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ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983.

1983

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UNCLASSIFIED

SAVING TELEGRAM

BY BAG

FROM ROME

TO FCO

SAVING NO 003

13 JANUARY 1983

UNCLASSIFIED

FRAME ECONOMIC

TO FCO SAVING TELEGRAM NO 003 OF 13 JANUARY 1983 AND INFO SAVING PARIS, BONN, UKREP BRUSSELS, UKDEL OECD, WASHINGTON, HOLY SEE, MILAN, FLORENCE, NAPLES, AND GENOA

General

1. Debate about the new Government's economic programme (my Saving Telno 60) has overshadowed developments in the economy. Despite reductions in inflation and improvement in the exchange rate, the outlook continues to worsen.

2. Last month's figures showing a 3% decline in GDP over the previous quarter were followed this month by depressing news of a 4.7 point (3.3%) drop in industrial production in one month, the largest fall ever recorded. The root cause appears to be a sharp reduction of investment-induced demand and, above all, of export demand. For the 37th consecutive month the value of imports exceeds that of imports, and the rate of growth in the value of exports (at current prices) continues to decelerate. Imports too are growing at a slower

/rate,

rate, but that reflects the decline in industrial activity rather than a fall in consumer demand. The deficit in agricultural imports has increased 37% during the year, mainly because of higher imports, especially from EC. Although the trade gap is stable the outlook for exports is poor, according to surveys of orders in manufacturing industry.

3. Along with other currencies, the lire has continued to appreciate markedly against sterling and the dollar. It has also improved slightly against the DM and a number of other currencies. It is not under pressure in the EMS. These improvements can be ascribed to other currencies problems or to high Italian interest rates, rather than to any underlying optimism about the economy. Speculation about a realignment of the EMS in November is also said to have caused the particular weakness of the lire at that time, and the extent of its appreciation since then may reflect that. The Bank of Italy is said to have bought dollars in December to dampen speculative pressure during the dollar's rapid fall.

4. Interest rates generally, and on government borrowing in particular, remain high and show no sign of declining, although the demand for longer term Treasury bills at the December auction was stronger than in recent months. Interest rates generally are now significantly higher than the rate of inflation, but the Government's need to resort to borrowing to

/fund

fund the PSBR precludes any significant reductions. Restrictions on bank lending have been renewed with some modifications.

5. Inflation has continued to fall slightly, and finished the year at 16.3%, only a little above Spadolini's 16% target. But progress may be short lived unless the new Government can attenuate the causes of inflation: the growing public sector debt and wage indexation, which continues to allow gross earnings and industry's costs to increase at a rate equal to, or in excess of, inflation.

6. Fanfani's economic programme announced on 11 December dedicated itself to these two objectives. The first batch of measures (mainly tax increases) were published on 31 December, and the second on 7 January, and they are all before Parliament (see my Saving Telno 1). But the prospects for full implementation are not good; the PCI has promised unremitting opposition and there are differences between the coalition partners over many details, though the main aim is not officially in question. The programme as a whole has been criticised for relying too heavily on increases in revenue, rather than cuts in government expenditure, thereby increasing the burdens of the private sector and adding to prices. The latter will make it still more difficult to achieve agreement on keeping pay to within the planned rate of inflation for 1982 (13%), lessening the

/protection

protection afforded by indexation. Though talks between unions and employers resumed, no sign has yet emerged of the basis of a voluntary agreement, which is needed by 20 January to avoid government intervention. PSI support for the latter cannot be guaranteed.

7. A number of end of year reports on the economy from regional authorities, national forecasters and the OECD confirm the gloomy outlook. They all single out the declining competitiveness of Italian industry as the most disturbing legacy of a long period of relatively high inflation during a prolonged downturn in the world economy.

/GDP

	1982	1981
GDP	-3% 3rd qtr/2nd qtr	-1.7% 3rd qtr/2nd qtr
Industrial Production (unadjusted)	139 (Oct.)	151.8 (Oct.)
Unemployed	2,119,000 (July)	2,013,000 (July)
Exports (billion lire)	9,666 (Nov)*	8,088 (Nov)
Imports (" ")	10,608 (Nov)*	9,219 (Nov)
Trade balance (billion lire)	-942 (Nov)*	-1131 (Nov)
Cumulative total (billion lire)	-15,842 (Jan - Nov)*	-16,516 (Jan - Nov)
Balance on Current Account (billion lire)	+430 (July)*	+1,284 (July)
Cumulative total (billion lire)	-6,827 (Jan - July)*	-5,983 (Jan - July)
Balance of Payments (billion lire)	-161 (Sept)*	+739 (Sept)
Cumulative total (billion lire)	-753 (Jan - Sept)*	+1,471 (Jan - Sept)
Exchange rate £ (last working day of month)	2,212.75	2,294.80
Exchange rate $ (last working day of month)	1,370.00	1,208.25
Exchange rate DM (last day of month)	576.00	532.695
Official net reserves (million dollars)	35,669 (Sept)*	47,700 (Sept)
Year on year growth in money supply (monetary base), including postal deposits	10.2% (Aug)	8.2% (Aug)
Annual rise in retail prices	16.3% (Dec)	18.7% (Dec)

/Annual

	1982	1981
Annual rise in wholesale prices	12.8% (Oct)	19.3% (Oct)
Annual rise in hourly wage rates	16.5% (Oct)	24.0% (Oct)
Interest rates		
1) 3-month Treasury bills	19.51% (end Dec)	22.08% (end Dec)
2) Illustrative (average) bank interest charges	24.6% (end Nov)	25.35% (end Nov)

* Provisional

ARCULUS

FRAME ECONOMIC
ECD (I)

THIS TELEGRAM
WAS NOT
ADVANCED

SAVING TELEGRAM

BY BAG

FROM ROME

TO FCO

SAVING NO 001

13 JANUARY 1983

RESTRICTED

FRAME ECONOMIC

TO FCO SAVING TELEGRAM NO 001 OF 13 JANUARY 1983 AND INFORMATION SAVING TO BONN, PARIS, WASHINGTON, UKREP BRUSSELS, UKDEL OECD, HOLY SEE, ALL CONSULATES IN ITALY

MY TELNO 21: FANFANI'S ECONOMIC PROGRAMME: ANNOUNCEMENT OF MEASURES TO REDUCE PSBR

Aims

1. Measures to put into effect the Fanfani government's economic programme (my Saving Telno 60) were announced on 31 December and 7 January. They have 2 objectives:

a) To bring the outturn for the 1983 PSBR down to 71,000 billion lire (not 70,000 billion as announced earlier), which the government reckons is consistent with the planned inflation rate of 13% during this year.

b) To provide scope, within the PSBR ceiling, for income tax cuts (to compensate for fiscal drag) and reductions in employers' social contributions, so as to facilitate a rapid agreement on the Scala Mobile (wage indexation) without exceeding the inflation target.

To meet these two objectives, the Minister for the Budget

/(Bodrato, DC)

(Bodrato, DC) has said that the government will have to find 17,500 billion lire, either in the form of revenue increases or public expenditure cuts (in addition to those proposed by Spadolini's second government through the 1983 Finance Bill, which is still in limbo).

Contents

2. Specific proposals are as follows:

a) Increased revenue of 7,000 billion lire from

i) increases of between 36% and 42% in the base values used to calculate land and property taxes paid by individuals and enterprises.

ii) once and for all (una tantum) supplement of 4% on local income tax (ILOR). Income from employment, receipts from dividends and bank interest will be exempt. (The main payees will be those who gain income from property).

iii) advance payment of added value tax on property (INVIM) by property companies.

iv) reductions in direct tax allowances for the self-employed, and extension of advance payment provisions.

v) 50% tax increase on insurance premiums.

vi) tax increases on stock exchange dealings.

vii) withdrawal of some VAT concessions, especially for small firms.

/viii)

viii) additional 16% sales tax on 'luxuries' (radio, TV, Hi-fi, photographic equipment) and increased manufacturing tax on lighters.

ix) increased stamp duties on various licences.

x) increased road tax, especially for larger diesel automobiles.

xi) increased manufacturing tax on petroleum products (announced 23 December).

b) Reduction of 2,000 - 2,500 billion lire in public expenditure on social security, including reduced state pensions for those who have income from other sources, adjustment of maternity and sickness benefits to take account of previous contributions, and an amnesty for those who settle any shortfall in social security contributions.

c) Reduction of 2,000 billion lire in public expenditure on the health services, including a flat rate prescription charge with pro rata additions for different types of medicine, higher charges for medical checks and tests, and unspecified cuts in expenditure by local health authorities.

d) 2,600 billion lire from an extension of amnesty to March 1983 for those who pay any outstanding income tax, and a drive to reduce evasion of VAT

/and

and duties. The Finance Minister (Forte, PSI) claims that the trend in current receipts suggests that extension of the amnesty alone will yield 2,000 billion lire.

e) 1,800 billion lire from unspecified cuts in government expenditure. The main cuts will fall on Education and Finance (Defence was mentioned at an earlier stage).

3. These gains are offset by the following revenue reductions:

a) 7,200 billion lire for reductions in income tax, especially on lower incomes, to offset the effect of fiscal drag in recent years of high inflation.

b) 8,000 billion lire for reductions in employers' social security contributions (which are unusually high in Italy), in an attempt to reduce labour costs.

An unspecified amount is also to be set aside (as in 1982) to subsidise early retirement in industries which are severely affected by the recession.

4. These measures differ from those outline in Fanfani's original economic programme (my Saving Telno. 60). The savings announced (15,900 billion lire) do not match the target (17,500 billion lire) and appears to do little more

/than

than cover the revenue losses listed in paragraph 3 above, unless the 1983 Finance Bill (to be approved separately by Parliament) eventually makes provision for further savings. This failure to meet the target is partly attributable to the last minute decision - under intense pressure from the trade unions - to drop plans to cancel sickness benefit for the first day of absence from work (a potential saving of over 1,000 billion lire) and to limit the scope of the una tantum tax. Bodrato says that the shortfall from the first of these changes, plus a further 525 billion lire, will be recouped through unspecified further savings, mostly from the social security budget.

5. The changes from Fanfani's original plan extend both to the savings target (17,500 billion lire as opposed to 15,000 billion lire: the extra money is required to finance the larger tax reliefs listed in para 3 above) and to the means of achieving the target (notably the weakening of the 'una tantum' tax, and the shelving of plans to tax bank deposits). Pressure for these changes came both from within and outside the governing coalition. The difficulties faced by the government in putting together the package are evident both from its desperate search for measures which would not damage the interests and electoral support of the coalition parties and also from the package's dependence on vague or unreliable sources of savings (eg tax amnesties). The thrust of the package is to increase revenue rather than cut expenditure, since this is politically less controversial.

/6.

6. The economic manoeuvre is still incomplete. Many public sector tariff increases have still to be decided, though some (eg large increases in urban bus fares) have; the proposal to increase electricity charges by more than the planned inflation rate has provoked a particularly sharp union reaction. There has been no mention of the additional expenditure of 3,500 billion lire earlier promised by Fanfani for public works (a favourite theme of his), nor any sign of how this is to be financed.

7. No major party doubts the need for urgent measures to cut the PSBR, as a means of reducing inflation without continued recourse to damagingly high interest rates. Fanfani has acted quickly but it is doubtful whether the package enjoys sufficient support from all the coalition parties to pass through Parliament intact. Most of the measures were implemented immediately by decree law (and are therefore subject to Parliamentary ratification within 60 days); some, including the una tantum, require a bill and therefore a full Parliamentary debate. Extra-parliamentary opposition from the trade unions is certain to have some effect, and the PCI may decide to give it greater support. The trade unions have accepted Forte's contingency offer to reduce income taxes (para 3(a) above), but are pressing for the withdrawal of cuts in social and health expenditure, together with extra spending on unemployment, as the price for their agreement to reductions in the Scala Mobile: in the absence of alternative savings, this would further increase the PSBR.

/8.

8. The Treasury has announced that it will seek a credit facility with the Bank of Italy allowing "advance" (ie additional) borrowing of up to 8,000 billion lire during 1983. This will require amendment of the legally established ceiling of 14% on public sector finance from this source. If agreed, this could add to inflationary pressures, unless measures to reduce the PSBR allowed early repayment. Some commentators see this announcement as further evidence that the government knows how slim its chances are of implementing the whole package, and is therefore looking for temporary expedients.

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FM ROME 171605Z FEB 83
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TO IMMEDIATE FCO
TELEGRAM NO. 091 OF 17 FEB 83
SAVING FOR INFO UKREP BRUSSELS, UKDEL OECD, PARIS, BONN, WASHINGTON, SUB. POSTS IN ITALY

ROME TELEGRAM NO. SAVING 003: ITALIAN ECONOMY

1. THE FOLLOWING ASSESSMENT OF THE ITALIAN ECONOMY MAY BE HELPFUL IN ADVANCE OF THE ANGLO-ITALIAN SUMMIT ON 25 FEBRUARY.

GENERAL

2. THE OVERALL OUTLOOK REMAINS PRECARIOUS. BOTH THE GOVERNMENT FORECASTING AGENCY, ISCO, AND THE BANK OF ITALY PREDICT ZERO OR JUST NEGATIVE GROWTH IN 1983, WITH OTHER FORECASTING AGENCIES PREDICTING BETWEEN PLUS 1.7 PC TO MINUS 1.2 PC CHANGE IN GDP AFTER A LIKELY MINUS 0.5 PC IN 1982 (LATEST BANK OF ITALY ESTIMATE). LATEST SURVEYS OF BUSINESS OPINION CONTINUE TO BE VERY PESSIMISTIC, ALTHOUGH A NOTE OF HOPE FOR A SLIGHT UPTURN LATER IN THE YEAR HAS BEGUN TO CREEP IN. IT MAY BE MORE HOPE THAN EXPECTATION. THE AGREEMENT ON LIMITING PAY RISES, WHICH INCLUDES A DECREASE IN THE RATE OF INDEXATION IN THE SCALA MOBILE MECHANISM (ROME TELEGRAM NO. 21), IS GENERALLY WELCOMED AS A STEP IN THE RIGHT DIRECTION. BUT ITS EFFECT ON THE PSBR TARGETS REMAINS UNCLEAR. THE GOVERNMENT FACE DIFFICULTIES IN SECURING PARLIAMENTARY APPROVAL FOR THE DECREES WHICH IMPLEMENTED THE FANFANI MEASURES LISTED IN PARAGRAPH 2 OF ROME TELEGRAM NO. SAVING 001, AS WELL AS FOR THE 1983 BUDGET AND FINANCE BILL (AMENDED TO TAKE THE PAY AGREEMENT INTO ACCOUNT). THE ONCE AND FOR ALL SUPPLEMENTARY LEVY ON LOCAL INCOME TAX WAS INTRODUCED AS A BILL AND IS THEREFORE NOT IN FORCE UNTIL APPROVED. THE MAIN OBSTACLES ARE FILIBUSTERING BY THE OPPOSITION PCI AND MSI (NEO-FASCISTS), WITH THE PRI GRUMBLING FROM THE SIDELINES. THE DECREES IMPLEMENTING THE GOVERNMENT'S FISCAL MEASURES MAY WELL NOT SECURE PARLIAMENTARY APPROVAL WITHIN THE STATUTORY 60 DAYS AFTER ENACTMENT AND WILL HAVE TO BE RE-PRESENTED.

pl attach

BALANCE OF PAYMENTS

3. THE LATEST TRADE FIGURES (FOR DECEMBER 1982) SHOW A FURTHER FALL IN THE RATE OF GROWTH OF EXPORTS, WHICH CONFIRMS THE WORRYING TREND MANIFEST SINCE MID-1982. THE TRADE DEFICIT FOR 1982 IS NOW PROVISIONALLY PUT AT 16,976 BILLION LIRE (POUNDS 7.9 BILLION), OF WHICH 30,236 BILLION LIRE (POUNDS 14 BILLION) DEFICIT ON OIL AND 13,260 BILLION LIRE (POUNDS 6.1 BILLION) SURPLUS ON NON-OIL TRADE. THE BANK OF ITALY HAS RECENTLY ANNOUNCED A PROVISIONAL FIGURE FOR THE CURRENT ACCOUNT BALANCE FOR 1982 OF 7,500 BILLION LIRE (US DOLL 5.4 BILLION), TOGETHER WITH AND ESTIMATE THAT LOWER OIL PRICES, LOWER INTEREST RATES ON EXTERNAL DEBT AND A GOOD TOURIST SEASON

/ SHOULD

SHOULD ENSURE A SMALLER DEFICIT FOR 1983. ISCO FORECASTS A RELATIVELY MODEST 2,000 BILLION LIRE DEFICIT (US DOLL 1.4 BILLION). THE BANK OF ITALY'S CURRENT INFORMAL PREDICTION TENDS TOWARDS THE SMALLER END OF THE RANGE. OTHER ESTIMATES ARE FOR A DEFICIT BETWEEN MINUS 1,500 BILLION AND MINUS 8,500 BILLION LIRE.

INDUSTRIAL PRODUCTION, EMPLOYMENT AND PAY

4. INDUSTRIAL PRODUCTION INDEXES CONTINUE TO REGISTER FALLS. ACTIVITY IS RECKONED TO BE AT ITS LOWEST FOR THREE YEARS, WITH THE RATE OF FALL ACCELERATING TOWARDS THE END OF 1982. THE OVERALL FIGURE FOR 1982 IS ESTIMATED TO BE SAME AS THE FALL OF MINUS 2.3 PC RECORDED IN 1981.

5. TOTAL EMPLOYMENT DURING 1982 FELL BY 0.4 PC (THE FIRST FALL SINCE THE WAR), BUT OFFICIALLY RECORDED UNEMPLOYMENT HELD STEADY AT AROUND 9 PC. IN ADDITION, THE NUMBERS WHOLLY LAID OFF CONTINUED TO RISE RAPIDLY ABOVE THE RECORD LEVELS OF 1981 TO REACH AN ESTIMATED 280,000 BY THE END OF 1982. THE SHARP DECLINE IN OUTPUT IN THE LAST TWO QUARTERS SUGGEST THAT UNEMPLOYMENT AND LAYOFFS COMBINED WILL CONTINUE TO RISE. 76.7 PC OF THE UNEMPLOYED ARE UNDER 29 AND THERE ARE NO SUBSTANTIAL GOVERNMENT MEASURES FOR THEM. WITH THE RESOLUTION OF THE PAY ISSUE, UNIONS ARE STEPPING UP PRESSURE FOR COUNTER MEASURES: PUBLIC INVESTMENT, REDUCED WORKING TIME.

6. DESPITE THE (ATYPICAL) ABSENCE OF SECTORAL CONTRACTUAL WAGE INCREASES FOR MOST WORKERS DURING 1982, HOURLY RATES IN MANUFACTURING ROSE BY 17.3 PC, 1.0 PC MORE THAN PRICES. INDEXATION (SCALA MOBILE) ACCOUNTED FOR ABOUT 76 PC OF WAGE INCREASES, A PROPORTION WHICH WILL FALL IN 1983 TO ABOUT 60 PC AS A RESULT OF THE NEW PAY AGREEMENT. THE TOTAL EFFECT OF THE NEW AGREEMENT, WHICH COVERS BOTH INDEXATION AND SECTORAL CONTRACTS (FOR 3 YEARS), WILL BE TO HOLD WAGE RISES TO ABOUT 14 PC IN 1983, IF PRICES INCREASES ARE HELD TO 13 PC (THE GOVERNMENT TARGET).

PUBLIC FINANCE AND INFLATION

7. CONFUSION CONTINUES TO SURROUND THE GOVERNMENT'S ACCOUNTS, AND NO OFFICIAL FIGURES HAVE BEEN RELEASED TO ILLUSTRATE THE EFFECT ON THE PSBR OF THE AGREEMENT ON PAY. THE BANK OF ITALY'S INFORMAL ESTIMATE IS THAT IT WILL INCREASE THE CGBR BY ABOUT 1,000 BILLION LIRE NET. THE 1982 CENTRAL GOVERNMENT BORROWING REQUIREMENT INCLUDING TRANSFERS TO LOCAL AUTHORITIES IS NOW PUT AT 71,000 BILLION LIRE (75,000 BILLION LIRE IF NATIONALISED INDUSTRIES ARE INCLUDED), WELL OVER THE ORIGINAL TARGET OF 50,000 BILLION LIRE BUT LESS THAN ORIGINALLY FEARED BECAUSE OF A HIGHER THAN ANTICIPATED YIELD FROM A TAX AMNESTY. NEITHER THE BANK OF ITALY NOR THE TREASURY MINISTERS' OWN ADVISERS GIVE ANY CREDENCE TO THE GOVERNMENT'S TARGET OF STICKING TO THIS FIGURE FOR THE 1983 CGBR, AND CLAIM PRIVATELY THAT THE OUTTURN COULD BE 80,000 - 85,000 BILLION LIRE (£36 - £38 BILLION). EVEN THIS

/RESULT

RESULT WILL DEPEND CRUCIALLY ON FULL PARLIAMENTARY APPROVAL OF THE GOVERNMENT'S PROGRAMME AND A STEADY, IF MODEST, REDUCTION IN INTEREST RATES TO REDUCE THE COST OF SERVICING GOVERNMENT DEBT. THIS IN TURN WILL DEPEND ON PROSPECTS FOR THE INFLATION RATE WHICH MOST FORECASTS (INCLUDING ONE BY CER DONE SINCE THE PAY AGREEMENT) EXPECT TO BE AROUND 14.5% IN 1983, A REDUCTION ON THE 1982 OUTTURN OF 16.3% BUT SOME WAY FROM THE GOVERNMENT'S 13% TARGET. ISCO'S LATEST FORECAST, HOWEVER, WHICH ASSO TAKES INTO ACCOUNT THE PAY AGREEMENT, PUTS THE 1983 FIGURE AT 13.5% WHICH WILL BE OF MORE COMFORT TO THE GOVERNMENT . THE YEAR ON YEAR RISE IN WHOLESALE PRICES AT THE END OF 1982 WAS 11.2%, WHICH GIVES ISCO'S MORE ENCOURAGING FIGURE SOME SUPPORT.

MONETARY POLICY AND THE LIRA

8. THERE IS NO SIGN OF ANY FURTHER REDUCTION IN INTEREST RATES. THE DISCOUNT RATE REMAINS AT 18%, PRIME RATE AT 20% AND 3-MONTH TREASURY BILLS AT 19.51% THE VERY TIGHT CEILINGS ON BANK LENDING HAVE BEEN RENEWED BY THE BANK OF ITALY FOR THE THIRD YEAR RUNNING, INITIALLY FOR ONLY 6 MONTHS (AT THE GOVERNMENT'S REQUEST). FEW DOUBT THAT THEY WILL BE IN FORCE THROUGHOUT THE YEAR. THE LIRA REMAINS SURPRISINGLY STRONG IN THE EMS, SHELTERING BEHIND A RELATIVELY WEAK DM, BUT THE BANK OF ITALY (AND OTHER COMMENTATORS) ARE NOT SANGUINE ABOUT ITS STAYING POWER ONCE THE DM STARTS TO STRENGTHEN AND THE FRENCH FRANC TO WEAKEN.THEY EXPECT A REVALUATION OF THE DM AND THE DUTCH GUILDER AGAINST OTHER EMS CURRENCIES. IF, AS THEY ALSO EXPECT,ITALY'S CURRENT ACCOUNT IMPROVES AND THE US DOLLAR/LIRA RATE REMAINS STABLE, THEY SEE NO STRUCTURAL REASONS FOR WEAKNESS OF THE LIRA IN THE COMING YEAR.

FCO PLEASE ADVANCE TO GRAHAM AND BOTTRILL, HM TREASURY

FCO ALSO PASS SAVING ADDRESSEES EXCEPT SUB POSTS IN ITALY.

(ADVANCED AS REQUESTED)

(REPEATED AS REQUESTED)

SIMPSON-ORLEBAR

FRAME ECONOMIC
ECD (I)

AMV(83)3b COPY NO 9

17 February 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

EAST-WEST RELATIONS: POLAND

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Initial view is that suspension of martial law more of a procedural than substantive change although full effect not yet clear. Government appear to have crushed active dissent but without cooperation of workforce, economy will not recover and political instability will continue.

2. Not the time to change broad lines of policy. Must keep this under review. Polish authorities' actions should be judged by their practical effects. Pope's visit likely to be most significant indication of where people's sympathies lie and extent of tolerance by the regime.

3. Must also keep under review problem of Polish debt rescheduling. Aware of growing pressure among Western Creditor Governments to move towards rescheduling talks. Important we should maintain a united position and call Poles to account for their debts. Need to consider movement on this issue soon.

BACKGROUND

4. Martial law in Poland was suspended on 31 December and all but 7 of the detainees were released. But measures voted by Parliament to replace martial law may be equally repressive if they are fully implemented. Regime have announced a possible pardon for 700 people imprisoned for martial law offences but have ruled out a general amnesty at this time for all of the 3,000-4,000 people believed still to remain in jail. Authorities appear to have subdued remnants of Solidarity. But there is little popular support for Jaruzelski's policies and further outbreaks of discontent or violence (like that on 13 February in Warsaw) cannot be excluded. The Church has publicly criticised the limited nature of the martial law relaxations; but arrangements for the Pope's visit in June appear to be going ahead.

5. The Western reaction to the suspension of martial law has been cautious; the NATO Ministerial communiqué of 9/10 December emphasised that "the Polish Government's actions would be judged by their practical effects". No further EC or NATO statement is planned until a full assessment has been made of the recent developments; work on this is now underway in both fora. The situation in Poland is on the agenda for the February session of the UN Human Rights Commission.

6. Western position on rescheduling is in rather different category from other sanctions. Refusal to resume negotiations on 1982/83 official debt rescheduling is neither politically effective (does not call Poles to account) nor financially in our interest (amounts to 100% debt relief for Polish regime). Growing pressure, particularly among non-NATO countries for movement on this issue. US (and French) remain reluctant in view of sanctions policy generally and domestic pressures. Have however agreed to review political and financial pros and cons of issue with closest Allies. Wider consideration in appropriate technical forum (Paris Club) expected to follow.

Foreign and Commonwealth Office
17 February 1983

pmp

C/ Wd you prefer us to press for an 11.00 a.m. start (It still gives you an 1 3/4 to deal with Goria).

JR 17/2

From : Mrs M Hedley-Miller
Date : 17 February 1983

PRINCIPAL PRIVATE SECRETARY

cc Mr Littler
Mr Unwin
Mr Lavelle
Mr Edwards
Miss Court

ANGLO-ITALIAN SUMMIT, LONDON, 25 FEBRUARY 1983

The custom is for the visiting Ministers to have bilaterals separately with their opposite numbers while the Prime Minister sees the Head of State or Government.

2. This I fear means something like a two hour session. Since S. Goria has responsibilities in the field of public expenditure, the Chief Secretary might perhaps have been willing to share the time with the Chancellor. But he will not be available on 25 February.

3. So the best plan I think is to shave something off at the beginning of the meeting, and begin at 11 am : though there is now a sting in the tail. I believe lunch is to be scheduled for 12.45, not 12.30.

4. There is, I understand from the Foreign Office, to be no plenary session as such, but the Prime Minister does wish Ministers to report on their bilaterals "before lunch", which may perhaps mean with drinks. I have seen nothing in writing, and you may wish to speak to No.10 nearer the time about whether the reports on the bilaterals are meant to start at 12.30 or 12.45, and perhaps to enquire further about the procedure for these reports.

5. The FCO are seeing a Minister from the Italian Embassy this afternoon to discuss details. They see no difficulty at all in explaining that given his preoccupation at present with his budget, the S. Goria will accept a meeting beginning at 11 am rather than at 10.30 - a suggestion I have discussed with Miss Rutter.

Chancellor very much hopes that

6. On topics, I have suggested that as a preliminary indication FCO could mention European questions, including budgetary questions, and international monetary issues.

7. The Italian Minister is also apparently interested in who would be present. I have said that I expect the Chancellor to be accompanied by Mr Littler and the Private Secretary.

8. We will of course prepare briefs.

MRS M HEDLEY-MILLER

AMV (83) 3(d) COPY NO 9

17 February 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

CONFERENCE ON SECURITY AND COOPERATION IN EUROPE

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Outcome of the Madrid Meeting still in doubt. Our strength lies in united Alliance approach. Should stand firmly by the Western amendments.

2. Alliance have retained tactical initiative and Soviet Union seems to be at a disadvantage. However, outcome will depend on Soviet calculation of what price (if any) they are willing to pay in the human rights field, and on overall East/West relations.

BACKGROUND

3. The Madrid Meeting to review the implementation of the Helsinki Final Act and to agree supplementary measures resumed for its seventh session on 8 February. Its principal task now is to complete the negotiation of a concluding document, the basis for which is a consolidated draft tabled by the

/Neutral

Neutral and Non-Aligned countries in December 1981.

4. The Western Alliance proposed a package of amendments to this draft in November 1982. It is designed to take account of events in Poland and the Soviet Union since the draft was tabled; to determine a clear mandate for a Conference on Disarmament in Europe (CDE); and to secure new commitments in the humanitarian field, eg guaranteeing the rights of Helsinki monitor groups and ending jamming.

5. The Ten and the Alliance are agreed that the Western objective at the resumed meeting should remain a substantial and balanced concluding document. To achieve that we should stand by the Western package as a whole and press for an early conclusion to the meeting, but not at the expense of substance.

6. The US seem not yet to have determined their minimum requirement for Madrid. Officials say that the Administration must have something substantive in the human rights field if they are to sell any Madrid agreement to Congress. A clear demonstration by the Soviet Union of respect for existing provisions of the Helsinki Final Act eg by the release of Shcharansky would be one solution. Acceptance of an undiluted Western package might be another.

7. The Italians have not played a prominent role at Madrid.

8. The Soviet Union has concentrated almost exclusively on

/the

the proposal for a European Disarmament Conference and has been dismissive of the human rights proposals.

9. The meeting is unlikely to reach a decisive stage before mid-March. The consensus rule will, as in the past, tend to complicate the drafting process.

Foreign and Commonwealth Office
17 February 1983

AMV (83) 3(e) COPY NO 9

17 FEBRUARY 1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

AFGHANISTAN

Brief by Foreign and Commonwealth Offfice

POINTS TO MAKE

UN Mediation effort

1. Need to keep close watch on Cordovez' mission. Important that Cordovez adheres to principles of UN resolutions.

2. Prospect of further indirect talks in Geneva may be encouraging. But formidable obstacles (and risks) remain. Any Soviet concessions likely to be tactical. Russians must not be allowed to gain propaganda

/advantage.

advantage.

International Pressure

3. Important to maintain public and international awareness of the issue. Need to keep up pressure on Soviet Union. Should use all channels to maintain international condemnation of Soviet actions.

4. Should ensure publicity for events such as Logar massacre.

ExKing Zahir Shah

5. Welcome your comments on current position of Zahir Shah. Does he maintain political contacts? Has he possible role in Afghanistan's political future?

BACKGROUND

UN Mediation effort

6. Diego Cordovez, the Secretary General's personal representative, visited Iran, Pakistan and Afghanistan in early February to pursue his mediation effort. He claims to have won agreement from Pakistan and the Karmal regime to a further round of indirect talks in

/Geneva

Geneva in April. This 'progress' likely to be tactical manoeuvring. Karmal regime said to have agreed a time-table (undisclosed) for Soviet troop withdrawal on condition that outside interference (ie resistance activity) ceases.

7. Formidable problems remain. No agreement yet on how Afghan refugees should be consulted. Major problems of substance not yet been addressed. Cordovez's desire to keep up momentum may lead him to compromise on principles, or put pressure on Pakistan. Soviet tactics will be to deflect international criticism and try to promote legitimacy of Karmal regime.

Soviet atrocities

8. Increased reports of atrocities by Soviet and Afghan government forces in Afghanistan, including the Logar massacre of 13 September 1982, when 105 male Afghan civilians hiding in an underground irrigation channel were burnt to death by Soviet troops. An Afghan delegation called on the Prime Minister in January. The UK delegation raised the question at the UN Commission on Human Rights on 4 February. Other members of the Ten have considered similar action.

/ExKing

ExKing Zahir Shah

9. Zahir Shah was King of Afghanistan until overthrown in 1973. Since then he has lived in Rome. He has played only a small role in Afghan emigré politics, but remains a focus of attention for some, who believe he could act as a unifying figure to replace Karmal regime.

Foreign and Commonwealth Office

17 February 1983

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18 February 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

EAST-WEST RELATIONS: EASTERN EUROPE
(economic questions including Yugoslavia)

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Economic relations with Eastern Europe complicated by burden of debt. Should try to ensure that debt of each country is kept at a level it can service, and avoid risk of repudiation.

2. Policy based on normal commercial prudence. No question of subsidising economies, eg through cheap credit. But ready to cooperate if a country's economy is basically sound, particularly if it helps reduce dependence on Moscow.

3. Preservation of Yugoslav economic and political stability clearly in our interest. Concerned at delays in assembling the Western assistance package. Governments have given good lead. UK is taking steps to be in position to honour our own contribution of financial loans. But necessary for banks, IMF and Yugoslavs to come forward with their part of the package. Should urge this on all concerned.

BACKGROUND

4. East European debt to Western banks and official creditors, currently around $85 bn. Faced with increasing difficulty in obtaining new loans from West, countries are having to make sharp economic adjustments: run down of reserves, domestic austerity, emphasis on exports to hard currency markets and reduction of imports from West. Poland and Romania have been obliged to seek debt rescheduling. East Germany may have to follow in 1983. Hungary is also vulnerable to the general weakness of banking confidence.

5. The Declaration issued after the 1982 Economic Summit at Versailles emphasised that economic relations with East Europe should be based on commercial prudence. Other considerations are management of one part of the general international indebtedness problem, and preservation of longer term trade and commercial relations, particularly with those countries whose political/economic policies increase their degree of independence from Moscow.

6. Yugoslavia's debt is around $19 bn and the economy is in crisis. Representatives of 15 Western Governments meeting in Berne on 18/19 January agreed on the political/economic case for helping Yugoslavia and pledged $1.3 bn export credits and financial loans. The UK contribution, announced in a Parliamentary answer on 9 February, is £78 m. The Italian share is around $120 m.

7. Inter-Governmental assistance is one integral part of a complex package. This also involves a tight IMF programme, maintenance and some increase in lending by the commercial banks and a $500 m bridging loan by the BIS. Difficulties have arisen over obtaining Yugoslav collateral for the BIS loan . There are

/also

also delays in tabling the IMF programme and in the commercial bank arrangements. The package remains feasible but time is short and more progress will need to be made in assembling the non-Governmental elements by the end of March when a current agreed moratorium on Yugoslav debt payments expires.

8. (Not for disclosure) The Americans are considering sending a new high level message to all concerned in the hope of imparting renewed political impetus.

Foreign and Commonwealth Office
18 February 1983

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18 February 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

GENERAL BRIEF ON EUROPEAN COMMUNITY ISSUES
Brief by Foreign and Commonwealth Office

1. This is the first Anglo-Italian Summit Meeting since the meeting in Rome last July with Signor Fanfani's predecessor, Signor Spadolini. It falls at a time when Community work on the budget problem is about to get into full gear, once the German elections on 6 March are over, with the Commission's Green Paper now on the table and the March European Council just over three weeks ahead.

2. Italian interests in the Community differ from ours in some important areas. They are the largest net beneficiary from the Community budget. They believe that they would get the most benefit from an expansion of the budget; and as a Mediterranean country they have pressed strongly and successfully for more spending on southern products. Their preference for taking a low profile in Community discussion except when their own direct interests are involved makes them unreliable allies on trade or such matters as EC/US relations. One current point of friction is the Super Sara research project, situated at Ispra in Italy, which we are arguing strongly and with wide support should be closed downon the grounds that it is not cost-effective. On the other hand there are areas of common interest: as poorer

countries we are both concerned to see a reform of the Regional Fund to increase the share of the fund going to areas of greatest need; and the Italians generally share our aims to make progress on the internal market.

3. Against this background our key aim must be to convince the Italians at the highest level, as we were able to do in the talks with Herr Kohl, of the political necessity of reaching agreement by the end of the German Presidency on a solution for 1983 and later. There is no need for detailed discussion of the budgetary problem, which Signor Fanfani has said he does not want, but we will want to explain to the Italians the very real difficulties which their ideas for expanding the Community's budget and increasing the VAT ceiling pose for us. We shall want to seek their support for price restraint in the forthcoming CAP price fixing and may be able to get some support, at least as far as Northern products are concerned; and we shall want to argue that Mediterranean products must be subject to the same degree of discipline. We shall want to try to persuade them to be more helpful on trade issues and in pressing the Community for a measured response to the US. We should be able to reassure them of our constructive attitude to the Genscher/Colombo proposals, the text of which is now close to agreement. We should explain to the Italians the very positive approach we have to progress on the Internal Market and to the development of the Community more generally. And we will want to concert our views with theirs on the development of the Regional Fund.

4. In discussion of the budget problem (Brief 2(b)) Signor Fanfani may well try to persuade the Prime Minister to take a more flexible attitude towards increasing Community own resources. This 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. The Italians are particularly keen to see greater support for Mediterranean agriculture and tackling structural problems in the

Mediterranean area. The Prime Minister will wish to explain tactfully but firmly the reasons for our opposition to an increase in own resources. She will wish to stress the need for some limit to be placed on the growth of CAP expenditure and, above all, for a lasting solution to the budget problem. She will in particular wish to impress on Signor Fanfani our domestic political need to have a budget solution by June which covers 1983 and later.

5. On agricultural issues (Brief no 2(c)), we must impress upon the Italians our determination to resist excessive CAP price increases particularly for products in surplus and to ensure that the pre-enlargement revision of Mediterranean product regimes does not encourage over-production. They may be prepared to accept the need for price restraint at least on "Northern" products in surplus.

6. On the Internal market (Brief 2(f)) we would like the Italian attitude of broad support translated into more helpful policies on specific problems. We were generally content with the first Council on the Internal Market on 1 February, though we would like to see more concrete results from the next meeting on 1 March, in particular on the free movement of goods and services, and the removal of remaining non-tariff barriers. We would also like to see the adoption, during the German Presidency, of a work programme in the field of services (particularly insurance and transport), so that future Councils on the Internal Market can keep the more specialised Councils up to the mark on these issues. But we do not want the work of the Internal Market Council diluted by being broadened, as the Italians have suggested, to cover industrial policy, innovation and research and development.

7. On trade issues (Brief 2g) the Italians are towards the protectionist end of the spectrum. But they tend to rely on their own (illegal) controls on Japanese imports and to keep their heads down in the Community. It would be useful to try to

impress on them that growing protectionism threatens their interests too, and to secure their support for our views on the main issues (the US and Japan), in the run up to the Williamsburg Summit.

8. The Italians have also been muted on EC/US agricultural trade (Brief no 5(b)) despite the fact that they attach great importance to avoiding trans-Atlantic rows. We should like to encourage them to give active support to those arguing in the Community for a measured response to recent US actions (eg flour sale to Egypt), avoiding retaliation which could escalate to a trade war. On extraterritoriality the Italians are worried at the prospect of another pipeline episode and are likely to support a Community approach to the Americans. We have also encouraged the Italians (and other partners) to make bilateral representations; this would be a good opportunity to reinforce the message.

9. There are no points on the enlargement negotiations as such which need discussing with the Italians now, and no brief is provided. Italian interests are close to those of the French, behind whose obstructive tactics they tend to hide; they are, however, no longer pressing their proposals for staged accession. Progress would be greatly helped by the early conclusion of discussions on reform of the Mediterranean agricultural regimes (Brief no 2(c)) for which the deadline set by the December European Council is clearly not going to be met. We should press the Italians on this. There may also be an opportunity to quiz them in passing on the French proposal, to which Fanfani has agreed, for a Conference to consider the Community's Mediterranean policies in the light of enlargement, to be attended by Western Mediterranean countries - Tunisia, Morocco, Algeria - together with France, Italy, and the two candidate countries.

10. On the Genscher/Colombo proposals (Brief no 2(h)) the Italians may say that they attach importance to early adoption

of a final text. They may however go further and argue that the present text does not go far enough. The Prime Minister will want to say that we expect something close to the present text to be adopted, subject to satisfactory resolution of the few remaining outstanding points, including the title, which are to be considered by Foreign Ministers on 1 March, but that such a text would represent the absolute maximum we could accept.

11. One other issue to raise with the Italians is Steel (Brief 2(d)) on which Italy has been identified as one member state that has so far failed to demonstrate its willingness to bear its fair share of capacity reduction. The Prime Minister may wish to take this opportunity to emphasise the importance we attach to the anti-crisis measures and the absolute need, if they are to be acceptable to our public opinion, for their fair and consistent application throughout the Community.

12 . The Italians attach particular importance to the development of new Community policies (brief 2(i)) and we want to convince them that we too have given thought to how the Community should move ahead. The Prime Minister might give Signor Fanfani a copy of our booklet "A Positive Approach" which we have had printed in Italian. She might mention the similarity of our and Italian interests in the discussions of the regional development fund, where we both want to see more concentration of the Fund's resources on areas of greatest need. She might also draw attention to the importance we attach to developing other Community policies, for example a policy for coal, and policies for promoting the development of new technologies.

13. Signor Fanfani will probably ask the UK to reconsider its view that Super Sara, the Community reactor safety project based at Ispra in Northern Italy, should be cancelled (Brief no 13). He may fear that we are trying to close ISPRA, which is an important political issue for him. If he raises this, the Prime Minister might say that we have full confidence in the future of

ISPRA and have suggested some important projects on which it should concentrate. But eminent European scientists have confirmed our view of the Super Sara project and it does the Community no good to press on with projects which are not cost-effective.

Foreign and Commonwealth Office
18 February 1983

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18 February 1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

EC BUDGET

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. One subject we shall need to discuss seriously and reach decisions on at the next two European Councils is the future of the Community financing system. This has caused very grave problems for us for a number of years. The British people just do not accept that they should bear a burden which in 1982 without refunds would have been about 2000 m ecu (over 2,600 billion lire).

2. Better appreciated now that this is a Community, not just a British problem. Burdens and benefits for individual states unbalanced. Need for fair and lasting solution.

3. I know that your Government sees the priority as finding new resources for the Community. We are not convinced of the need for that. In both our countries we have been tackling serious public expenditure problems. I believe that we should be just as careful about Community expenditure as we are about national expenditure. We need to ensure that Community policies are really necessary and cost-effective.

4. Italy is the largest net recipient from the Community budget and, as one of the less prosperous countries of the Community, it seems to me to be right that you should continue to be a

substantial beneficiary. But our situation is very different and that has nothing to do with our being slow to adapt to the Community. We derive proportionately less benefit than anyone else from the CAP because our agricultural sector is relatively small. And the CAP takes up two-thirds of the money available. Like Italy we also lose from the non-budgetary resource transfer arising from the CAP. If more money were made available, there is nothing to stop it from all going to the CAP. That would be undesirable in itself and would also make our budgetary burden worse. So for us the priority must be to achieve some limit on our net contribution and also on the rate of growth of CAP expenditure.

5. All these matters are now under discussion in Brussels. We intend to play a constructive part in the discussion of the future financing system. But, with the best will in the world, it will take time to reach agreement and longer still to bring any agreement into effect. Meanwhile time is not on our side. We were promised that a solution for 1983 and later would be agreed by last November. We are now well into 1983. We have never had to wait beyond the end of May for a settlement for the current year since 1980. So it is immensely important to us to have some interim arrangements agreed by June to cover the situation until the financial system can be reformed. I hope very much that you can support the need for early and decisive progress. The last thing we want is another divisive Community row on this subject.

6. [Own Resources - if pressed] We are simply not convinced of the need for new Own Resources. Enlargement will have a relatively small impact and will in any case be phased in over a period of time. The real danger of a surge in expenditure comes from the CAP. That is why we see the first priority as being to limit the growth of surpluses and of CAP expenditure. If CAP expenditure were to grow at a rate markedly less fast than own resources, that would make more money available for new policies.

7. [New Policies] We have always supported the aim of devoting a greater share of the Community's resources to areas other than agriculture. We have just put forward some ideas on this in a booklet called "A Positive Approach" - eg expansion of the Social and Regional Funds in real terms, a common coal strategy, selective support for growth industries such as information technology. Some of these policies, as well as being desirable in their own right, would also make a contribution to solving the problem of budgetary imbalances. But their distributional effect will be small and could easily be cancelled out by, for example, more support for Mediterranean programmes. To take one example, the Regional Fund on current quota shares would need to be 50 billion ecu (twice the total of the present overall Community budget) to give the UK a net benefit equivalent to the basic net refund we received for 1982 of 850 m ecu.

8. [If argued that more refunds on the pattern of 1980-2 are impossible] A lasting solution will take time to agree and implement. Britain cannot afford to have its position uncorrected while that takes place. So there will have to be some kind of interim solution. It need not be identical to the arrangements for 1980, 1981 and 1982, but it will have to give us adequate compensation. Have you any suggestions?

BACKGROUND

9. Annex A contains the Commission's estimates of net contributions and receipts for 1982. This shows the scale of Italy's net receipts from the budget. The Italians point out however that their net receipts have to be set against their considerable non-budgetary resource losses from importing northern agricultural products from other Member States at Community, not world market, prices.

Foreign and Commonwealth Office
18 February 1983

ANNEX A

NET RECEIPTS AND CONTRIBUTIONS OF MEMBER STATES: 1982

ESTIMATED RANGES (BEFORE UK REFUNDS)

	Minimum	Maximum
Belgium	+232	+292
Denmark	+276	+312
Germany	-1993	-2177
Greece	+673	+723
France	-51	+79
Ireland	+682	+760
Italy	+1497	+1675
Luxembourg	+233	+263
Netherlands	+252	+352
United Kingdom	-1972	-2108

Unit: million ecu

Source: European Commission: 26 January 1983

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17 February 1983

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ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

1983 CAP PRICE-FIXING/MEDITERRANEAN AGRICULTURE
Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Very concerned to avoid excessive price increases at CAP price fixing.

2. Recognise your farmers did less well than others last year (though still on average enjoying real income increases). But hope you can support us in urging price restraint for surplus commodities.

3. Community production of major commodities growing remorselessly. Stagnant consumption means mounting surpluses - outlets on world markets diminishing.

4. Result is increasingly damaging export competition with trading partners - notably USA - and resurgence of CAP expenditure.

5. So vital that price-fixing signals clearly to producers that Community cannot go on indefinitely funding unrestrained production.

6. Mediterranean Acquis negotiations should be rapidly concluded: we shall need to take stock at European Council. We must avoid solutions that would encourage surplus production (thus repeating mistakes made on some "Northern" commodities) or damage our Mediterranean partners.

7. [If necessary]. No case for preferential treatment for any products in surplus, whether "Northern" (eg milk, cereals) or Mediterranean (eg wine). CAP spending on Mediterranean commodities has grown twice as fast as overall CAP support expenditure over recent years.

[If details of Mediterranean Acquis negotiations are raised].

8. Our main aim on olive oil not to penalise existing producers but to ensure revised system offers no incentive to applicant countries to boost production. Can be no question of our agreeing to an oils and fats tax.

9. On fruit and vegetables, reluctant to see increased protection. Will not help our own producers against Spanish competition after enlargement, but will damage our Mediterranean preferential partners.

10. Attempts to re-open wine package agreed last year would only delay negotiations, and hence progress to enlargement.

BACKGROUND

11. There is not much common ground between us on these issues. Italy has been successful in recent years in securing ever higher CAP receipts (estimated at about 1 billion ecu net in 1982). The Italians attach overriding importance to ensuring that neither enlargement nor Community budget restructuring interferes with this situation.

12. At this year's price fixing they have again pressed for higher increases for Mediterranean commodities and other special measures, pointing to a forecast inflation rate of 15% and last year's drought which left their farmers with only very modest real income increases. (The Commission's proposals, which we view as too high, are for a "norm" increase of 5.5%. The Italians have scope to add about 4% to the common price increase by devaluing the green lira.)

13. Nonetheless, they are not insensitive to the CAP's international repercussions and the risks to the policy that escalating expenditure could entail. They may be ready to take a restrained line on commodities of lesser concern to them (eg milk and cereals) and to support our opposition to the milk coresponsibility levy.

14. The December European Council gave Agriculture Ministers until March to conclude the Mediterranean Acquis negotiations - a prerequisite for enlargement. The Commission are about to produce new compromise proposals on the two dossiers of fruit and vegetables and olive oil: the Agriculture Council will consider them on 8/9 March.

15. The Italians have pressed for greater "Community preference" (ie protection) for fruit and vegetables. This would damage our consumers and the Community's Mediterranean preferential partners such as Cyprus - and contradicts the political importance the Italians attach to the Community's Mediterranean relationships. On olive oil they would like to see bigger consumption subsidies funded by a tax on competing oils and fats (such as margarine): they will know that we regard such a tax as wholly unacceptable, because of its international repercussions (eg on US exports of soya oil) and its impact on consumers, and because it would effectively constitute a new Own Resource. They may be relaxing their initial hostility to our idea of subsidizing olive growers with a flat rate aid not geared to volumes of production (to remove any incentive to increase output).

16. Revised wine arrangements were agreed last summer. The Italians have just raised questions about some subsidiary aspects. Any attempt to move on to re-open the central package should be firmly resisted.

Foreign and Commonwealth Office

17 February 1983

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ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

STEEL

Brief by Department of Industry

POINTS TO MAKE

1. UK attaches importance to success of Community Steel measures. But continued support in the UK for those measures depends upon their enforcement in an equitable way throughout the Community.

2. This is particularly important in relation to cut-backs in steel-making capacity. The terms of the State Aids Decision must be applied strictly and fairly, so that aids are not permitted unless accompanied by commensurate capacity cuts. Essential that all Member States face up to their responsibilities, and bear their share of the necessary sacrifice.

3. The position of the Italian Government in this context is of paramount importance. Commission statistics show that whilst capacity in the Community has been falling, in Italy it has been increasing and may continue to do so. We trust that Italian Government will be ready to take the tough decisions that others have already taken.

BACKGROUND

4. The aim of the Community's anti-crisis measures is to restore market stability and raise prices to realistic levels by tackling the over-capacity which currently exists among

Community producers. In the short term this involves (a) production quotas on steel producers, intended to bring supply more closely into line with demand and (b) price rules intended to stop unfair pricing practices by producers. Coupled with this, imports into the Community are restrained by means of voluntary restraint agreements with major non-Community producers, backed up where appropriate by anti-dumping action.

5. To deal with the underlying problem of excess steel-making capacity, the State Aids Decision of 1981 provides that aid to steel producers must be phased out by the end of 1985, with any aid allowed in the meantime firmly linked to capacity reductions. The Secretary of State for Industry has pressed the Commission to administer these rules strictly and fairly throughout the Community; and has left other Member States in no doubt that we expect them to take their share of the necessary sacrifice. There are signs that some Member States (eg France) are now committed to major capacity cuts.

6. The Italian position however is less satisfactory. As the attached table illustrates, whilst the capacity of most Member States has, or will have, fallen between 1974-1985, the capacity in Italy according to Commission estimates will have risen substantially. Between 1980 and 1985, despite the discipline of the State Aids Decision, the capacity of Italy will still have risen, whilst capacity in the Community as a whole will have fallen. We understand that the Italian steel industry are working on a revised plan to 1985 which may provide for a cut in productive capacity of about 2.4 million tons and a loss of 11,000 jobs (-9%). But we suspect that these proposals will be substantially diluted before any decisions are taken.

Foreign and Commonwealth Office
17 February 1983

RESTRICTED

Steel Capacity in the Community

October 1982

Member State	1000 tonnes per annum			Net Changes (%)		
	1974	1980	1985	80/74	85/74	85/80
United Kingdom	21.9	22.7	18.8	+3.6	-13.9	-16.9
West Germany	50.2	53.0	49.6	+5.5	-1.3	-6.4
France	24.4	27.2	22.6	+11.5	-7.4	-16.9
Italy	24.4	36.3	37.8	+48.6	+54.5	+4.6
Belgium	14.9	16.0	14.1	+7.3	-5.3	-11.8
Luxembourg	5.21	5.22	4.8	+0.1	-7.2	-7.3
Netherlands	5.7	7.3	7.6	+27.3	+32.5	+4.1
TOTAL (All EC States*)	147.4	168.7	156.5	+14.6	+6.2	-7.2

* Includes statistically insignificant amounts for Denmark, Ireland and Greece.

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18 February 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

ARAB/ISRAEL

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

Arab/Israel

1. Ten should inject urgency into peace efforts. Stagnation dangerous: Arab moderation could be fatally undermined.

2. Keep up pressure on US. They face difficulties in bringing Israel to more constructive approach on Lebanon and the future of the West Bank, especially settlements. But without decisive US action, they will lose cooperation of Arab moderates.

3. Israel must not be allowed to use internal political upheaval to spin out Lebanon negotiations and avoid discussion of Reagan plan. Enquiry report has stimulated internal debate on nature of Israeli policies. Arabs can take advantage of new mood with clear peace policy.

BACKGROUND

4. The Italians take a keen interest in the Middle East and feel much sympathy for the Palestinian cause. They have developed close relations with the PLO, particularly since the invasion of Lebanon. Arafat visited Rome in September 1982

/and

and was received by the Pope, President Pertini, Foreign Minister Colombo and a wide range of Italian political leaders. Colombo met Arafat again on 21/22 December in Tunis and appears to have urged him to respond positively to the Reagan initiative and recognise Israel's rights. The Italians claim these meetings do not constitute a change in the Italian position on the PLO, and they have been strong supporters with the French, of a distinctive Ten policy towards the Middle East.

5. The Italians share our view that the Ten should keep up pressure on the US to achieve an early withdrawal of foreign forces from Lebanon and Israeli movement on Reagan's call for a settlements freeze.

6. The Palestine National Council (PNC) opened on 14 February in Algiers; there is no agreed terminal date, and the meeting may well drag on for 10 days or more. The radical factions have enjoyed disproportionate publicity for their rejectionist appeals. But Arafat must have been confident when he called the PNC that he commanded the necessary majority for his policies if it came to a vote. His aim will probably be to adopt by consensus a declaration which is sufficiently general to keep the movement together, while allowing him to claim that he has PLO backing for his efforts to agree a common line with King Hussein.

Foreign and Commonwealth Office
18 February 1983

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18 February 1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

EUROPEAN COMMUNITY TOPICS: INTERNAL MARKET

Brief by the Department of Trade

POINTS TO MAKE

1. The UK is firmly committed to the free internal market in goods and services. Both aspects merit equal priority. Progress has been neglected for far too long.

2. The first Internal Market Council on 1 February made quite a good beginning. Hope next Council on 1 March can agree on three priority measures (Community certification of goods from third countries, a standards information system, and frontier facilitation) to meet European Council's timetable. We have taken a positive approach on all three.

3. [If raised] We recognise that a wide range of other issues also have an impact on the internal market, and that these wider issues also need to be addressed but we have to move one step at a time. We therefore need to keep the Internal Market Council's work programme in the near future within well-defined limits; widening its scope beyond free movement of goods and services would dissipate the much-needed momentum that has built up.

BACKGROUND

4. The European Council last December instructed the Council of Ministers to "decide before 31 March on the priority measures proposed by the Commission to reinforce the Internal Market". The initial work programme therefore covers (i) unblocking the Article 100 harmonisation programme by securing agreement to a procedure to deal with Community certification of goods from third countries (the "Third Country problem"), (ii) ensuring transparency in national standard and regulation making by pre-notification of new measures and (iii) simplifying formalities at frontiers.

5. The Minister for Trade, Mr Rees, represented the UK and Signor Fioret, junior Minister at the Ministry of Foreign Affairs, represented Italy at the first session of the Council devoted entirely to internal market matters on 1 February. Some progress was made although no substantive decisions were taken. We hope the standards notification system and some of the proposals to simplify border formalities will be approved at the next Council on 1 March (but the Fronter Facilitation directive will not be among them).

6. The Third Country problem will be much more difficult. By blocking over 20 draft directives in the Article 100 programme the French are seeking an answer to their Common External Commercial Policy concerns through the essentially technical medium of standards certification. The French, with Italian support, want an effective right of national veto against key third country goods entering their market (cars are the most contentious). Most other Member States want this issue decided on its technical merits, but are being tempted to offer a compromise short of qualified majority voting and therefore allowing only limited Community control of the use to which the compromise is put, in the hope of securing French and Italian acquiescence. We are concerned that such a compromise could

legitimise breaches of the rules on free circulation of goods, and deflect the thrust of external competition on to other Community countries, including the UK. On balance therefore this compromise may be unhelpful to our commercial interests. COREPER will try to resolve this issue before 1 March, but with little prospect of success. We have put proposals forward to keep strong Community control. Italy will not be enthusiastic about these.

7. Decisions of principle on the proposals for a single administrative document and deferred payment of VAT will be called for at the March Council. Nothing is likely to be agreed on deferred payment of VAT. The Commission proposal for a single administrative document to replace import, export and transit forms in intra-Community trade received strong support from the Italians on 1 February. It has been commended by most countries in principle, but all have reservations on the practicalities of the current draft. Also on the agenda will be the draft Frontier Facilitation Directive which France and Italy blocked at the December Transport Council. Italy has since made clear that her main difficulty relates to the hours and conditions of her customs services. This can probably be accommodated, although Italy will still need to show flexibility.

8. We hope the 1 March Council will agree a longer term work programme for completion before the June European Council. Italy has has little support for her suggestion that the internal market should be examined in the wider context of industrial policy, energy, research, innovation etc. The Italians also want more work on Company Law harmonisation - not a UK priority. The widely held view is that Internal Market Councils should concentrate first on the priority areas agreed at the European Council last December. The UK is anxious to see the inclusion of services (particularly insurance and air transport) on the agenda. The German Presidency, well aware of

our concern, have already indicated that they will seek to accommodate services in the future work programme.

Department of Trade
18 February 1983

AMV (83) 2 (g)
15 February 1983

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ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

INTERNATIONAL TRADE ISSUES

Brief by the Department of Trade

Line to take

General

1 Protectionism remains a serious threat. Major effort is needed to tackle the problem. Should be addressed by Williamsburg Summit. EC not immune from criticism, notably on agriculture, but should not be deterred.

EC/US

2 Important for EC to work with US administration to contain US protectionist pressures. Particularly important to prevent a trade war breaking out over agriculture. We must not return to the protectionist spiral of the 1930s.

EC/Japan

3 Recent steps taken by Japanese to increase imports (including some useful tariff reductions) and the decision this month to restrain certain exports are welcome. Demonstrates weight of Community when it acts

together, though these measures alone will not have substantial effect on trade deficit. Need to monitor closely both this and implementation of Nakasone statement on need for greater Japanese imports. Essential to continue to maintain united Community approach to Japan.

Spain

4 Spain taking unacceptable advantage of open trading system while maintaining its own high protective barriers. Accession will in due course solve problem, but we cannot wait. Acute political issue in UK. High tariffs on cars must be reduced now, as well as proper Spanish observance secured of 1970 Agreement obligations. Look to Italians to support need for urgent action.

French proposals for strengthening common commercial policy

5 UK shares French concern about ineffective operation of Common Commercial Policy, but Commission advise that best approach is to make more effective and rapid use of existing machinery, rather than introduce new instrument which could undermine EC case against protectionist US actions.

Background

General

6 The threat of growing protectionism remains worrying. It looks as though trade will be an important theme at the Williamsburg Economic Summit (28-30 May) and could be used to focus on the variety of protectionist pressures which put the open trading system under stress. This would be

useful, and we hope the Italians will go along with such an approach. It has yet to be discussed by those preparing the Summit.

EC/US

7 The new Congress (assembled on 24 January) is likely to be much more protectionist than its predecessor. The pressures to protect US exports and jobs, and enforce US trade rights against "unfair" foreign practices, will continue to grow. Main US problem is industrial trade with Japan, but the EC/US agriculture dispute is potentially very damaging, and there was a major row last year over steel exports.

8 A number of highly protectionist Bills are being submitted to the new Congress. These include "reciprocity" legislation which will give the President greater negotiating authority to enforce US trade rights against "unfair" foreign practices, and the Ottinger Bill on local content in automobiles.

9 The Community should in its own interest work with the Administration to reduce friction in EC/US relations so that these pressures may be successfully resisted.

Japan

10 Italy is concerned not to provoke Japan to challenge her restrictive quotas on Japanese car imports (2200 last year), consumer electronics products and others (31 in total). Italy's bilateral trade deficit with Japan was only $56m in 1981 ($2.1 billion for UK in 1981). Italy has gone along cautiously with the moves towards a firmer Community policy, accepting

only reluctantly the EC's decision to take the Japanese to the GATT under Article XXIII.

11 The Japanese have responded to EC and US pressures with a further package of trade liberalisation which include some useful tariff cuts (eg on chocolate confectionery, biscuits and cigarettes) and the removal of some tariff barriers. But the impact on the trade deficit is likely to be small. Prime Minister Nakasone's statement in January was a more explicit recognition of the need for Japan to import more manufactured goods. The Japanese have also agreed this month to limit certain exports including video tape recorders and colour TV tubes to the EC.

12 The Italians admit informally that a protectionist approach has encouraged Japanese inward investment - for example Alfa Romeo has started a joint venture with Nissan to produce 60,000 vehicles per year, and Innocenti recently launched a new model with a Daihatsu engine. The Italians delayed a consignment of UK made Sony colour televisions last year and also obstructed for a time imports of the BL Acclaim on the spurious grounds that EC origin rules were not met.

Spain

13 Italians have once supported our efforts in the Foreign Affairs Council on the question of Spain's observance of the 1970 Agreement. Like every other Member State they have given no open support to our concern about the tariff disparities. Over 130 headings in the Spanish tariff, compared with one in the CCT, have a duty of over 20%, which the 1970 Agreement deemed the highest acceptable level for a new duty designed to protect an infant industry. Obvious anachronism for Spain to have many

duties of over 20% eg 36.7% on Community cars, in sectors where her domestic industry is well established and internationally competitive.

14 UK firmly committed to Spanish accession as surest prospect for abolition of Spain's high tariff and many non-tariff barriers (eg discriminatory fiscal system, some quotas, tobacco monopoly). It was French and Italian intransigence over Mediterranean agriculture which prevented 1970 Agreement being over-hauled by 1976 as originally envisaged and which is now delaying the accession negotiations.

15 A final report on recent Commission contacts with Spain is due at 21-22 February Foreign Affairs Council. (The reporting telegram will be attached to this brief in due course).

French proposals for strengthening common commercial policy

16 The French, for the past nine months, have been canvassing proposals for strengthening the EC's common commercial policy. In particular, they want a new instrument analogous to US legislation which would make it easier to harass exporting countries thought to be trading unfairly. We share their view that the common commercial policy needs to be tightened up, but tend to favour the Commission's view that the best way forward is by improving use and speed of existing mechanisms, rather than introducing new ones, which would in practice give no greater powers consistent with the GATT than existing Community legislation. The Italians would not favour an overtly protectionist instrument, but otherwise are likely to sympathise with the French.

Department of Trade
15 February 1983

AMV(83)2(h) COPY NO. 9

18 February 1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

GENSCHER/COLOMBO PROPOSALS

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. UK has worked constructively on this. Fully expect to be able to agree to early adoption of a final text once the few remaining outstanding points have been resolved. Aware that it does not go as far as you would have wished but believe it is the most that could get general agreement at this stage.

[If there is discussion of the detailed points]

2. The Title

We would prefer a title other than Act, which has legislative implications. We favour ''Declaration''.

3. Majority Voting

In our view the new Presidency text provides a possible basis for agreement.

4. European Parliament

We can accept the text as it now stands apart from the reference to a ''confidence'' debate.

Background

5. Consideration of the Genscher/Colombo proposals is now in its final stages. The final meeting of the ad hoc group of officials which has been examining the proposals took place on 8 February. The main outstanding points will be considered by Foreign Ministers on 1 March. If they are able to reach agreement on a final text, the Presidency will probably propose that it be adopted and signed at the European Council on 21/22 March.

6. Although the document contains little of real substance, the Germans and Italians continue to attach importance to it and will be anxious to see early adoption of a final text. However the Italians may seek to argue that the present draft has been too much watered down and needs strengthening.

7. The main outstanding problems which Foreign Ministers will consider on 1 March are:-

i) The Title

The Germans and the Italians gave their proposals the title ''Act''. We have resisted this in view of its legislative implications. The latest Presidency proposal is for a two-line title ''European Act/Declaration on European Union''. We are continuing to argue for ''Declaration'' alone and are supported by France, Denmark and Greece.

ii) Majority Voting

There is a good deal of support for a Presidency compromise text, amended by the UK, which Ministers will consider on 1 March:

/''The

''The Presidency will bear particular responsibility for speedy decision-making and the application of these decision-making procedures. Recourse to voting should become the normal practice where the Treaties so provide. This does not affect the respective positions of member states regarding the conclusions reached in Luxembourg on 26 January 1966.''

We regard this as a basis on which agreement could be reached.

iii) The European Parliament section

There is now general agreement on a much watered-down section on the European Parliament, apart from the provision for a ''confidence'' debate on the programme drawn up by the new Commission following its appointment. The UK, France, Denmark, Greece, Ireland and Luxembourg are opposed to its inclusion. Italy, Germany, Belgium and the Netherlands are in favour. In our view the inclusion of this term would be misleading, since even those who support it accept that it would not have the same meaning it has in national Parliaments and the Commission would not be expected to resign if the Parliament voted against its programme.

FOREIGN AND COMMONWEALTH OFFICE

18 February, 1983

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FOREIGN AND COMMONWEALTH OFFICE

18 February, 1983

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18 February 1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

NEW COMMUNITY POLICIES (INCLUDING REGIONAL POLICY)

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Like you we want a better balance in the Community between agriculture and other policies. This will help our budget problem. British Government has given considerable thought to ways in which Community could move forward constructively. Ideas outlined in our booklet "Positive Approach" which we have had printed in Italian.

2. One area which we both agree needs to be developed is the Regional Development Fund where we want it to become a more effective means to bring about convergence between the economies of member states. We both agree that the Fund should be concentrated in areas of greatest need and should grow as a proportion of Community spending. We should work together to make quick progress on this.

3. Community Coal Policy. We are keen to see a balanced and comprehensive Community coal policy. Coal which is a valuable indigenous resource has a major and growing role to play in meeting the Community's energy needs, and thus increasing its self-sufficiency. We are grateful for Italian support for this initiative. Hope we may continue to count on it.

4. European Social Fund. Hope the current review can be completed as quickly as possible. The Social Fund has an important role in tackling the problem of unemployment.

5. Development of New Technologies. Development and application of new technologies is critical to the development of European economy. We will be more competitive internationally if we are able to work together as a Community. Hence Britain's support for Community initiatives such as the micro-electronics Regulation and the European Strategic Programme for Information Technology (ESPRIT).

6. (Defensive only) Energy Demonstration Projects. We have welcomed the Commission's proposals for continued Community assistance to Energy Demonstration Projects. We want to see the new Regulation adopted as quickly as possible. But the programme must be subject to some financial discipline, to ensure that it remains effective.

BACKGROUND

Positive Approach Booklet

7. This booklet was publicly launched by Foreign and Commonwealth Secretary in Brussels on 22 January, and is a follow-up to the autumn campaign of Ministerial speeches in Community countries (including Mr Prior in Rome on subject of regional policy last October). Copies have already been given to Italian Government by Rome Embassy, but the Prime Minister may wish to hand over personal copy to Signor Fanfani.

Regional Development Fund

8. Italy is the major beneficiary of the Fund with a quota share of about 35%. The UK is the second largest beneficiary with a quota share of 23.8%. In 1982 the UK was allocated more than £250m from the Fund.

9. A review of the Regional Fund, on the basis of a Commission proposal for a new Fund Regulation, began at the end of 1981. Talks are making slow progress and a number of questions, including size of national quota shares and the administration of the Fund, remain to be resolved. The UK objective inthe negotiations is to secure as large a quota share as possible, while resisting those administrative changes proposed by the Commission which might lead to greater Community control over UK regional economic policy or which might impair our ability to take up our full entitlement from the Fund. The current review would take us up to enlargement. A further review (in which the UK would have to fight hard to remain a net beneficiary from the Fund) would have to take place after enlargement.

Coal

10. The UK is working hard for the realisation of a comprehensive package of measures on Coal, which would benefit producers and consumers. We have put forward a number of specific ideas, including: increased interest relief for investment in economic coal production; support for social measures associated with

modernising the industry; help with the environmental consequences of coal mining; measures to encourage greater coal use. The Commission have tabled proposals which can be discussed at the next Energy Council in March. Italians intervened helpfully in discussion of EC coal package at Energy Council in December.

Social Fund

11. UK and Italy are the largest beneficiaries under the Social Fund. The Fund provides grants towards training and job creation schemes. The UK's receipts in 1982 were £258 million (29%). A review of the Fund began at the end of last year.

New Technologies

12. The Micro-electronics Regulation was agreed under the UK Presidency. It provides 40 mecu for the development of applications in selected areas of micro-electronic technology. ESPRIT is an attempt by the Commission to promote collaboration on information technology. A pilot scheme has been launched to test the feasibility of the programme as a whole.

Energy Demonstration Projects

13. The Commission have proposed new Regulations for Community support of Demonstration Projects on alternative sources of energy. Deadlock over the amounts to be written into the Regulations. UK (with France and Germany) favour a lower figure; Italy a higher one. No agreement at the 22 February Foreign Affairs Council.

Foreign and Commonwealth Office
18 February 1983

AMV(83)3(a) COPY NO 9

16 February 1983

ANGLO-ITALIAN SUMMIT

25 February 1983

EAST-WEST RELATIONS: INTRODUCTION (INCLUDING EAST-WEST POLITICAL RELATIONS)

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Andropov has established considerable personal authority. But as under Brezhnev, decision making is still by consensus. Andropov uses a more vigorous style than Brezhnev, and may be more willing to experiment. Drive against inefficiency and corruption internally continues. Interesting to see how far and how high in bureaucracy the policy is pushed.

2. Andropov has displayed neat timing and stage management. Main objective at present: to undermine NATO double decision by appeals to Western public opinion and by wedge-driving between Europeans and Americans.

3. No real sign yet of any shift in policy. Will there be greater flexibility over Poland, Eastern Europe generally, Afghanistan? Not clear that there is difference of substance behind change of style. More continuity than change so far.

/4.

4. West must present its case clearly and firmly, and maintain European/American Solidarity. Essential to keep focus on Soviet actions, not words; but should be ready to respond to any genuine Soviet moves.

5. How do Italians intend to conduct relations with new Soviet leadership?

BACKGROUND

6. In his first major foreign policy statements, Andropov has adopted a practical and superficially non-confrontational note. In his Central Committee speech of 22 November, he emphasized the Soviet commitment to detente (on Soviet terms), while stressing that there could be no question of making improved relations with the West conditional on Soviet concessions. In his 21 December Supreme Soviet speech, the emphasis was on 'peace' with a strong element of trying to appeal to Western public opinion over the heads of Governments. The same was true of the Warsaw Pact Summit Declaration of 5 January.

7. The Soviet Union is in particular applying pressure to the FRG, which the Russians regard as being politically the weak link, especially if the SPD are returned to power. Vogel visited Moscow 11-12 January, and when Gromyko was in Bonn 16-19 January, he effectively signalled support for the SPD.

8. Cheysson visited Moscow 16-19 February and Soviet Prime Minister Tikhonov will be visiting Athens 21-24 February. The Italians have renewed an invitation to Gromyko to visit Rome, but he has not yet accepted.

Foreign and Commonwealth Office
16 February 1983

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17 February 1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

TRANSATLANTIC RELATIONS: EAST/WEST ECONOMIC FOLLOW-UP

Brief by Foreign and Commonwealth Office

Points to Make

1. We remain fully committed to follow-up work to Summary of Conclusions, without prejudice to outcome. Glad studies going ahead in OECD, COCOM and NATO; and that Community dimension is being respected. Some of the work will be difficult, but convinced that it is in European interests to contribute. This will help us influence US thinking and improve transatlantic harmony.

2. Note President Reagan's proposal for review of East/West Economic Relations at Williamsburg, to include policy consequences and recommendations of studies. We accept this as desirable. Not all studies will be completed by then, but enough should have been done to allow a useful exchange of views. Important to prepare for this properly, to avoid misunderstandings.

3. It will not be easy to draw conclusions from the studies. We should like to leave open how, when and where this might be done. There will have to be a Community dimension.

/4.

4. What are your views? And how do you stand on purchases of Siberian gas?

Background

References :-

A Summary of Conclusions

B Extract from President Reagan's letter of 28 January to Summit partners

5. Studies following up Summary of Conclusions now launched in NATO (Security Aspects of East/West Economic Relations; and on Soviet Foreign Policy and its Implications), COCOM (Strategic Technology; and Other High Technology), and OECD (East/West Trade and Commercial Relations; and Energy Requirements Study). Study of harmonisation of credit policy towards USSR not yet taken up by Americans, but Export Credit Consensus talks scheduled to start next month.

6. Community role in studies now agreed and fed into OECD in early February. Community competence areas (Consensus credit rates and agriculture) will be handled by Commission, otherwise member states will coordinate positions but speak separately. Commission will also speak where particular Community interest exists (energy).

7. Main problems will be with Other High Technology study, NATO Security Aspects Study and Energy Requirements study. French (and others, but not Italians) have made difficulties over timing and terms of reference of these.

/8.

8. Italians view follow-up as necessary and desirable, and genuinely wish to preserve transatlantic harmony. We should therefore take them into our confidence and encourage them to play full part in all work.

9. Italian State Oil Company has agreed to buy Siberian gas, but Italian Government has not ratified agreement. Italy may be caught by commitment in Summary of Conclusions not to sign or approve new contracts for Siberian gas until Energy Requirements Study has been completed.

Foreign and Commonwealth Office
17 February 1983

WASHINGTON DISCUSSIONS ON EAST/WEST ECONOMIC RELATIONS (PIPELINE)

SUMMARY OF CONCLUSIONS

During conversations in Washington between the Secretary of State of the United States of America and representatives of Canada, the Federal Republic of Germany, France, Italy, Japan and the United Kingdom on the subject of East/West relations, in which representatives of the EC participated, a certain number of conclusions have been reached on behalf of the governments represented. The summary of these follows.

1. They recognise the necessity of conducting their relations with the USSR and Eastern Europe on the basis of a global and comprehensive policy designed to serve their common fundamental security interests. They are particularly conscious of the need that action in the economic field be consistent with that global and comprehensive policy and thus be based on a common approach. They are resolved together to take the necessary steps to remove differences and to ensure that future decisions by their Governments on these issues are taken on the basis of an analysis of the East/West relationship as a whole, with due regard for their respective interests and in a spirit of mutual trust and confidence.

2. The following criteria should govern the economic dealings of their countries with the Soviet Union and Eastern European countries:-

- that they will not undertake trade arrangements, or take steps, which contribute to the military or strategic advantage and capabilities of the USSR,
- that it is not in their interest to subsidize the Soviet economy; trade should be conducted in a prudent manner without preferential treatment.
- that it is not their purpose to engage in economic warfare against the Soviet Union. To be consistent with our broad security interests, trade with the USSR must proceed, inter alia, on the basis of a strict balance of advantages.

It is agreed to examine thoroughly in the appropriate bodies how to apply these criteria, taking into account the various economic and political problems involved, with the view to agreeing on a common line of action in the spirit of paragraph one and the above criteria. They will pay due attention in the course of this work to the question of how best to tailor their economic relations with Eastern European countries to the specific situation of each of them, recognizing the different political and economic conditions that prevail in each of these Eastern European countries.

The overall analysis of economic relations with the USSR and the Eastern European countries will touch in particular on the following areas:-

- strategic goods and technology of military significance (COCOM):
- other high technology items:
- credit policy:

- energy;
- agricultural products.

In their analysis of other high technology items, it is agreed to examine immediately whether their security interests require controls, to be implemented in an agreed and appropriate manner, on the export to the Soviet Union and Eastern Europe of advanced technology and equipment to be jointly determined. This immediate examination of whether their security interests require controls, to be implemented in an agreed and appropriate manner, on the export to the Soviet Union and Eastern Europe of advanced technology and equipment will include technology and equipment with direct applications to the oil and gas sector.

In the field of energy, they will initiate a study of their projected energy requirements and dependence upon imports over the next decade and beyond and possible means of meeting these requirements, with particular attention being given to the European energy situation. The study will be conducted under the auspices of the OECD.

3. As an immediate decision and following decisions already made, they have further agreed on the following:-

(a) Building on the conclusions of the High Level Meeting, they will work together within the framework of the Coordinating Committee (COCOM) to protect their contemporary security interests: the list of strategic items will be evaluated and, if necessary, adjusted. This objective will be pursued at the COCOM Review now under way. They will take the necessary measures to strengthen the effectiveness and responsiveness of COCOM and to enhance their national mechanisms as necessary to enforce COCOM decisions.

(b) It was agreed at Versailles that the development of economic and financial relations with the Soviet Union and Eastern Europe would be subject to periodic ex-post review. The necessary procedures for this purpose will be established without delay. Having in mind the criteria in paragraph two above, they will work urgently further to harmonize export credit policies.

(c) They have informed each other that during the course of the study on energy requirements, they will not sign, or approve the signing by their companies of, new contracts with the Soviet Union for the purchase of natural gas.

16 November 1982
Foreign and Commonwealth Office

President Reagan's message of 28-i-83 to P.M.

-- A review of economic relations with the Soviet Union and Eastern Europe, including the policy consequences and recommendations of the several studies now underway on this subject in various alliance and economic institutions.

Our personal representatives will meet again in mid-March, close enough to the Summit Meeting that our views on these two broad topics will have matured. Let me suggest that before they meet, we each take some time to go over personally with them the basic approach we take toward these topics. This would include how we see our policies affecting the issues, how we see the policies of other countries (developed and developing) affecting the issues, and what recommendations we would make to improve the effectiveness and interrelationship of our respective efforts.

For example, on the first topics, we might ask ourselves:

1. What are we each doing domestically to achieve our common goal of sustained, non-inflationary growth? Are we progressing toward our goals? What more do we seek to do?

2. What are the implications of our policies for other countries, particularly developing countries?

3. What actions which other countries might take are compatible or incompatible with our individual efforts?

4. What are the current obstacles to a better inter-relationship among our domestic policies, international trade relationships and world financial requirements?

5. What is the proper role of the various international institutions in dealing with the inter-related problems of domestic policy, expanding trade and an open financial system?

Similarly, on the second topic we might wish to consider:

1. What is the strategic and economic importance of East-West trade for each of our countries and economies?

2. What are our respective national policies and institutions that affect this trade?

3. How do we perceive our common interests in this area and the goals served by these interests?

4. Are we progressing toward our goals? What more do we need to do? What conclusions of the East-West studies should be adopted for common action?

I offer these questions to stimulate your thinking and to begin to organize the way in which we will approach our discussion of these topics in May. In March, our personal representatives could have an informal discussion of these questions, based on the views each of us has entrusted to them to present on our behalf. This discussion will hopefully lead to refinements of the topics and perspectives. Before subsequent preparatory meetings, the personal representatives would then come back to us to receive further views and instructions. This process will ensure that from the beginning the preparations reflect our personal views and interest.

I look forward, therefore, to continuing consultations with you in the preparations for Williamsburg. I am determined that when we meet at Williamsburg, we will spend the hours together in a way we have shaped and which we will value most.

Sincerely,

/S/

Ronald Reagan

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18 February 1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

ARMS CONTROL AND DEFENCE: INF/START

Brief by Foreign & Commonwealth Office

Points to Make

1. Congratulate new Italian Government on firm attitude to both tracks of INF double decision.

2. Bush visit useful. In London he was given a firm message about the need for NATO to take an interim step on the way to zero. Our view is that this should be a proposal for ceilings at about half presently planned NATO levels, based on balance: i.e. equality in warheads between the US and USSR with proper verification procedures. Americans now considering negotiating position. Understandably concerned not to entangle any change to negotiating position with German election. Basing countries should continue in very close touch over coming months.

/3.

3. [If question of control is raised.] UK/US arrangements provide for a joint political decision and stem from close UK/US nuclear defence links in 1940s.

Background

4. The Italians are due to take 112 cruise missiles at Comiso in Sicily. However the base will not be ready until early 1984.

5. Signor Fanfani's government are very firm on the INF double decision. It is a key area in which they can demonstrate their difference from the Communist Party opposition. The anti-nuclear weapon movement in Italy is small. The Communist Party is not throwing its weight behind it. The Italian Government can afford to ignore it.

6. In Rome Mr Bush was told that the Italians were convinced that the zero option should remain the final objective but that this did not rule out the possibility of intermediate arrangements. It appears, however, that the Italian Government were not as firm as HMG about the need for an interim step.

7. The Italians are very keen to keep in close touch with the other basing countries throughout 1983.

/8.

8. The Italians have shown interest in a dual-key arrangement. Signor Fanfani or Signor Colombo may ask about our joint decision arrangements as part of their search for arguments to use with the Americans. [NOT FOR USE] Current US/Italian arrangements fall well short of US/UK arrangements.

Foreign & Commonwealth Office

18 February 1983

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17 February 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

ITALIAN DEFENCE POLICY

Brief by the Ministry of Defence

Points to make

1. Will be interested to see what priority is given to defence in your overall economic strategy given NATO's need to maintain effectiveness. Note relatively low proportion of Italian GDP devoted to defence.

2. UK has decided that defence must have a high priority against an increasing Warsaw Pact threat, despite our econonic problems. Important to sustain and improve capability, because of growing Warsaw Pact threat and need to maintain high nuclear threshold.

3. Need to put across to US Congress extent of European effort and degree of European resolve more effectively. Highly important that we avoid any rifts between US and Europe this year.

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 much concerned with the stability of the Southern Region and the Mediterranean

and this is reflected in her participation in the Sinai Peacekeeping and Lebanon Multilateral Forces. The instability in the area and factors such as the build up of the Soviet Mediterranean Squadron have led to a reappraisal of the policy of deploying the greater part of her land and air forces in the North East of the country to defend traditional invasion routes. But radical alternatives, such as redistribution of forces throughout the country and giving the planned rapid intervention force an operational capability for conventional operations against Warsaw Pact forces, have so far been ruled out on economic grounds.

5. The Italians support the principle of the US Rapid Deployment Force, but for the present at least have rejected direct participation. They are likely to give favourable consideration to the provision of staging facilities for the RDF and to be prepared to fill some gaps left by US Sixth Fleet ships redeployed elsewhere, but their own ships would not leave the Mediterranean.

6. The Italian Government has admitted that the efficiency of the armed forces is at the minimum acceptable level. Additional funds voted in the 1970s to re-equip the forces have to a large extent been swallowed up by inflation, among other factors, and the modernisation programme will not now be completed until the 1990s at least. In the 1970s defence expenditure averaged about 2.5% of GDP (1982 figure: 2.6%) compared with NATO European average of about 3.6%. For 1983 the outgoing Government had proposed a cut in the Defence

Budget from 12.6 billion lire to 11.65 billion lire, but the means of achieving this had not been decided. The details of the new Government's approach are not yet clear, but its attitude is unlikely to be substantially different from its predecessor's and it has said that defence cuts will have to play a part in the overall economic strategy. This is worrying because cuts of any severity from an already low baseline will almost inevitably lead to a decline in capability.

MINISTRY OF DEFENCE

17 February 1983

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17 FEBRUARY 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

SALE OF TORNADO TO GREECE

Brief by the Ministry of Defence

POINTS TO MAKE

1. Stress importance of achieving first Tornado export to Greece.

2. Invite Signor Fanfani to agree that the Heads of Government should send a joint message to Mr Papandreou in mid-March.

BACKGROUND

1. Greece has a requirement for a new fighter aircraft and the Anglo-German-Italian Tornado is in competition with the US F16 and F18 and French Mirage 2000. The Hellenic Air Force is very impressed with Tornado but Greek decision will be taken at highest political level and is expected by end of March. This first export order for Tornado is worth some £1000M (up to £500M to UK) and is most important for British Aerospace and other UK firms.

2. Following an initiative by HM Ambassador Athens, official level discussions with Bonn and Rome have pointed to a joint message from Heads of Government of Tornado partners to Mr Papandreou stressing the political aspects of Greece buying a

major European joint project, as well as the operational merits of Tornado. It is particularly important to counter political pressure from France in support of the Mirage. The Prime Minister may wish to take the opportunity to invite Signor Fanfani to agree such an approach. The text can be agreed through normal diplomatic channels nearer the time.

Ministry of Defence

17 February 1983

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17 February 1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

EC/UNITED STATES

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

AGRICULTURE

1. American flour sale to Egypt untimely; Mr Pym warned Mr Bush of the dangers of any further escalation (eg. butter sale). But Community must not allow itself to be provoked into retaliation; could escalate into an agricultural trade war. This could do serious damage to us all - but more risk for Community than for US, which could more easily bear the cost.

2. US actions underline urgent need to reach sensible accommodation. Commission have rightly taken

a moderate line with Americans in talks earlier this month. Member States must support them in this and do our best to help those in Washington who want to restrain Congressional and USDA hotheads.

EXTRATERRITORIALITY

3. Must act to prevent more incidents like pipeline dispute. Glad to see that prospects for a Community demarché now good and that Commission are preparing a paper.

4. Community must now move fast. Congressional hearings begin soon on renewal of Export Administration Act, due in September. Must persuade Administration and Congress to restrict extraterritorial reach of export controls.

5. UK has lobbied bilaterally at official and political level. Would greatly help if Italy and other Community Member States did too.

BACKGROUND

AGRICULTURE

6. At the GATT Ministerial meeting it was agreed to make a study of all aspects of international trade in agriculture with a view to achieving greater liberalisation of such trade and bringing agriculture more fully into the multilateral trading system. On 10-12 January a Commission team visited Washington to

explore the practical scope within existing policies and rules for improving the management of international agricultural trade and avoiding EC/US conflict. This first round of talks avoided polemics and went well, despite the announcement by President Reagan on the opening day of a further $250 million in blended credit for US farmers. However the Americans have since reached agreement to sell Egypt one million tonnes of US wheat flour at a subsidised price (thus cutting France out of a traditional market for at least a year) and are negotiating a special sale of some 20,000 tonnes of butter to Egypt at subsidised prices. Since American dairy support prices are higher than EC intervention prices the subsidy on this sale will have to be correspondingly higher to make it attractive to the Egyptians. There are suggestions that the sale will be at less than world market prices. The French are pressing for EC retaliation. We, the Commission and most other Member States have taken a more moderate line, stressing the urgency of reaching an early accommodation with the US. But the Foreign and Commonwealth Secretary warned Vice-President Bush on 9 February that it would be very badly received in the Community if the Americans went ahead with the butter sale.

7. The US negotiations with Egypt inevitably overshadowed the further round of discussions with the Commission on 9-10 February, though the constructive and non-polemical tone was maintained. The two sides are now preparing a factual report. The planned meeting at Commissioner/Cabinet level is likely to be postponed from March to June. Meanwhile the mood in Washington is such that political pressure makes subsidized sales inevitable and that things will have to get worse before they get better. If the Americans do indeed take further steps to increase exports the Commission will be hard put to resist French pressure for retaliation, but say that (unlike the US if they subsidize below world market prices) they will stay within GATT rules.

8. The Italians have played little part in EC discussions. Although the Americans have made a complaint in GATT about EC pasta exports, the major Italian interest should be in avoiding damage to EC/US relations and avoiding any use in CAP expenditure.

EXTRATERRITORIALITY

9. The Siberian pipeline dispute last year highlighted the problem of extraterritoriality, and its damaging political and economic effects, for the US as well as her allies. The US Government claims to exercise legal

control over the operations of foreign subsidiaries and licensees of US companies, and over the re-export of goods and technology of US origin located abroad. This has been a long-standing irritant between the UK and the US. Broadly, the UK's view is that jurisdiction in commercial matters should be limited to national territory and that companies registered in Britain are subject only to British law.

10. At the time of the settlement of the pipeline dispute last November, the US side accepted in the margins of discussions on East/West economic relations (on which work is proceeding separately) that the other Western nations would wish to hold urgent talks on this problem. So far, the UK has been alone in pressing for follow-up. The UK aim is to secure amendments to the US Export Administration Act, the legal instrument for extraterritorial controls in the trade field, to limit its effects. The Act is due for renewal this September, so time is short. The UK is encouraging Alliance and Community partners as well as business interests to make their own representations. We have also raised the matter in the Community. A Community demarché to the Americans is in prospect, and the Commission are working on a paper.

11. Ideally we would like our Community partners to

take action individually as well as collectively. But while talks in Bonn and Paris revealed general agreement with our analysis of the problem, there was a clear bias in favour of a Community approach alone. The Embassy in Rome have reported that the Italians are worried at the prospect of another pipeline episode and are likely to support a Community initiative.

Foreign and Commonwealth Office

17 February 1983

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AMV (83) 7(a) COPY NO 9

18 February 1983

ANGLO ITALIAN SUMMIT

25 FEBRUARY 1983

MEDITERRANEAN ISSUES: MALTA

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Outcome of Maltese attempt to stop contact with Nationalists satisfactory. Shows that firm coordinated response to Maltese is effective. Our missions in Valletta must remain in touch about contacts with the Nationalist Party; the Maltese may try to divide us.

2. Maltese politics show increasing trends to one-party state. Government of Mintoff is becoming more authoritarian: Nationalists have played their hand badly and are unlikely to return to Parliament. Maltese society is becoming increasingly divided. But Foreign Interference Act is apparently not being applied too harshly. Interested in your analysis in view of special Italian interest in Malta.

3. Continued need for West to keep an eye on Soviet Union's relations with Malta. So far, no significant inroads, but risk remains. [Defensive] Does not look as if we will be asked to make statement on Maltese neutrality.

/4.

4. [Defensive] Would like to see improved EC/Malta relations. But Maltese must do their share, eg by changing absurd interest rate law. Cannot give this relatively wealthy country loans at rates below those offered to poorer countries.

BACKGROUND

5. The Italians have special interest in Malta due to geographical proximity. Tend to be more conciliatory than other members of the EC. Have endorsed Maltese neutrality (see para 5) and given aid.

6. In general election of December 1981 Nationalist Party gained 51% of votes but Mintoff's Labour Party returned to power with majority of 3 seats. Nationalists refused to enter Parliament. Their seats were subsequently declared vacant by Speaker. Two parties no nearer agreement on how Nationalists might take up seats. Nationalists probably willing to resume seats, but Mintoff likely to impose unacceptable conditions. He seems to be developing a taste for one-party government, and has recently picked quarrels with many sectors of Maltese society.

7. Recent example of pressure on Nationalists was note from Maltese MFA of 10 January circulated to all missions in Valletta forbidding ''contact of any kind'' with members of Nationalist Party on the grounds that they had failed to fulfil their constitutional obligations by taking Oath of Allegiance. UK, US, FRG, France and Australia replied saying that note was a breach of the Vienna Convention by which they would continue to be guided. Italian response was slightly weaker. As a result, MFA backed down. They circulated new note saying that

/original

original note only forbade contacts ''designed to give a public image to the Nationalist Party at best as the alternative government.... or at worst as the legitimate government''. Satisfactory outcome. But Maltese may still try to interfere with work of diplomatic missions in other ways. Need to stick together and ensure continued robust response.

8. Another means of exerting pressure on Nationalist Party was Foreign Interference Act passed last September. Originally directed at Nationalist broadcasts from television station in Sicily which Italians closed under Maltese pressure. But Nationalist Party leader has since made radio broadcasts from Sicily and not been prosecuted.

9. In 1981 Malta concluded agreements with the Soviet Union on bunkering, shipping, trade and air services, and finally a neutrality agreement. Malta and the Soviet Union are now exchanging Embassies. Pro-Soviet tone of the Maltese Labour Party press increased a little after Mintoff's election victory. But Soviets seem unwilling to meet Mintoff's demand for a financial trade-off; and he has continued to keep them at arm's length. Doubtful whether a possible successor would be as sure-footed.

10. In 1981 Italy endorsed Maltese neutrality. Other nations have made more or less similar declarations, including the Soviet Union and the United States. But so far we have not been approached; and the present state of Anglo-Maltese relations makes such a request unlikely.

11. EC/Malta relations at low ebb because of unreasonable

/Maltese

Maltese demands. Maltese want increased aid and better acc s to EC markets. Money promised in first Financial Protocol partly unspent because of Maltese law prohibiting public borrowing at more than 3% interest. Italians have taken lead in pressing for Second Financial Protocol involving increased aid and larger grant element(which would take account of Maltese law). Italians see aid as substitute for EC concessions on Mediterranean agricultural produce which would upset their farmers.

Foreign and Commonwealth Office

18 February 1983

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18 February 1983

ANGLO ITALIAN SUMMIT

25 FEBRUARY 1983

MEDITERRANEAN ISSUES: CYPRUS

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Intercommunal talks continue to be best way forward. Should do all we can to help parties make best use of period of opportunity between Greek Cypriot Presidential elections and expected general elections in Turkey in autumn. Likely that Dr Gobbi will present new ideas after possible UN debate in March/April. We should encourage flexibility on all parties.

2. Hope UN debate in March/April can be avoided. But if Cypriots insist on debate, will keep in touch with EC colleagues to work for moderate resolution which we can all support.

3. [If necessary] Separate initiative at this stage should be avoided. Would cut across work of UN. Also unlikely to be acceptable to parties. Must all back UN effort.

4. Important political issues (preserving Cyprus' Western alignment, Mediterranean stability) mean that Community treatment of Cyprus should be more generous. Most important would be concession for Cyprus on Mediterranean agricultural produce, particularly table grapes.

BACKGROUND

5. Kyprianou was re-elected President of Cyprus on 13 February, gaining over 56% of vote. This was an impressive personal victory which may make him less susceptible to pressure from his coalition partner AKEL (Communist Party). He now plans to have Cyprus debated at the UN in March or April, and possibly to precede this with a visit to major capitals (presumably including both London and Rome). We believe that a UN debate would not be helpful: it would lead to recriminations and sour the atmosphere for the intercommunal talks. If, as is likely, debate is unavoidable, we would aim to limit its ill-effects.

6. Dr Gobbi, UN Special Representative in Cyprus, plans to launch a new initiative after UN debate is over. He assumes that a comprehensive settlement is impossible at the moment, and will propose a settlement in stages. We know details of Gobbi's plan; but Italians do not.

7. The Italians may refer to their earlier ideas for an EC initiative. They first proposed this to us, the French and the Germans last September, following a visit by Sr Colombo to Cyprus. Their plan was for an evaluation of the problem by EC Ambassadors resident in Nicosia to form the basis for proposals by the EC to the two communities. We discouraged Italians from pursuing their idea (so did Germans and French). Action by the EC would have to include Greeks and would automatically be unacceptable to the Turks. Any outside initiative at this stage would cut across efforts of UN Secretary-General. Also likely to be unwelcome to both communities. Initiative by UK/US/Canada in 1978 was a failure. Recent indications that Italians will revive idea of initiative. They should be discouraged.

8. We have regular confidential discussions on Cyprus with the Italians, Germans and French. The next round, at Head of Department level, will be in Bonn on 3 March.

9. EC Ministers decided in 1980 to move into second stage of EC/Cyprus Association Agreement. But progress has been stalled by refusal of Italians and French to countenance further concessions. Amounts of produce involved are small but issue is sensitive for both countries. New mandate for Commission to negotiate with Cyprus was agreed last year but Cyprus has rejected it as inadequate. We (with Greece, principal champion of Cyprus in EC) believe Italian and French fears are exaggerated. Little prospect of changing Italian minds but no harm in keeping up pressure.

Foreign and Commonwealth Office

18 February 1983

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17 FEBRUARY 1983

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ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

LIBYA

Brief by Foreign and Commonwealth Office

Points to Make

1. We have no illusions about Qadhafi's capacity for mischief. Economic problems at home and wish to present responsible image to OAU appear to have tempered behaviour in recent months. But danger now of a backlash against eg Sudan or Chad.

2. We favour cautious dialogue, but modest improvement in relations set back by Libya's hostile attitude over Falklands. Now marking time.

3. Libyan economy appears to be in some difficulty. Are Italians making progress over slow payments?

Background

4. Libya a former Italian colony. Substantial Italian trade interests. (Italy's fifth most important trading partner, absorbs 6% of Italian exports and provides Italy with 10-14% of its imported oil). Some 20,000 Italian workers and technicians involved in construction projects in Libya. Italy is winding down weapon sales to Libya. Like other traders Italy is owed money by Libya (around $1 billion for exports) (cf outstanding British claims of about $100 million).

/5.

5. Italians remain wary of suspected Libyan involvement in terrorism in Italy and mischief in Sicily. Qadhafi has been pressing for an official visit to Rome, but Italians have so far resisted (Pertini has deep-rooted objections). Qadhafi's number two, Jalloud was received by Spadolini in May 1982 and called on the Pope.

6. UK exports to Libya £500m in 1981 fell in 1982 to around £220m. At the same time UK imports of Libyan oil (sent to UK for processing) rose sharply.

7. Libyan economy has beet hit hard by drop in oil prices exacerbated by lack of coherent planning. Oil liftings down, very little revenue being earned. Short-term prospects dim.

8. Qadhafi now finds himself isolated in both Africa and the Middle East. Two attempts to hold OAU summit in Tripoli failed. Qadhafi has insulted Arab leaders across the board, stayed away from Fez. His relations with Egypt and Sudan have been strained by suspicions of Libyan support for a planned coup in Sudan. Qadhafi makes no secret of his hatred for Nimeiri and has been irritated by activities of Libyan dissidents in Sudan. Renewed Libyan action in Chad cannot be ruled out. Qadhafi was disappointed at lack of Soviet response to invasion of Lebanon but relations appear to have improved in past few months. Relations with the US further strained by Sudan coup reports.

9. UK relations with Libya improved since 1980 low point when Libyans were murdered in London. We have since received assurance that there will be no repeat of assassinations (recent threats by Qadhafi to dissidents abroad worrying). Trade is significant but we sell only a limited range of non-lethal defence equipment. Modest improvement in relations set back by hostile attitude over Falklands. Health Minister Kenneth Clarke visited Tripoli in February 1983 (first UK ministerial visit since Qadhafi came to power in 1969).

Foreign and Commonwealth Office
17 February 1983

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17 FEBRUARY 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

LATIN AMERICA

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. We are grateful to the Italians for their action with the Argentines, following recent indications of an increased threat to the Falkland Islands.

2. There can be no question of negotiating with Argentina on sovereignty over the Falkland Islands as if nothing had happened and in view of what is still happening. Argentina's conciliatory stance in international fora is at stark variance with the bellicose statements issuing from Argentina itself.

3. We remain concerned, particularly in view of the absence of a formal declaration from Argentina that hostilities will not be resumed, to see that Argentina does not obtain sensitive weapons, and hope Italians will continue to exercise restraint in sales of arms to Argentina.

/Relations

Relations with Latin America (if raised)

4. Visits in both directions have shown that Latin America is keen to resume the dialogue with us. We also welcome renewed contacts between the Ten and Latin America. We hope that negotiations on an EC/Andean Pact co-operation agreement can resume and that the dialogue between COREPER (the Committee of Permanent Representatives of Member States) and GRULA (Group of Latin American Ambassadors) can soon start up again.

5. We regret that Argentina is still unwilling to make a start on improving relations and is still not responding to EC approaches such as the Community démarche last December on the lifting of commercial sanctions.

BACKGROUND

6. As a result of our approach to them in mid January, following reports of an increased threat from Argentina to the Falkland Islands, the Italians took action with the Argentine Embassy in Rome making clear the consequences of any further military action by Argentina against the Falkland Islands.

7. The Italians have been showing restraint in arms sales to Argentina. We are aware of at least one application by Argentina for arms which has been postponed by the Italian Arms Committee. The Italians have assured us that they are scrutinising sales to all Latin American countries where there is reason to suspect that Argentina could be the ultimate destination.

8. The Falklands crisis had some, but not too damaging an effect on British interests in Latin America. (British exports to Latin America dropped from £1,024 million in 1981 to £944 million in 1982 - a decrease of 7.81%. But, trade with Argentina aside, British exports to the rest of Latin America actually increased by some 5%).

Andean Pact

9. Negotiations for an EC agreement with the Andean Pact countries (Venezuela, Colombia, Ecuador, Peru and Bolivia) began in June 1980. But they were suspended by the EC

after the coup in Bolivia. On the Andean Pact side, Venezuela has held up a resumption of negotiations because of solidarity with Argentina. But she is now suggesting ideas for a new agreement so there is some prospect that talks can resume soon.

Group of Latin American Ambassadors (GRULA)

10. There has been a dialogue between the Community and Latin America at Ambassadorial level since the early 70's. The dialogue was suspended as a result of the Falklands conflict but we understand that Argentina is now no longer opposed to a resumption. We expect that a forthcoming meeting of the SELA (Latin America Economic System) expert group will establish on what basis the dialogue can now be resumed.

FOREIGN AND COMMONWEALTH OFFICE

17 FEBRUARY 1983

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18 February,1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

CENTRAL AMERICA

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

BELIZE/GUATEMALA

NEGOTIATIONS

1. Breakdown of talks on 24 January reinforces need to strengthen Belize's political and economic links in international community to show Guatemala her claims enjoy no international support. You have Ambassador accredited to Belize, resident in Costa Rica. Any plans to establish direct representation? Do you provide economic aid?

GUATEMALA INTERNAL

2. How do you view present régime in Guatemala? Rumours that President Rios Montt might step down because of ill health. Human rights violations seem as bad as under previous régime. What information do you have?

EL SALVADOR

3. Situation confused but potentially explosive. Could lead to right-wing coup plotting. What do you think? Do you see any prospect of substantive negotiations between government and guerrillas?

NICARAGUA

4. EC partners broadly agree about worrying Sandinista policy. But ideas differ on what European attitude should be. We have some sympathy with US and fear the leftward drift may be irreversible. What do you think?

MEXICO

5. Pleased that visit byEC Commission President, Gaston Thorn, to Mexico 6-7 January, gave an opportunity for exchange of views and hopefully closer understanding between Mexico and EC. Welcome your views on how best to reactivate the Mexico/EC bilateral cooperation agreement.

6. Critical time for Central America economies; highlighted by external debt problems of countries such as Mexico (and Cuba, Costa Rica). Britain has been following developments with great concern. How do you assess the financial situation in Central America?

7. Concerned that economic crisis and austerity measures introduced to cope with it may cause domestic political and social problems for new Administration. Government seems firmly in control at the moment. How do you assess Mexico's short and longer-term prospects?

BACKGROUND

BELIZE/GUATEMALA

8. Latest round of talks took place in New York on 24 January. No progress was made. The Guatemalans stuck to their proposal that all land South of the Monkey River (approximately one fifth of the total land mass of Belize) should be incorporated within Guatemala. They rejected Belizean proposals for a joint development area in the south and redefinition of the maritime boundaries.

9. After the talks, the Guatemalan delegation issued a statement reaffirming Guatemala's sovereignty over the whole of Belize.

EL SALVADOR

10. Political struggle in the Constituent Assembly reached a head early this month when Major Roberto d'Aubuisson, President of the Assembly and leader of the far-right National Republication Alliance Party (ARENA), failed in an attempt to veto the Cabinet appointment by President Magâna, supported by the moderate Christian Democrats, of Dr Napolean Cardenas, from the small moderate Accion Democratica Party, as Minister of Health. (An appointment previously held by an ARENA member). This dispute followed a walk-out by d'Aubuisson and followers from the Assembly session at which approval was requested (and given by the remaining quorum of Assembly Deputies) to change the rules governing the need for presence in the Assembly of its President.

11. Berlin, second largest town in Usulatán, 50 miles east of San Salvador, was captured and held by left wing guerrilla forces who then retired voluntarily after a few days. The attack on Berlin was seen as a guerrilla move to force the government to withdraw troops from its 6,000-strong force, deployed in the north-east province of Morazán, where they were engaged in the retaking of towns and villages captured by the guerrillas near the Honduran border.

NICARAGUA

12. The leftward drift continues: 7,000-8,000 Cuban ''advisers''; military build-up helped by Cuba, the Soviet Union and Eastern Europe; commitment to Marxism-Leninism reaffirmed. State of Emergency extended to 30 May 1983: the pretext is alleged US destabilisation, the threat posed by right-wing Nicaraguan exiles training in the USA, and border raids by exiles based in Honduras. Civil rights are suspended and the media censored.

MEXICO

13. During a visit to Mexico by Gastan Thorn (6-7 January) the possibility of closer cooperation between the EC and Mexico, both politically and in the area of cooperation on energy, mineral resources and aid to Central America, was raised. The possibilities will be studied in the context of the EC/Mexico bilateral relationship.

14. A financial package involving the IMF, Central and commercial banks is being concluded, which will allow Mexico to roll over US$20 billion external public sector debt over an 8-year period with a 4-year period of grace. It will also make available US$5 billion new money from the banks and US$2 billion in official credits, the whole deal amounting

almost to US$30 billion (the largest international rescue operation so far).

15. The new Administration (which came into office on 1 December) is now turning its attention to dealing with Mexican private sector debt, as part of its priority aims to get private sector industry back on its feet and restore domestic as well as foreign confidence.

16. However, further falls in oil prices and continuing high interest rates elsewhere, particularly in the US, would disrupt the difficult economic adjustment programme necessary for economic recovery and increase the likelihood of social unrest as economic conditions worsened.

17. Increasing unemployment and the high rate of inflation (100% at the end of 1982) have given rise to fears of political and social instability, but the Government, helped perhaps by lack of an effective opposition organisation, remains in control.

Foreign and Commonwealth Office
18 February 1983

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18 February 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

HORN OF AFRICA

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE (If raised)

1. Agree with the Italians on the need to maintain a balanced approach to this area of strategic importance and chronic instability

2. Regret increased local polarisation between East (Russians ensconced in Ethiopia) and West (US and Italian support for Somalia). But Siad Barre could not be abandoned without serious effects on his standing and on American credibility. We have sought to help by encouraging Somali rapprochement with Kenya.

3. Ethiopian performance on human rights (especially political prisoners) and outstanding bilateral issues make a dialogue difficult. But we are exploring possibilities. Encouraged in this direction by President Nimeiri. How far can Mengistu loosen Russian grip? Does he really want to?

4. How serious is the drought? We are doing what we can to help, (27,000 tonnes of cereals via World Food Programme; contribution to UK Save the Children Fund).

5. Defensive

HMG not behind last December's resolution of the European Parliament concerning Ethiopia, inspired by British MEPs.

BACKGROUND

6. The Italians are closely involved in the Horn, mainly because of their former colonial connections. They have managed to maintain reasonable relations with both Ethiopia and Somalia and have a substantial aid programme in both countries. They are usually well informed on the local situation.

/Ethiopia

Ethiopia/Soviet Union/Cuba Relations

7. We are greatly concerned over Mengistu's reliance on Soviet support. Over 1,000 advisers in the country, and sizeable debt for Soviet arms. Some signs of Mengistu looking towards the West, but his speech in January to the second COPWE (Commission for organising the Party) Congress was not encouraging. Some 13,000 Cuban troops in Ethiopia; mainly in camps with apparently only a passive role since 1978.

Ethiopia/Sudanese Relations

8. Relations with Sudan are still strained. President Nimeiri, during his recent visit to London, said he was working for a good relationship with Ethiopia, but the latter was subject to pressure from the Soviet Union and Libya. (At this meeting, (extract attached at Annex) the Prime Minister commented that we should jointly reflect further on the possibility of working to reduce the Soviet presence in Ethiopia; this would require a combined effort). The main obstacle to good relations with Sudan is the fact that the Eritrean rebels, to a large extent, receive their supplies from the Sudan and use the country as a refuge when required. There have also been recent reports that mutineers in the Ethiopian army have been given asylum in Sudan.

UK/Ethiopia Relations

9. Our relations with Ethiopia are cold at present. We have considerable differences of opinion with them over the continued detention of political prisoners, (including some former members of the Imperial Family), over the compensation issue, (Mitchell Cotts is the British firm mainly involved), and over the conduct of the Ethiopian operation against the Eritrean rebels. Against

this, there has been an encouraging growth in our exports to Ethiopia, now running at some £30-35m a year, (imports from Ethiopia are £10-15m a year) and we have recently approved ECGD cover for the purchase of two ships. At present we have no bilateral aid programme, though this is under review.

Drought

10. The drought is serious. We have just granted about £100,000 to the Save the Children Fund for a feeding operation in north Wollo Province.

European Parliament

11. The Ethiopians may be upset over a critical resolution in the European Parliament in December, in which British MEP's played a role. HMG were not behind this in any way.

Eritrea

12. Mengistu launched a military expedition into Eritrea early last year and spent much time directing it personally. He coupled the campaign with a hearts and minds exercise, Red Star, designed to implant Marxist Socialism into Eritrean society and also to get the local economy moving. Personal prestige involved. Reliable intelligence sparse, but although there are some 100,000 troops in Eritrea, campaign appears bogged down; no prospect that this will last, still less of a solution. Ethiopians not in control of mountains, but their writ does run in the economically important lowlands. No visible prospect of compromise with Eritrean secessionists.

/13.

13. Successive British governments have maintained that Eritrea is internationally recognised as an integral part of Ethiopia and consequently the internal responsibility of the Ethiopian Government. We have made known to the Ethiopians our view that violence would not settle the problem: it could only be resolved by conciliation and negotiation.

14. There have been allegations on the use of poison gas by the Ethiopians against the Eritrean rebels. There is no convincing evidence for this, though reports suggest that some kind of powerful riot control agent has been used.

The Ogaden

15. Rivalry between Ethiopia and Somalia has been chronic and results essentially from longstanding Ethiopian efforts to make a unified state from a highly diverse population, including many ethnic, nomadic Somalis, who roam the Ogaden; and Somali determination to bring into Somalia all the land inhabited by ethnic Somalis.

16. During Haile Selassie's time the United States backed Ethiopia strongly and President Siad Barre found it convenient to increase Russian advisers and arms in Somalia after he came to power in 1969. Following the turmoil of (Marxist) revolution in Ethiopia, Barre mounted an invasion of the Ogaden in 1977. The Russians swopped sides and, with Cuban troops, were largely instrumental in expelling the Somalis. Siad Barre in turn sought US backing. Both the Ethiopians and the Somalis harbour and arm dissident groups opposed to the other side.

17. Last July it was reported that Ethiopian forces, fronted by elements of Ethiopian-sponsored Somali Democratic Salvation

/Front

Front (SDSF) dissidents, made several incursions into northern Somalia. Ground troops supported by tanks and Ethiopian aircraft. Ethiopian troops appear to be dug in and reinforced. Regular air supply of munitions by Libya to SDSF. Possibly up to 15000 personnel involved, less than half being Somali dissidents.

18. The Somalis may counter-attack, perhaps in 4/5 months; meanwhile the stalemate ensues. Siad Barre has been visiting the North of Somalia for the first time since 1978. He is making conciliatory gestures, including an amnesty, and is probably anxious to secure the support of the North in advance of the next round of fighting in the Ogaden.

19. The Italians may be attempting some kind of mediation. We have no wish to become involved as intermediaries.

UK/Somalia Relations

20. There is a little more substance in our relations with Somalia. But the Somalis tend to maintain that our attitude to them is still rather lukewarm. Our aid programme is running at about £2.1m per annum. We have offered a little training to the Somali army, but at can at present go no further. We areinhibited in any large-scale military supplies by our close relations with Kenya, whom we regard as the dominant Western influence in the area. We have recently been encouraging a Somali rapprochement with Kenya, and the situation has improved.

Foreign and Commonwealth Office
18 February 1983

ANNEX

Extract from the Record of a Conversation between the Prime Minister and the President of the Sudan at 1030 on Monday 24 January 1983

President Nimeiri said that he believed that the Sudan was a model of the way in which Western support could benefit a developing country. If the model succeeded, other African countries would turn to the West. He had earlier told Mengistu that if he moved away from the Soviet Union he (Nimeiri) could ensure that the West supported him. A start had been made on improving relations but the Russians and Libyans had moved in quickly to sever the new relationship. Sir John Leahy asked whether this meant that there was a real possibility of drawing Ethiopia away from the Soviet Union. President Nimeiri considered that there was. There were nationalist groups in Ethiopia. The Sudan was now concentrating on establishing a good relationship with the Ethiopian Minister of Defence who wanted to reduce Soviet influence. In the last few months there had been a rising in the Ethiopian army against the Soviet presence. The Prime Minister commented that we should reflect further on the possibility of working to reduce the Soviet presence. It would require a combined effort.

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25 FEBRUARY

SOUTH EAST ASIA

Brief by Foreign and Commonwealth Office

Points to Make

1. EC/ASEAN Foreign Ministers' meeting should be valuable. ASEAN need political support. Regional issues must be watched.

2. Major developments on Cambodia only likely in Sino-Soviet context, though not soon.

3. Meanwhile we should stick to the 1981 International Conference formula and avoid any gestures to the Vietnamese which would be misread in Hanoi as well as by ASEAN.

Background

4. The regular meeting of EC and ASEAN Foreign Ministers is now arranged for 24 and 25 March in Bangkok, and will cover international political and economic issues. All EC Foreign Ministers are now expected to attend. Though more frequent (18 monthly) than the issues might justify, ASEAN see these as underwriting their regional political rôle and standing in the world.

5. Cambodia heads the agenda. Prince Sihanouk's coalition with the Khmer Rouge and Son Sann's KPNLF fared well at the UN General Assembly earning 90 votes (including Italy and the UK) for their credentials; and ASEAN achieved 105 votes in favour of their standard resolution endorsing the 1981 International Conference on Kampuchea's recommendations (full military withdrawal, free UN-supervised elections and

/a neutral

a neutral and non-aligned Cambodia). Both we and the Italians co-sponsored.

6. Recent sporadic but widespread clashes with resistance groups on the Thai-Cambodia border will not make Vietnam's military position more difficult or significantly more expensive. But any attempt to knock out all opposition would run into Thai forces; and China has offered explicit support. ASEAN are wary of letting Prince Sihanouk negotiate a settlement on his own behalf, but are watching for any movement in the Sino-Soviet context, if consistent with the ICK formula. Thai ministers have visited both Peking and Moscow. Meanwhile next month's Summit of Indochinese states in Vientiane may come up with a fresh 'initiative' (last July's contained nothing really new), partly to defuse pressure building up in the Non-Aligned Movement over Cambodian representation at the Delhi Summit. (At present there is an 'empty seat' for Cambodia; ASEAN would like to see it awarded to the coalition).

7. Our and ASEAN's interests are best served by maintaining international pressure on Hanoi and refusing calls for resumption of food aid or humanitarian assistance (we disapproved of a recent EC Commission decision to give typhoon relief to Vietnam). Boat people last year totalled over 45,000, causing problems for both Thailand and Hong Kong. But Italy is not a major resettlement country and has taken only 3,000 so far.

FOREIGN AND COMMONWEALTH OFFICE
17 February 1983

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ANGLO-ITALIAN SUMMIT

25 February 1983

NAMIBIA/ANGOLA

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

Five Committed to Search for Namibia Settlement

1. Five remain united in their determination to achieve early Namibia settlement. Definite progress achieved in resolving nearly all UN issues. Must not lose progress already made.

Cuban Withdrawal from Angola

2. Settlement in practice now depends on American ability to persuade Angolans to agree to programme of phased Cuban troop withdrawal. Whatever Angolans say, no doubt that South Africans will insist on some accommodation on this issue. Americans are willing to take account of Angolan security concerns. Like the Italians (whose support we appreciate) we continue to try to impress all this on the Angolans.

Angolan Position

3. So far Angolan position substantively unchanged. Angolan Foreign Minister's visit to London provided useful opportunity for exchange of views, but did not result in any visible give.

/Angola/South ...

Angola/South Africa Negotiations

4. Dialogue begun at Cape Verde is encouraging: welcome any move towards ceasefire and South African withdrawal from Southern Angola, which might encourage Luanda to move on Cuban issue. But to be stable any ceasefire must lead to wider settlement and implementation of UN Plan.

Italian Perceptions

5. How do Italians see situation developing? What chance of success of American efforts? Might recent change in ruling MPLA result in more pragmatic attitudes and hence improved prospects?

BACKGROUND (for use freely except where shown otherwise)

US/Angola

6. So far no substantive change in the Angolan position on Cuban withdrawal. To get South Africans to implement the UN Plan the US need agreement on a phased plan for Cuban withdrawal; the Angolans refuse to make any advance commitment or to agree to more than token withdrawal in last stages of UN Plan. Americans are unwilling to offer incentives until the Angolans start seriously negotiating on phased withdrawal.

Angola/South Africa

7. Dialogue begun at Cape Verde in December dealt with South African proposals for a ceasefire followed by disengagement of South African and Cuban/SWAPO forces in Southern Angola. Both sides seem keen to continue, but date and place of next meeting not yet fixed. A bilateral arrangement dealing with border

/issues ...

issues and SWAPO as an interim alternative to, rather than a step towards, an early Namibia settlement might tempt both sides (especially South Africa), but it would be unstable.

Italian Attitudes (NOT FOR USE)

8. The Italians adopt a low profile on Southern Africa, although they keep themselves well informed. They represent American interests in Luanda, but in practice the Americans use our Embassy as their most frequent channel of communication with the Angolan Government on the Namibia negotiations.

Foreign and Commonwealth Office

15 February 1983

AMV(83)9
18 February 1983

COPY NO 9

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

WORLD ECONOMIC PROSPECTS

Brief by HM Treasury

Points to make

1. World activity has yet to recover. Now inflation has fallen there should be room for more real output growth within existing prudent financial framework. Modest growth of 1-2 per cent and lower consumer price inflation around 6 per cent is forecast for 1983.

2. Essential to maintain counter-inflationary policies and resist calls for excessive reflation. Important to sustain this theme at Williamsburg.

3. Monetary policy should be firm but flexible. Structural budget deficits should be reduced over the medium-term. Welcome US budget proposals but concerned that deficit may remain high even in medium-term.

4. Recent IMF agreements will substantially increase Fund's usable resources. Debt problems still a cause for concern - but are manageable. Welcome adoption of firm adjustment programmes - often with Fund help. Important that commercial banks, too, continue to help finance the adjustment process.

5. Need to avoid protectionism. Trade restrictions could jeopardise world trade growth. Policy convergence amongst SDR countries on non-inflationary path essential to achieve stable monetary framework and reduce exchange rate volatility.

Background

6. Real GNP in the industrial countries is estimated to have fallen slightly last year. Tentative signs of the recovery (US housing starts, and a rise in industrial production in January, improved business confidence in Europe) are starting to appear now that inflation and interest rates have come down.

7. Growth prospects have been revised down. The latest IMF forecast for 1983 sees the US growing by 1½ per cent, Japan by 3 per cent but little revival is envisaged in Europe. World trade fell last year for the first time since 1975 but a mild recovery is expected this year.

8. Deferred recovery inevitably led to a continuing rise in unemployment in most industrial countries last year. Although the increase may start to level off the unemployment rate in the major economies may reach 9 per cent later this year.

9. Inflation has fallen faster than anticipated. For the major countries it is down from 12 per cent on average in 1982 to 5½ per cent over the past year. A wide dispersion persists which underlines the need for convergent policies. Some further decline is expected early in 1983 but it may increase thereafter as the recovery in activity could see earnings pick up, higher profit margins and some increase in non-oil commodity prices.

10. Lower inflation and weak private credit demand has reduced interest rates though recently rates have tended to stabilise. US short-term rates fell further to 8 per cent in mid-January but have risen again to 8½ per cent as market attention focused on budget prospects. European interest rates except in Germany and the Netherlands remain high. Real interest rates have eased but are high compared to past experience.

11. The forecast for a further increase in 1983 in the aggregate current account deficit for the major countries is dominated by the prospective US deficit. IMF is forecasting a US deficit (including official transfers) of around $30bn in 1983 compared to a $12bn Japanese surplus and a smaller $6bn German surplus.

12. Non-oil developing countries' adjustment has concentrated on reducing import volume though this has hurt industrial countries' exports. As a result current account deficits of NODCs fell to $90bn in 1982 and may fall to $70bn this year.

This represents considerable adjustment. Financial constraints may have been tighter than expected. Net private bank lending contracted sharply in 1982 (9 per cent growth compared to over 20 per cent earlier) and may not build up again this year.

13. Exchange rates remain volatile. The dollar's recent depreciation, now down to around 6 per cent in effective terms, has been uneven. The DM has strengthened in February despite election troubles while most of the yen's strong appreciation about 16 per cent in effective terms since its November low has been maintained.

Policies

14. Experience with monetary policy in 1982 is difficult to assess particularly in the US at a time of institutional change and changing liquidity demands. Last year US monetary growth overshot the targets partly due to distortions. The Fed has announced higher targets for 1983 as the distortions may continue but stressed the counter-inflationary goal. The M2 target was increased from 6-9 per cent to 7-10 per cent for 1983 and the base changed to the average February/March 1983 level. M2 growth surged in January but as the base is still unknown, how tight monetary conditions will be this year remains to be seen. Some have argued its policy is too lax.

15. Monetary growth in Germany in 1982 was within the 4-7 per cent target. Policy may ease this year as the same targets are to be maintained despite lower inflation. France's single figure target of 10 per cent for this year is tighter than in 1982.

Italian monetary control last year was wrecked by the high public sector deficit.

16. As regards fiscal policy since 1979 most governments have sought firm public expenditure control. But OECD estimates general government deficits have risen, mostly due to the recession, from 2 per cent of GDP in 1979 to over 4 per cent in 1982. Only Japan and the UK have secured a reduction in their deficits but Germany has contained the increase. Mildly expansionary policies in France and the US have, along with the recession, increased budget deficits.

17. OECD estimates deficits for the major economies in 1983 may remain around 4 per cent of GDP despite the expected recovery. Unofficial estimates already suggest the Italian budget deficit will exceed the target set last month. Despite the Japanese Government's October reflationary package the budget for FY1983, starting in April, projects a tighter fiscal position than last year.

18. The recent US budget measures should reduce the federal deficit from 6½ per cent of GDP in FY1983 to 3½ per cent by FY1986. But deficits still remain high compared with past experience in spite of good growth forecasts. The budget measures still have to be passed by Congress. So far at least the budget has not entirely satisfied concern over the Administration's future fiscal stance.

IMF Interim Committee

19. The IMF Interim Committee agreed on 11 February to increase members' quotas from SDR 61bn to SDR 90bn - an increase of 47½ per cent. The main G10 industrial countries (plus Switzerland) have also agreed to increase the General Arrangements to Borrow from SDR 6½bn to SDR 17bn and to make these resources more generally available to the Fund if the stability of the international monetary system is threatened. These resources should able the Fund to play an effective role in helping countries adjust their economies.

Williamsburg Summit

20. Fanfani's office has indicated that he will wish to discuss preparations for the Williamsburg Summit, as well as economic relations with the US. The Prime Minister will be well aware of President Reagan's desire for a relative informal discussion at the Summit centred on a few key economic issues. We share this. There is already pressure from some sources, however, notably the French and the Scandinavians, for co-ordinated reflationary action by the major industrial countries, particularly those with low inflation, low budget deficits and strong external positions (the US, Japan, Germany and the UK are usually cited). We are concerned to deflate such expectations.

21. The world economic situation will naturally need to be kept under close review in the run-up to Williamsburg, but our view is that the present prudent macro-economic policies

pursued by most major countries already leave room for a recovery of activity. Any policy adjustments need to be taken within the limits of the medium-term strategy to counter inflation, as agreed at Versailles. This does not mean, however, that we may not be looking for some improvement in the mix of policies both within and between major countries to promote a more balanced and sustainable recovery. Pressure on the US to put its fiscal deficit on a continuing downward path is a case in point, as is the need for higher inflation countries (such as France and Italy) to come closer to matching the performance of other Summit countries.

HM Treasury
18 February 1983

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AMV(83)10
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ANGLO-ITALIAN SUMMIT
25 February 1983

UNITED KINGDOM ECONOMY
RECENT DEVELOPMENTS AND PROSPECTS

Points to make

(i) Chancellor's Budget Statement (to be made on March 15) will include announcements on taxation and borrowing for the coming financial year set against a background of prospects for both the world and UK economies.

(ii) Paths of output and employment have been disappointing since the last Budget (March 1982) in part reflecting the unexpected weakness of the world economy. More recently there are signs, particularly in the US of a revival of activity. UK inflation has fallen faster than expected and the Government's Medium Term Financial Strategy (MTFS) remains on course.

(iii) More recently, since the Autumn Statement, the sterling exchange rate has fallen, there has been some increase in interest rates, and oil prices have come down. Precise statements on UK prospects must await the Budget, but, on balance, the fall in oil prices should stimulate the world economy and encourage somewhat more growth in the UK than previously expected. A lower exchange rate should improve industry's competitive position but inflation will eventually be affected to some extent.

(iv) Financial indicators (eg money supply, PSBR, balance of payments current account) all developed favourably during 1982. Revised MTFS - including monetary targets for 1983-84 - will be published with the Budget.

(v) Retail Price Inflation: the rate of inflation in January fell to 4.9 per cent (on a 12-monthly comparison). Prospect still good though possible that inflation rate may rise a little.

(vi) Gross Domestic Product (output) has recovered 1½ per cent and industrial output 1½-2 per cent since the spring of 1981. Real domestic demand has, however, increased more strongly (up 3½ per cent to the third quarter of 1982) - consumers' expenditure and retail sales have risen strongly; buoyancy reflected in output of consumer goods industries.

(vii) Supply performance is improving. Trade performance in 1982, higher manufacturing productivity and improved manufacturing cost competitiveness - are all signs of the underlying strength of the economy. Helped by lower inflation and lower interest rates (despite recent rise, bank base rates still 5 percentage points lower than in Autumn 1981) providing a sound basis for expansion in the medium term.

(viii) Unemployment here as elsewhere remains tragically high. Excessive wage increases have priced people out of jobs. Deepseated problems will take a long time to check and reverse.

Background

(i) Money Supply and Interest Rates: M1 continued to grow fairly rapidly in January, while £M3 and PSL2 showed only moderate increases. All remain within

the target range for 1982-83. Bank base rates at 11 per cent are 5 points down since October 1981.

(ii) PSBR in April to December was £7.6 billion (£5.3 billion seasonally adjusted). PSBR in 1982-83 likely to undershoot IAF figure of £9 billion.

(iii) The underlying rate of inflation is probably running at about 6-7 per cent. Retail price inflation (4.9 per cent in January) probably understates it because of special influences such as mortgage interest and seasonal foods, whilst wholesale input and output prices (9 and 7½ per cent in January) overstate it because of the dominance of oil and because the indices rely on contract/listed oil prices.

(iv) GDP(O) and Manufacturing Output: recent movements are shown below:

(per cent changes)

	1979 H1-1981 Q2	1979 H1-1982 Q4	1981 Q2-1982 Q4
GDP(O)	-6	-4	+1½
GDP(O) [ex North Sea]	-6½	-6	+½
Manufacturing output	-16	-17½	-1¾

[1979 H1 = previous peak in business cycle; 1982 Q2 = trough.]

Output as a whole is still 1½ per cent above the 1981 Q3 trough (mainly NS activity). But manufacturing output remains on a deteriorating trend.

(v) Output and Demand: real domestic demand in 1982 Q3 up 3½ per cent since spring 1981 trough but GDP(O) up only 1¼ per cent on same comparison. From spring 1982 growth in domestic demand mainly reflected higher consumer spending, but much of this met from renewed destocking by manufacturers and distributors.

(vi) Manufacturing productivity and competitiveness: output per head up 13 per cent since end 1980; unit wage and salary costs up only 6½ per cent in 3 months to November 1982 on a year earlier - less than some of our major competitors. Cost competitiveness (in manufacturing) improved by about 20 per cent since early 1981.

(vii) Consumer spending provisionally estimated to be 1½ per cent up between 1982 Q3 and Q4 and, in 1982 as a whole, 1 per cent higher than in 1981. Retail sales in 1982 Q4 were 4½ per cent up on 1981 Q4; increase for durables much higher, around 12-15 per cent.

(viii) Gross fixed investment: average level of fixed investment in first three quarters of 1982 some 2½ per cent higher than in 1981; manufacturing investment (including leasing) provisionally estimated to have fallen 8 per cent between 1981 and 1982. Substantial destocking resumed in the second half of 1982.

(ix) Balance of payments: In 1982 as a whole, current account surplus about £4.6 billion, compared with £6.1 billion in 1981. Visible trade is estimated to have been in surplus of 2¼ billion in 1982, but excluding oil in deficit of £2½ billion. During 1982 little change in underlying level of non-oil import volume; manufacturers exports broadly flat, but volume of world trade in manufacturers fell by about 2-3 per cent.

(x) Wage settlements in 1981-82 round averaged 7 per cent (2 per cent lower than previous round). In current round CBI reports manufacturing settlements so far averaging around 6 per cent; latest settlements are rather lower than this. The underlying rate of ncrease in average earnings in the year to December 1982 was 8¼ per cent. RPDI fell some 2¾ per cent in year to September, but impact on consumer spending more than offset by falling savings ratio.

(xi) Industrial and commercial companies' (ICC's) gross trading profits (net of stock appreciation and excluding North Sea) were 14 per cent up in first three quarters of 1982 on 1981 average level. ICC's pre-tax real rate of return (ex North Sea) very low in 1981; only 2 per cent in manufacturing - some, slight, improvement expected in 1982. Companies' financial position improved in 1981 and in first three quarters of 1982. Net borrowing requirement, although high (£4 billion in 6 months to September 1982) less so than in 1979 and 1980.

(xii) Unemployment: the unadjusted headline total (including school leavers) was 3.23 million (13.8 per cent) in January while the adult seasonaly adjusted total was 2.98 million (12.8 per cent). Only modest changes are now expected in the headline total over the next few months.

(xiii) CSO's Cyclical Indicators: the shorter leading and coincident indices have continued to rise in recent months. The longer leading index rose until November but then unchanged to January.

(xiv) Outside forecasts (published this week). LBS expects 8 per cent consumer price inflation by the end of this year and 1¾ GDP growth between 1982 and 1983. NIESR forecast 1½ per cent growth and 8 per cent RPI inflation in the fourth quarter.

(xv) An addendum on economic statistics to be published on 24 February (including the January trade figures, and private sector investment and stocks in the fourth quarter) will be circulated later.

HM TREASURY

22 February 1983

COPY NO 9

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ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

ITALIAN ECONOMY
Brief by HM Treasury

Points to make

1. Welcome reform of wage indexation system, the 'scala mobile'. Changes essential for inflation to be reduced and competitiveness improved. But Government's inflation target of 13 per cent this year still more than double average of major countries.

2. Budget deficit at 16 per cent of GDP is one of the highest in the OECD area. Acknowledge the government's desire to regain control of public finances and fiscal package announced in mid-January, but won't fiscal concessions to secure agreement on reform of scala mobile prove expensive?

3. Persistently high budget deficit and large external debts could undermine international confidence. Are any further measures planned?

4. Important in present difficult world economic circumstances that Italy join her major partners in achieving convergence on policies for non-inflationary growth, as agreed at Versailles.

Background

5. The new Fanfani government has started to tackle Italy's major macro-economic problems of high budget deficits and wage indexation though its success has yet to be judged. Output has remained broadly flat since 1980 and there are no signs of recovery. Business confidence remains weak, and the OECD expects GDP to increase by only ¼ per cent in 1983.

6. The unions have agreed to modify the wage indexation system, but structural problems both in industry and in public sector finances cast doubt on whether the economy without radical economic surgery can recover fully and move towards a period of low inflation and durable economic growth.

7. Since 1979, on EC estimates unemployment has riasen from 7½ per cent, to 11½ per cent, over 2½ million people, in December 1982. Total employment fell in 1982, its first fall in the post-war period. Unemployment looks set to worsen this year.

8. Inflation is perhaps Italy's most serious problem, prices rose 16½ per cent last year. The government's inflation target is 13 per cent for 1983 and 10 per cent for 1984.

9. After a year-long dispute the government pursuaded employers and unions to agree to reform the wage indexation system, the scala mobile, in January. It accounts for around three-quarters of the increase in wage rates. The degree of automatic compensation for inflation is to be reduced by just over 15 per cent and other modifications will be made. But in return the Government has had to agree to fiscal concessions.

10. Interest rates remain high at around 19 per cent reflecting both inflation and the difficulties of funding the government's large borrowing requirement.

11. Poor competitiveness and the large budget deficit have hindered improvement in the external position despite a temporary import deposit scheme (abolished in February 1982) and three devaluations of the lire within the EMS. The current deficit is estimated to have fallen in 1982 to around $6 bn mainly because of the recession. Official forecasts suggest it could fall further this year as a result of stagnant activity, depressed oil prices, improved tourism revenue and lower interest payments on Italy's large external debts of $50 bn.

12. The lire is currently not under pressure in the EMS though this is in large part due to its much wider band. Some further realignment within the EMS with franc and lira devaluations against the DM may be likely early in 1983.

Policies

13. Successive Italian governments have failed to gain control of public sector finances. In 1981 the PSBR, including the state energy company, was estimated to be L57,000 bn that is around 14½ per cent of GDP. The initially restrictive 1982 budget sought to contain expenditure and raise revenue in order to reduce the PSBR to L50,000 bn. Inevitable political difficulties with unpalatable measures, revisions to earlier data and extra spending coupled with slower than expected growth meant that by summer 1982 the PSBR had already overshot considerably. The outcome for 1982 is now estimated at L75,000 bn (16 per cent of GDP).

14. Following Spadolini's failure to achieve the necessary consensus for a restrictive economic package, the new Fanfani government announced a revised package in mid-January, designed to keep the general government deficit in 1983 to L71,000 bn, 13 per cent of GDP (PSBR is unavailable).

15. The proposals include local income tax surcharges and a higher sales tax on luxuries, together with expenditure cuts on social security and health services. The savings, however, are virtually completely offset by reductions in income tax and employers' social security contributions necessary to end the pay indexation dispute. Unofficial estimates already suggest the 1983 deficit

may need to be revised upwards. The problems caused by Italy's large external debt and the budget difficulties could make an approach to the IMF a necessary but attractive option. It would attach stringent conditions to any finance and thereby absolve the government from responsibility.

16. The size of the public sector deficit has made any attempt at monetary control virtually impossible. [A 'gilts' strike in November led to higher rates on government bills and higher interest rates generally.] The authorities hope to improve their control by abolishing the existing credit ceilings (June 1983) and putting greater emphasis on reserve requirements. Interest rates are likely to remain in high unless inflation is reduced significantly.

HM Treasury
18 February 1983

AMV (83) 12 (a)(i) COPY NO. 9

16TH FEBRUARY 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

COLLABORATIVE PROJECTS: EH101
Brief by Ministry of Defence and Department of Industry

POINTS TO MAKE

1. We see EH101 as a most important project, both in the general context of Anglo-Italian co-operation and for the future of our helicopter industries. A decision on whether it is to proceed is now needed very quickly if it is to be successful.

2. /If project approved by Misc 25 and DEPC/ The approval process in UK has passed two important milestones and the Prime Minister looks forward to considering it shortly, in conjunction with her Cabinet colleagues. (If pressed, there would be no harm in naming the Committees since Italian officials are aware of our procedures).

OR

/If objections raised at Misc 25 or DEPC/ Questions about the proposals have been raised which are being studied urgently prior to Cabinet discussion. (If pressed as to the

nature of such questions suggest these might be referred to Mr Jenkins's discussions with his Italian colleague).

3. Invite Signor Fanfani to say how he sees the position on parliamentary approval of the Italian MOD's finance bill (DDL), and how long this will take.

BACKGROUND

1. It is not necessary to discuss the project in detail, but senior Italian officials are aware of our concern over timescale, and of the timing of our approval process, and Signor Fanfani will expect the Prime Minister to make a brief reference to the programme.

2. EH101 is a new medium helicopter which it is proposed to develop jointly with Italy. A collaborative Project Definition study, completed last Spring, showed that it is practicable to develop naval, passenger and utility versions of the helicopter all of which would use the same main rotor and gearbox and which would possess substantial commonality elsewhere. Such an approach would save costs for both defence and industry.

3. On present plans all versions of EH101 will use variants of the American General Electric T700 engine. Proven models of this engine meet naval needs, but uprated versions would be required for parts of the commercial market. Rolls Royce and Turbomeca have recently proposed a collaborative Anglo-French/Italian development of their RTM 322 design with funding shared between the governments and industry. These

proposals are being studied. RTM 322 would have the advantage of being a European engine and would be considered for EH101 if it were a cost-effective option.

4. In RN service EH101 would eventually replace the Sea King in the anti-submarine warfare role in the early 1990s having enhanced ability to operate from destroyers and frigates; the Italian Navy (MMI) has a similar requirement. An independent market survey has indicated that in addition to RN and MMI needs, some 600 EH101s in the civil and military versions planned could be sold by the year 2000; these would be worth about £7 billion, including spares. At its peak EH101 would generate some 10,000 jobs in British industry, about half of which would be outside Westlands in the equipment industry.

5. Westland Helicopters are teamed with Agusta for the project, having formed a joint company, EHI Ltd. Co-operation is good and work would be shared equally between UK and Italian industry. Both Westland and Agusta have applied for launch investment funds from their respective Departments of Industry to supplement their own finance for the commercial elements of the programme. The naval elements would be financed by the UK and Italian MODs.

6. It has taken almost a year to establish the arrangements for the next phases of the programme, especially as regards funding. The project is now at a crucial stage. DOI will be seeking Misc 25 approval to launch investment for Westlands in the week beginning 21 February, while MOD will be considering the project at DEPC on 23 February. A parallel

approach to Cabinet is then planned for mid-March. The Summit thus falls awkwardly in the midst of this process and the points to be made to Signor Fanfani will need, as indicated, to take account of the outcome of Misc 25 and DEPC.

7. On the Italian side, their DOI already has funds allocated for the support of Agusta in the commercial part of the programme, but the MOD depends for its funds on a new finance bill (DDL) which has been before parliament since last Spring. The DDL has been delayed by the two governmental crises of last year, but has now been endorsed by the Senate defence Committee and we are assured that it will be considered by the Senate itself by the end of this month. It is expected to be taken by the Chamber of Deputies by end March/early April. If the DDL is passed by Parliament, further bureaucratic processes ensue which are expected to require 2-4 months. Thus if this timescale is met development would be launched by end July.

8. Our concern is that if slippage occurs on the DDL development launch could be set back until the Autumn. An early start is most important if the commercial versions (expected to be available in 1991 if development is launched in July) are to maximise market penetration; the RN version (estimated in service date 1993 on the same base date) is already later than desired and this entails operational penalties in the interim. We know that the Italian government has been trying to speed up the parliamentary process, but would like to see that pressure reinforced.

9. EH101 is the most important new aerospace project in the field of Anglo-Italian collaboration: it continues the

successful co-operation in the military field begun with Tornado and initiates co-operation in the civil field. If successful it will keep Westland and Agusta in the forefront of world helicopter business. The proposed integrated programme represents a new departure in this field by harnessing government and private finance in a programme aimed from the outset at meeting defence needs and attacking commercial markets. But an early decision is extremely important if success is to be achieved.

MINISTRY OF DEFENCE/DEPARTMENT OF INDUSTRY

16 February 1983

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21 FEBRUARY 1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

AIRBUS

Brief by Department of Industry

AIRBUS

Line to take (for defensive use only)

Pleased to note Italian interest in participating in the Airbus A320 project. 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.

Background

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

2. Interest in possible Italian participation in the Airbus new technology 150 seat A320 project was initially stimulated by the French at the political level and the French pressed the Italians strongly at their Summit in Paris earlier this month to agree to collaboration. The Italian response has been fairly cautious; they will wish to be satisfied as to the viability of the project before any commitment is made. Signor Fanfani is likely to want to check that this is also our position to help him keep the French at bay. The Germans take the same view.

3. Airbus Industrie will shortly be approaching airlines to assess market prospects for the A320. On the UK side we shall wish to ensure that the

project can be launched on a sound commercial basis rather than as a "political" aircraft relying heavily on "captive" orders from participating countries.

Department of Industry

February 1983

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21 February 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

BULGARIAN INTELLIGENCE ACTIVITIES

Background Brief by Cabinet Office

1. Investigations are still continuing in Italy into allegations that the Bulgarian Intelligence Service (BIS) has been involved in espionage and terrorist activities there, most notably in the attempt on the Pope's life on 13 May 1981. The Italian security authorities have given us in confidence their own interim conclusions; but the investigating magistrates have not yet finished their enquiries.

2. Mehmet Ali Agca, who is now serving a sentence of life imprisonment for the attempted murder of Pope John Paul II, claims that Bulgarian officials living in Rome helped him in his attempt: one, an airline office manager named Antonov has been arrested; two others were members of the Bulgarian Embassy, and have now left Italy. It is known that Agca spent some time in Bulgaria in early 1980 after he escaped from prison in Turkey (where he was serving a life sentence for murder), and he has identified from photographs the Bulgarians who he says helped him; but there is no evidence other than his own word that the BIS gave him an assignment to kill the Pope, or that they helped him in his attempt. Agca was in touch with a number of Turks with associations with extreme right-

wing organisations during his time in Bulgaria, the Federal Republic of Germany and Italy in 1980/81. Two of these contacts are now being interrogated in Italy. Another is now held in detention in Sofia, but the Bulgarian government have refused to extradite him either to Italy or Turkey. The preliminary view of the Italian security service, with which we are inclined to agree, is that the BIS were in touch with Agca from the time of his visit to Sofia onwards, and that they maintained contact with him in Rome, but that it is not proven that the BIS were involved in the attempt on the Pope's life.

3. An Italian trade union official, Scricciolo, has also admitted to having had contacts with the BIS. Among the allegations made against him are that he, and through him the BIS, were in contact with the Red Brigades during the six weeks in 1981-82 when the United States General Dozier was held captive by the Red Brigades. He is also said to have passed onto the BIS information on Lech Walesa's visit to Italy in January 1981. The Italian military intelligence authorities claim that there was a sharp increase in signal traffic from the Bulgarian Embassy in Rome during the Dozier kidnapping, and that distinctive messages which they believe to be intelligence transmissions were sent both on the day after General Dozier's release and after the attack on the Pope.

4. Investigations are also proceeding in Italy into possible involvement by the BIS in international arms and drug trafficking, making use of links between Bulgaria and Italy.

Cabinet Office

21 February 1983

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22 February 1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

LEBANON

Brief by Foreign and Commonwealth Office

Points to Make

1. Glad to be contributing to Multinational Force. Grateful for Italian offer of medical assistance. Deployment of Lebanese Army into East Beirut a welcome development.

2. Hope that Habib will produce some movement in the Israel/Lebanon negotiations. President Gemayel's freedom of manoeuvre limited by need to preserve internal consensus and Lebanon's relations with the Arab world. Little sign of Israeli flexibility necessary for an agreement.

3. Concerned about Palestinian population in South Lebanon. Recent Presidency demarche to Israeli and Lebanese governments will probably need repeating.

/Background

Background

4. The 1300-strong Italian contingent with the Multinational Force (MNF) is based in an area of West Beirut which includes the main Palestinian refugee camps. They have welcomed our participation in the Multinational Force and have offered to provide medical assistance to our contingent if needed.

5. The British MNF contingent (97 men from the Queen's Dragoon Guards, equipped with 16 Ferret Scout cars) has been operational since 8 February. BRITFORLEB is based near Hadath in the south-east suburbs of Beirut (map attached). Good liaison has been established with local Israeli forces, and there have been no incidents so far. The Lebanese army moved into East Beirut on 15 February for the first time since the 1975/6 civil war, replacing the Kataib (Christian) militia. They accept that given the small size of our contingent we cannot join the French and Italians in manning fixed positions there, but we provide patrolling support.

6. Habib's return to the Middle East in early February has produced some progress in relatively non-controversial areas of the Israel/Lebanon negotiations eg a formula to confirm an end to the state of war. But there is no evidence yet that the Israelis are willing to drop their demands for security arrangements (eg early warning stations in Southern Lebanon manned by IDF personnel) and a substantial degree of normalization (open borders, tourism) which the Lebanese continue to reject. Sharon's continuing membership of Israeli steering committee on Lebanon is not reassuring. The Lebanese President is under

/heavy

heavy pressure from the Arab world, particularly Syria (who has threatened to close her border with Lebanon) and Saudi Arabia, not to make substantial concessions to Israel. He also has to contend with conflicting internal pressures from Phalange (Christian) extremists who are pressing for close relations with Israel and the Muslim majority, represented by the Prime Minister Mr Wazzan, who want to keep Lebanon firmly in the Arab camp.

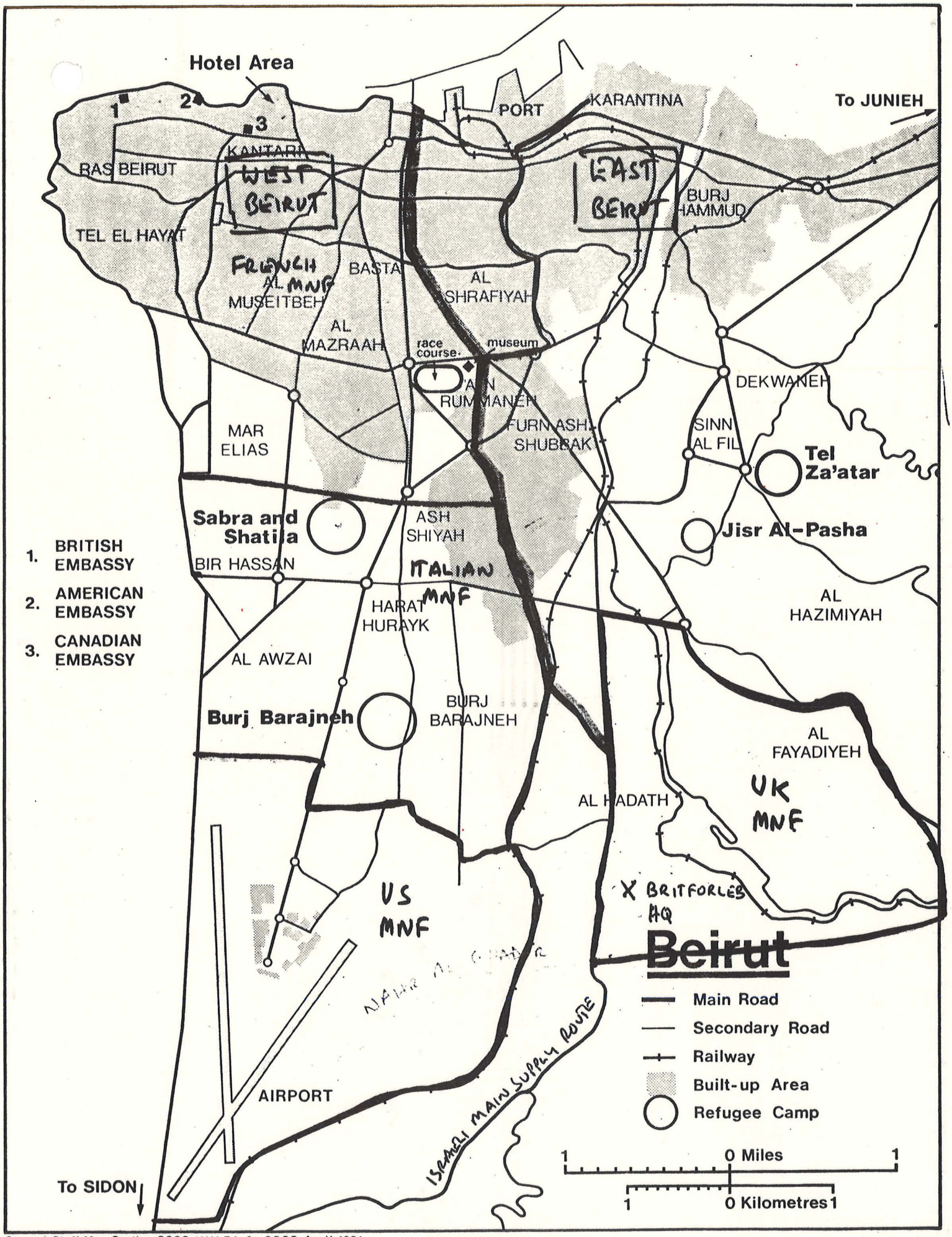
7. The Commissioner General of UNRWA has reported that 15 refugees from the Ain el-Hilweh refugee camp in Sidon were killed recently and other families expelled from their homes. He has estimated that some 50,000 refugees in the Sidon area are potentially at risk of eviction and intimidation by Christian militias. At his request, the Presidency made a demarche on behalf of the Ten on 17 February to the governments of Lebanon and Israel to remind them of their responsibility to ensure the safety of Palestinian civilians in areas they control. The Israeli response was that they were well aware of the problem, which made all the more urgent an early settlement of security issues in the Israel/Lebanon negotiations, but that they would meanwhile take additional security measures. The Lebanese pointed to the lack of government control in many parts of the country but agreed to take the issue up in the Israel-Lebanon negotiations. The Lebanese government has frequently stated its wish to see ''illegal'' Palestinian residents (up to 200,000) repatriated to Arab countries where they were first registered. Further action may be needed by the Ten to convince them that this is an

/unrealistic

unrealistic hope in the near future.

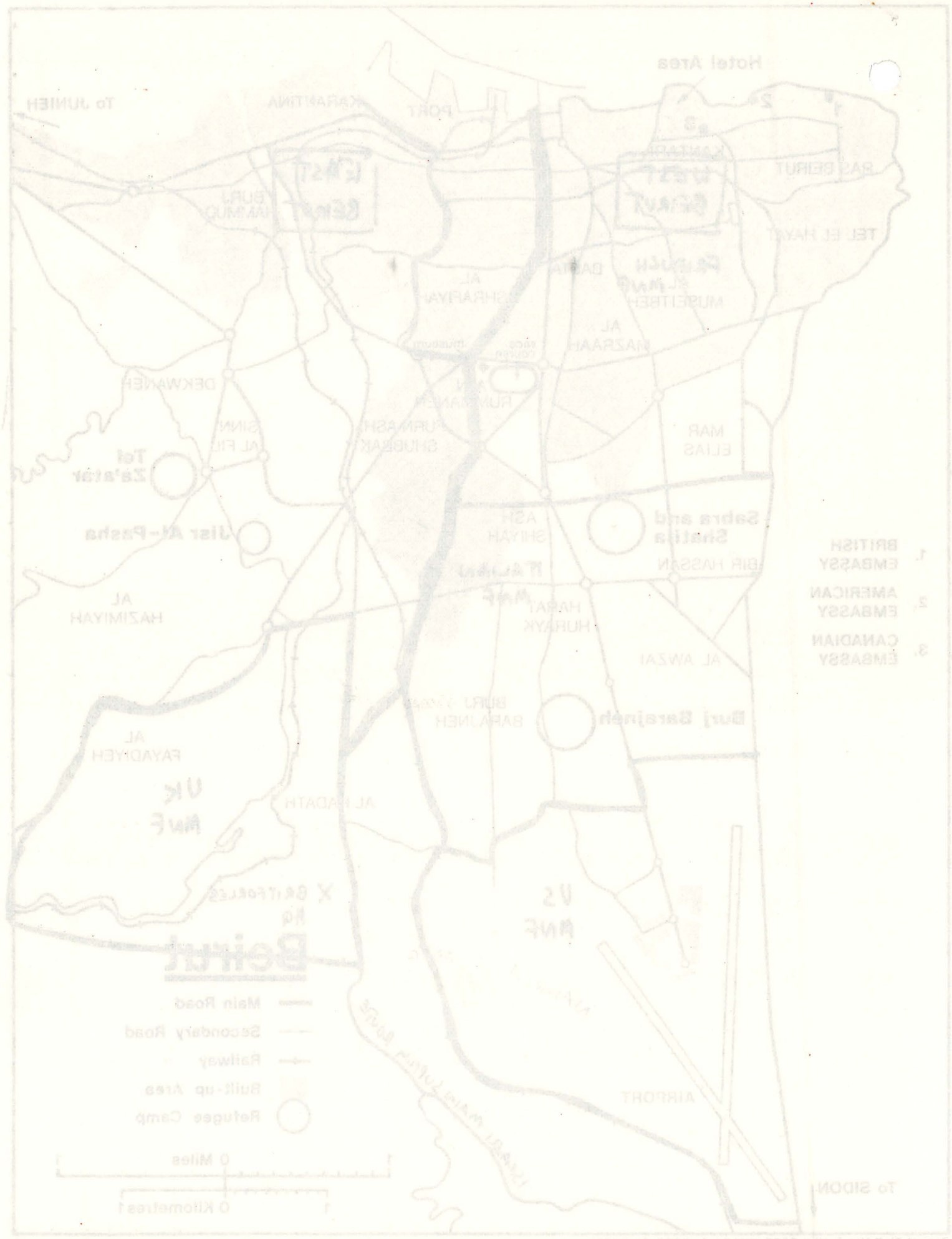
Foreign and Commonwealth Office

22 February 1983



1. BRITISH EMBASSY
2. AMERICAN EMBASSY
3. CANADIAN EMBASSY

General Staff Map Section GSGS 11111 Edn 2 – GSGS April 1981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1. BRITISH EMBASSY
2. AMERICAN EMBASSY
3. CANADIAN EMBASSY

AMV (83) 6 (c) Copy No. 9
18 February 1983

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

IRAN/IRAQ

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

Military Situation

1. Iranian offensive launched on 6 February in Amara sector so far confined to recovery of Iranian territory (250 sq kms). Main forces not yet committed: no serious fighting since 11 February.

Danger of War Spreading

2. Iraqi attacks on Kharg Island have not succeeded in cutting Iranian oil exports. If successful, could invite Iranian retaliation. Spread of war to the Gulf would be a serious development.

Mediation

3. In abeyance until Iranian offensive has run its course. Ten are dividing on role for European Community: we do not share French views on need to support Iraq.

Economic Situation in Iraq

4. Burden of the war has left Iraqi economy weak. Iraq now seeking credit terms. All western countries have been approached; we are considering and hope to respond positively.

/BACKGROUND

BACKGROUND

Military Situation

5. Iran launched offensive south-west of Dezful late on 6 February. Attack involved seven Revolutionary Guard Brigades and one regular mechanised Infantry Brigade (c. 15,000 men in all). By late 7 February Iranian forces had advanced about 10 kms along a front some 30 kms wide, to a road running along the border. They recaptured several Iranian border posts and took some Iraqi posts. Iranians repulsed limited Iraqi counter-attack on 9/10 February, but may have suffered heavy casualties in process.

6. Iranian recapture of 250-300 sq kms of own territory, a useful political gain. Main body of troops stationed further north.

7. Iraqis have drawn Security Council members' attention to latest Iranian attack, and on 16 February asked UK, US and Soviet Union in New York to consider possibility of convening a meeting of Security Council. Visit by Egyptian Minister of State to Baghdad may reflect more serious Egyptian concern. M. Cheysson said in Baghdad on 14 February that it was of fundamental importance to France that Iraq should hold together; he had suggested to the Iraqis that the EC should give more serious consideration to the war and the means to end it.

Mediation

8. Algerians still available, but unlikely to achieve anything while Iranian offensive continues. UAE and Kuwait working in margins. UN, ICO and NAM in abeyance. Iranians looking for military success which will strengthen their hand at negotiating table. Disinclined to negotiate while Iraqis remain on Iranian territory and continue indiscriminate attacks on cities in Western Iran.

/Italian

Italian relations with Iran and Iraq

9. Italians maintained a large presence in Iran throughout the Irani revolution, and now number c. 2,000 engaged in construction projects etc. Italians working hard to sell arms to both sides.

Foreign and Commonwealth Office
18 February 1983

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TO IMMEDIATE FCO
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SAVING FOR INFO UKREP BRUSSELS, PARIS, BONN

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TO ALL

HDS/WED
DEFENCE DEPT
ECD(I)
NEWAD
ESD
PLANNING STAFF
PS
PS/MR INRD
PS/PUS
SIR J BULLARD
MR EVANS
MR GOODDON
MR IRWIN
PS/CHANCELLOR OF EXCHEQUER

MY TELEGRAM NO. 098: ANGLO-ITALIAN SUMMIT: FINANCE MINISTERS' BILATERAL

1. I SAW GORIA ON 22 FEBRUARY TO GO OVER THE SUMMIT AGENDA. HE WAS HAPPY WITH OUT PROPOSAL THAT DISCUSSIONS BETWEEN HIM AND THE CHANCELLOR SHOULD COVER DOMESTIC ECONOMIC MANAGEMENT, INTERNATIONAL ECONOMIC ISSUES AND EC QUESTIONS AND HAD NOTHING TO ADD. HE PROPOSED PUTTING INTERNATIONAL ISSUES LAST, NOT BECAUSE THEY WERE UNIMPORTANT BUT BECAUSE TIME WOULD BE SHORT AND HE AND THE CHANCELLOR HAD COVERED MOST OF THE GROUND IN RECENT MULTILATERAL MEETINGS.

DOMESTIC ECONOMY

2. ON THE ITALIAN ECONOMY, HE SAID THAT AN UPTURN IN WORLD, EXPECIALLY U S, ACTIVITY WAS THE KEY TO IMPROVEMENT. MEANWHILE, ON THE INTERNAL SIDE, THE GOVERNMENT WAS ANXIOUS TO CONSOLIDATE ITS VIGOROUS POLICIES, KEEP INTERNAL DEMAND IN CHECK, AND MAINTAIN ITALY'S COMPETITIVITY. THEY PROPOSED TO TRY TO SECURE PARLIAMTARY APPROVAL FOR THE MAIN LINES OF THE 1984 BUDGET BY THE END OF APRIL (UNPRECEDENTEDLY EARLY), WHILE THE POLITICAL CLIMATE REMAINED LESS RUFFLED BY ELECTORAL CONSIDERATIONS. THE 1984 BUDGET WOULD BUILD ON RESTRAINTS ATTEMPTED IN 1983 AND ON THE GAINS SECURED BY THE AGREEMENT ON PAY MAINTAINING FISCAL PRESSURE AND ACTING ON THE EXPENDITURE SIDE BY SETTING LIMITS TO HEADS OF EXPENDITURE COMPATIBLE WITH INFLATION TARGETS (10 PC FOR 1984). MEANWHILE THE 1983 PSBR TARGET, THOUGH AMBITIOUS, WAS ATTAINABLE IF INTEREST RATES EASED, OIL PRICES FELL AND THE DOLLAR/LIRA RATE REMAINED STABLE, ALL OF

OIL PRICES FELL AND THE DOLLAR/LIRA RATE REMAINED STABLE, ALL OF WHICH WERE NOT IMPROBABLE. THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS WAS EXPECTED TO LOOK MUCH HEALTHIER BY THE END OF 19[illegible]. A 7-8 PC FALL IN OIL PRICES WOULD SAVE DOLL2-2.3 BILLION OF 1982'S DOLL3.4 BILLION ESTIMATED DEFICIT, WITH REDUCED EXTERNAL DEBT SERVICING AND EXTRA TOURIST REVENUE CONTRIBUTING PERHAPS ANOTHER DOLL1.5 BILLION.

EC ISSUES

3. ON THE EC BUDGET, GORIA REPEATED STANDARD ITALIAN ARGUMENTS ON THE ONLY WAY FORWARD BEING THROUGH NEW POLICIES FINANCED BY NEW OWN RESOURCES. THEY WOULD FIND IT DIFFICULT TO AGREE TO CHANGES IN THE COMMUNITY'S FIANCIAL ARRANGEMENTS, AND DID NOT SEE HOW A LONG TERM SOLUTION COULD BE ACHIEVED WITHIN EXISTING OWN RESOURCES. MOREOVER, THEY NEEDED IMPROVEMENTS TO THE REGIME FOR MEDITERRANEAN PRODUCTS IN THE CONTEXT OF ENLARGEMENT. I OUTLINED OUR POSITION ON OWN RESOURCES, AND ON THE IMPORTANCE WE ATTACHED TO AN INTERIM SOLUTION BY THE JUNE EUROPEAN COUNCIL WITH SUBSTANTIAL PROGRESS TOWARDS A LONG TERM SOLUTION. GORIA SAID THAT HE HAD GREAT FAITH IN NEGOTIATIONS, GIVEN GOODWILL AND A COMMON PURPOSE, EVEN WHEN THERE WERE CONTRADICTIONS IN THE POSITIONS OF THE NEGOTIATING PARTIES. HE ADDED THAT HE THOUGHT HE HAD DETECTED A GLIMMER OF GREATER FLEXIBILITY ON THE PART OF THE FRENCH AT THE FRANCO-ITALIAN SUMMIT LAST WEEK.

4. FCO PLEASE PASS TO P.S./CHANCELLOR OF THE EXCHEQUER.
FCO PLEASE PASS SAVING ADDRESSEES

SIMPSON-ORLEBAR

NNNN

AMV 83 12(c)

COPY NO 9

17 February 1983

ANGLO-ITALIAN SUMMIT
25 February 1983

BANCO AMBROSIANO

Brief by the Foreign and Commonwealth Office

Points to Make

1. The British authorities have been instructed to cooperate fully with Italian officials in their investigations into the death of Signor Calvi. This is primarily a matter for Italy, but grateful if you pass this on.

Background

2. On 18 June 1982 the body of Signor Roberto Calvi, head of the Banco Ambrosiano, Italy's largest privately-owned financial institution, was found hanging from scaffolding beneath London's Blackfriar's Bridge. Calvi's secretary had committed suicide the previous day. Although an inquest decided that Calvi had taken his own life, the verdict was greeted with widespread disbelief in Italy, where the more common theory was that he had been murdered.

3. The belief that Calvi was murdered stemmed from the timing and circumstances surrounding his flight from Italy, as well as the elaborate mechanism of his death. Calvi

disappeared from his Rome apartment on 10 June. At the time he faced an investigation into the affairs of his bank, and in particular an uncovered Eurocurrency loan of US $1.400 million.

4. The Banco Ambrosiano was the parent company of a financial group with a widespread network of subsidiaries both in Italy and overseas and had links with all parts of the Italian establishment. It developed from a relatively small northern Italian bank largely by Calvi's own efforts. In extending the bank's empire Calvi operated on the limits of legality. In 1978 he was accused of offences under Italy's currency control regulations and in 1981 spent a short time in prison. He was due to make another appearance in court in connection with this case when he disappeared. Calvi and many of his associates were allegedly involved in the P2 masonic lodge scandal which brought down the Forlani government.

5. People from almost all parts of the Italian political and financial establishment were at some time involved with Calvi. The Vatican finance company (Istituto per le Opere Religiose - I.O.R.) under its head, the American Prelate, Paul Marcinkus, certainly had contact with Calvi and there are rumours that Calvi's final difficulties were caused by the IOR's refusal to cover his Eurocurrency debts. Most political parties have had dealings with the Banco Ambrosiano ranging from the PSI, who received a large loan some time ago, to the PCI via a loan to Paese Sera, a newspaper linked to the party. Many Christian Democrats dealt with Calvi and a lawyer, who is the brother of a DC senator and a close

associate of Giulio Andreotti, was arrested for professional malpractice in offering to sort out Calvi's many difficulties.

7. Like many Italian scandals the Calvi affair may eventually disappear from the public eye. But the link with London has yet to be explained and there is some risk some Italians may seek to deflect part of the blame onto us (hence the Point to Make). Investigations by City of London police continue. Officers visited Italy in November 1982. In January 1983 Calvi's widow won the right to contest the suicide verdict. Given Calvi's widespread associations the scandal could easily blow up again, with unforseeable repercussions on the Italian political establishment.

Foreign and Commonwealth Office
17 February 1983

AMV(83) 13 COPY NO. 9
18 February 1983

ANGLO ITALIAN SUMMIT
25 FEBRUARY 1983

SUPER SARA (DEFENSIVE)
Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. We are confident that the Ispra establishment has the potential to make a valuable contribution to Community research. Its future is not dependent on continuation of Super Sara and UK has never suggested that Ispra be closed. On the contrary, we have indicated specific areas on which it should concentrate its efforts (eg radioactive waste management, fast reactor safety, fusion technology, high temperature materials, remote sensing).

2. But Community would be doing itself a disservice to burden Ispra with the Super Sara project which eminent European scientists have now confirmed is not cost effective. They have also confirmed that the results which would have been available from Super Sara would be available earlier elsewhere. In the light of this expert evidence, cancellation of the project and concentration on other projects is the most sensible course open to the Community.

ESSENTIAL FACTS

3. Signor Fanfani may appeal for Prime Minister to support continuation of this project.

4. Super Sara is a reactor safety project based at the Community's Joint Research Centre at Ispra in Northern Italy. UK and Germany have been pressing for the project's cancellation. Our views confirmed by a report produced by three eminent European scientists in January 1983.

5. Italians (supported by Commission) have resisted cancellation of Super Sara, largely because of concern about future of Ispra. They may fear that we are trying to close Ispra. In fact, Super Sara takes up only 15% of Ispra's work and we have already sought to reassure Italians by indicating specific areas where Ispra could concentrate instead.

6. Little support at 8 February Research Council for Italian efforts to continue Super Sara. Commission have been asked to produce proposals for alternatives for discussion at 10 March Council, at which decision to cancel seems certain to be taken.

6. European Parliament has expressed concern about likelihood of cancellation. Relatively little media interest in UK, though some criticism in connection with Sizewell enquiry.

Foreign and Commonwealth Office
18 February 1983

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18 February 1983

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

UNLOSC

Brief by Foreign and Commonwealth Office

Points To Make

1. Large part of Convention acceptable but provisions on deep sea mining based on undesirable principles and would set unsatisfactory precedents for industrialised countries e.g. as regards transfer of technology.

2. Hope Italian Government will refrain from signature in order to give strong signal about need for improvements. Like to cooperate on this task.

3. Hope Italy will join in interim arrangements among potential deep sea mining countries to protect investment of pioneer operators. This could help bring home need to improve Convention.

Background

4. EC could sign Convention if a majority (i.e. 6 member states) did so. So far France, Netherlands, Denmark, Ireland and Greece have signed, but the other 5 including Italy have not. Pressures on Italian Government to sign especially in Parliament. If Italy signed, it would become

difficult for us to block EC signature. (Italians have already said they would accept Community signature if a majority had signed.)

5. Italy will attend the Preparatory Commission starting in Kingston on 15 March to draw up detailed rules for deep sea mining. Ministers have not yet decided whether UK should attend, but if we do so, will want Italian cooperation in pressing for improvements. However their position not as radical as ours, although even if they signed, they might not ratify.

6. ENI bought 25% stake in one of US deep sea mining consortia in 1980 and Italians now drawing up domestic deep sea mining legislation similar to UK Deep Sea Mining Act. We are therefore encouraging them to join the Reciprocating States Agreement being negotiated with USA, FRG and France. But there are technical problems about their late arrival on scene and given that an Agreement will provoke strong G77 hostility, they may back off.

7. Bilateral talks covering the above were held between officials in Rome on 21 January.

FOREIGN AND COMMONWEALTH OFFICE

18 February 1983.

AMV 83 (15)

COPY NO 9

17 February 1983

ANGLO-ITALIAN SUMMIT
25 February 1983

ITALY: INTERNAL POLITICS

Brief by the Foreign and Commonwealth Office

1. The Present four-party Government of Senator Amintore Fanfani took office on 1 December 1982. It includes Christian Democrats (DC), Socialists (PSI), Social Democrats, and Liberals; the Republicans, led by Senator Spadolini, declined to join. Although the new government has in theory a solid Parliamentary majority, internal divisions have already limited its effectiveness, especially in economic policy. General Elections are not due till May 1984 but could come as soon as this spring.

2. In late January, agreement was reached between government, employers and unions on labour costs, including a revision of the scala mobile system of wage indexation, at the cost of fiscal and other concessions to employers and workers. There will be an adverse effect on the PSBR, which is likely to exceed the target of 71,000 billion lire for 1983. Nevertheless the degree of automatic indexation has been reduced by 15 - 20% and the agreement should ensure a period of reduced industrial and social tension (there had been strikes and demonstrations

throughout Italy). If it sticks, it will be a major political achievement.

3. The government's next economic hurdle is the passage through Parliament of its package of austerity measures and of the 1983 budget. There are signs of dissension within the coalition over both. The chairmanship of ENI, the State oil corporation, has also provoked renewed DC/PSI tension.

4. The DC have recovered some self-confidence under Signor De Mita, elected party secretary in May 1982. They have been helped by the tactical errors of Signor Craxi, the PSI leader. Since his unsuccessful attempts in 1982 to force a crisis leading to early elections, the Socialists have lost some influence, but their ambition is undiminished. The other lay parties are confident of modestgains in elections.

5. Significant political opposition in Italy comes only from the Communists (PCI). They have moved towards greater independence of Moscow, and are seeking a 'third way' between capitalism and socialism as practised in Eastern Europe. Their congress in March 1983 will be an important test of party unity.

6. Policy towards Argentina over the Falklands and the desaparecidos issue split the coalition in 1982 but is now less contentious. On INF basing, the government remains robust, although concerned over how NATO should respond to recent Soviet proposals. The PCI supports a delay in basing

in Italy. Public interest is currently low. There is a broad consensus on most EC issues and support for Italy's higher profile in the Middle East, including the commitment to Lebanon. Investigations continue into the ''Bulgarian connexion'': no further diplomatic measures of retaliation have been decided yet, although the PSI pressed for a tougher Italian line.

7. Urban terrorism, by the Red Brigades and (to a lesser extent) by the extreme right, remains a threat, but the security forces have made good use of information provided by 'repentant' captured terrorists. Organised crime in the South (Mafia, Camorra etc) is a growing problem to which the central government has no answer.

8. There has for years been a contrast between Italy's rapid economic advance and the immobility of Italian politics. This is unlikely to change. The PCI are as far away from central government as at any time in the 1970's. The most likely prospect, irrespective of elections and barring a major economic crisis, is a series of uneasy coalitions dominated by the same DC faces. This explains why most Italians are disillusioned with politicians (except the veteran Socialist President, Pertini) and believe that their country survives despite, not because of, its government.

Foreign and Commonwealth Office
17 February 1983

Ref. A083/0630

MR COLES

Signor Fanfani's Visit and the Community Budget Negotiations

The Italian Government's policy on the Community budget issue is strikingly unrealistic. They are taking the simple-minded line that the Community's problems can only be solved if the Community is given more own resources. They couple this with demands for more money for Italy - in particular on Mediterranean agriculture. In the process they are making the German Government very cross indeed; and they are even beginning to worry the French, who fear that Italian behaviour may weaken their chances of getting what they want for their Mediterranean producers.

2. Signor Fanfani's visit provides the Prime Minister with an opportunity not to be missed, during a tete-a-tete, to make him face facts.

3. I therefore recommend that the Prime Minister drives home the following points:-

(i) Governments cannot have one rule for their domestic budgets and a different one for the Community. If own resources are increased, it is highly probable that the effect will be that the Community will spend a great deal more on agricultural surpluses. Relations with the United States will be damaged and the British budget problem, far from being alleviated, will be made even worse. For these reasons the United Kingdom cannot agree to an increase in own resources.

(ii) In May last year, when the 1982 solution was agreed, the Community agreed to find a solution for the British budget problem in 1983 and later before the end of November 1982. That deadline was missed, but the obligation must be honoured. 1983 is now two months

spent. Since 1980 the United Kingdom has not been asked to wait beyond May for an agreement to relieve the budget problem for the current year. It is therefore essential that a solution for 1983 and later be negotiated before the meeting of the European Council in June.

4. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

24th February 1983

AMV(83)12(b)
18 February 1983

COPY NO: 9

ANGLO ITALIAN SUMMIT
25 FEBRUARY 1983

INDUSTRIAL AND R & D COLLABORATION

Brief by Department of Industry

POINTS TO MAKE

Industrial Collaboration

1 Industry must make its own decisions based on recognition of mutual benefits. Government's role is to offer encouragement.

2 Very welcome success of Rolls Royce needs to be repeated on a wider front. The Secretary of State for Industry will be discussing this and other collaborative issues with Minister Romita.

Information Technology

3 The UK is encouraged by the support shown for the ESPRIT initiative.

4 European companies and research organisations will need to work together from the pre-competitive stage to meet the US and Japanese competition.

Microelectronics

5 The UK believes that the EC is the appropriate vehicle for multilateral collaboration in microelectronics.

6 The UK adopts a very positive attitude to joint projects. We would welcome specific Italian ideas for collaboration.

Biotechnology

7 The best opportunities for multilateral collaboration lie within the framework of the Versailles initiative and the existing European Community programme.

Nuclear Energy

8 I am glad the UK AEA is collaborating with the University of Padua in the construction of a fusion device of the type known as a reversed field pinch (which is an alternative to the Tokamak, which is the best known route for the attainment of fusion energy).

9 (If raised). I am glad to learn of the Italian interest in co-operation in nuclear power generation. In the field of power generation, co-operation occurs most naturally between enterprises with similar objectives and experience.

10 (If raised: Super-SARA is the subject of brief number 13).

Space

11 The UK welcomes continuing Anglo-Italian co-operation in the European Space Agency based on common interests in communications.

BACKGROUND

Industrial Collaboration

Anglo-Italian industrial collaboration continues to maintain a low profile. The success of Rolls Royce (RB 199/Tornado and RB 199/Agile Combat Aircraft) has not been matched elsewhere. Industrial co-operation can only come about through identification by potential partners of mutual benefits and in an atmosphere of trust, but Governments must remind potential partners of the realities. European industry needs to explore the opportunities for co-operation if the competitive threat from Japan and the USA is to be met. The circumstances

of continued strengthening of Franco-German industrial co-operation dictates that UK industry must not overlook Italian industrial strengths.

Information Technology

Our IT industry is fragmented and could benefit from increased collaboration both nationally and internationally. European IT programmes such as the pilot phase of ESPRIT are a strong incentive to companies to pool their research resources in priority areas and develop European links.

ESPRIT (European Strategic Programme for Research in Information Technology) is an initiative originally planned by the Commission together with twelve leading European IT companies including GEC, ICL, Plessey, Olivetti and STET. It proposes a major programme of collaborative, pre-competitive research in five key areas of information technology. A pilot phase of one year has just been launched. Proposals for the main programme are now being put together.

Microelectronics

The Italian market for semi-conductors is around 8% of the Western European market and therefore less than half of the British. Italian production is probably half of the level in Britain. There are no collaborative projects between the UK and Italy except for a computer aided design project funded under the EEC's Microelectronics Regulation. However, there will undoubtedly be opportunities for collaboration with Italian companies under the EEC's ESPRIT programme, once this is agreed.

Biotechnology

There is provision for multinational collaboration programmes in biotechnology as part of the Versailles initiative and there is an existing European Community

programme. The UK sees no particular opportunity for bilateral collaboration beyond these programmes. Effective collaboration must involve companies rather than Government institutions.

Nuclear Energy

The reversed field pinch approach is one on which the UK, USA, Japan and Italy, amongst others, are working. The UK has decided for the time being not to build a device, but instead will collaborate with the Italians in the construction of a device at the University of Padua. The best known approach to the problem of fusion energy is via the Tokamak or Torus. The best known example is at Culham, the home of the Community funded Joint European Torus (JET).

About two years ago the Italian nuclear industry approached the UK concerning possible technological co-operation on Pressurised Water Reactors (PWRs) as it was expected that the Italian choice of a reactor would be that of a four loop Westinghouse. The UK industry, did not favour close collaboration because it might interfere with links with countries more experienced in PWR technology such as the US and France, and BNFC co-operation with France in fuel technology. It is unlikely that the UK can be very encouraging on this front.

Space

In common with the UK, Italy's major interests in the European Space Agency are its communications satellite programmes. Its industry provides the prime contractor (Selenia) for the satellite's payload.

Italy is currently finalising plans for a pre-operational national satellite communications system, ITALSAT. The choice of satellite platform has not yet been made. One candidate is the European Communications Satellite (ECS) being developed by SATCOM International, the company in which British Aerospace and Matra (France) are partners. One possibility is that Selenia will join SATCOM International in return for the ITALSAT order.

The contract of the Director General of ESA, Mr Eric Quistgaard, expires in 1984. The British candidate to succeed him has recently been announced as Sir James Hamilton, presently Permanent Secretary, Department of Education and Science.

Department of Industry

18 February 1983

jg

CONFIDENTIAL

FROM: J GRAHAM
DATE: 23 FEBRUARY 1983

CHANCELLOR

cc Mr Littler
Mr Unwin
Mrs Hedley Miller
Mr Lavelle
Mr Bottrill

BRIEFING MEETING FOR THE ANGLO-ITALIAN SUMMIT

The main briefs of particular interest include some of those on Community aspects, the EC budget (2b), CAP (2c), the internal market (2f) and trade issues (2g) together with those on world prospects and the UK and Italian economies (9, 10 and 11).

2. On the EC budget a solution for 1983 and thereafter is urgently required. The Italians must be convinced of our poltical need for an interim solution before the June European Council. Do the Italians have any suggestions? The UK cannot wait for the necessary but inevitable longer term reform of the Community finances. We must stress the need for limits on the growth of CAP expenditure and argue for price restraint in the next CAP price fixing.

3. Work on the internal market must progress (particularly to the new area of services). It should not be broadened and hence diluted as the Italians have suggested to include industrial policy, innovation and R&D.

4. Italians have protectionist inclinations. On trade issues we must persuade them that growing protectionism jeopardises economic prospects and adversely affects all our interests.

CONFIDENTIAL

FROM: J GRAHAM
DATE: 23 FEBRUARY 1983

CHANCELLOR

cc Mr Littler
Mr Unwin
Mr Butterill
Mrs Hedley Miller
Mr Lavelle

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5. More signs of the world recovery are slowly beginning to appear. Any expectations of the Williamsburg Summit producing reflationary initiatives must be sharply defused. The UK along with other low inflation countries will be maintaining firm counter-inflationary policies and the Italians, whose economic prospects are weak, must be persuaded to do the same.

6. Recent developments (lower oil prices) may have improved the UK's growth prospects a little. This year UK is likely to grow faster than its European competitors but more slowly than either Japan or the US. The Italians are attempting to tackle their two major problems, budget deficits and inflation, but these efforts need to be stepped up if Italian economic performance is to approach that of most other major countries.

J Graham

J GRAHAM
EF2

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J Graham

J GRAHAM
ERZ

AMV (83) 2 (g)(Revise)
23 February 1983

COPY NO 9

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

INTERNATIONAL TRADE ISSUES

Brief by the Department of Trade

Line to take

General

1 Protectionism remains a serious threat. Major effort is needed to tackle the problem. Should be addressed by Williamsburg Summit. EC not immune from criticism, notably on agriculture, but should not be deterred.

EC/US

2 Important for EC to work with US administration to contain US protectionist pressures. Particularly important to prevent a trade war breaking out over agriculture. We must not return to the protectionist spiral of the 1930s.

EC/Japan

3 Recent steps taken by Japanese to increase imports (including some useful tariff reductions) and the decision this month to restrain certain exports are welcome. Demonstrates weight of Community when it acts

together, though these measures alone will not have substantial effect on trade deficit. Need to monitor closely both this and implementation of Nakasone statement on need for greater Japanese imports. Essential to continue to maintain united Community approach to Japan.

Spain

4 Spain taking unacceptable advantage of open trading system while maintaining its own high protective barriers. Accession will in due course solve problem, but we cannot wait. Acute political issue in UK. High tariffs on cars must be reduced now, as well as proper Spanish observance secured of 1970 Agreement obligations. Welcome Italy's continuing support for latter objective.

French proposals for strengthening common commercial policy

5 UK shares French concern about ineffective operation of Common Commercial Policy. Commission proposals will need careful study.

Background

General

6 The threat of growing protectionism remains worrying. It looks as though trade will be an important theme at the Williamsburg Economic Summit (28-30 May) and could be used to focus on the variety of protectionist pressures which put the open trading system under stress. This would be

useful, and we hope the Italians will go along with such an approach. It has yet to be discussed by those preparing the Summit.

EC/US

7 The new Congress (assembled on 24 January) is likely to be much more protectionist than its predecessor. The pressures to protect US exports and jobs, and enforce US trade rights against "unfair" foreign practices, will continue to grow. Main US problem is industrial trade with Japan, but the EC/US agriculture dispute is potentially very damaging, and there was a major row last year over steel exports.

8 A number of highly protectionist Bills are being submitted to the new Congress. These include "reciprocity" legislation which will give the President greater negotiating authority to enforce US trade rights against "unfair" foreign practices, and the Ottinger Bill on local content in automobiles.

9 The Community should in its own interest work with the Administration to reduce friction in EC/US relations so that these pressures may be successfully resisted.

Japan

10 Italy is concerned not to provoke Japan to challenge her restrictive quotas on Japanese car imports (2200 last year), consumer electronics products and others (31 in total). Italy's bilateral trade deficit with Japan was only $56m in 1981 ($2.1 billion for UK in 1981). Italy has gone along cautiously with the moves towards a firmer Community policy, accepting

only reluctantly the EC's decision to take the Japanese to the GATT under Article XXIII.

11 The Japanese have responded to EC and US pressures with a further package of trade liberalisation which include some useful tariff cuts (eg on chocolate confectionery, biscuits and cigarettes) and the removal of some tariff barriers. But the impact on the trade deficit is likely to be small. Prime Minister Nakasone's statement in January was a more explicit recognition of the need for Japan to import more manufactured goods. The Japanese have also agreed this month to limit certain exports including video tape recorders and colour TV tubes to the EC.

12 The Italians admit informally that a protectionist approach has encouraged Japanese inward investment - for example Alfa Romeo has started a joint venture with Nissan to produce 60,000 vehicles per year, and Innocenti recently launched a new model with a Daihatsu engine. The Italians delayed a consignment of UK made Sony colour televisions last year and also obstructed for a time imports of the BL Acclaim on the spurious grounds that EC origin rules were not met.

Spain

13 Italians have once supported our efforts in the Foreign Affairs Council on the question of Spain's observance of the 1970 Agreement. Like every other Member State they have given no open support to our concern about the tariff disparities. Over 130 headings in the Spanish tariff, compared with one in the CCT, have a duty of over 20%, which the 1970 Agreement deemed the highest acceptable level for a new duty designed to protect an infant industry. Obvious anachronism for Spain to have many

duties of over 20% eg 36.7% on Community cars, in sectors where her domestic industry is well established and internationally competitive.

14 UK firmly committed to Spanish accession as surest prospect for abolition of Spain's high tariff and many non-tariff barriers (eg discriminatory fiscal system, some quotas, tobacco monopoly). It was French and Italian intransigence over Mediterranean agriculture which prevented 1970 Agreement being over-hauled by 1976 as originally envisaged and which is now delaying the accession negotiations.

15 A report on recent Commission contacts with Spain is due at 21-22 February Foreign Affairs Council. (The reporting telegram is attached to this brief).

French proposals for strengthening common commercial policy

16 The French, for the past nine months, have been canvassing proposals for strengthening the EC's common commercial policy. In particular, they want a new instrument analogous to US legislation which would make it easier to harass exporting countries thought to be trading unfairly. We share their view that the common commercial policy needs to be tightened up. The Commission has prepared but not yet submitted proposals which reflect their view that the best way forward is by improving use and speed of existing mechanisms, though they are prepared to link this to a new mechanism. Their ideas will need careful scrutiny, but could be helpful. (Though the premature publicity they have been given is far from helpful). The Italians are likely to sympathise with the French, and go along with the ideas which are not too overly protectionist.

Department of Trade
23 February 1983

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Department of Trade
26 February 1976

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FRAME EXTERNAL

FM UKREP BRUSSELS 221745Z FEB 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 758 OF 22 FEBRUARY

INFO BONN MADRID

INFO SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS LUXEMBOURG ATHENS STRASBOURG.

FOREGIN AFFAIRS COUNCIL : 22 FEBRUARY 1983.

EC/SPAIN.

SUMMARY.

1. AFTER A PRIVATE CONVERSATION BETWEEN THE SECRETARY OF STATE FOR TRADE AND NATALI, THE LATTER REPORTED BRIEFLY TO THE COUNCIL ON THE COMMISSION'S DISCUSSIONS WITH SPAIN AND UNDERTOOK TO PURSUE THEM FURTHER ON SPECIFIC POINTS. NATALI CONTINUED TO EMPHASISE ACCESSION AS THE SOLUTION TO THE TAFIFF IMBALANCE. LORD COCKFIELD STRESSED THE NEED FOR IMPROVEMENTS AND WELCOMED THE CONTINUATION OF THE COMMISSION EFFORTS.

DETAIL.

2. IN A PRIVATE CONVERSATION WITH NATALI (COMMISSION) BEFORE THE COUNCIL DISCUSSION, THE SECRETARY OF STATE FOR TRADE RE-EMPHASISED THE U K CONCERNS NOT ONLY ON SPAIN'S IMPLEMENTATION OF THE 1970 AGREEMENT BUT ALSO ON THE TARIFF IMBWLANCE. LORD COCKFIELD HOPED FOR ACCEPTABLE SOLUTIONS WITHIN A REASONABLE TIME AND SAID THAT FURTHER DISCUSSION WAS NEEDED BEFORE THE MARCH COUNCIL. NATALI RESPONDED WITH THE STANDARD COMMISSION ANALYSIS OF THE PROBLEMS BUT ACCEPTED THE NEED FOR FURTHER DISCUSSION.

3. IN THE COUNCIL, NATALI TABLED A WRITTEN REPORT (COPY BY MUFAX YESTERDAY) UNDERTAKING TO MAINTAIN PRESSURE ON SPAIN FOR IMPROVEMENTS ON QUOTAS, THE CALCULATING BASE FOR IMPORT TAXES AND FISCAL DISCRIMINATION AGAINST IMPORTS. ON THE TARIFF IM-BALANCE, NATALI SAID THAT SPAIN HELD TO THEIR VIEW THAT THE SOLUTION WAS TO BE FOUND IN THE ACCESSION CONTEXT. BY IMPLI-CATION HE ENDORSED THIS. NATALI CONCLUDED THAT HE WOULD MAINTAIN CONTACTS WITH SPAIN AND WOULD REPORT FURTHER TO THE COUNCIL AT THE RIGHT MOMENT.

4. LORD COCKFIELD UNDERLINED U K CONCERNS. ON IMPLEMENTATION HE REFERRED TO SPAIN'S DISCRIMINATION AGAINST BLOND TOBACCO. NATALI REPLIED THAT THIS WOULD BE FURTHER DISCUSSED WITH SPAIN). THE TARIFF IMBALANCE WAS OF VERY CONSIDERABLE IMPORTANCE AND NEEDED TO BE PURSUED. PROGRESS SO FAR WAS NOT SUFFICIENT. THE PROBLEM COULD NOT BE LEFT TO ACCESSSION. INDEED IT REPRESENTED A SERIOUS PIECE OF GRIT IN THE WHEELS OF THE ACCESSION NEGO-TIATION. IT WAS IN SPANISH INTERESTS TO RESOLVE THE PROBLEM BEFORE ACCESSION, WHATEVER THEIR LEGAL RIGHTS UNDER THE 1970 AGREEMENT. LORD COCKFIELD WAS GRATEFUL FOR NATALI'S EFFORTS AND HIS UNDERTAKING TO MAINTAIN CONTACTS WITH SPAIN. HE HOPED FOR A MORE SATISFACTORY REPORT IN DUE COURSE.

CONFIDENTIAL

5. ITALY SAID THERE WERE STILL REASONS FOR DISSATISFACTION WITH THE WORKING OF THE AGREEMENT.

6. LAUTENSCHLAGER (CHAIRMAN) CONCLUDED THAT THE COUNCIL TOOK NOTE OF NATALI'S REPORT AND DELEGATIONS' COMMENTS. COREPER WAS CHARGED WITH FINDING THE BEST WAYS TO OBTAIN BETTER IMPLEMENTATION OF THE AGREEMENT.

FCO ADVANCE TO:
FCO - MS EVANS RICHARDS (ECD(E)) HANNAY PS/PUS PS/MOS PS/SOS
CAB - MS LAMBERT
DOI - WRIGHT
DOT - MRS DRAGE WELLS MISS LACKEY (WEG DIV) GRAY

FCO PASS SAVING TO COPENHAGEN THE HAGUE ROME DUBLIN PARIS LUXEMBOURG ATHENS STRASBOURG

BUTLER (ADVANCED AS REQUESTED)

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(REPEATED AS REQUESTED)

Foreign and Commonwealth Office
London SW1A 2AH

23 February, 1983

Anglo-Italian Summit: 25 February 1983

Following our meeting here this morning, we agreed that I would let you have a note of the minor changes to the programme for the Anglo-Italian Summit meeting which have had to be made since the Steering Brief was printed.

Senator Fanfani and his delegation will now arrive at Heathrow Airport at 6.00 pm on 24 February. They will be met on arrival by Mr Pym. Arrangements for the short bilateral meeting with the Prime Minister and the Government Dinner on the evening of 24 February remain the same. On 25 February the Prime Minister and Senator Fanfani will as planned begin their talks at No 10 at 10.30 am, to be joined at 11.15 am by Foreign Ministers. Mr Pym and Signor Colombo will have had a short preliminary bilateral session here, also to start at 10.30 am. Other meetings between individual ministers and their opposite numbers will now begin at 11.00 am (I understand that this has been discussed and agreed with all concerned). Signor Romita, Minister for Scientific Research, will in addition call on Mr Shelton at 10.30 am prior to his meeting with Mr Jenkin. I should add that it has also been agreed that Signor Pandolfi, the Italian Industry Minister, will accompany Signor Romita at his talks with Mr Jenkin. All these individual bilateral discussions will be followed at 12.00 by a plenary session of talks at No 10 Downing Street.

The plenary talks will last until 1.00 pm, following which the programme reverts to that set out in the Steering Brief. There is no change envisaged to the time for the Joint Press Conference at 3.00 pm, but the Conference will now be held at No 12 Downing Street as opposed to the Vickers Cinema at Millbank.

Senator Fanfani is expected to leave London at about 7 pm.

I am copying this letter to the Private Offices concerned.

Yours ever
Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

From : Mrs M Hedley-Miller
Date : 24 February 1983

CHANCELLOR OF THE EXCHEQUER

cc Mr Littler
Mr Unwin

The Italian Minister for Industry, S. Pandolfi, is coming to London for the Summit.

2. In case you meet him over drinks, or sit by him at one of the meals, I should perhaps recall to you that he is a former Finance Minister, and was Chairman of the Interim Committee. He succeeded Mr Healey as Chairman, and took the meeting in Belgrade in September/October 1979 - your own first IMF Annual Meeting. Then he took the spring 1980 meeting but, if memory serves, although he came to Washington for the autumn 1980 session he had to dash back to Rome because of a government cricis, and Herr Androsch was voted into the Chair pro tem.

MHM.

MRS M HEDLEY-MILLER

CONFIDENTIAL

FROM J. G. LITTLER
DATE: 24 FEBRUARY, 1983

CHANCELLOR

cc Sir Douglas Wass
Mr. T. Burns
Mr. Unwin
Mrs. Hedley-Miller
Mr. Lavelle
Mr. Bottrill

ANGLO-ITALIAN SUMMIT

For this afternoon's briefing meeting with the Prime Minister, I suggest the following advice, on the two main issues.

Community Budget

2. You will be having bilateral talks with Treasury Minister Goria. Mr. Unwin, Mrs. Hedley-Miller and I will be talking with Mr. Sarcinelli and any other official advisers, and I plan to give him lunch. This gives plenty of opportunity to go over detail, and in particular to present and develop the themes in your press conference in Brussels of early this month.

3. The points on which the Prime Minister could most usefully concentrate are:

- need for a satisfactory long-term solution to the budget problem, and urgency of making progress so that we can get agreement on some interim solution within the next very few months, to cover the year which we are already in;

- impossibility of finding a satisfactory long-term solution simply by expanding Community activities: on the contrary, and while recognising with sympathy some Italian interests, we must get discipline over the Community budget, especially the agricultural component.

World Economy

4. It will be natural for the Prime Ministers to focus on preparation for Williamsburg. Points to make:

- uncertainties, particularly on US economic activity and interest rates, make it difficult to be clear now about likely scenario at Williamsburg;

- important to avoid building up too much public expectation of specific actions;

- healthy hopes of gradual recovery are beginning to show as inflation and interest rates come down. To add artificial stimulus would be a mistake - indeed a tragic one which could mean reverting to the high inflation and instability of the 1970's, when we have all gone through a great deal of painful adjustment and unemployment in order to overcome those conditions;

- need for the G.7 to follow up Versailles beginnings of the search for greater stability and convergence among leading industrial countries.

5. It may be more appropriate for you to discuss bilaterally the importance of keeping a close watch on developments in debt situations and carrying forward G.5 and G.7 work on convergence and exchange rates.

(J. G. LITTLER)

COPY NO 9

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

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   Brief by Foreign and Commonwealth Office

2. EUROPEAN COMMUNITY TOPICS

   a. EUROPEAN COMMUNITY

      Brief by Foreign and Commonwealth Office

   b. BUDGET

      Brief by Foreign and Commonwealth Office

   c. 1983 CAP PRICE-FIXING
      MEDITERRANEAN
      AGRICULTURE

      Brief by Ministry of Agriculture, Fisheries and Food

   d. STEEL

      Brief by Department of Industry

   e. GEEENLAND

      Brief by Foreign and Commonwealth Office

   f. INTERNAL MARKET

      Brief by the Department of Trade

   g. INTERNATIONAL TRADE ISSUES

      Brief by the Department of Trade

   h. GENSCHER/COLOMBO
      PROPOSALS

      Brief by the Foreign and Commonwealth Office

   i. EUROPEAN COMMUNITY
      REGIONAL POLICY

      Brief by the Department of Industry

3. EAST-WEST RELATIONS

a. INTRODUCTION (INCLUDING EAST-WEST POLITICAL RELATIONS)

Brief by the Foreign and Commonwealth Office

b. POLAND

Brief by the Foreign and Commonwealth Office

c. EASTERN EUROPE (INCLUDING ECONOMIC QUESTIONS)

Brief by Foreign and Commonwealth Office

d. CSCE

Brief by Foreign and Commonwealth Office

e. AFGHANISTAN

Brief by Foreign and Commonwealth Office

f. BULGARIAN INTELLIGENCE ACTIVITIES (BACKGROUND)

Brief by Cabinet Office

4. ARMS CONTROL AND DEFENCE

a. INF, START

Brief by Foreign and Commonwealth Office

b. ITALIAN DEFENCE POLICY

Brief by the Ministry of Defence

4c. Sale of Tornado to Greece.

5. TRANSATLANTIC RELATIONS

a. EAST/WEST ECONOMIC FOLLOW-UP

Brief by Foreign and Commonwealth Office

b. EC/UNITED STATES

Brief by Foreign and Commonwealth Office

6. MIDDLE EAST

a. ARAB/ISRAEL

Brief by Foreign and Commonwealth Office

b. LEBANON

Brief by Foreign and Commonwealth Office

c. IRAN/IRAQ

Brief by Foreign and Commonwealth Office

7. MEDITERRANEAN ISSUES

a. MALTA

Brief by Foreign and Commonwealth Office

b. CYPRUS

Brief by Foreign and Commonwealth Office

c. LIBYA

Brief by Foreign and Commonwealth Office

8. OTHER REGIONAL ISSUES

a. LATIN AMERICA

Brief by Foreign and Commonwealth Office

b. CENTRAL AMERICA

Brief by Foreign and Commonwealth Office

c. HORN OF AFRICA

Brief by Foreign and Commonwealth Office

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Brief by Foreign and Commonwealth Office

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Brief by Foreign and Commonwealth Office

9. INTERNATIONAL ECONOMIC ISSUES: PROSPECTS FOR THE WORLD TREASURY ECONOMY (INCLUDING DEBT PROBLEMS)

Brief by the Treasury

10. UNITED KINGDOM ECONOMY

Brief by the Treasury

11. ITALIAN ECONOMY

Brief by the Treasury

12. BILATERAL RELATIONS

a. COLLABORATIVE PROJECTS

i. EH 101 HELICOPTER

Brief by the Ministry of Defence and Department of Industry

ii. AIRBUS

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b. INDUSTRIAL AND RESEARCH AND DEVELOPMENT COLLABORATION

Brief by Department of Industry

c. BANCO AMBROSIANO (BACKGROUND)

Brief by Foreign and Commonwealth Office

13. SUPER SARA RESEARCH PROJECT

Brief by Foreign and Commonwealth Office

14. UNLOSC

Brief by Foreign and Commonwealth Office

15. ITALY: INTERNAL POLITICS

Brief by Foreign and Commonwealth Office

Cabinet Office

17 February 1983

AMV(83) 1 COPY NO 9

ANGLO-ITALIAN SUMMIT

25 FEBRUARY 1983

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

1. The last Anglo-Italian Summit meeting was in Rome on 7 July 1982. We decided last autumn to reduce Anglo-Italian Summits from twice yearly to nearer one a year by administrative delays. The Italians are unaware of this decision but remain suspicious of anything which might seem to imply we attach too little importance to the relationship.

2. This will be the Prime Minister's first bilateral meeting with Signor Fanfani, whose Government took office on 1 December 1982 following the collapse of the previous administration led by the Republican Senator Giovanni Spadolini (see political Brief No 15). Senator Fanfani will be accompanied by his Foreign Minister, Signor Emilio Colombo; Defence Minister, Signor Lelio Lagorio; Treasury Minister, Signor Giovanni Goria; and by the Minister for Scientific Research, Signor Pierluigi Romita.

INTRODUCTION

3. Senator Fanfani has been Prime Minister on four previous occasions, most recently from July 1960 to June 1963. His appointment as Prime Minister reflects the wish of the Christian Democrats to nominate one of their senior figures. The alternative last November/December might have been recourse to an early general

election. The present coalition comprises the Christian Democrats (Senator Fanfani's party), the Socialists, Social Democrats and the Liberal Party. Senator Spadolini's Republicans remain outside the government. Despite a substantial majority on paper, the Fanfani government is no more stable than its predecessors.

4. 1983 has begun well for Senator Fanfani. He introduced austerity measures, and in late January agreement was finally reached between the government, unions and employers on labour costs, including a modest reform of the controversial 'scala mobile' wage indexation system. In early February a row between the Christian Democrats and Socialists over the appointment of a new President of ENI, the State Oil Corporation, was resolved though it left a bitter taste. Nevertheless, economic worries, which have contributed to the downfall of a number of recent Italian administrations, will be very much at the forefront of Senator Fanfani's thoughts. Even if the recent austerity measures pass through Parliament they will leave Italy's inflation rate and PSBR deficit both far higher than in other industrialised countries. Further unpopular measures will be necessary. Senator Fanfani will therefore no doubt welcome an exchange of views on both the domestic and the international economic scene as the Williamsburg Economic Summit approaches.

5. Senator Fanfani will also want to discuss the future development of the Community, and to talk over the prospects for the European Council on 21/22 March. The Italians see the Community as being bogged down with problems, not least over its budget, which impede

its healthy development. Enlargement is currently causing concern. They are keen to see an expansion of Community spending, particularly on the Mediterranean where their interests and those of the French form the chief obstacle to early progress on enlargement. Senator Fanfani and Signor Colombo may suggest ways of restoring direction through an increase in own resources, and, less certainly, a 'special' European Council on the Community's future.

6. Senator Fanfani will also want to discuss the recent visit by Vice-President Bush to Western capitals and to compare notes about the INF negotiations and NATO. The Italians have a particularly strong interest in maintaining an equable transatlantic relationship. INF basing has not raised the same public outcry in Italy as has happened elsewhere, but the Italian Communist Party is hardening its opposition to the Fanfani Government and may make more of the missile basing question in expectation of elections, due by early next year at the latest, and quite likely to take place before then. Like us, the Italians will have a keen eye on the German elections on 6 March: their position will be especially important if Chancellor Kohl loses.

7. Our own objectives will broadly complement those of the Italians and on most of them, including transatlantic relations, INF and East/West relations, we shall be preaching to the converted. The Prime Minister could nevertheless usefully present our - and Italian - resolve on INF as particularly important during an electoral period in the FRG. It will also be important to keep the Italians on our side, in the period before Williamsburg, on world economic issues, East/West economic policies in conjunction with

the Americans, and US/Community trade relations, especially in the agricultural field. In discussing Community affairs we shall once again have to drive home the need for a satisfactory long-term solution to the budget problem, and for early agreement on an interim solution for the period before the longer-term solution takes effect. We will need to emphasise that we too are committed to the healthy development of the Community, but that unlimited * expansion of spending is not the answer. We share common aims but we cannot brush aside very real problems. The Prime Minister might reaffirm that we stand ready to contribute constructively towards agreement on the Genscher/Colombo proposals.

8. The Italians are bringing a large Ministerial team for this Summit. The norm over the past few years has been for Prime Ministers to be accompanied only by Foreign Ministers, or on occasions Treasury Ministers. We have an opportunity to demonstrate publicly the importance which we attach to high-level contacts with the Italians. This will appeal strongly to their amour-propre, and may with luck make it easier to put off the next Summit (in Rome) until early 1984.

9. A full list of UK and probable Italian objectives is set out at Annexes A and B.

STRATEGY AND TACTICS

10. Senator Fanfani has said he would prefer to keep plenary discussions to a minimum. The programme (see paragraph 12) now allows for an hour's tête-à-tête, following by restricted session involving the Foreign Ministers also. According to the Italian

Embassy, Senator Fanfani hopes that during his tête-à-tête with the Prime Minister discussion can concentrate on the East/West political and strategic relationship, including INF and international economic problems in preparation for Williamsburg. The Italians have been warned that the Prime Minister, for her part, may also wish to begin discussion of Community issues before Foreign Ministers will be present. In their separate meeting Mr Pym and Signor Colombo might concentrate on the more specialised foreign affairs items on the agenda, including the individual, as opposed to the general, items on East/West relations, regional questions and the Mediterranean, and perhaps CAP price-fixing. This would leave other Community issues, including the budget and relations between the Community and the United States, for discussion during the session involving Foreign Ministers also, which might look, too, at the Middle East.

11. Although the Secretaries of State for Defence and Industry are taking part in the Summit the Prime Minister could also mention the importance which we attach to tangible evidence of UK-Italian collaboration, especially in the industrial field, and over the EH 101 helicopter. Mr Jenkin intends to visit Italy in March to sign an agreement on development of the EH 101 with Signor Pandolfi, provided Ministers have agreed by then to support the project. The Prime Minister, and in particular, Mr Jenkin, may offer in this connection their condolences following the death on 5 February of Signor Giovanni Marcora, Pandolfi's predecessor, who resigned from Government in November 1982 due to ill health after a number of successful years, mainly at the Ministry of Agriculture.

12. The Prime Minister might also raise the attitude of the two countries towards the Law of the Sea Convention. We are keen to keep the Italians on our side during forthcoming attempts to improve the deep sea mining provisions.

13. Senator Fanfani and his party are expected to arrive at Heathrow at about 5 p.m. on 24 February. They will be met by Mr Pym. The Prime Minister has agreed to a short private talk with Senator Fanfani at No. 10 Downing Street at 7.25 p.m. immediately before the dinner at 8.00 p.m.

14. On 25 February individual ministers will begin discussions with their opposite numbers at 10.30 a.m. These will continue for one-and-a-half hours. Prime Ministers will be accompanied only by their private secretaries and interpreters, until joined at 11.30 by Mr Pym and Signor Colombo for an expanded discussion. Other ministers will arrive at 12.30 for a working lunch, which will be followed by a Joint Press Conference at the Vickers Cinema, Millbank at 3.00 p.m. Senator Fanfani will return to Rome during the later afternoon or early evening.

15. Personality notes on all Italian Ministers attending the Summit are at Annex C. There are also biographical notes on the principal officials, including Signor Bruno Bottai (Director General Political Affairs, MFA), Signor Maurizio Bucci (Director General Economic Affairs), and Signor Andrea Cagiati, the Italian Ambassador. Annex D lists subjects for discussion, as agreed with the Italian Embassy. A list of briefs is at Annex E and Annex F provides basis statistics on Italy.

RESUME OF BRIEFS

BRIEF NO 2: European Community Topics

See separate Community Steering Brief

BRIEF NO 3: East-West Relations

(a) West should combine firm approach with openness to any genuine concessions by new Soviet leadership. But no sign yet of any change in Soviet policies.

(b) Poland

We need to keep all aspects of our policy (including re-scheduling) under close review.

(c) Eastern Europe (Including economic questions)

The major economic problem in Eastern Europe is the burden of debt faced by all countries. Yugoslavia is currently in the most acute difficulty.

(d) CSCE

The prospects are still uncertain. The West retain the tactical initiative. But a successful outcome is dependent on an adequate Soviet response to Western and particularly US demands in the field of human rights.

(e) Afghanistan

We could usefully exchange views on the current mediation effort by the UN Secretary-General's proposal representative, Cordovez, and on ways of maintaining international pressure on the Soviet Union to withdraw their troops. We do not

anticipate any basic difference of opinion. It would be interesting to hear the Italian comments on the possible role of ex-King Zahir Shah, now resident in Italy.

(f) Bulgarian Intelligence Activities

We are interested in hearing from the Italians the latest information on the investigation into the link between the Bulgarians and the attempt on the life of the Pope. Our assessment is:

a. that the Bulgarian Intelligence Service is active in Italy;

b. that Agca had contact with the Bulgarian Intelligence Service; but

c. that it does not necessarily follow that the Bulgarian Intelligence Service was involved in the assassination attempt.

BRIEF NO 4: Arms Control and Defence

(a) INF, START

Brief 4(a) on INF/START suggests that Signor Fanfani be congratulated on the new Italian government's robust attitude to the INF double decision and in particular their response to the Andropov offer of 21 December. It underlines the importance of sending the right signals to the Americans in the wake of the Vice-President's visit, and the importance of continuing the closest possible consultation amonst the INF basing countries throughout this year.

(b) Italian Defence Policy

The brief outlines the rather unsatisfactory nature of the Italian defence effort. We should urge the Italians in conjunction with our NATO allies to do better.

BRIEF NO 5: Transatlantic Relations

(a) East-West Economic Follow-Up

The Italians will want to discuss the various bits of work on East-West Economic relations being prepared for the Williamsburg Summit. Like us they will find some parts of this work (e.g. high technology controls) very difficult. We should persuade them of the overall advantage to Europe in a real dialogue with the Americans on this controversial subject.

(b) We are concerned that the current tensions between the EC and US on agricultural trade should not develop into a trade war. We are pressing for the measured response from the Community to be maintained.

BRIEF NO 6: Middle East

(a) Arab/Israel

The Ten should inject a sense of urgency in contacts with all the parties. Time is running out for progress on the basis of the Reagan initiative and the US must make progress on Lebanon and Israel settlements. The Arabs can take advantage of debates within Israel by producing a clear peace policy.

(b) Lebanon

As contributors to the Multinational Force, we share with the Italians a close interest in the Israel/Lebanon negotiations, which have made little progress recently, and in the deteriorating security situation in Lebanon. The Italians must be concerned at the risk of indefinite commitment of their troops to the MNF.

(c) Iran/Iraq

Latest Iranian offensive launched on 6 February in Amara sector re-captured 250 sq kms of Iranian territory. Major body of Iranian troops stationed further north, apparently ready to launch further attack; Iraquis quietly confident. Mediation in abeyance. No direct role for West except to work for containment of present conflict.

BRIEF NO 7: Mediterranean Issues

(a) Malta

Italians have special interest in Malta. Maltese objections to contacts with Nationalist Party dealt with satisfactorily. Maltese politics show increasing trends to one-party state.

(b) Cyprus

Intercommunal talks are best way forward. ''Period of Opportunity'' this year must be used constructively. Separate initiative would be untimely. EC should be more generous to Cyprus to promote Mediterranean stability.

(c) Libya

The Italians have considerable commercial links with Libya and a large community there. They can provide an assessment of Qaddhafi's position and policies, both internally and externally.

BRIEF NO 8: Other Regional Issues

(a) Latin America

There is no question of negotiations with Argentina on sovereignty. Argentina should not be supplied with sensitive weapons without formally declaring an end to hostilities. The British Government has no quarrels with the rest of Latin America and is committed to developing its present good relations with the region.

(b) Central America

Central America remains confused and potentially explosive. We would welcome an Italian assessment of the situation, especially of the prospects for negotiation on El Salvador, and their views of the best way of handling Nicaragua. We want to brief the Italians on the breakdown of the Belize/ Guatemala talks. They may want to discuss the Mexican debt crisis.

(c) Horn of Africa

We can agree with Italians on need to maintain balanced approach to this area of strategic importance, in which Italy is closely involved. Increasing polarisation between East (Russia ensconced in Ethiopia) and West (US support for Somalia). Our relations with Ethiopia cold (human

rights). We are considering implications of somewhat more active policy in the area. (Sir J Leahy returns from visit on 24 February.)

(d) South East Asia

EC/ASEAN Foreign Minister's meeting in March should provide a good opportunity to review regional affairs, and strengthen ASEAN and our links with the area. No rapid progress is likely on Cambodia, though Sino-Soviet exchanges may lead to some movement. Meanwhile we should stick to the International Conference formula.

(e) Namibia/Angola

On Namibia, we should stress our continued commitment to achieving a settlement, welcoming Italian support of the five's efforts. We need to persuade the Angolans and other front line states that the present process offers the best chance of success, and that a programme of Cuban withdrawal, taking account of Angolan security concerns, should be possible.

BRIEF NO 9: International Economic Issues

Modest recovery expected in 1983, with inflation and interest rates falling faster than expected in many countries. Recovery could be threatened by stability of international financial system, protectionism or resurgence of inflation. Firm adherence to macro-economic policies remains essential for substantial recovery.

BRIEF NO 10: United Kingdom Economy

The brief examines developments in the main components of output and demand; and outlines prospects for the remainder of 1983.

BRIEF NO 11: Italian Economy

Activity in Italy remains depressed and is not expected to pick up strongly this year. Prospects depend on the success of recent 1983 budget measures to reduce the large PSBR and on future wage developments. Agreement has been reached to modify the wage indexation system but at the cost of government expenditure on revenue concessions which could jeopardise its fiscal objectives.

BRIEF NO 12: Bilateral Relations

(a) Collaborative Project

(i) EH 101 helicopter

EH 101 is the most important project, both in the general context of Anglo-Italian cooperation and for the future of our helicopter industries. Line to be adopted will depend on the outcome of official meetings immediately preceding the Summit.

(ii) Airbus

The Italians are interested in participating in the manufacture of the A320 airbus if the project goes ahead. But, like us, they have yet to be convinced of its commercial viability.

(b) Industrial and Research and Development Collaboration

The Prime Minister could make clear our continued interest in promoting collaborative projects with Italy, but, despite the involvement of our two governments in the EH 101 project (Brief 12(a)) industrial collaboration is essentially a matter for industrial partners.

(c) Banco Ambrosiano

Brief sets out main developments since the body of banker Roberto Calvi was found in London on 18 June 1982. Investigations into the collapse of the Banco Ambrosiano, Italy's largest private bank continue.

BRIEF NO 13: Super Sara Research Project

The Super Sara project forms a major part of the Community's reactor safety programme, but in the light of the expert advice from eminent European scientists, the project should now be cancelled. We are, however, confident that the ISPRA establishment in Northern Italy has the potentional to make a valuable contribution to community research.

BRIEF NO 14: UNLOSC

We hope the Italian government will, like us, continue to refrain from signature of the UNLOSC in order that we can send the same strong message of dissatisfaction with the deep sea mining provisions and our desire to reach more acceptable arrangements. We also look forward to working closely with the Italians in the latter case.

BRIEF NO 15: Italy: Internal Politics

Fanfani-led coalition government has begun well and scored some early successes. But fundamental economic difficulties remain. Elections widely forecast for 1983, possibily as early as the Spring.

ANGLO-ITALIAN SUMMIT, 25 FEBRUARY 1983

UNITED KINGDOM OBJECTIVES

Primary

1. To establish good working and personal relations between the Prime Minister and the new Italian Prime Minister. In demonstrating the importance we attach to United Kingdom relations with Italy, we should seek:

(a) Community. To secure Italian support on handling of 1982 budget refunds. To persuade them of the need for early progress on 1983 and beyond and on long-term reform of the financial system leading to a lasting solution. At the same time to reassure the Italians about the United Kingdom's commitment to the Community and our interest in the further development of the Community.

(b) East/West Relations and Security Issues. To assess the prospects for East/West relations in the light of Vice-President Bush's visit to Europe. To coordinate views on the European response to the Warsaw Pact proposals on arms control. In particular to discuss INF deployment (state of the negotiations, timetable for deployment, public opinion, etc) and to encourage the Italians to maintain their current firm support for the dual track decision.

(c) International and Economic Issues. To exchange views on world economic problems, including debt, protectionism and prospects for recovery in the approach to the Williamsburg Economic Summit (28-30 May).

(d) Transatlantic Relations. To discuss handling of the elements of friction, actual and potential, including East/West economic follow-up, EC/United States relations (especially agriculture) as well as ways of bolstering United States confidence, that Europe is pullings its weight (eg defence expenditure).

Subsidiary

2. The Middle East. To exchange views on Arab/Israel and the Lebanon.

3. Argentina. To persuade the Italians to use their influence in Argentina to discourage further use of force. To urge continued Italian restraint over arms sales to Argentina, while reassuring them about United Kingdom attitudes towards Latin America as a whole.

4. Collaborative Projects. To make clear the United Kingdom commitment to industrial collaboration with Italy, and to discussion of the EH 101 helicopter, but not to discuss in detail (Industry Ministers are due to meet separately).

5. Bilateral Relations. To suggest ways of reinforcing Anglo-Italian links.

PROBABLE ITALIAN OBJECTIVES

Primary

1. European Community. To suggest a relaunching of the Community in 1983, perhaps dedicating a European Council to this purpose, to urge early progress on the European Act, to pursue specific Italian economic interests (eg Mediterranean products, steel) and to press the case for increasing the Community's own resources.

2. NATO. To urge the need for close consultations within NATO and between INF basing countries, especially in view of recent Soviet proposals on arms control.

3. East/West. To exchange views on economic aspects of East/West relations, including the pipeline and any follow-up to the visit of Vice President Bush.

4. Economy. To compare notes on international and domestic economic issues.

5. Middle East. To discuss the Arab/Israel problem and Lebanon, where Italy has a large commitment.

Subsidiary

6. To confirm Italy's interest in remaining a top table partner, and to secure domestic credit for her international role.

7. To discuss the ''Bulgarian connection'', especially if further evidence has come to light, eg over the assassination attempt on the Pope.

8. To display Italian expertise in specific areas of foreign affairs (Horn of Africa, Libya, PLO).

The National Archives

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AGENDA

A. European Community Issues

B. International Economic Issues

C. Arms Control and Defence

D. East-West Political and Economic Relations

E. Transatlantic Relations, including East/West Economic follow-up

F. Middle East, including Arab/Israel, Lebanon, Iran/Iraq

G. Regional Issues, including Central and Latin America South-East Asia and South Africa

H. Industrial and Research and Development Collaboration, including EH 101 helicopter project

LIST OF BRIEFS

1. Steering Brief

2. European Community Topics

   (a) General Brief on European Community Issues

   (b) Budget

   (c) 1983 CAP Price-fixing/Mediterranean Agriculture

   (d) Steel

   (e) -

   (f) Internal Market

   (g) Protectionism

   (h) Genscher/Colombo Proposals

   (i) New Community Policies including Regional Policy

3. East/West Relations

   (a) Introduction (including East-West political relations)

   (b) Poland

   (c) Eastern Europe (including economic questions)

   (d) CSCE

   (e) Afghanistan

   (f) Bulgarian Intelligence Activities (background)

4. Arms Control and Defence

   (a) INF, START

   (b) Italian Defence Policy

   (c) Possible Sale of Tornado to Greece

/5.

5. Transatlantic Relations

   (a) East/West Economic Follow-up

   (b) EC/United States

6. Middle East

   (a) Arab/Israel

   (b) Lebanon

   (c) Iran/Iraq

7. Mediterranean Issues

   (a) Malta

   (b) Cyprus

   (c) Libya

8. Other Regional Issues

   (a) Latin America

   (b) Central America

   (c) Horn of Africa

   (d) South East Asia

   (e) Nambia/Angola

9. International Economic Issues: Prospects for the World Treasury Economy (including debt problems)

10. United Kingdom Economy

11. Italian Economy

12. Bilateral Relations

    (a) Collaborative Projects

        (i) EH 101

        (ii) Airbus

/(b)

(b) Industrial and Research and Development Collaboration

(c) Banco Ambrosiano (background)

(d) Research Department

13. Super Sara Research Project

14. UNLOSC

15. Italy: Internal Politics

ITALIAN BASIC STATISTICS

		ITALY	UK
Population (millions)	1980	57.1	56.0
	1981	57.2	55.8
Labour Force (millions)	1980	22.3	26.1
	1981	22.6	25.7
Unemployed (per cent of civilian Labour Force)	1980	8.0	6.9
	1981	8.9	10.5
	Nov 1982	11.4	12.7
Gross Domestic Product (Billion Dollars)	1980	394.0	522.9
	1981	345.1	480.8
GDP per capita (Dollars)	1980	6899	9337
	1981	6033	8616
Annual Rate of Growth of GDP (%)	1980	3.9	-2.0
	1981	-0.2	-2.0
Annual Rate of Growth of Industrial Production (%)	1979	6.8	3.6
	1980	5.1	-6.1
	1981	-2.2	-4.6
Consumer Prices (change over year earlier (%))	1979	15.7	13.3
	1980	21.2	18.4
	1981	19.3	11.9
Balance of Payments on Current Account (Million Dollars)	1980	-9801	6904
	1981	-8730	12656

Defence

Spending (per cent of GNP)	1980	2.4	5.1
Total Armed Forces	1980	366000 (239300 conscripts)	343646

Trade

United Kingdom Exports to Italy	1980	£1,899.2m
	1981	£1,742.6m
Eleven months	1982	£1,864.2m
United Kingdom Imports from Italy	1980	£2,311.1m
	1981	£2,337.7m
Eleven months	1982	£2,529.0m

(pm)

COPY NO 9

ANGLO-ITALIAN SUMMIT
25 FEBRUARY 1983

LIST OF BRIEFS ISSUED IN THE AMV(83) SERIES

1. STEERING BRIEF

   Brief by Foreign and Commonwealth Office

2. EUROPEAN COMMUNITY TOPICS

   a. GENERAL BRIEF ON EUROPEAN COMMUNITY ISSUES

      Brief by Foreign and Commonwealth Office

   b. EC BUDGET

      Brief by Foreign and Commonwealth Office

   c. 1983 CAP PRICE-FIXING/ MEDITERRANEAN AGRICULTURE

      Brief by Foreign and Commonwealth Office

   d. STEEL

      Brief by Department of Industry

   e. NOT ISSUED

   f. INTERNAL MARKET

      Brief by the Department of Trade

   g. INTERNATIONAL TRADE ISSUES

   (Revise) Brief by the Department of Trade

   h. GENSCHER/COLOMBO PROPOSALS

      Brief by the Foreign and Commonwealth Office

   i. NEW COMMUNITY POLICIES (INCLUDING REGIONAL POLICY)

   (Revise) Brief by Foreign and Commonwealth Office

3. EAST-WEST RELATIONS

a. INTRODUCTION (INCLUDING EAST-WEST POLITICAL RELATIONS)
Brief by the Foreign and Commonwealth Office

b. POLAND
Brief by the Foreign and Commonwealth Office

c. EASTERN EUROPE (ECONOMIC QUESTIONS INCLUDING YUGOSLAVIA)
Brief by Foreign and Commonwealth Office

d. CONFERENCE ON SECURITY AND CO-OPERATION IN EUROPE
Brief by Foreign and Commonwealth Office

e. AFGHANISTAN
Brief by Foreign and Commonwealth Office

f. BULGARIAN INTELLIGENCE
(Revise) ACTIVITIES
Background Brief by Cabinet Office

4. ARMS CONTROL AND DEFENCE

a. INF/START
Brief by Foreign and Commonwealth Office

b. ITALIAN DEFENCE POLICY
Brief by the Ministry of Defence

c. SALE OF TORNADO TO GREECE
Brief by the Ministry of Defence

5. TRANSATLANTIC RELATIONS

a. EAST/WEST ECONOMIC FOLLOW-UP
Brief by Foreign and Commonwealth Office

b. EC/UNITED STATES
Brief by Foreign and Commonwealth Office

6. MIDDLE EAST

a. ARAB/ISRAEL
Brief by Foreign and Commonwealth Office

b. LEBANON
(Revise) Brief by Foreign and Commonwealth Office

c. IRAN/IRAQ
Brief by Foreign and Commonwealth Office

7. MEDITERRANEAN ISSUES

a. MALTA

Brief by Foreign and Commonwealth Office

b. CYPRUS

Brief by Foreign and Commonwealth Office

c. LIBYA

Brief by Foreign and Commonwealth Office

8. OTHER REGIONAL ISSUES

a. LATIN AMERICA

Brief by Foreign and Commonwealth Office

b. CENTRAL AMERICA

Brief by Foreign and Commonwealth Office

c. HORN OF AFRICA

Brief by Foreign and Commonwealth Office

d. SOUTH EAST ASIA

Brief by Foreign and Commonwealth Office

e. NAMIBIA/ANGOLA

Brief by Foreign and Commonwealth Office

9. WORLD ECONOMIC PROSPECTS

Brief by Treasury

10. UNITED KINGDOM ECONOMY RECENT DEVELOPMENTS AND PROSPECTS

Brief by Treasury

11. ITALIAN ECONOMY

Brief by Treasury

12. BILATERAL RELATIONS

a. COLLABORATIVE PROJECTS

i. EH 101 HELICOPTER

Brief by the Ministry of Defence and Department of Industry

(Revise) ii. AIRBUS

Brief by the Department of Industry

b. INDUSTRIAL AND R AND D COLLABORATION

Brief by the Department of Industry

c. BANCO AMBROSIANO

Brief by Foreign and Commonwealth Office

13. SUPER SARA (DEFENSIVE)

Brief by Foreign and Commonwealth Office

14. UNLOSC

Brief by Foreign and Commonwealth Office

15. ITALY: INTERNAL POLITICS

Brief by Foreign and Commonwealth Office

Cabinet Office

23 February 1983

(pwp)

10 DOWNING STREET

C.

From the Private Secretary

25 February 1983

Dear Brian,

Prime Minister's Tête-à-Tête with Senator Fanfani

I enclose a record of the Prime Minister's tête-à-tête with Senator Fanfani this morning.

I am copying it to John Kerr (HM Treasury), Richard Mottram (Ministry of Defence), John Rhodes (Department of Trade) and Richard Hatfield (Cabinet Office).

Yours ever,

Robin Butler

Brian Fall Esq
Foreign and Commonwealth Office.

COVERING SECRET

BILATERAL DISCUSSION BETWEEN THE PRIME MINISTER AND HIS EXCELLENCY SENATOR FANFANI AT 10 DOWNING STREET ON FRIDAY 25 FEBRUARY AT 1030 A.M.

Present:

Prime Minister	H.E. Senator Amintore Fanfani
Mr. F.E.R. Butler	H.E. Ambassador Remo Paolini

Two interpreters

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East/West Relations and INF Negotiations

The Prime Minister said that she had made no public statement about President Reagan's latest speech on the zero option and deployment of INF missiles, but she regarded it as helpful. She regarded Vice-President Bush's visit as having been successful: there had been good talks in London and he had conveyed the impression that the Americans were both reasonable and keen to achieve a multi-lateral reduction of nuclear weapons. This was important because President Reagan had been wrongly presented in a harsh light, as if he wanted nuclear weapons for their own sake. This was of course wrong: the truth about the Cruise and Pershing missiles was that the Europeans had proposed their deployment in Europe in order to involve the Americans more closely in European defence. There were two aspects of the latest American position which were particularly helpful: the first was their clarification that the zero option was not the only option and that they were prepared to consider an intermediate position providing that equality was maintained; and the second was that Ambassador Nitze had been instructed to explore any reasonable Russian proposals. She suggested that Senator Fanfani and she might usefully stress these points at the Press Conference following their talks. The British Government had also suggested to Vice-President Bush that it would be helpful if agreement was reached on the timing of deployment of the Cruise missiles. It would suit the British Government, and she had the impression that it would suit the Germans, if there were no deployment before November, since the public were expecting that the majority of this year would be available for negotiation with the Russians.

/She did not

She did not propose any public statement about the timing, but it was important that the European allies should keep together on this aspect.

Senator Fanfani said that the Prime Minister's remarks reflected exactly the sentiments which the Italian Government had put to Vice-President Bush and more recently to President Reagan. They were in full agreement on the attitude to be taken to future missile bases. The zero option was the best objective, but intermediate objectives were worth pursuing, provided that a balance was maintained without the inclusion of the independent United Kingdom and French deterrents, but with the inclusion of any destabilising Soviet installations. The Italian approach was based on respecting the 1979 NATO agreement; and work was continuing in preparation for commissioning the missiles to be located in Italy. It was important that the West should from the start take a firm position with the Russians in order to encourage those in Russia (if any) who were in favour of meaningful negotiations. An important aspect in his view was the question of whether political or military opinion prevailed in Moscow.

The Prime Minister asked whether Senator Fanfani was saying that he thought that there was some schism between the two. Senator Fanfani recalled that when he met Mr. Kruschev in 1961 and Mr. Kruschev was criticising President Kennedy for escalating the US nuclear armoury, Senator Fanfani had defended President Kennedy by saying that he had to take account of the opinion of United States electors: Kruschev had made a reply which was very revealing and which Senator Fanfani still took as a point of reference: "I have to take account of the opinion of my Generals". The Prime Minister commented that she would have expected even the Russian Generals to have been given pause by their experiences in Afghanistan and Vietnam. They were in danger of creating the encirclement of Russia by disaffected satellite countries.

Senator Fanfani commented that on the invasion of Afghanistan the Generals had prevailed over Mr. Brezhnev: in the case of Poland Mr. Brezhnev's view had prevailed, but an exchange which he had had with Mr. Brezhnev, when he was President of the Senate, had indicated

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that military considerations, in terms of the risk to military communications between Russia and East Germany, was an important element in their attitude to Poland. Senator Fanfani therefore thought that the Russian military leaders were very important and were likely to impede reductions of Russian missiles, lest they lost their cards of military supremacy.

Senator Fanfani said that negotiations with the Russians involved two duels, one public and one private. The private duel was the Geneva negotiations. It was essential that the West maintained their determination on this. The West must not forget that if the Russian military view prevailed it could bring us to the edge of the abyss: the Russians had no more than 18 months before supremacy returned to the West, and there was now evidence that they had been disturbed by the launch of the American Space Shuttle, which they regarded as drastically affecting the East/West balance. The public duel was over who captured public opinion in the West, and this was reflected in Russian efforts to gain the support of the World Peace Movement. The Western Governments could best counter that by showing their eagerness to achieve multilateral disarmament. The Russians were trying to isolate Western Governments from their people, and evidence for this was the effort that they were making within the churches. He recalled that he had been asked to speak at a conference to open the Centenary Year of St. Francis at the same time as the American Bishops had issued a statement of extreme pacifism. His own speech had been designed to show that St. Francis would not have been a pacifist and he would send a copy of this to the Prime Minister.

The Prime Minister commented that the Pope had taken a firm position. The debate in the British Synod had resulted in a majority of 3 to 1 against the unilateralists, despite the publicity which had been given to them beforehand. In her view this was because people knew in their hearts that only strength preserved their freedom. Senator Fanfani commented that history proved this right. President Kennedy only persuaded the Russians to withdraw their missiles from Cuba in 1961 because they had Jupiter missiles

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installed in Italy and Turkey which, with the agreement of the Italians and the Turks, were withdrawn in order to persuade the Russians to withdraw their weapons from Cuba.

The Prime Minister said that she regarded it as particularly important in this situation that the United States and the other Western allies should have no differences in their attitude to the Russians. A difficult area here was trade restrictions. Her experience was that trade restrictions were never effective. It was essential that they should be applied to equipment which had implications for Western security, but in respect of other goods she thought that the United States overestimated their effect. Since in any case the Americans continued to supply wheat, their stance was unconvincing. Another problem was extra-territoriality. The British Government's view was that overseas subsidiaries should follow the laws of the country in which they were located: it would be helpful to sort this out with the Americans. She was not proposing any weakening of the Western attitude to Russia, but it needed to be considered dispassionately whether trade restrictions were effective. In the long run she believed that the greatest danger to Russia was the circulation of ideas which could not be forever restricted there.

Senator Fanfani said that Cardinal Wyszynski had told him shortly before his death that he had much information about what was going on in Russia which indicated that not only the young but workers generally were critical of the incapacity and efficiency of the Russian system. Even so, no rapid developments in internal resistance in Russia were to be expected: it would take perhaps as many as ten years. The Prime Minister intervened to invite Senator Fanfani's view on why resistance had broken out in Poland but not in Russia: had the election of a Polish Pope and the fact that Poland was a Catholic country played a part in this? Senator Fanfani said that it had: the Catholic religion was an integral part of Polish life: in no city were more priests and sisters in habits to be seen than in Warsaw. Another aspect had been the Polish character and psychology, which was admirable but dangerously impetuous. That had been seen in the rash demands of Solidarity.

The Williamsburg Summit

The Williamsburg Summit

The Prime Minister said that, in preparing for the Williamsburg Summit, it had to be considered whether a formal communique should be issued or whether the proceedings should be kept as informal as possible. She understood that the original intention of these summits was that they should be informal and that President Reagan wanted to return to that after the formality and lavishness of Versailles.

Senator Fanfani commented that he had heard President Mitterrand criticise the formality of the last summit in terms which had made him wonder whether Versailles was still in France! He thought that informal discussions between the leaders were essential, but the advantage of a formal communique was that it provided a shield against subsequent press comment which undermined what had been agreed. He had not himself reached a conclusion on where the balance should be struck, but he thought that the summit was well timed in relation to the deployment of Cruise and Pershing missiles later in the year and that the outcome of the summit had to be carefully considered in this respect.

The Prime Minister suggested that President Reagan should be advised to conduct the summit on two levels. There should be a level of quiet and informal talking, but some formal communique should be issued to prevent the press from interpreting its absence as a sign of lack of agreement and disarray. Ambassador Paolini intervened to say that he understood that the Americans were envisaging an announcement by President Reagan on jointly agreed points, rather than a joint communique: this idea would be discussed by the Personal Representatives in San Diego. The Prime Minister said that this might well

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prove a satisfactory solution. One of the problems about the summit was that all the Heads of Government were accompanied by their press officers, and that a lot of informal press briefing went on during the meeting.

Anglo/Italian Round Table

Senator Fanfani invited Mrs. Thatcher's views on the proposal for a British/Italian round table to be held in 1983. The Prime Minister said that she welcomed it: she thought it a good idea to associate it with the centenaries of Newton and Galileo; but suggested that some form of cultural anniversary might be associated with it also.

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F.E.R.B.

25 February 1983

SECRET

10 DOWNING STREET

EXCHEQUER
28 FEB 1983
REC. 28/2
ACTION
COPIES TO Mr Littler / Mr Unwin.

From the Private Secretary

25 February 1983

Dear Roger,

VISIT OF THE ITALIAN PRIME MINISTER

I enclose a record of the talks which took place here at 1115 hours today between the Prime Minister, Mr. Fanfani, the Foreign and Commonwealth Secretary and the Italian Foreign Minister.

There will be no record of the discussion at lunch, which was of an informal nature.

I am sending copies of this letter and enclosure to John Kerr (HM Treasury), Robert Lowson (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office). The record should not be circulated outside Private Offices, except where this is operationally essential.

Yours ever

John Coles.

R. B. Bone, Esq.,
Foreign and Commonwealth Office.

SECRET

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF ITALY AT 1115 HOURS ON FRIDAY 25 FEBRUARY AT NO. 10

Present:

Prime Minister	Mr. Fanfani
Foreign and Commonwealth Secretary	Mr. Colombo
Mr. Coles	Mr. Paolini
Interpreter	Mr. Cagiati
	Interpreter

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The Prime Minister gave a brief description of the tête-à-tête conversation which she had just had with Mr. Fanfani and then suggested that the discussion should turn to Community issues.

It was very satisfactory that the Community had at last achieved a Common Fisheries Policy. This had long eluded us and its adoption was a genuine step forward.

She wished to make a political point about the United Kingdom budget problem. We did not know when the next UK Election would take place. But it was absolutely vital that there should be an effective solution to the UK budget problem soon. If there was an Election in Britain this year, the absence of a long-term budget solution would have a devastating effect on the campaign. She could not over-emphasise the point.

Nothing effective was likely to happen on this matter during the second half of 1983 when Greece would have the EC Presidency. It followed that the agreement must be achieved under the German Presidency. She would therefore raise the question at the March Council and would not be able to leave the June Council without a settlement of the issue. This was a political imperative. Italy would find Britain very firm and very active on this matter.

Mr. Fanfani asked Mr. Colombo to comment. Mr. Colombo said that he believed that every effort must be made to find a

/ solution

solution this year. But a valid solution must take account of recent developments, in particular the new attitude of the European Parliament. The recent Green Paper produced by the European Commission provided an opportunity to discuss a whole complex of issues. It contained proposals which could result in balanced solutions both for the United Kingdom and for Germany. A determination to deal with the whole question of the Community's future would make it easier to obtain a solution to the UK budget problem for 1983.

The Prime Minister said that the root of the problem lay in the Common Agricultural Policy and in particular with the way that northern products were managed under that policy. Large surpluses of northern products were built up. Their storage and disposal to other countries were extremely expensive. The practice was bad and foolish. Mr. Colombo said that this was of course true but one had to be realistic. With regard to the CAP, the Community could not take a backwards step. A price increase of 6-7% for CAP products was being talked about this year. The Prime Minister said that such an increase was too great. Mr. Colombo said that it was too great for countries with low inflation rates, but too small for those with high inflation rates.

The Prime Minister said that she felt that the discussion was entering into too much detail. The details would have to be covered in the eventual negotiation. But the point she wanted to make was that the United Kingdom budget problem must be solved by June. She was opposed by a political party which would use every possible weapon against the European Community. If it were handed the weapon of an unfair budget arrangement, this could be very damaging. A satisfactory solution must be adopted by June.

Mr. Colombo said that Italy needed some progress on Mediterranean policy. Otherwise it would find it difficult to agree to enlargement of the Community. The Prime Minister said that she was anxious that Portugal, which had managed to free itself from Communism, should enter the Community. It needed a helping hand. Negotiations with Spain would take a long time because of the French attitude. However, she understood the difficulty of one country entering separately from the other.

/ Mr. Fanfani

Mr. Fanfani said that President Mitterrand had told him last week that he would no longer raise problems with regard to the entry of Spain. Indeed, he wished this to be speeded up and envisaged it taking place in 1985. Mitterrand thought that both Spain and Portugal must enter at once. He was aware of the problems - especially those relating to wine, fruit and vegetables - but had in mind what the Prime Minister had said in Copenhagen, namely that despite the sacrifices involved we must help these two countries. Questions of political strategy, democracy and defence were involved. The sacrifices must be faced. He had been surprised to hear that Mitterrand saw no real obstacles to enlargement, but this was apparently the case.

Mr. Colombo said that it was realistic to look at all these problems together - the British budget problem, the German problem, Mediterranean policy and enlargement. The Prime Minister observed that if we waited for solutions to everything we should get solutions to nothing. Mr. Colombo agreed that a solution for 1983 was necessary, but the Community also had to look at the whole future of its finances. The Prime Minister commented that it had been doing just that for the last 18 months. She recalled the three chapters of the Mandate. We had to have a satisfactory solution. As seen from London, the Community was financed by Germany and the United Kingdom. She simply could not go into an Election and say that this situation would continue in the future.

Mr. Colombo said that there appeared to be agreement between France and Germany that before the end of the German Presidency there should be a European Council of a new character, devoted to a re-launching of the European Community. Heads of State and Government would be invited to adopt definitive positions on three or four fundamental issues.

The Prime Minister commented that all this was excellent provided it was not used as a substitute for progress on the practical problems which confronted us. The moment to re-launch the Community was when the practical problems had been solved. She would be glad to envisage a re-launching in June because that would imply that the United Kingdom budget problem would be solved by then.

/ Mr. Colombo

Mr. Colombo said that he saw the re-launching process as a means of solving practical problems. But the problem of the UK's 1983 budget contribution should be settled separately and first. The Prime Minister said that a settlement for 1983 alone was not enough. We should simply renew the argument in December. It was ridiculous to have to keep returning to this matter. If our budget problem was settled, she would be delighted to agree to a process of re-launching the Community. Mr. Colombo said that in the Italian mind re-launching was essentially an economic matter, based on better and balanced financing of the Community. That would help to solve Britain's budget problem. The Prime Minister said that it was an illusion to imagine that the problem could be solved in that way. The fundamental difficulty was the way in which the Common Agricultural Policy was run.

The discussion ended at 1200 hours and was followed by a plenary session.

A.J.C.

25 February 1983

EXCHEQUER
28 FEB 1983
ACTION
COPIES TO
Mr Littler, Sir D. Wass, Mr Middleton, Mr Burns, Mr Kelly, Mr Irwin, Mr Carey, Mr Lavelle, Mr Hawtin, Mr Hall

Ref. A083/0657

MR COLES

I mentioned at yesterday's briefing meeting for the Anglo-Italian bilateral that the United States Secretary of State had given a press conference on 17 February about the Williamsburg Economic Summit.

2. The United States Personal Representative has now sent me a transcript of Mr Shultz's statement and answers to questions and of a comment on them by Mr Eugene Brake. I attach copies herewith.

3. The United States Personal Representative describes Mr Shultz as expressing the hope that the leaders of the Summit countries will have an opportunity for a free, informal and fruitful exchange of views without the need for a rigid agenda; and he hopes that other Personal Representatives will take a similar line in any discussions with the press about the Williamsburg Summit.

4. I am sending copies of this minute and the attachments to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

25 February 1983

EUR-509
(BACKGROUND FOR THE WILLIAMSBURG SUMMIT)

EXCERPTS: SHULTZ FEBRUARY 17 NEWS CONFERENCE
- -

SEVEN SET ON INFORMAL SUMMIT, SHULTZ SAYS

WASHINGTON -- THE HEADS OF SEVEN MAJOR INDUSTRIAL NATIONS ARE DETERMINED TO HAVE A "RELATIVELY INFORMAL" ECONOMIC SUMMIT MEETING IN MAY, U.S. SECRETARY OF STATE GEORGE SHULTZ SAYS.

AT WHITE HOUSE NEWS CONFERENCE FEBRUARY 17, SHULTZ TOLD REPORTERS THAT THE LEADERS WANT TO "SPEND A FAIR AMOUNT OF TIME JUST WITH THEMSELVES OR WITH A VERY FEW OTHER PEOPLE AND REALLY TALK OUT SOME OF THESE IMPORTANT (ECONOMIC) ISSUES AND GET SOME IDEA OF WHAT THEIR COUNTERPARTS THINK."

THE ECONOMIC SUMMIT MEETING IS SCHEDULED FOR MAY 28-29 IN WILLIAMSBURG, VIRGINIA, A HISTORIC TOWN RESTORED TO ITS EIGHTEENTH CENTURY APPEARANCE. ATTENDING WILL BE HEADS OF GOVERNMENT FROM THE UNITED STATES, FRANCE, UNITED KINGDOM, WEST GERMANY, ITALY, JAPAN, AND CANADA.

FOLLOWING IS A PARTIAL TRANSCRIPT OF THE SHULTZ PRESS CONFERENCE, INCLUDING ALL SUBSTANTIVE COMMENTS BY THE SECRETARY OF STATE:

(BEGIN EXCERPTS)

SECRETARY SHULTZ: THE MESSAGE OF WHAT WE HAVE TO SAY ABOUT THE SUMMIT, IN A WAY, CAN BE ILLUSTRATED BY A DESCRIPTION OF AT LEAST THE LITTLE BIT I'VE SEEN OF SUMMITS IN THEIR EARLY STAGES. BACK IN EARLY 1975, PRESIDENT FORD GOT AHOLD OF ME -- I WAS A PRIVATE CITIZEN -- AND TOLD ME THAT SOME OF THE LEADERS OF EUROPE HAD THE LEADING INDUSTRIAL DEMOCRACIES TO TALK OVER THE PROBLEMS OF THE INTERNATIONAL ECONOMY, THE THINGS THEY WERE DOING, THEIR PERSPECTIVES ON THEM, AND IDEAS THAT THEY HAD FOR WHAT SHOULD BE DONE ABOUT THEM. AND HE DIDN'T KNOW QUITE WHAT TO MAKE OF THESE SUGGESTIONS, BUT, SINCE IT HAPPENED THAT I KNEW SEVERAL OF THE PEOPLE INVOLVED, WOULD I MIND GOING AROUND AND TALKING TO THEM AND GET A LITTLE CLEARER IDEA OF WHAT WAS ON THEIR MINDS.

SO I DID THAT. AND IT TURNED OUT THAT WHAT WAS ON PEOPLES. MINDS AND WHAT I REPORTED BACK TO PRESIDENT FORD WAS THAT THERE WERE PROBLEMS AND, CERTAINLY, THERE ARE TODAY, AND THAT IT OUGHT TO BE A USEFUL THING FOR THE HEADS OF THESE COUNTRIES TO GET TOGETHER AND SHARE THEIR IDEAS, DEVELOP WHATEVER COMMON THOUGHTS THEY COULD, AT LEAST HAVE A DISCUSSION SUCH THAT, AS THEY RESPECTIVELY WENT ABOUT MAKING DECISIONS ABOUT ECONOMIC POLICY, THEY WOULD HAVE IN MIND THE PERSPECTIVES AND THE THOUGHTS OF THE OTHER PARTIES, AND THAT, IN ORDER FOR THIS TO TAKE PLACE, THEY REALLY HAD TO KIND OF GET TOGETHER AS PEOPLE AND TALK AND GENUINELY SHARE IDEAS, HAVE AN INTERCHANGE.

AND THAT WAS WHAT, IT SEEMED TO ME, THEY REALLY WANTED, AND, AS IT TURNED OUT, PRESIDENT FORD THOUGHT THAT WAS A GOOD IDEA. AND SO THE FIRST OF THESE SUMMITS, THAT WAS HELD AT RAMBOUILLET, EMERGED.

I'VE NEVER BEEN TO ONE OF THEM, ALTHOUGH I'VE BEEN INVOLVED IN HELPING GET SEVERAL OF THEM GOING IN ONE WAY OR ANOTHER. BUT I UNDERSTAND THAT THE RAMBOUILLET SUMMIT WAS A RELATIVELY INFORMAL KIND OF MEETING IN A PLACE THAT WAS PRIVATE. A GREAT DEAL OF THE TIME WAS SPENT WITH THE HEADS OF STATE TALKING WITH EACH OTHER. THEY HAD OTHER PEOPLE AROUND -- FOREIGN MINISTERS AND TREASURY SECRETARIES AND SO

OF TIME POSSIBLE IS SPENT WITH THEM BY THEMSELVES, TALKING WITH EACH OTHER, OR WITH OTHERS AROUND, BUT IN -- NOT WITHOUT AN AGENDA, BUT WITHOUT A SORT OF SUPERSTRUCTURED KIND OF AGENDA THAT WOULD SORT OF INTERRUPT THE FREE FLOW OF CONVERSATION AND EXCHANGE AMONG THEM.

SO THAT IDEA IS DOMINATING THE THINKING BEHIND HOW THIS WILLAMSBURG SUMMIT WILL BE ORGANIZED.

THE AGENDA, OF COURSE, IS NOT REALLY DISCUSSED MUCH, LET ALONE AGREED TO. BUT THE APPROACH TO DOING IT IS FOR THE VARIOUS, THE RESPECTIVE PERSONAL REPRESENTATIVES TO GET DIRECT THOUGHTS FROM THEIR HEAD OF STATE AND TO TRY TO DEVELOP AN AGENDA BASED ON THOSE THOUGHTS. SO, LET'S SAY YOU HAVE AN APPROACH TO THE AGENDS FROM THE TOP DOWN, AS DISTINCT FROM AN APPROACH WHICH HAS THE RESPECTIVE DEPARTMENTS AND MINISTRY PEOPLE WORKING AWAY WITH EACH OTHER AND DECIDING WHAT THE ISSUES ARE AND TRYING TO FRAME A TIGHT AGENDA LOOKING TOWARD A COMMUNIQUE THAT IS BY AND LARGE PRE-WRITTEN AND SO ON.

SO THAT IS THE APPROACH THAT'S BEING TAKEN AND, OBVIOUSLY, IN THAT KIND OF AN APPROACH THE EMPHASIS IS ON THE INTERCHANGE THAT TAKES PLACE AT THE SUMMIT, AS DISTINCT FROM SOME ANNOUNCEMENT OF SOME SORT AT THE END OF IT. THE EVENT ITSELF AND THE INTERCHANGE IS WHAT IS BEING POINTED AT.

SO THAT'S BY WAY OF INTRODUCTION. AND I'LL BE GLAD TO TRY YOUR QUESTIONS.

QUESTION: WHAT WILL BE THE KEY SUBJECT AT THE SUMMIT AND WHAT WILL THE U.S. PURSUE THE MOST?

ANSWER: WELL, OF COURSE, IT REMAINS TO BE SEEN WHAT THE AGENDA WILL BE. THAT'S WHAT THE HEADS OF STATE, THROUGH MEETINGS OF THEIR PERSONAL REPRESENTATIVES, WILL TRY TO WORK OUT. AND I'M SURE AS THE SUMMIT APPROACHES AND THE SHAPE OF VARIOUS PROBLEMS EMERGES MORE CLEARLY IT WILL GET SET, BOTH IN TERMS OF WHAT SUBJECTS AND IN WHAT ORDER AND WHO'S GOING TO LEAD OFF ON THE SUBJECTS AND THAT KIND OF THING. BUT --

Q: WELL, DO YOU FORESEE IT TO BE ECONOMIC MOSTLY?

A: IT'S AN ECONOMIC SUMMIT TRADITIONALLY. AND IT'S EASY ENOUGH TO THINK OF SUBJECTS. BUT JUST HOW THEY WILL BE FRAMED AND WHAT ORDER THEY COME IN AND SO ON HAS TO BE WORKED OUT.

Q: WHAT DO WE WANT TO DO THERE? WHAT WOULD WE LIKE TO SEE COME OUT OF IT?

A: WELL, WE'RE -- THE PRESIDENT IS THINKING ABOUT IT. IT'S SOME MONTHS AWAY. AND HE WILL BE TAKING PART THROUGH ALLEN WALLIS, IN DISCUSSIONS ABOUT IT. AND I THINK THE RIGHT WAY TO GO ABOUT THIS IS TO LET THAT AGENDA EMERGE FROM THOSE DISCUSSIONS.

Q: IS THE PRESIDENT LIKELY TO HAVE A SPECIFIC SINGLE INITIATIVE LIKE MITTERRAND DID LAST YEAR ON HIGH TECH?

A: IT REMAINS TO BE SEEN HOW THIS AGENDA WILL BE SHAPED. I DON'T THINK THERE'S ANY HIGHLY SPECIFIC THING THAT WILL LIKELY BE PUSHED, ALTHOUGH EVENTS WILL HAVE SOME IMPACT ON THAT AND THE THINKING HAS YET TO EMERGE.

Q: HOW HIGH A PRIORITY WILL THE RESTRICTIONS -- THE STUDY GROUPS THAT YOU ANNOUNCED WHEN THE ADMINISTRATION LIFTED PIPE-LINE SANCTIONS -- HAVE AT THIS SUMMIT? ALL THE STUDY GROUPS ON RESTRICTING CREDIT AND HIGH TECHNOLOGY SALES TO THE RUSSIANS?

A: YES, WELL, THERE ARE FIVE OF THOSE EFFORTS UNDERWAY. AND WHAT THEIR STATUS WILL BE AT THE TIME OF THE SUMMIT, I DON'T KNOW. BUT I BELIEVE THAT THEY WILL HAVE TAKEN PROBABLY A VERY CONSIDERABLE SHAPE.

THERE ARE ACTUALLY THREE MEETINGS AT WHICH THOSE SUBJECTS MIGHT WELL BE TALKED ABOUT. THERE'S THE SUMMIT MEETING IN LATE MAY IN WILLIAMSBURG. THERE WIL BE AN OECD -- THE MINISTERIAL -- MEETING IN PARIS IN THE EARLY PART OF MAY.

WHETHER THERE WILL BE SOMETHING OUT OF THE STUDIES THAT GETS A LOT OF FOCUS REMAINS TO BE SEEN. IT JUST DEPENDS UPON WHAT THE STATE OF THEM IS. IT MAY VERY WELL BE THAT THERE'S AGREEMENT ON CERTAIN THINGS AND PEOPLE GO ON ABOUT THEIR BUSINESS AND ABOUT ALL THAT NEEDS TO BE DONE IS TO TALK NOTE OF THEM. BUT IT IS CERTAINLY A POSSIBLE TOPIC, THE GENERAL EAST-WEST ECONOMIC SUBJECT.

BUT I'M NOT TRYING TO PUT THAT OUT IN FRONT OR SAY THIS IS OUR SUBJECT; BUT YOU AND I COULD SIT HERE AND WE COULD SPIN OUT ANY NUMBER OF POSSIBLE TOPICS. THAT'S ONE OF THEM.

Q: WHAT'S THE OVERALL PROBLEM IN THE WORLD TODAY? IS IT WORLDWIDE RECESSION? I MEAN, AT SOME TIMES IT'S BEEN INTEREST RATES. AT SOME TIME IT'S BEEN GROWTH RATES. IT ALL TIES TOGETHER. BUT JUST AS AN ECONOMIST, WHAT'S THE OVERALL PROBLEM IN THE WORLD TODAY THAT THE LEADER WILL REALLY WANT TO FOCUS ON?

A: WELL, I SPENT A GOOD PART OF YESTERDAY AND THE DAY BEFORE DISCUSSING THAT SUBJECT IN THE SENATE FOREIGN RELATIONS COMMITTEE AND THE HOUSE FOREIGN AFFAIRS COMMITTEE. PARTICULARLY THE FORMER WAS DIRECTLY ON ECONOMIC SUBJECTS. AND I'LL REFER YOU TO THAT TESTIMONY.

I'D LIKE TO KEEP THIS SESSION RESTRICTED TO THE SUMMIT MEETING ITSELF....

Q: TELL US ANYTHING ABOUT HOW IT'S SHAPING UP -- OTHER THAN "IT REMAINS TO BE SEEN."

SECRETARY SHULTZ: IF IT SHAPES UP AS WE WANT IT TO, AS THE PRESIDENT WANTS IT TO, AND AS THE OTHERS HEADS OF STATE WANT IT TO -- AND I SUPPOSE IN A SENSE YOU CAN SEE THIS AS A CONTEST BETWEEN THE HEADS OF STATE ON THE ONE HAND AND THE BUREAUCRACIES OF GOVERNMENT AND THE PRESS ON THE OTHER. WE'LL SEE WHICH ONE GETS THEIR WAY.

THE HEADS OF STATE WANT TO HAVE A RELATIVELY INFORMAL MEETING WHERE THEY CAN SPEND A FAIR AMOUNT OF TIME JUST WITH THEMSELVES OR WITH A VERY FEW OTHER PEOPLE AND REALLY TALK OUT SOME OF THESE IMPORTANT ISSUES AND GET SOME IDEA OF WHAT THEIR COUNTERPARTS THINK. THAT'S THEIR IDEA OF HOW THIS SHOULD WORK. AND AS YOU POINT OUT, IT ALWAYS STARTS OUT THAT WAY, AND IT WINDS UP VERY DIFFERENT. THIS TIME THOSE OF US WHO ARE WORKING WITH OUR HEADS OF STATE ARE DETERMINED TO SEE IF WE CAN'T HELP THEM GET THEIR WAY -- AND THEN WE'LL SEE.

Q: ALL EIGHT SUMMITS HAVE STARTED OUT WITH THE SAME PREMISE. IT'S DEJA VU, BUT --

A: AND SOMETIMES IT'S WORKED. I THINK IT WORKED IN RAMBOUILLET PRETTY WELL, AS I UNDERSTAND IT....

Q: MR. SHULTZ, ARE ALL THE HEADS OF STATE COMING?

A: YES. EVERYONE HAS -- EACH GOVERNMENT HAS AGREED ON THE DATES AND THE LOCALE, AND SO EVERYONE WILL SHOW UP.

Q: DO YOU TOTALLY RULE OUT A COMMUNIQUE AT THE END?

A: WHAT WILL EMERGE AT THE END WILL BE UP TO THE HEADS OF STATE TO DETERMINE. (END EXCERPTS)

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EUR-426 (2/17/83)

(BACKGROUND FOR THE WILLIAMSBURG SUMMIT)

SUMMIT: JUST A QUIET GET-TOGETHER -- THEY HOPE (650)

BY EUGENE BRAKE
USIA ECONOMICS WRITER

WASHINGTON -- IF THE LEADERS OF SEVEN LEADING INDUSTRIAL NATIONS GET THEIR WAY, THEIR 1983 ECONOMIC SUMMIT MEETING AT WILLIAMSBURG, VIRGINIA IN MAY WILL BE A QUIET OPPORTUNITY TO TALK PRIVATELY AND INFORMALLY ABOUT WORLD PROBLEMS.

ALL THE LEADERS WANT TO AVOID RIGID AGENDAS, PRE-WRITTEN COMMUNIQUES, OR ANYTHING ELSE THAT WOULD IMPEDE A FREE FLOW OF DISCUSSION AMONG THEM, U.S. SECRETARY OF STATE GEORGE SHULTZ TOLD REPORTERS AT A WHITE HOUSE PRESS CONFERENCE FEBRUARY 17.

THE DESIRE IS TO GO BACK TO SOMETHING LIKE THE FIRST OF THE ECONOMIC SUMMIT MEETINGS, HELD AT RAMBOUILLET, FRANCE,

PAGE 02 -- SHULTZ
IN 1975, SHULTZ SAID. THERE, HE EXPLAINED, THE AIM WAS FOR THE LEADERS "TO GET TOGETHER AND SHARE THEIR IDEAS, DEVELOP WHATEVER COMMON THOUGHTS THEY COULD, AT LEAST HAVE A DISCUSSION SUCH THAT AS THEY RESPECTIVELY WENT ABOUT MAKING THEIR OWN DECISIONS ABOUT ECONOMIC POLICIES, THEY WOULD HAVE IN MIND THE THOUGHTS AND THE PERSPECTIVES OF THE OTHER PARTIES."

THE RAMBOUILLET SUMMIT WAS A RELATIVELY INFORMALLY MEETING, HE SAID, HELD IN A PLACE THAT WAS PRIVATE, WITH MAXIMUM OPPORTUNITY FOR THE LEADERS TO TALK TO ONE ANOTHER AS PEOPLE.

THE SUMMIT LEADERS WANT TO HAVE THAT KIND OF MEETING AGAIN AT WILLIAMSBURG. SHULTZ EXPLAINED THAT OTHER PEOPLE WILL BE AROUND TOO -- FOREIGN MINISTERS AND FINANCE MINISTERS, FOR EXAMPLE -- BUT THE EMPHASIS WILL BE ON A FREE INTERCHANGE AMONG THE HEADS OF STATE THEMSELVES AND NOT ON SOME KIND OF ANNOUNCEMENT AT THE END OF THE MAY 28-29 MEETING.

AS SHULTZ DESCRIBED THE PROCESS, THE WAY THE AGENDA IS

PAGE 03 -- SHULTZ
BEING DEVELOPED THIS TIME DIFFERS FROM PAST PRACTICES. IN THE PAST, THE PERSONAL REPRESENTATIVES OF THE SUMMIT LEADERS WOULD GET TOGETHER AND AGREE AMONG THEMSELVES ON AN AGENDA WHICH THEY WOULD THEN RECOMMEND TO THE HEADS OF STATE. THIS TIME THE PERSONAL REPRESENTATIVES -- FOR PRESIDENT REAGAN, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS W. ALLEN WALLIS -- WILL MEET WITH THEIR RESPECTIVE HEADS OF STATE FIRST, GET THEIR LEADERS' IDEAS ON WHAT SHOULD BE TALKED ABOUT AT WILLIAMSBURG, AND THEN MEET TOGETHER TO GET AGREEMENT ON A COMMON LIST.

SINCE THIS PROCESS HAS NOT YET BEEN COMPLETED, SHULTZ COULD ONLY ANSWER "THAT REMAINS TO BE SEEN" TO MOST OF THE REPORTERS' QUESTIONS CONCERNING WHAT MIGHT HAPPEN AT WILLIAMSBURG.

ASKED IF THE RESULTS OF STUDIES ON EAST-WEST ECONOMIC RELATIONS MIGHT BE AMONG THE TOPICS DISCUSSED AT THE WILLIAMSBURG SUMMIT, SHULTZ ACKNOWLEDGED THAT IT WAS "CERTAINLY POSSIBLE," DEPENDING ON THE PROGRESS THAT IS MADE IN THIS AREA IN THE MEAN TIME. BUT HE EMPHASIZED THAT HE

PAGE 04 -- SHULTZ
WAS "NOT TRYING TO PUT THOSE BUT FORWARD

REMINDED OF THIS FACT, SHULTZ ACKNOWLEDGED THAT WHAT USUALLY OCCURS IN THE MONTHS PRECEDING A SUMMIT MEETING IS "A CONTEST BETWEEN THE HEADS OF STATE ON THE ONE HAND, AND THE BUREAUCRACY AND THE PRESS ON THE OTHER" -- THE HEADS OF STATE WANTING AN INFORMAL, PRIVATE EXCHANGE OF VIEWS, THEIR SUBORDINATES AND THE PRESS POSSIBLY HAVING OTHER IDEAS.

BUT THIS TIME, HE SAID, THE HEADS OF STATE MAY GET THEIR WAY.

IT HAPPENED AT RAMBOUILLET, HE POINTED OUT.

ITEM

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

1 March 1983

VISIT BY THE ITALIAN PRIME MINISTER

I enclose with this letter a record of the plenary talks between the Prime Minister and the Prime Minister of Italy which were held at 12 noon on Friday, 25 February. I regret that this record has reached you rather late owing to my absence from the office yesterday.

I am copying this letter and enclosure to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Defence and Industry, and Sir Robert Armstrong.

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

EXCHEQUER
REC. - 1 MAR 1983
ACTION Mr Littler. Sir D. Wass
COPIES TO Mr Middleton. Mr Burns. Mrs Hedley-Miller. Mr Unwin. Mr Corey. Mr Lavelle. Mr Hawtin

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF ITALY, SIGNOR AMINTORE FANFANI, AT 10 DOWNING STREET, ON FRIDAY 25 FEBRUARY 1983 AT 12 NOON

Present:

Prime Minister	Signor Amintore Fanfani
Secretary of State for Foreign and Commonwealth Affairs	Signor Emilio Colombo
	Signor Pier Luigi Romita
Chancellor of the Exchequer	Signor Giovanni Goria
	Signor Lelio Lagorio
Secretary of State for Defence	Signor Filippo Pandolfi
Secretary of State for Industry	Signor Andrea Cagiati
	Signor Maurizio Bucci
Mr. C. Whitmore, Ministry of Defence	Signor Bruno Bottai
Mr. G. Littler, HM Treasury	Signor Remo Paolini
	Dr. Mario Sarcinelli
Sir Julian Bullard, FCO	Signor Fulvio Martini
Lord Bridges, FCO	Professor Umberto Ratti
Mr. R. Evans, FCO	Dr. Vittoria Barattieri
Mr. S. Roith, Department of Industry	Signor Luigi Garofoli
	Signor Leonardo Visconti di Modrone
Mr. A. J. Coles, No.10	Signor Luigi Fontana Giusti
Mr. A. Wood, FCO	

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The Prime Minister welcomed the Italian participants and said that she and Senator Fanfani has had interesting and useful discussions, concentrating on the major problems, especially the deployment of Cruise and Pershing missiles in Europe in the context of the negotiations for the zero option. They had also discussed the wider question of the need to keep public opinion on our side in appreciating the need for resolution and strength in

/ the

the negotiations. The Soviet Union, for its part, had no public opinion to worry about. Secondly, she had discussed with the Italian Prime Minister the approach to the Economic Summit at Williamsburg. Public opinion would expect a significant message to emerge from that Summit and we should approach it in a united and clear-minded way. Discussions at Williamsburg ought, no doubt, to be informal but there would also have to be a statement for the press either by means of a communique or by President Reagan speaking on behalf of all the participants. She and Mr. Fanfani had also discussed a variety of Community problems. She thought a general lesson was that we did not always pay sufficient attention to the public presentation of policies despite the care with which the policies themselves were considered.

Senator Fanfani thanked the Prime Minister for arranging the Plenary meeting. He thought her summary very complete and suggested that the other Ministers present report on their bilateral meetings.

Mr. Pym said that during his conversations with Signor Colombo they had considered two subjects:

(a) INF and arms control, which were of central importance. Their perceptions had been very similar and both had taken a robust line on deployment. They had noted the emerging evidence that Andropov was taking a very hard attitude towards the Geneva negotiations. At some point reasoned comment would be necessary on the Soviet proposals to expose their unrealistic and unbalanced nature. An intermediate position looking towards the zero option would have to be considered in due course, bearing in mind the work by the negotiators at Geneva and the need to approach any particular proposal with extreme care;

/ (b)

(b) the Middle East, where they had agreed that the next few weeks would be especially critical and important. The Palestine National Council had been critical of the Reagan plan, but had not rejected it. King Hussein would be meeting Arafat in the next few weeks. That might produce an Arab position to be put to the United States, thus focussing attention on whether Israel would be prepared to take part in the peacemaking process. There were two conditions for judging this: firstly, whether Israel would withdraw from the Lebanon (where there were some signs of movement, but not much of significance) and secondly, whether there was a freeze on Israeli settlements in the West Bank, the prospects for which looked doubtful. The political position in the United States in a pre-election period would soon inhibit action. He and Signor Colombo and perhaps the 10 jointly would be expressing the view to both the United States and Israel that early progress was needed.

Signor Colombo said that he agreed with this account of their talks.

Sir Geoffrey Howe said that he and Signor Goria had discussed two of the three topics he had wanted to review:

(a) the British and Italian domestic economies showed similarities. They had shared their concern about unemployment, especially among the young, talked over problems of growth and discussed how to secure progress in the battle against inflation. They had agreed on the need to keep interest rates down and control budgetary deficits. They thought this would make a gradual resumption in growth possible. One could see this coming in the United Kingdom. Signor Goria had placed more emphasis on the Italian need for stimulus from growth in other countries.

/ They both

They both thought the fall in the oil price level might help provided it was not too severe and kept under control. They welcomed the signs of growth in the US economy, hoping that growth would be sustained. He trusted that Williamsburg would underline our general commitment to responsible policies;

(b) their exchanges on the Community had concentrated on the Budget. They had agreed on the need to avoid an annual argument and therefore the need for a durable solution. Their ideas were different, but not contradictory, on how to achieve the latter.

Signor Goria had pointed to the necessity, as he saw it, of an increase in the Community's financial resources if a just result was to be obtained. The Chancellor had observed that it would be hard to impose higher burdens on European taxpayers during a recession. They had agreed it would be useful to explore the mechanisms which would allow proper adjustments to take place.

Signor Goria said that he would like to underline two points in Sir Geoffrey Howe's account. Firstly, they had both been worried about the lasting nature of the US recovery and thought this question might be looked at before Williamsburg. Secondly, the Italians thought the Chancellor had understood their point that the terms of discussion over the Community Budget needed to be widened. It was in this context that they had agreed on further discussions. The views of the two sides did not coincide but he hoped neither would be too rigid.

Mr. Heseltine said his discussions with Signor Lagorio had covered four points:

(a) the Italian Government remained committed to achieving a 3% growth in real terms in its defence budget. So did HMG;

(b)

(b) the EH 101 helicopter had taken up a considerable amount of their discussion. Both Italy and the UK were moving through the decision-making process and Signor Lagorio was a firm supporter of the project. He hoped for an Italian decision in March, to be confirmed in the summer. For his part, Mr. Heseltine thought the British position would become firm within the next few weeks;

(c) Tornado had been offered to the Greeks through Panavia on agreed credit and offset terms. Greek reactions were awaited; meanwhile it was necessary to watch the competition;

(d) their attitudes towards installing Cruise missiles in Sicily and the UK had been clear and consistent. Signor Lagorio said he had nothing to add. He had been glad of the opportunity for their talks.

/Mr. Jenkin said

Mr. Jenkin said that he, Signor Pandolfi and Signor Romita had discussed a wide range of subjects of which he would report on three:-

(a) The EH101 helicopter had been seen by both sides as important and they hoped it would be possible to sign an agreement before Easter. This might perhaps be mentioned to the press. They had also agreed that an official committee on aerospace matters should be set up to consider matters like the Airbus, the A320 and space;

(b) they had had a useful exchange on nuclear and industrial collaboration which they hoped would lead to wider cooperation. Many areas they had looked at were perhaps more the province of individual enterprises than the Government. He, for his part, would be speaking to those involved on the British side;

(c) he had emphasised the importance of bringing European steel-making capacity into line with demand and made the point that this would only be possible if all 10 members of the Community collaborated in implementing agreed policies. Signor Pandolfi had explained that substantial reductions were in hand in the private sector but that the public sector in Italy presented great difficulties. He would be discussing the matter with Commissioner Davignon in Brussels, but accepted the need to make the Community policy work.

Signor Pandolfi commented that Mr. Jenkin's summary had been comprehensive. So far as the EH 101 helicopter was concerned, there would be no problem of funding or of a political decision for the civil version and agreement on that could be signed before Easter. So far as steel was concerned, it was easier to combat over-production in the private than the public sector. Lastly, in agreeing to the development of coal policies in a Community framework, Italy had accepted progress in an area of interest to

/ the

the UK would would offset the budgetary imbalance. This would help with the mechanisms for adjusting the problem mentioned by Sir Geoffrey Howe. In answer to a comment of approbation from Senator Fanfani, the Prime Minister commented that all we needed now was some 19 or 20 similar mechanisms and the problem might be solved.

Signor Romita said that he accepted Mr. Jenkin's observation that bilateral cooperation was very much the business of individual enterprises. Italian enterprises, for their part, were ready and willing to meet their UK counterparts with a view to collaboration in applying research results in the fields of space, energy and bio-technology. Secondly, he wished to stress the importance of our joint commitment in the Community context to research as symbolised by ISPRA. If Super Sara were to be abandoned alternatives would have to be found for ISPRA and he was looking for a clear commitment to this effect from the next meeting in Brussels. He hoped this might be mentioned in the final statement.

The Prime Minister said that the bilateral conversations had clearly covered a wide range of problems most effectively. She thought the meeting as a whole had taken place in a happy atmosphere and could properly be described as friendly and successful. Senator Fanfani agreed.

The meeting ended at 1255 hours.

A.J.C.

25 February, 1983.

CONFIDENTIAL

PS/Financial Secretary

pup

FROM: M E DONNELLY
DATE: 7 March 1983

COPY FOR

MR UNWIN

cc [as for this minute]

cc PS/Chancellor
Mr Littler
Mrs Hedley-Miller
Mr A J C Edwards

MEETING BETWEEN THE CHANCELLOR AND THE ITALIAN FINANCE MINISTER: 25 FEBRUARY

The Financial Secretary has seen the record of this meeting. He suspects that the Italian line on solving the EC Budget problem - the need for British movement on increasing own resources as a quid pro quo for an acceptable Budget solution - will prove to be fairly typical of the responses of other member states.

MED
M E DONNELLY

I am sure this is so. The trick will be to make sure that we do not offer any quid - or even hint at it - until we can be assured of a satisfactory quo emerging. And part of this will be some positive progress towards putting a cap on the CAP, so to speak.

2. We are contacting the Italians to follow up Treasury to Treasury the Chancellor's discussion with Signor Forte. Dr Sarcinelli is encouragingly sympathetic, but his own influence within the Italian administration appears at present, alas, to be rather limited.

7/III/83

Prep A – Stra
Summ

1) Our economics

- Continued pressure against inflation – Unemployment
- Prospects of gradual resumption of growth.
- Oil price fall helpful, but avoid too sharp a fall – Budget deficits
- Need to avoid upsurge of interest rates
- UK seeing hope of internal growth stimulus from lower inflation and interest rates. – within prudent policies. Italy more dependent on others.
- Role of US economy: International: IMF / Williamsburg

2) Community Budget

- Agreed need to avoid continual conflict
- Therefore must seek enduring solution.

Main Issue

Italy: simply to repeat redistribution means taking away from some to pay others
Need to expand expenditures to give scope for easier redistribution; ∴ increase total resources.

UK: but damaging to impose still bigger burdens on all Community taxpayers.
– scope to explore mechanisms which will help to secure fairer distribution of burdens (get officials to explore)

[add: scope for expansion elsewhere if excessive costs of agriculture controlled]

Total Own resources	Share of Burden of contributions	
	UK	Rest
12 x	4 x	8 x
14 x	4 x	10 x

Total Own Resources	Share of burden of contribution	
	UK	Rest
3 x	x	2 x
12 x	4 x	8 x

Total Own Resources	Share of burden of contributions	
	UK	Rest
[illegible] x		
12 x	4 x	8 x
18 x	4 x	14 x
	6 x	12 x
	3 x	15 x