that Syria would block progress. The Prime Minister said that a way must be found to bring Syria along. President Asad was too considerable a figure to be left out.

Strategic Defence Initiative

Signor Craxi said that Lord Carrington had very recently called on him to discuss the Strategic Defence Initiative (SDI). They had taken very similar views. It was clear that the forthcoming arms control negotiations in Geneva would be difficult. There were three baskets, two of which contained existing weapon systems but one with only a concept in it. He found the American position to be straightforward. They were determined to pursue research but recognised that deployment must be the subject of negotiation. But if the Soviet Union made a ban on research a pre-condition of progress on other issues the Geneva talks would rapidly reach impasse. The Foreign Secretary said that the impression was often created that only the United States was doing research in this field. The fact was that the Soviet Union had started earlier and had done more. He had encountered no recognition of this fact during his recent visit to Eastern Europe. Signor Craxi said that he found the concept of the SDI fascinating but many scientists claimed that it was impossible to realise. We would have to see. He found it hard to understand why France was so firmly opposed to the SDI. They regarded it as an escalation of the arms race. They also claimed that if it were ever introduced, the result would be to enhance the likelihood of conventional war. The Prime Minister said that she disagreed with the French attitude and also with the argument that the SDI would give the United States a

first strike capability. Anyway the Americans were not the sort of people who would ever use such a capability. But there were real problems with the SDI. It would always be possible to find ways to evade or penetrate the defensive screen; there was the risk of upsetting deterrence, which had secured peace for 40 years; and the dream of a world without nuclear weapons was not realistic. The fact was that President Reagan's commitment to the ideal led him to underestimate the difficulties and risks. But nothing was to be gained by confrontation with the US on the issue. Research had to be pursued to balance the efforts of the Russians while deployment must remain a matter for negotiation.

I am sending copies of this letter to Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), David Williamson (Cabinet Office). I am also copying those parts dealing with European Community matters to Ivor Llewelyn (MAFF).

Yours sincerely,

(C.D. Powell)

Colin Budd, Esq.,
Foreign and Commonwealth Office.