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ITALY

(PM Andreotti visit to UK,
June 1979)

Confidential Filing

Visit to the UK by the Italian Prime Minister,
Signor Andreotti

ITALY

JUNE 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
8.6.79							
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15.6.79							
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Italy

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16 July 1979

Many thanks for your letter of 9 July about the delivery of Morris West's two books to Signor Andreotti, and for forwarding Signor Andreotti's letter of thanks.

The Prime Minister was very glad to know that the books had been presented as she asked and has asked me to send you her warm thanks.

B. G. CARTLEDGE

A. C. Goodison, Esq.,
British Embassy,
Rome.

Sed.



2

BRITISH EMBASSY,
ROME.

Prime Minister

9 July 1979

By
10/7

B G Cartledge Esq
Private Secretary
No 10 Downing Street

Thanks - arb

My dear Byers,

PRESENTATION OF BOOKS BY THE PRIME MINISTER TO SIGNOR ANDREOTTI

1. During Signor Andreotti's visit to London, the Prime Minister promised to send him two books, "Devil's Advocate" and "In the Shoes of the Fisherman" by Morris West. Both books, in Italian, were purchased here in Rome and forwarded to Signor Andreotti under a covering letter from Sir Alan Campbell.

[below]

2. I now enclose Signor Andreotti's letter of thanks, together with an English translation, which you may wish to draw to the Prime Minister's attention.

Yours ever,

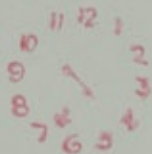
Alan

A C Goodison
Chargé d'Affaires

cc:

David Gladstone Esq WED FCO

10 JUL 1979



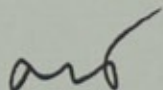
Translation of letter dated 3 July 1979 from
H.E. On. Giulio Andreotti, President of the Council of Ministers,
to H.E. Sir Alan Campbell, British Ambassador in Rome.

My dear Ambassador,

I am most grateful to Mrs Thatcher for her very kind
thought and to you for your solicitude in conveying to me the
two books by Morris West, which I shall read with much pleasure.

I avail myself of the opportunity to renew to Your
Excellency my warmest good wishes.

(signed) Giulio Andreotti





*Al Presidente
del Consiglio dei Ministri*

3 luglio '79

Caro Ambasciatore,

sono vivamente grato alla Signora Thatcher per la squisita attenzione, ed a Lei per la premura con la quale si è fatto tramite del dono di due libri di Morris West che leggerò molto volentieri.

Mi è grata l'occasione per rinnovarLe, Eccellenza, i sensi della mia più viva e cordiale considerazione

no
Giuseppe

Sua Eccellenza
il dott. A H Campbell
Ambasciatore di Gran Bretagna
in

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TO PRIORITY FCO

TELEGRAM NUMBER 217 OF 18 JUNE 1979

Italy 2

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Prime Minister

*BW
19/6*

INFO ROUTINE UK REP BRUSSELS AND PARIS

INFO SAVING TO ALL OTHER EEC POSTS.

SIGNOR ANDREOTTI'S VISIT TO LONDON: ITALIAN PRESS REACTION

1. THE ITALIAN PRESS OF 16 JUNE GIVES PROMINENT COVERAGE TO SIGNOR ANDREOTTI'S MEETING WITH THE PRIME MINISTER ON 15 JUNE. THE GENERAL THEME OF REPORTS IS THAT THE TALKS LED TO A CLARIFICATION OF COMMON INTERESTS WITHIN THE COMMUNITY.

2. THE CHRISTIAN DEMOCRAT DAILY, IL POPOLO, REPORTING THAT TALKS CENTRED ON BUDGETARY CONTRIBUTIONS AND THE CAP, STATES THAT THE CONSERVATIVE GOVERNMENT REPROACHES ITS PREDECESSOR FOR CUTTING LONDON OUT OF ANY ATTEMPT TO ELABORATE COMMUNITY POLICIES, AND DOES NOT HIDE ITS INTENTION TO REPLACE THE PARIS-BONN AXIS WITH A PARIS-BONN-LONDON TRIANGLE. HOWEVER THE MANY SIMILARITIES BETWEEN THE ECONOMIC SITUATIONS IN ITALY AND THE UK HAS LED LONDON TO REGARD ITALY AS AN INTERLOCUTOR WITH WHOM TO UNDERTAKE JOINT ACTION TO PRESS FOR CHANGES IN COMMUNITY POLICIES. IL POPOLO REPORTS THAT THE TWO PRIME MINISTERS HAVE AGREED TO MEET AT LEAST TWICE A YEAR. THE ATMOSPHERE OF THE TALKS WAS PARTICULARLY FRIENDLY AND SIGNOR ANDREOTTI WAS IMPRESSED BY THE TEMPERAMENT OF MRS. THATCHER WHO, IN HIS OWN WORDS " HAS SHOWN A DESIRE TO STAMP HER PERSONALITY NOT ONLY ON THE BRITISH SCENE, BUT ALSO IN FOREIGN RELATIONS, BEGINNING WITH THE COMMUNITY".

3. THE RIGHT OF CENTRE ROME DAILY, IL TEMPO, REPORTS THAT IN FOUR AND A HALF HOURS IN LONDON SIGNOR ANDREOTTI ACHIEVED SOMETHING WHICH HAD PROVED IMPOSSIBLE DURING THE LABOUR GOVERNMENT, THAT IS THE ESTABLISHMENT OF A SOLID BASIS FOR COLLABORATION BETWEEN THE TWO COUNTRIES OVER CHANGES TO COMMUNITY RULES WHICH ARE FINANCIALLY DAMAGING TO BOTH COUNTRIES. IN OPENING HER TALKS WITH SIGNOR ANDREOTTI, MRS THATCHER STATED THAT THE BRITISH GOVERNMENT BELIEVES FIRMLY IN EUROPE AND IN COMMUNITY IDEALS, AND IS DETERMINED TO WORK FOR FURTHER CONSOLIDATION OF THESE IDEALS, IN THE CONVICTION THAT THE PROBLEMS TO BE CONFRONTED WITHIN THE COUNTRY CAN BE RESOLVED IN THE EUROPEAN CONTEXT.

/4. THE

4. THE FIAT-OWNED DAILY, LA STAMPA, QUOTES SIGNOR ANDREOTTI'S STATEMENT "IT IS UNACCEPTABLE THAT 70% OF THE COMMUNITY BUDGET SHOULD GO TO AGRICULTURE". THE STUDY OF POSSIBLE SOLUTIONS WILL NEED TIME BUT MARGARET THATCHER AND ANDREOTTI HOPE THAT THE STRASBOURG SUMMIT WILL ALREADY PRODUCE "SOMETHING CONCRETE AND CONSTRUCTIVE". THIS "SOMETHING" SHOULD CONSIST OF TWO ELEMENTS, FIRSTLY A MANDATE TO THE COMMISSION TO PREPARE A SERIES OF PROPOSALS FOR THE AUTUMN, AND SECONDLY A MORE FLEXIBLE ATTITUDE BY FRANCE AND GERMANY. IT WILL BE A DIFFICULT BATTLE BUT MARGARET THATCHER SEEMS DETERMINED TO FIGHT IT TO THE END.

5. RENZO CIANFANELLI, LONDON CORRESPONDENT OF THE LEADING MILAN DAILY, CORRIERE DELLA SERA, WONDERS WHETHER THE PROFESSIONS OF MUTUAL UNDERSTANDING WILL DEVELOP FURTHER BETWEEN THE CONSERVATIVE GOVERNMENT AND THE NEW ITALIAN GOVERNMENT WHICH WILL ALMOST CERTAINLY CONTAIN ELEMENTS OF THE LEFT. HE ALSO LINKS THE BRITISH GOVERNMENT'S DESIRE FOR CLOSER CO-OPERATION WITH ITALY WITH THE DECISION TO SEEK A 5% DEVALUATION OF THE GREEN POUND WHICH IS LIKELY TO BE OPPOSED NOT ONLY BY FRANCE AND GERMANY BUT ALSO BY DENMARK AND THE NETHERLANDS. IN SUCH CIRCUMSTANCES ITALIAN SUPPORT WOULD BE WELCOME.

FCO PLEASE PASS SAVING TO ALL SAVING ADDRESSEES.

CAMPBELL

[REPEATED AS REQUESTED]

FCO/WHITEHALL DISTRIBUTION

WED

EID



10 DOWNING STREET

From the Private Secretary

15 June 1979

B/F 19.6.79
 Leo say 'covered in
 Strasbourg Briefs.'

Dear Paul,

THE PRIME MINISTER'S TALKS WITH SIGNOR ANDREOTTI
 AT 10 DOWNING STREET ON 15 JUNE 1979

The Prime Minister of Italy, Signor Andreotti, paid a short visit to London today at the Prime Minister's invitation in order to discuss the forthcoming meeting of the European Council at Strasbourg, and related matters. Signor Andreotti arrived at No. 10 at 1130, accompanied by the Italian Foreign Minister, Signor Forlani, and his Deputy Diplomatic Adviser, Signor Catalano, for talks which lasted for an hour-and-three-quarters and for which the Foreign and Commonwealth Secretary was present.

I enclose a copy of my note of the discussion. I should be grateful if you and all the other recipients of this letter would ensure that it is given an appropriately restricted distribution, confined to those senior officials directly concerned with the issues discussed.

The conversation over lunch was of a general nature and the atmosphere was notably relaxed and cordial. Our interpreter, Mr. Layden, may be able to supply a note of some of the exchanges between the Prime Minister, Signor Andreotti and the Lord Privy Seal.

The Prime Minister commented later that, on the issue of the Community Budget, Signor Andreotti's line had been interesting but disappointing. The Italian Prime Minister had been much more interested in the reform of the CAP, and in particular in the question of Mediterranean agricultural products, than in the issue of the Budget itself. Signor Andreotti had evidently been prepared to contemplate change in the budgetary arrangements only if this were to lead to a boost for the Regional Fund.

The Prime Minister has asked about the extent to which the UK can lend support to the Italian position on Mediterranean products; she has commented that the Italian case seems to be a strong one on its merits. I should be grateful for early advice.

/I am sending

gn

I am sending copies of this letter, and enclosure, to Martin Hall (HM Treasury), Garth Waters (MAFF), Tom Harris (Department of Trade) and Martin Vile (Cabinet Office).

Yours ever,
Gyan Chandra.

Paul Lever, Esq.,
Foreign and Commonwealth Office.

LIST OF GUESTS ATTENDING THE LUNCHEON TO BE GIVEN BY THE PRIME MINISTER
IN HONOUR OF HIS EXCELLENCY ON GIULIO ANDREOTTI, PRIME MINISTER OF THE
ITALIAN REPUBLIC ON FRIDAY, 15 JUNE 1979 AT 1.00 PM FOR 1.15 PM

The Prime Minister

His Excellency On Giulio Andreotti

His Excellency On Arnaldo Forlani

Minister for Foreign Affairs

His Excellency the Italian Ambassador

Signor Antonio Catalano

Deputy Diplomatic Adviser to
the Italian Prime Minister

The Rt. Hon. Sir Geoffrey Howe, MP

The Rt. Hon. Sir Ian Gilmour, MP

The Rt. Hon. Peter Walker, MP

Sir Alan Campbell

H.M. Ambassador, Rome

Mr. M.D. Butler

Mr. M.D.M. Franklin

Mr. Bryan Cartledge

Interpreters: Signora Civelli
Mr. Tony Layden

DRAFT SEATING PLAN FOR LUNCH ON FRIDAY, 15 JUNE 1979

Mr. M.D. Butler

The Rt. Hon. Peter Walker

HE The Italian Ambassador

HE On Arnaldo Forlani

PRIME MINISTER

The Rt. Hon. Sir Geoffrey
Howe

Interpreter

* HE On Giulio Andreotti

Sir Alan Campbell

The Rt. Hon. Sir Ian Gilmour

Mr. M.D.M. Franklin

Signor Antonio Catalano

Mr. Bryan Cartledge

DOOR

cc

Matter set
EURO PA - Budget
" " - EMS
Energy - Policy

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NOTE OF THE PRIME MINISTER'S DISCUSSION WITH THE PRIME MINISTER
OF ITALY, SIGNOR ANDREOTTI, AT 10 DOWNING STREET ON 15 JUNE, 1979,
AT 1130

Present:

Prime Minister

Signor Andreotti

Foreign and Commonwealth
Secretary

Signor Forlani (Minister of
Foreign Affairs)

Mr. B.G. Cartledge

Signor Catalano (Deputy
Diplomatic Adviser)

Mr. Antony Leydon
(Interpreter)

Signora Civelli

* * * * *

Situation in Italy

Welcoming Signor Andreotti, the Prime Minister said that she was very glad that he had been able to spare the time to come to London for a discussion of the forthcoming European Council Meeting at Strasbourg, and of what they both hoped to achieve there. She would like to hear from Signor Andreotti what the next steps would be following his great success in the Italian Election against the Communists. Signor Andreotti said that he now had to form a coalition government. He hoped that the two parties in the government at present would provide the basis for constructing a stronger combination. The major difficulty at present was to secure the cooperation of the Socialist Party. Even the three parties in combination would still fall 20 votes short of an overall majority, and he was therefore obliged to seek agreements with other parties as well. He also faced problems with the trade unions, but hoped that the current negotiations with them would be complete before the end of the summer.

/The Prime Minister

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The Prime Minister asked Signor Andreotti about the percentage of trade unionists in the Italian workforce. Signor Andreotti replied that he would like to make two points on the trade unions. The first was that during the past three years the trade unions had worked quite well with the government during the country's most difficult moments, for example during the negotiations with the IMF and at the time of heavy speculation against the Lira. It was also true that the number of working hours lost through strike action had fallen by two-thirds during the same period, largely because of cooperation on the part of the unions. Signor Andreotti said that this was partly due to the fact that the government had been in a minority in Parliament, and had depended on the Parliamentary support of the Socialists and the Communists. It was noticeable that since December, when the Socialists and Communists had withdrawn from the government, the level of strike action had increased (although this could be attributed in part, also, to the beginning of the period of wage negotiations). Secondly, trade union membership had fallen significantly, mainly because many workers were unwilling to pay their contributions.

Community Budget and the CAP

The Prime Minister told Signor Andreotti that she had seen reports of his press interview on the previous day, and had been encouraged by the fact that he was in agreement with so much of what the British Government would wish to say at Strasbourg. She wished Signor Andreotti to know that there was a great difference between the present Government's approach to Europe and that of the last Government. The present Government believed positively in the European ideal: the UK would not be able to go ahead except as a member of Europe. Britain's membership of the EEC was the best solution for this country, and the best for Europe as well.

/The Prime Minister

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The Prime Minister said that she and her Ministers were wholly devoted to the cause of Europe, and for that reason would do everything possible to make the European ideal work and to cooperate to the greatest possible extent on all issues. This would not, however, prevent the Government from fighting their corner on matters which gave rise to problems for the UK, such as the Community Budget, Common Agricultural Policy and Fisheries. The problem lay in how to make progress on these issues without seeming to be anti-European. The Prime Minister said that she wished Signor Andreotti to know that the sooner progress could be made on these issues, the sooner the Government could convert the British people to the European ideal. The present budgetary arrangements were unjust; they had to be made just and reasonable. The Government did not, however, wish this issue to dominate the discussions at Strasbourg; what they wanted was progress so that the Community could move on to talk about other matters.

Signor Andreotti said that his total experience of five years as Prime Minister had taught him that it was possible to raise problems at European Councils but not to achieve solutions of them without slow and gradual preparation. The aim at Strasbourg, therefore, should be to have the problems set out clearly, and agreement reached on the procedure for solving them, a procedure which could perhaps involve the Commission. The Prime Minister told Signor Andreotti that when the President of the Commission had called on her three weeks ago, she had raised the problem of the Community Budget with him, and she now had from the Commission an agreed statement on the effect of the budgetary arrangements on each member, according to each of the possible ways of attributing the MCAs, and also showing what the position would be in 1980 when Article 131 would no longer apply. The facts, therefore, should not be in dispute. The Prime Minister said that she was averse to arguing with her colleagues about the facts when these were readily ascertainable.

/Mr. Jenkins

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Mr. Jenkins had suggested to her that when she met President Giscard, as President of the Council, she could obtain his agreement to putting the problem of the Budget on the Agenda for Strasbourg, on the basis of securing the Council's agreement on the facts and giving firm instructions to the Commission to come forward with possible solutions to the problem at the Council's next meeting. During her talk with President Giscard in Paris, therefore, she had adopted this approach, and had recognised, in the light of the discussion, that the UK's task would not be an easy one. The UK had subsequently experienced some difficulty in arranging for the Budget question to be given a reasonably high place on the Strasbourg Agenda. The Prime Minister said that she was nevertheless determined to achieve the result that the Commission would be instructed to produce solutions. She did not underestimate the difficulties, because she was aware that not all members of the Community accepted that the present arrangements were unjust. The fact was, however, that only an unjust system could produce such unjust results, and the system must therefore be changed. Both Italy and the UK were paying more than their fair share in their net contribution to the Budget. Fairness between the partners was essential in any enterprise which was to have a thriving future. Signor Andreotti said that he believed that the first essential was to avoid any worsening of the present position. In particular, a rise in agricultural prices would increase expenditure since agriculture would take up an even greater share of the Community's Budget. The European Council had sometimes spent days at a time debating whether the Regional Fund should be increased, whereas expenditure on agricultural surpluses amounting to five or six times more in cost were passed through without any difficulty. There were two further difficulties concerning surpluses. The first was that the Community usually ended up by selling them at artificially low prices to, for example, the Soviet Union after first incurring all the expense of supporting them;

/the surpluses

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the surpluses should be consumed in the Community itself, instead of which the members of the Community were paying twice over. The second difficulty was that under the present system instructions were given from time to time to destroy fruit and vegetables as a result of EEC regulations. This caused a serious psychological problem as far as poor people in Italy were concerned, particularly since these products were of so much greater concern to Italians. Italy wished to change the rules which produced this result.

Signor Andreotti went on to say that in his view the first essential was to find a way of avoiding agricultural surpluses, thereby reducing the cost of the CAP and the burden on the Community Budget. He had some confidence in the quasi-liberal economic thinking of Chancellor Schmidt in the FRG; but he knew that Denmark, Ireland, and probably the Netherlands, all of whom benefited from the present arrangements, would cause difficulties for Italy and the UK.

Signor Andreotti said that the problem of Mediterranean products was naturally of particular concern to Italy. In order to help countries like Cyprus, the Community frequently gave Mediterranean products less protection than others. He understood the reasons for this, but it was always at Italy's expense; in the Tokyo round, for example, there had been a great deal of discussion of reductions in tariffs on fruit and tomatoes, but no mention of similar reductions for meat and dairy produce. Italy had been able to achieve some minor changes, but in general she had a raw deal on this issue. Signor Andreotti said that Mediterranean agriculture was far more important to Italy than the discrepancy between what they contributed to the Budget and what they got back in return; for the UK, however, the opposite was true. But the situation for the two countries was in reality two sides of the same coin and of the problem of securing

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/greater justice

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greater justice as between those who were doing well out of the system and those who were not. Signor Andreotti said that if the UK and Italy were to have a common platform, Italy was obliged to seek the UK's support on the problem of Mediterranean products.

The Prime Minister said that on the question of surpluses, President Giscard had suggested - and she was not sure to what extent this had already been discussed in the Community - that surpluses should be financed by the countries creating them and not under the CAP. Lord Carrington pointed out that President Giscard was in fact referring to future surpluses. He went on to say that, so far as Mediterranean produce was concerned, the balance of power in the Community could well shift when Spain and Portugal join Greece in the enlarged EEC.

Signor Andreotti acknowledged that if each member country had to accept responsibility for its own surplus, there would be no problem. Given the mechanism under which the CAP operated at present, however, this simply did not happen, because Community intervention to bridge the gap between prices realised and the fixed price was automatic. To achieve the result President Giscard had in mind, therefore, the rules for the CAP would have to be changed. The present system stimulated the increased production of, for example, dairy products in the FRG by the payments which it provided to German farmers. Production plans were needed, although there would have to be a degree of elasticity in them to take account of years of bad weather and other factors: but the objective should be to avoid stimulating the production of surpluses which created an increasing burden on the Community Budget.

Reverting to the question of Mediterranean products, Signor Andreotti said that the EEC had agreements with the

/countries

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countries of North Africa and with Israel which had adverse consequences for Italy. The Community absorbed only 7 per cent of Italy's production of citrus fruits; the remainder was consumed in Italy itself or exported elsewhere, which was difficult. By contrast, 80 per cent of Italy's consumption of meat and dairy produce was imported from within the EEC. This imbalance had to be corrected. Signor Andreotti recognised that, with the accession of Spain in prospect, years of preparation would be needed to secure the necessary adjustments. There was no need for Italy to suffer damage as a result of the enlargement of the Community which, indeed, Italy supported on political grounds.

The Prime Minister asked Signor Andreotti how long he had been seeking readjustments for Mediterranean products; it was clearly unlikely that results could be achieved on this between the Strasbourg and Dublin Meetings of the European Council. Signor Andreotti replied that Italy had begun the battle several years ago. Some results had been achieved, for example in winning from the Community a contribution towards the conversion of citrus fruits into fruit juice, which could be exported over a longer period and at a higher profit. The EEC had also contributed to agricultural production in Southern Italy - the so-called Mediterranean package. These were, however, modest achievements and they had taken two years to secure. Signor Andreotti said that he thought that Italy and the UK could work together and thereby achieve results. The problem, however, lay in convincing the other members that something had to be done. The other members had to realise that sacrifices would be necessary. At the same time, it was necessary to avoid creating a crisis in the Community. A crisis could come about since on questions of this kind, involving economic interests, ^{members} were inclined to adopt rigid attitudes; in the Netherlands, for example, attitudes towards the CAP remained constant as between Socialist and Conservative governments. A long and difficult negotiation

/ would be

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would be needed, but, Signor Andreotti repeated, results could be secured.

The Prime Minister said that the UK would need results very quickly, since domestic political problems could otherwise arise. In 1980, the UK's net contribution to the Budget would increase enormously: the British Government could not afford to wait until the 1 per cent maximum of VAT was reached. The Government's opponents had concentrated so much on the Budget as the test of whether EEC membership was beneficial to the UK that it would be impossible to tolerate the status quo for a further two years or so. The Government had to solve two problems: the Budget itself and the CAP, which was to a large extent responsible for the Budget's size. Unless movement could be secured very soon, the Government would be in grievous political and financial difficulty. Lord Carrington said that the present situation could upset the Government's whole economic strategy. The UK could not hope to become a constructive member of the EEC for so long as her economy remained weak. It was difficult to achieve economic recovery while the enormous burden of the UK's net budgetary contribution remained.

Signor Andreotti said that the simple solution might be to establish the principle that only those countries with GNPs lower than the EEC average would qualify for a net repayment from the Budget. Psychologically, however, it might be easier to arrange a system whereby net repayments, or a proportion of them, were not given back directly to the national budgets of below-average GNP countries but to the Regional Fund or to the financing of large-scale projects in the country concerned, thus achieving a saving for the national budget. A solution on these lines might be more readily accepted by the EEC members. Signor Andreotti said that he did not by any means exclude the more direct arrangement but thought that something on these lines would be more

/ acceptable.

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acceptable. The Prime Minister commented that although the result might be the same in terms of budgetary figures, the destination of the repayments would be different: the total repayments would not necessarily come back to any particular poorer country. Signor Andreotti agreed that it would be simpler to establish a system of progressive budgetary contributions, analagous to national income tax; but because of the EEC mentality, it would be more difficult to win acceptance for such a novelty over a short period.

The Prime Minister said that a system such as Signor Andreotti had proposed would create some difficulties for the UK, since the degree of the UK's over-payment to the Budget was about to become so great that a solution on these lines could not cope with it. It was also essential that a government should have some direct control over the net refund. The British Government, for example, would wish to use any repayment in order to stimulate the UK economy, rather than acquiescing in the use of the money to prop up dying industries in Europe. Lord Carrington said that the current scale of the budgetary imbalance was such that, although he entirely accepted Signor Andreotti's view that the problem of the CAP had to be resolved by an adjustment in expenditure, the budgetary problem demanded a more radical solution. The difficulty was that, if the UK were to pay less, others - for example, the FRG - would have to pay significantly more.

The Prime Minister told Signor Andreotti that the problem was to secure some movement. She was less patient than he was and did not wish to discuss the problem three times a year without achieving any action. Action was needed at the next European Council: the problem was, how to secure it? Signor Andreotti remarked that the novelty of the Prime Minister's presence in the European Council might give a jolt to the Council's methodology, or what he would call "European Conservatism". It was important that there should be adequate

/preparation

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preparation and that the European Commission should be instructed in such a way as to pave the way for decisions at the following meeting of the Council. It was also necessary to work round the flanks, in other words to engage in systematic bilateral discussion. European Council meetings were not always the best occasions for actual decisions.

EMS

Signor Andreotti recalled that the Italian Government had decided in December to join the EMS and had nearly been brought down as a result. His Government had, nevertheless, thought it right to join in order to demonstrate its European will and also because membership of the system had obliged the Government to adopt more rigid internal and monetary policies. The results so far had been favourable. Signor Andreotti asked what the British Government's attitude now was towards the EMS. The Prime Minister said that the Government was reviewing the question of the UK's relationship with the EMS and would be prepared to announce the results of their preliminary review before September. The Government would probably wish to allocate some of the UK's reserves to the EMS. At present, however, sterling was at a level well above the EMS ceiling, partly because North Sea oil was keeping the exchange rate above what would be justified by the UK's economic performance, and also because of the recent increase in the MLR to 14 per cent. The deposit of some UK reserves in the EMS would, however, serve as a declaration of faith in the UK's intention to join the system. The Prime Minister asked Signor Andreotti whether membership of the EMS had obliged the Italian Government to adopt tougher policies on money supply and inflation than they would otherwise have done. Signor Andreotti said that his Government had already planned an austerity programme before joining: but membership of the EMS made it easier to put this programme into effect since everybody knew that such measures had to be taken as a result of Italy's participation in the scheme.

/ The Prime Minister

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The Prime Minister said that the British Government, too, was prepared to be very tough on inflation. Some exchange controls were being relaxed, in order to release UK investment to Europe. This was one way of gradually bringing the exchange rate down: money would be able to enter and leave the UK on more equal terms than before.

Signor Andreotti said that, when his Government had taken over, Italy's rate of inflation had stood at 23 per cent. The Government had got it down to 13.4 per cent and was determined to keep it there.

Energy

Signor Andreotti said that energy would be high on the Agenda at Strasbourg. Each member country of the Community had a different situation so far as energy was concerned: the UK had oil, the FRG coal, while Italy had nothing. It was essential to try to produce some concrete decisions at Strasbourg. It was no use simply declaring that energy consumption should be reduced by 5 per cent, and then leave it to member countries, with all their differences in resources, to carry out this prescription. It would be much better if the European Council could agree, for example, that all petrol stations in the EEC should be closed on Saturdays and Sundays. If all members were to subscribe to such a decision, it would be easier for each country to accept it. The problems of nuclear energy, as well, could be more easily tackled on a Community basis.

The Prime Minister said that she was not in favour of the weekend closing of petrol stations since this would discriminate against those who were obliged to work on Saturdays and Sundays. Each country would develop a different means of achieving the common objective. The Prime Minister said that she was more concerned by the nuclear energy issue: Europe would have to replace its coal and oil by nuclear power but there had been insufficient preparation of the public case

/for this.

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for this. People had to be reminded that uranium was just as much God-given as the sun and the waves. If Europe could not be brought round to favour nuclear power, the whole economic future of the Community would be in jeopardy. Italy, like France, had taken some very far-sighted decisions. The Prime Minister and Signor Andreotti agreed that Chancellor Schmidt's proposals on nuclear safety were helpful and should be pursued.

The discussion ended at 1315.

Byl-

15 June 1979

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PRIME MINISTER

Your Talks with Signor Andreotti on 15 June

I attach below briefs for tomorrow's talks with Signor Andreotti. He will arrive at No. 10 at 1130, accompanied only by his Foreign Minister, Signor Forlani, and his Junior Diplomatic Adviser, Signor Catalano, plus an interpreter (who is excellent). You will wish to meet him at the Front Door and there will be a photocall in the Front Hall.

The group is small enough (on our side there will be Lord Carrington, our own interpreter - Mr. Antony Layden - and myself as notetaker) for the talks to take place in the White Drawing Room and I shall arrange for drinks to be served at 1215. The two interpreters will sit behind you and Signor Andreotti - the Italian interpreter will translate what you say into Italian and Mr. Layden will translate what Signor Andreotti says into English.

I attach a card suggesting the order in which you might raise the various topics for discussion with Signor Andreotti.

Shortly before 1300, you will wish to round off the talks and take Signor Andreotti through to the Pillared Room to meet the enlarged group for lunch. I attach the guest list and seating plan. You agreed that Mr. Arculus, our next Ambassador in Rome, could come in for the pre-lunch drinks (the lunch table being already full) in order to meet you and to be introduced to Signor Andreotti.

SM.

14 June 1979

VISIT BY THE PRIME MINISTER OF ITALY

15 JUNE 1979

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BRIEF NO 1

COPY NO 1

13 June 1979

VISIT BY THE PRIME MINISTER OF ITALY:
15 JUNE 1979

STEERING BRIEF

Brief by Foreign and Commonwealth Office

1. Signor Andreotti last visited London on 22 November 1978 before the 4 December European Council. The reason for inviting him now is that we want to keep the Italians with us at the 21-22 June European Council, particularly on the Community Budget issue. British objectives will be to concert tactics for the European Council and beyond on:

- a) inequitable net budget contributions by the UK and Italy; and
- b) Tokyo Economic Summit and Energy.

Signor Andreotti himself will remain in charge while a new government is being formed and will, in any case, lead the Italian teams at Strasbourg and Tokyo.

2. The members of the Italian Delegation are listed at Annex A. The meeting, which will last for one and a half hours, will be attended by the two Prime Ministers, the two Foreign Ministers, one senior official on each side and a British and an Italian interpreter. The meeting

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will be followed by a small working lunch. On the Italian side the attendance at this will be the same as that for the talks except that the Italian Ambassador in London, Signor Ducci, will also be present. On the British side, the Lord Privy Seal will substitute for Lord Carrington and the Chancellor of the Exchequer and the Minister of Agriculture will also attend. A complete guest list for the lunch is at Annex B. It is expected that Signor Andreotti will return directly to Rome after the working lunch.

3. Signor Giulio Andreotti, who is 60, can be shy and withdrawn, but warms on acquaintance. He speaks no English. Through a succession of Italian political crises he has made his mark as a man who gets things done. His main objectives in the talks are likely to be:

- a) to align British and Italian EEC policies for the European Council, particularly on the Budget;
- b) to get on good terms with Mrs Thatcher and to explore the policies of the new British Government;
- c) to strengthen his domestic political position.

4. The Italian Government are particularly sensitive about anything which suggests the establishment of a 'directorship' of major powers from which they are excluded. They have regularly attended the Seven Power Economic Summits, and will be present at Tokyo, but they viewed with deep suspicion and complained bitterly about their exclusion from the Guadeloupe Four Power Summit meeting in January this year. They resent, without much illusion, any tendency by Britain, France and Germany to take a dominant role in the Community.

5. The Prime Minister might begin by asking Signor Andreotti for his comments on the outcome of the Italian domestic elections (see Brief No 8 on Italian internal scene). She might:

- a) say that the Christian Democrat vote seems to have held up well (down only 0.4% in terms of the popular vote for the Chamber of Deputies from 38.7 to 38.3).

/s)

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- b) express gratification that the Communist vote has declined for the first time in recent years (down from 34.4 to 30.4%);
- c) tell Signor Andreotti of the very great importance that she attaches to relations with Italy; and
- d) express the hope that our relations will continue to be as warm and friendly, both bilaterally and in the Community context, as they are at present. She may then wish to proceed straight to a discussion of the Community budget, on which British and Italian views are similar, with a view to securing a joint approach to the problem at Strasbourg.

RESUMÉ OF BRIEFS

ITEMS DEFINITELY FOR DISCUSSION

EUROPEAN COMMUNITY AFFAIRS (BRIEF NO 2)

Community Budget

6. This will be an important opportunity to work for common ground with the Italians on the budget problem. The similarities between the Italian and British positions are that we both suffer net budgetary costs and have particularly low receipts from the CAP. Behind this there are major differences. In particular the Italians have special interests in Mediterranean agriculture and favour massive increases in Community spending. These differences must be handled carefully in seeking Italian support for our own strategy.

7. Accordingly, the Prime Minister might try to focus Signor Andreotti's attention on what is most likely to be negotiable with our partners at the June and November European Councils. Our aim at the Strasbourg European Council should be to get agreement on a mandate to the Commission to propose solutions to the Budgetary imbalance in time for decisions to be taken at the November Council (our draft text could be given to Signor Andreotti if this has not been done in advance). UK and Italian officials should work out ideas for a ~~budget correcting mechanism~~ which

Solutions

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would suit us both. Each of us could then use our influence with the Commission to get them to put forward something like ~~the~~ them.

Other EEC Points

8. On other EEC issues, we have less specific objectives with the Italians at this stage. But the Prime Minister could encourage them to stand firm on a CAP price freeze at least for products in surplus and to work for a compromise on the Common Fisheries Policy on which we have no serious conflict of interest with them. Signor Andreotti may wish to hear about our position on EMS, Italy's membership of which has been a controversial issue domestically, and on industrial policies.

PROSPECTS FOR THE TOKYO SUMMIT (BRIEF NO 3)

9. A meeting of the European Council immediately before the economic summit traditionally provides an opportunity for those members of the Community who are not summit participants to express a view on the world economic situation so that the representatives of the Community (the President of the European Council and the President of the Commission) can express an agreed Community position. There will be general agreement that the energy situation is complicating an already uncertain international economic situation and that this should be the main subject for discussion and decision at Tokyo. UNCTAD V having reached only a limited measure of agreement - and with the developing countries facing growing balance of payments problems because of the oil price rises - the Japanese may well want the Tokyo Summit to address itself to the North/South dialogue.

INTERNATIONAL ENERGY QUESTIONS (BRIEF NO 4)

10. In the present difficult oil market situation, energy will be a priority subject for both the European Council and the Tokyo Summit. The Community and the Summit participants will need to find a common approach to the problems imposed by shortage of supplies and high spot market prices. We should welcome Italian views on the possible content of such an approach. For ourselves we believe continued and effective

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demand restraint will in any case be an essential element.

REFUGEES FROM INDO-CHINA (BRIEF NO 5)

11. The Indo-Chinese refugee problem requires international action to mobilise practical support and maximum pressure on Vietnam. The Prime Minister will wish to ask Sgr Andreotti to support her call for a special international conference under Dr Waldheim's auspices and to consider what other practical assistance Italy can give. The situation in Hong Kong is extremely serious.

ITEMS WHICH MAY COME UP

AFRICAN QUESTIONS (BRIEF NO 6)

12. We would not, ourselves, propose to raise this subject. However, official talks were held with the Italians last week. Italian officials then expressed anxiety about the Rhodesia situation, and briefing has been provided in case Sgr Andreotti should raise the matter. This briefing also covers recent developments in Namibia.

BILATERAL QUESTIONS (BRIEF NO 7)

13. Bilateral relations are close and have been further strengthened in recent years by the assistance we have been able to give Italy in dealing with terrorism (short note provided). There are no specific bilateral points for the Prime Minister to raise. The Italians may, however, refer to the difficulties presently being experienced by the Italian charter flight company, Itavia, in obtaining sufficient fuel supplies from Mobil at Gatwick. This is not a matter for HMG. A defensive brief is included on this point.

BACKGROUND BRIEFING

ITALIAN INTERNAL SCENE (BRIEF NO 8)

14. A short assessment of the current Italian political and economic

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situation has been provided. This incorporates the results of the recent General Election and of the Elections to the European Parliament. Personality Notes on Sgr Andreotti and Sgr Forlani are included.

15. Essential factual statistics on Italy are set out at Annex C to this Brief.

Foreign and Commonwealth Office
13 June 1979

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THE ITALIAN DELEGATION

Sgr Giulio Andreotti	Prime Minister
Sgr Arnaldo Forlani	Foreign Minister
Sgr Catalano	Deputy Diplomatic Adviser
Sgr Bottiglieri	Chief of Protocol, Ministry of Interior
Sgr Bianchieri	Chef de Cabinet to Foreign Minister
Sgr Berlinguer	Foreign Ministry Press Spokesman
Sgra Civelli	Interpreter

WORKING LUNCH

Italian Side

- | | | |
|----|---------------|---------------------------|
| 1. | Sgr Andreotti | Prime Minister |
| 2. | Sgr Forlani | Foreign Minister |
| 3. | Sgr Catalano | Deputy Diplomatic Adviser |
| 4. | Sgr Ducci | Italian Ambassador |

British Side

1. The Prime Minister
2. The Chancellor of the Exchequer
3. The Lord Privy Seal
4. The Minister of Agriculture Fisheries and Food
5. Sir Alan Campbell (British Ambassador, Rome)
6. Mr Franklin (Cabinet Office)
7. Mr Butler (FCO)
8. Mr Cartledge

Interpreters will be present but will not be seated at table.

ITALY - BASIC STATISTICS (1978 and EEC Commission Forecasts for 1979)

		<u>Italy</u>	<u>UK</u>
Population (millions)	1978	56.7	55.9
	1979	57.0	55.8
Labour Force (millions)	1978	21.7	26.4
	1979	21.8	26.6
Unemployed (percent of civilian labour force)	1978	7.0	5.7
	1979	6.5	5.7
Gross Domestic Product (billion European Units of Account)	1978	186.9	240.0
	1979	208.6	264.9
Gross Domestic Product per head (EUA)	1978	3296	4293
	1979	3659	4747
Annual Rate of Growth of Volume of GDP (Percent)	1978	+ 2.2	+ 3.4
	1979	+ 4.6	+ 2.3
Annual Rate of Growth of Industrial Production	1978	+ 1.9	+ 3.1
	1979	+ 7.1	+ 2.1
Consumer prices (changes over year earlier) per cent	1978	+13.0	+ 8.4
	1979	+12.5	+ 9.7
Balance of Payments on Current Account (million EUA)	1978	+5323	+ 127
	1979	+3333	+ 483
<u>Trade</u>			
British exports to Italy	1977	£981 million	
	1978	£1124 million	
British imports from Italy	1977	£1534 million	
	1978	£1935 million	
<u>Defence</u>			
Spending		= 2.8% GNP	
Total armed forces		= 342,000 plus 80,000 Carabinieri	

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13 JUNE, 1979

BRIEF No. 2

COPY NO.

1

VISITS BY THE PRIME MINISTER OF ITALY: 15 JUNE, 1979

EUROPEAN COMMUNITY AFFAIRS

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE

1. COMMUNITY BUDGET/CONVERGENCE(a) UK and Italian Budget problems

Italy and the UK share the problem that the EEC Budget, and EEC resource transfers, are inequitable. We have worked together to get the problem acknowledged. Our views on solutions may not always fully coincide. But let us go on supporting each other at the June Council, in pressing for recognition, and for quick action by the Commission on proposals for remedies.

(b) Obstacles to be overcome

If we pay less others will have to pay more. The Irish will not want to see any diminution of the benefit they receive, mainly from the CAP: in 1978 Irish total FEOGA receipts were 570.2 mEUA (£380 million). The Germans and the French do not want to increase expenditure which would breach the 1% VAT ceiling.

(c) Presentation of our arguments

We do not see massive increases in non-CAP expenditure as a solution to the problem. This Government wants to be prudent about all Government expenditure including Community expenditure. There should be savings in expenditure on surpluses in northern agricultural products. These can then be diverted to better purposes. The UK (urban renewal, industrial obsolescence, physical barriers to transport) and Italy (Mediterranean agriculture, Mezzogiorno) have plenty of candidates. But this is a long-term strategy. Meanwhile we must have some more immediately effective correcting action.

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(d) Corrective mechanism

This is the only way we can hope to get quick action on the Budget imbalances. We have had some indications that the French and Germans may themselves think something like this is required. We are still considering various ideas. We shall not raise the point at Strasbourg. Proposals would in any case come better from the Commission.

(e) Financial Mechanism

The financial mechanism as at present constructed does not do us (or the Italians) any real good. It might be possible to amend it to give the UK a substantial return and deal with a part of our problem. But proposals to rectify the inequities will have to deal with the low level of UK and Italian receipts as well as the UK inequitable gross contribution.

(f) Tactics at the European Council

Our aim at the Strasbourg Council should be to ensure that there is adequate discussion on the first day, and to get agreement on instructions to the Commission to propose solutions in time for decisions to be taken at the November Council. These instructions must be clearly stated in the Council's conclusions on the lines of the attached draft (Annex A). [The Prime Minister will need to show willingness to discuss this text with Andreotti: Commentary at Annex B.] We should give this text to the other member Governments a few days before the European Council and lobby them intensively in favour of it.

(g) Follow-up to the European Council

We should not propose specific solutions ourselves, but should use our influence with the Commission to get them to put forward ideas on the lines we favour.

2. OTHER COMMUNITY ISSUES(a) CAP

We strongly support the Commission's proposals for a price freeze in 1979/80. Certainly no justification for any price increase for surplus products this year. Trust Italian Government also will continue to support Commission's proposals. Ultimate target should

be a CAP based on common prices set at a level where there is no incentive to produce more than is required for consumption, unsubsidised exports, food aid and normal stocks. Agree with Italians too much money spent on North European agriculture. We have supported cost-effective measures to improve the structure of Mediterranean agriculture. But must avoid measures which lead to surpluses of Mediterranean products like those of northern goods.

(b) CFP

Hope discussions in Community can now be undertaken in better spirit. Legitimate UK interests. But we want settlement. 25 June Fisheries Council should be low-key and avoid acrimony. Commission should lead in pursuing settlement during summer. Then substantive discussion of problems, perhaps in autumn Fisheries Council. No direct conflict of interest with Italy. Hope Italians will work for acceptable and fair CFP. As special concession we have lifted the UK reserve on Italian fishing off Africa despite absence of any progress on CFP internal regime.

(c) EMS

We wish the EMS well. Will decide whether to participate in exchange rate mechanism when aspects of the functioning of the system are reviewed in September. What is Italian experience of operation of system? We will think about swapping reserve for ECUs.

(d) Industrial and Regional Policy

Government's approach to Community role in regional, competition and industrial policies different from Labour Government's. Intend to cut down on financial aid to industries which have no long-term viable future. Accept Commission's role in monitoring state aids but inevitable that some industries will need temporary financial support. Italy and UK have similar problems (shipbuilding, steel etc). On regional and other non-agricultural EEC funds our approach to public spending rigorous in EEC as at home. But shall adopt positive attitude to EEC proposals when likely to be more effective than purely national funds. When we have studied prospects for EEC non-agricultural funds (e.g. regional fund, social fund, transport environment, industrial restructuring) we would like to discuss bilaterally with Italians contribution these might make to solution of the Budget problem in 1980.

FACTUAL BACKGROUND

For Free Use1. Community Budget/Convergence(a) UK Budget Position

The Prime Minister is aware of the details of the UK budgetary position (agreed line to take and table of net budgetary transfers for 1978 attached at Annex C).

(b) Similarities and dissimilarities between UK and Italian Budget problems

The figures for 1978 show a considerable similarity in our positions. We both do badly out of the CAP (UK total receipts equivalent to about 5% of total FEOGA expenditure, Italian receipts about 9%). In the overall context of the Budget our respective receipts from the Regional Development Fund (59 mEUA to the UK, 79 mEUA to Italy) are extremely small. Both the UK net contribution of 942.5 mEUA and that of Italy at 752.3 mEUA are equivalent to about 0.4% of our respective national GDP.

(c) However the Italian budgetary problem is entirely on the expenditure side. The UK's gross contribution to the Community Budget in 1979 is 17.4% (c. 19.5% in 1980) whereas our GNP share would be 15.4% and our receipts from the Community Budget are only 7.5%. The corresponding figures for Italy are 11.58%, 12.2% and 8%.

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(d) The Commission tend to propagate the view that the Italian problem is entirely separate from our own and that it should be dealt with separately. It is uncertain however to what extent this is because of the wish of various of our partners (reflected in the Commission) to isolate the UK problem.

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(e) It is not possible to estimate the size of other States' receipts, but it seems from other figures that the Italian budgetary position could improve over the next two years. First, their percentages gross contribution will drop from 13.7% in 1978 to 11.58% in 1979 because of the replacement of the former GNP element of contributions by one based on VAT as from January 1979. Secondly, new CAP regimes covering olive oil and processed fruit and vegetables as well as a new Mediterranean structural package could bring Italy an annual 400 mEUA net, provided their administration proves efficient enough to take full advantage of this.

2. CAP

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(a) The estimated cost of the CAP in 1979 is some £6,500 million. The bulk of this will be spent on three commodities - milk, cereals and sugar, which account respectively for 37%, 19% and 10% of the total. The cost is growing rapidly. Preliminary figures for 1980 indicate that even with a farm price freeze, expenditure in 1980 will be some 12.5% higher. The Commission have estimated that on present trends the cost of the CAP will reach 14,500 mEUA (£9,300 m) by 1982.

(b) Italy is eighth in order of prosperity on GDP per head in the Community. She is a net contributor to the CAP; in 1978 she paid £327 million, second only to the UK (£590 million) and ahead of the FRG (£140 million). Also like the UK, she is a net food importer, particularly of "northern" products.

(c) Statistics

Net contribution to FEOGA, 1978

Italy £327m	UK £590m
-------------	----------

Agriculture/Forestry/Fishing as % of GDP, 1977

Italy 9.0%	UK 2.8%
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As % of total employed, in Agriculture/Forestry/Fishing 1976

Italy 15.9%	UK 2.7%	Community (9)	8.2%
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Agricultural self-sufficiency 1976

Italy 89% UK 62% Community 91%

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(d) Italy has so far stood by the UK in supporting the Commission's proposal for a price freeze for 1979/80, but her interest is less in a price freeze per se than in achieving a better balance between those "northern" products (milk, sugar, cereals etc) which are in major surplus and "southern" products (fruit, vegetables, olive oil, etc), in order to increase her returns from the CAP. There is a strong risk other Member States will try to buy her off in order to isolate the UK in the price-fixing.

3. CFP

(a) Italy not much concerned by main CFP negotiations. Italy claims 12 mile fishery limits. Most Italian fishing is local, but distant water fleet has interests off Africa and America. In UK interest to keep Italians from seeking access to North Atlantic waters. For this reason (and to avoid antagonising useful ally on other Community issues) we lifted, last week, our reserve on EEC/Senegal Agreement. This will cost the Community \$12 million over 2 years to provide access for about 50 Italian tuna boats.

(b) UK national conservation measures planned 1 July in absence of Community action. Conservation to be discussed at 25 June Council. Italians not affected by UK conservation measures.

4. EMS

(a) Signor Andreotti unlikely to want to discuss the actual functioning of the EMS. Italian experience has been generally satisfactory: the lira has been buoyant and taken advantage of the wider 6% band for which Italy opted. The lira has in fact remained consistently above the 2½% margin. Andreotti not likely to want to discuss current Danish and Belgian problems

(the two currencies for which there has been consistent intervention in order to prevent them falling below the minimum level permitted by the parity grid).

(b) He may however raise the question of the interest rate subsidies which are currently blocked by us pending recognition that the UK would be eligible for such subsidies if it joined the exchange rate mechanism (thereby confirming our position as one of the least prosperous members of the Community, a position which others especially the French are inclined to contest on the grounds that we have the benefit of North Sea oil). The Italians have given us some support on this but the French so far have opposed any formulation implying that we are a less prosperous Member State. This issue is important to us less because of the amounts involved (unlikely to be more than £50 m per annum) than because it reinforces the case we make on the need for action to remedy our budgetary problem. Exclusion from eligibility for interest rate subsidies would be invoked against us in other contexts.

(c) We have argued that if we joined the exchange rate mechanism we agree that new money should be made available over and above the 200 mEUA agreed so that Italy and Ireland would not suffer a proportional loss.

5. Industrial and Regional Policy

Italians through state holding companies IRI, ENI etc have large scale intervention in the industry, and have resisted Commission controls on state aids. Some Italian worry that they will be on their own if UK accepts Commission monitoring eg. on steel aids. Italians also attach great importance to regional fund (they get 39.4% of present fund of £610 million compared with UK 27%). The net payments from EEC Budget to UK and Italy from regional and other non-agricultural funds can make a positive contribution to overall Budget situation of both countries. UK Ministers studying possibilities for improving situation further through expanded EEC funds, possibly transferring some expenditure from UK Exchequer to EEC Budget. We will have

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interest in seeing whether we have common ground with Italians
in pressing for changes in EEC spending patterns.

FOREIGN AND COMMONWEALTH OFFICE

13 June 1979

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COMMUNITY BUDGET

The European Council recognised that at present the financial consequences of the Community budget create difficulties for two of the three member States with below-average GNP per head. In time, these difficulties should become less serious. Reductions in agricultural surpluses should reduce the cost of the c.a.p. That in itself will lighten the budgetary burden and should make it easier to switch expenditure to policies designed to reduce regional disparities. Meanwhile solutions are urgently required to ensure that the Community budget produces a fair balance of costs and benefits for all member states and, in particular, does not continue to hinder member States with below-average GNP per head in their efforts to improve their economic performance. The European Council invited the Commission to make proposals before the end of September to deal with this problem in order to permit decisions to be taken at the next European Council in Dublin.

TALKS WITH SIGNOR ANDREOTTICOMMENTARY ON THE DRAFT CONCLUSIONSON THE COMMUNITY BUDGET

1. The first sentence is important because it would secure recognition by other member Governments of the UK and Italian Budget problem.

2. The second, third and fourth sentences go as far as we can to meet the Italian thesis that the problem can be cured by more expenditure of value to them and to us. But they would want the Budget to increase beyond the existing 1% VAT tranche to permit much higher expenditure. Even if we wanted this, the Germans and French would not agree.

These sentences also lead into the thought that the correcting mechanism now required may become redundant in time. This will make it easier for other member States to accept and sell the idea. "Meanwhile" in the next sentence is the key word.

3. The idea of "a fair balance of costs and benefits" to all member States in the next sentence is one which is difficult to argue against but which the Danes, Dutch, Belgians and French at least will probably not like. It is not essential to us and could be given up at the Council if the rest of the sentence is retained. This (the idea that the budget should no longer hinder member States with below-average GDP per head in their efforts to improve their economic performance) is the essential ingredient since it points the Commission towards eliminating our net contribution.

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LINE TO TAKE ON OUR BUDGETARY POSITION

1. The attached table contains the Commission's own figures for 1978. The United Kingdom is seventh in the list of member states in terms of Gross Domestic Product per head but these figures show (column 1) that in 1978 we were already the largest net contributor to the Community budget at 943m EUA, or £625 million.
2. The figures in column 3 have been adjusted to attribute MCAs to the importing country and on this basis we become fourth largest contributor. But MCAs cannot be treated as budget receipts by importing countries like the UK and Italy. They are not consumer subsidies because they serve only as a partial offset to the cost to us of buying food at CAP prices and not world prices. They allow producers in high cost countries to sell to low cost countries while getting the same high return as in their domestic market.
3. As the table shows, we benefited in 1978 from the transitional arrangements (Article 131). Without them we should have been the largest net contributor however MCAs are treated (column 6).
4. In 1980, when the transitional period has ended, our net contribution will be well over £1000 (1500m EUAs) and we shall be far and away the biggest net contributor.
5. The problem is two-fold. First, we provide $17\frac{1}{2}$ per cent of the Community's income this year, and expect to provide 20 per cent next, whereas our share of the Community's GNP is only about $15\frac{1}{2}$ per cent. Second, we get back in receipts only about $7\frac{1}{2}$ per cent of the Budget.
6. The main reason for our low receipts is the CAP. It persistently takes more than 70 per cent of a growing Budget. Because our agriculture is small and efficient, less than 5 per cent of this expenditure takes place in the United Kingdom. We do rather better out of the Regional and Social Funds, but together they account for only 10 per cent of the Budget.
7. As a result the budget bears no relation to ability to pay. We and Italy are large contributors, whereas richer countries like Denmark and Belgium are substantial beneficiaries.

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8. The United Kingdom accepts that greater convergence in economic performance is primarily a matter of the right national policies. The new Government is determined to restore the United Kingdom economy. But Community policies should help those efforts rather than hinder them. At present they do not.

9. These inequities are a problem for the whole Community, as well as for the United Kingdom; until they are removed, the Community will remain unbalanced, and the commitments of Governments to Europe will be hampered by the effects on public opinion in the countries most adversely affected. In 1971 the original Six recognised that if unacceptable situations [over the Budget] should arise, 'the very survival of the Community would demand that the institutions find equitable solutions' (Cmnd 4715).

10. We are not arguing for a juste retour: ie that we should get out of the EEC precisely what we put in. Nor that member states' net contributions or receipts should precisely reflect their position in relation to average Community GDP per head. But we do not consider that it is right for countries with below average GDP per head to be net contributors to the Budget.

11. We want an early solution. It is for the Commission to suggest ways in which the imbalance can be corrected. The impetus will have to come from the European Council in Strasbourg on 21/22 June.

TABLE 1

NET TRANSFER BY (TO) MEMBER STATES IN 1978

million ecu

	1978 - Actual position			1978 - Without Article 151 adjustments		
	1 Recorded transfers	2 MCAs	3 Adjusted transfers	4 Recorded transfers	5 MCAs	6 Adjusted transfers
Belgium/Luxembourg	+ 380.4	- 43.1	+ 337.3	+ 415.4	- 45.1	+ 372.3
Denmark	+ 620.4	- 239.1	+ 381.3	+ 620.4	- 239.1	+ 381.3
Federal Republic of Germany	- 423.8	- 173.0	- 596.8	- 213.6	- 173.0	- 386.6
France	- 82.9	- 287.7	- 370.6	+ 47.4	- 287.7	- 240.3
Ireland	+ 536.2	- 210.4	+ 325.8	+ 517.8	- 210.4	+ 307.4
Italy	- 752.3	+ 418.5	- 333.8	- 672.9	+ 418.5	- 254.4
Netherlands	+ 220.5	- 179.8	+ 40.7	+ 265.4	- 179.8	+ 85.6
United Kingdom	- 942.5	+ 714.6	- 227.9	-1425.9	+ 714.6	- 709.3
Direct aid to Third Countries	+ 39.0		+ 39.0	+ 39.0		+ 39.0
Change in Commission's balances with national treasuries (2)	+ 393.9		+ 393.9	+ 393.9		+ 393.9
Differences on (3) exchange rates	+ 11.1		+ 11.1	+ 11.1		+ 11.1
	0	0	0	0	0	0

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(1) At the average exchange rates for the years in question

(2) The national treasuries maintain accounts in the name of the Commission. Although the 1976 and 1977 budgets were in balance and executed, the balances on these accounts changed during the year. These balances do not earn interest and can be used by the Commission only to meet approved budgetary expenditure.

(3) These are accounting differences which arise because of the use of average exchange rates.

ROME, JUNE 14, REUTER - ITALIAN PREMIER GIULIO ANDREOTTI TODAY CALLED FOR REFORMS OF THE EUROPEAN COMMON MARKET'S AGRICULTURAL POLICY AND A BOOST IN PAYMENTS BY OTHER EEC FUNDS TO HELP BRITAIN AND HIS OWN COUNTRY.

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MR ANDREOTTI, WHO WILL DISCUSS THESE MATTERS IN LONDON TOMORROW WITH PRIME MINISTER MARGARET THATCHER, ALSO SAID HE BELIEVED THE ELECTION OF THE NEW PRO-EUROPEAN BRITISH LEADER WOULD GIVE BRITAIN A BETTER NEGOTIATING POSITION IN THE EEC.

B

THE 60-YEAR-OLD VETERAN ITALIAN POLITICIAN WILL HAVE TALKS WITH MRS THATCHER IN LONDON TOMORROW.

+WE CANNOT GO ON DEDICATING 70 PER CENT OF THE COMMON MARKET'S RESOURCES TO AGRICULTURE,+ MR ANDREOTTI TOLD REUTERS. +THE DISTORTIONS MUST BE CORRECTED +

HE ALSO COMPLAINED THAT BRITAIN AND ITALY WERE THE TWO BIGGEST NET CONTRIBUTORS TO THE EEC WHILE STANDING SEVENTH AND EIGHTH PLACE FOR PER CAPITA INCOME.

→

ITALY AND BRITAIN WERE ALSO THE ONLY NET IMPORTERS OF FOOD, LIKE MEAT, CEREALS AND MILK PRODUCTS, IN THE EEC AND FOUND THAT PRICES WERE MUCH HIGHER THAN THOSE OUTSIDE THE EEC, HE ADDED.

+SO BRITAIN AND ITALY ARE STRONGLY PENALISED,+ HE DECLARED BOTH GOVERNMENTS HOPE THAT THESE PROBLEMS OVER THE EEC'S CONTROVERSIAL AGRICULTURAL POLICY (CAP) WOULD BE DEALT WITH IN A +CONCRETE AND CONSTRUCTIVE WAY+ AT THE FORTHCOMING EUROPEAN SUMMIT IN STRASBOURG.

11 →

ASKED IF HE THOUGHT THE CAP SHOULD BE CHANGED OR IF ITALY AND BRITAIN SHOULD INSTEAD BE COMPENSATED BY BIGGER PAYMENTS FROM EEC SOCIAL AND REGIONAL FUNDS, MR ANDREOTTI CALLED FOR BOTH DEVELOPMENTS.

APART FROM REFORM OF THE CAP, +OTHER EEC POLICIES SHOULD BE STRENGTHENED, FIRSTLY THE REGIONAL AND SOCIAL POLICIES BUT ALSO OTHERS - INDUSTRIAL AND ENERGY POLICIES FOR EXAMPLE. +

THESE OTHER POLICIES NOW EXIST IN EMBRYONIC FORM +BUT THEY ARE JUST AS IMPORTANT IF WE WANT TO BUILD A TRUE COMMUNITY,+ THE PRIME MINISTER SAID.

(THE ONLY MAJOR DIFFERENCE IN ITALIAN AND BRITISH EEC POLICY IS THAT ITALY FAVOURS AN INCREASE IN THE EEC BUDGET WHICH WOULD REDUCE THE PROPORTION SPENT ON THE CAP WHILE BRITAIN WANTS TO CUT CAP EXPENDITURE, RELIABLE SOURCES SAID).

MR ANDREOTTI ALSO SAID THAT MRS THATCHER'S NEW CONSERVATIVE GOVERNMENT WOULD GIVE BRITAIN A MORE AUTHORITATIVE VOICE IN EUROPE.

+THE EUROPEAN COMMITMENT OF THE NEW BRITISH GOVERNMENT IS BEYOND DOUBT AND FOR THIS I CAN ONLY REJOICE,+ HE SAID.

+IT IS POSSIBLE THAT THIS SINCERE EUROPEAN COMMITMENT WILL GIVE GREATER AUTHORITY AND CREDIBILITY, AND ALSO NEGOTIATING STRENGTH, TO BRITISH REPRESENTATIVES. +

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BRIEF NO 3

12 JUNE 1979

COPY NO 1

VISIT BY THE PRIME MINISTER OF ITALY, 15 JUNE 1979

PROSPECTS FOR THE TOKYO SUMMIT

Brief by the Foreign and Commonwealth Office and Treasury

The brief prepared for discussion of this subject at the European / Council in Strasbourg on 21/22 June is attached. With Italy's total dependence on imported oil supplies, Mr Andreotti is unlikely to disagree that energy should be the focal point of the discussion at Tokyo.

FOREIGN AND COMMONWEALTH OFFICE AND TREASURY

12 JUNE 1979

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COPY NO

12 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

PROSPECTS FOR THE TOKYO SUMMIT

Brief by Foreign and Commonwealth Office and Treasury

LINE TO TAKE

GENERAL APPROACH

1. Difficult economic background. Inflation accelerating. Specific growth targets inappropriate this year. Discussion should focus on energy. Practical conclusions are needed.

ENERGY

2. Energy the key area. Need for effective oil demand restraint (particularly by US) to fulfil IEA/EEC commitments. And in the longer term development of alternatives to oil.

NORTH/SOUTH

3. After only modest progress at UNCTAD, developing countries will be looking for something. Their problems will be exacerbated by the oil price rises. The new British Government's emphasis will be on trade and investment, though we shall of course maintain an effective Aid Programme.

TRADE

4. With the bulk of the MTNs out of the way and the Trade Pledge renewed for a year, trade issues are unlikely to feature prominently. But there may well be emphasis on the need for structural change.

MONETARY QUESTIONS

5. International monetary situation relatively calm. No initiatives called for. But OPEC surpluses - and funding of their counterpart deficits - will become a problem again.

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/BACKGROUND

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BACKGROUND

Reference A: Main Economic Variables

COMMUNITY ANGLE

6. Economic Summits are a sensitive issue in the Community because only some member states are invited. They have caused much rancour, particularly before agreement was reached in 1977 on a formula allowing the President of the European Council and the President of the Commission to attend for discussion of matters related to Community competence. Important therefore to let non-participants have their say so that Community representatives can claim to be fully aware of position of all member states.

GENERAL APPROACH

7. The orientations of demand management agreed on at Bonn still appear appropriate, ie faster growth in Germany and Japan than in US which needs to give greatest priority to reducing inflation. On present forecasts desired pattern of growth seems likely to be achieved - for most of 1979 at least - so there is little scope for the kind of realignment of policies, with specific growth targets, seen at Bonn. Prospects for 1980 are less good. 2.6% (WEP) as oil prices work through and with US economy very weak. US growth could fall to 1.2% (WEP) as compared with 2.7% (WEP) in 1979 (OECD 3.1%).

8. Inflation in the main industrialised countries has begun to accelerate. In the 12 months to September 1978, US inflation was 8.2% and in the 12 months to April 1978, 10.4%. The corresponding figures for other countries are: FRG 2.2 to 3.5%, France 9.2 to 10%, Italy 12.2 to 14.3%, UK 8.2 to 10.1%.

ENERGY

9. See Brief no 5. Without any demand restraint by consumers free world oil supply shortfall in 1979 likely to be around 1.5-2 mbpd (3-4%). Iranian production currently believed to be 3.5-4 mbpd. It was around 5.6 mbpd in 1978 prior to the revolution. Even if IEA and EEC countries fully implement demand restraint measures to reduce

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/consumption

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Consumption by 5% the world oil market will remain tight.

NORTH/SOUTH DIALOGUE

10. UNCTAD V reached a useful consensus on some issues, such as protectionism and commodities, even if the gap remains wide on the fundamental reforms of the international economic and monetary system demanded by the developing countries. However there was no acrimony and we should not take the inconclusive result too tragically. But the problems of the LDCs remain - and will be exacerbated by the oil price rises. The next major North/South argument will be over the International Development Strategy for the 1980s and beyond (due to be adopted at a Special Session of the UN General Assembly in 1980). The LDCs will want specific targets for concessions from the developed countries in pursuit of the NIEO. We shall emphasise the need for flexibility and the shared responsibilities of both LDCs and developed countries.

TRADE

11. Current account deficit of US will fall owing to slower growth and increased exports but may rise again in 1980 (\$16 billion 1978, \$9.7 billion 1979, \$10.9 billion 1980 - WEP). Japanese surplus will decline owing to oil price increases and emergency imports but likely to rise again in 1980 (\$16.7 billion 1978, \$3.4 billion 1979, \$8.5 billion 1980 WEP). There will be a better balance of surpluses and deficits among the major OECD countries. But the net deficit on non-Summit OECD countries (including Portugal and Turkey) will rise from \$9.9 billion to \$15.3 billion (WEP), and the deficit for non-oil developing countries will rise from \$25.6 billion to \$32.5 billion (WEP) OECD figures from (OECD figures \$31 billion to \$40 billion).

MONETARY QUESTIONS

12. No specific initiatives are contemplated. Work is in hand in the IMF on the Substitution Account and among Bank Governors on monitoring of Euro-Markets. UNCTAD V forced through an unacceptable resolution on the reform of the international monetary system. The UK voted against.

FOREIGN AND COMMONWEALTH OFFICE AND HM TREASURY

12 JUNE 1979

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TABLE 1 : GNP/GDP GROWTH

% change on previous year

	1977	1978	1979
United States	4.9	3.9	2.7
Canada	2.7	3.4	3.4
Japan	5.4	5.6	5.5
West Germany	2.6	3.4	3.8
France	3.1	3.0	3.3
Italy	1.7	2.2	3.6
United Kingdom	1.9	3.0	0.5
Seven majors	4.0	3.9	3.3

TABLE 2 : CONSUMER PRICES

% change on previous year

	1977	1978	1979
United States	6.5	7.6	9.6
Canada	8.0	8.9	9.4
Japan	8.0	3.9	4.2
West Germany	3.9	2.6	3.4
France	9.3	9.2	9.8
Italy	19.3	12.4	13.7
United Kingdom	16.0	8.6	12.6
Seven majors	8.1	7.0	8.4

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TABLE 3 : BALANCES ON CURRENT ACCOUNT ( bn)

	1977	1978	1979
United States	-15.3	-16.0	- 9.7
Canada	- 3.9	- 4.5	- 5.3
Japan	10.9	16.7	3.4
West Germany	3.6	8.8	6.0
France	- 3.2	4.1	3.1
Italy	2.3	5.7	5.1
United Kingdom	0.8	0.5	- 1.3
Seven majors	- 4.8	15.3	1.3
Other OECD	-20.1	- 9.9	-15.3
Total OECD	-24.9	5.4	-14.0
OPEC	26.3	- 2.2	19.8
Non-oil LDCs	-14.8	-25.6	-32.5

TABLE 4 : UNEMPLOYMENT RATES*

	1977	1978	% of labour force 1979 (Latest month)
United States	7.1	6.0	5.8 (Apr)
Canada	8.1	8.4	7.9 (Mar)
Japan	2.0	2.2	2.1 (Mar)
West Germany	4.5	4.3	3.8 (Apr)
France	5.7	6.2	7.1 (Apr)
Italy	7.2	7.2	7.8 (Mar, nsa)
United Kingdom	5.8	5.7	5.5 (Apr)

*Rates are not comparable between countries owing to differences of coverage and definition. Seasonally adjusted (except Italy).

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BRIEF NO. 4

COPY NO. 1

13 JUNE 1979

VISIT BY PRIME MINISTER OF ITALY

15 JUNE 1979

INTERNATIONAL ENERGY QUESTIONS

Brief by the Foreign and Commonwealth Office

Points to make

OIL

1. (a) We must make the most of the forthcoming European Council and Economic Summit to find a common approach to the present difficult oil market situation (which the 26 June OPEC meeting will probably make worse). We would welcome Italian views;

(b) as a first step, the European Council must ensure full and rapid implementation of the March Council's decision on 5% demand restraint in 1979 and extend this into 1980. We are looking at ways of making the March decision more effective, but have not yet reached firm conclusions;

/(c)

(c) something must also be done to ease spot market prices. We are studying the French proposal for price controls on the Rotterdam market but think this might simply drive the market elsewhere. An alternative would be a short term concerted effort by all Western consumers to persuade oil companies to keep out of the spot market. But high prices only reflect supply/demand imbalances, and we must tackle the root of the problem;

(d) the Summit is the right place to indicate our continued wish for a more general dialogue on energy with the producers, and I hope there will be a full discussion of this question at Tokyo. The Giraud/Yamani meeting planned for 28 June may result in useful and continuing technical contacts between OPEC and EEC members. But an EEC/OPEC dialogue by itself would not be sufficient. The Americans and Japanese must be involved at some stage;

(e) in Community energy policy the UK intends to play a positive role, dealing with proposals on their merits and seeking to promote the effective coordination of members' policies.

NUCLEAR MATTERS

2. (a) Nuclear power will have a growing role to play in meeting our energy requirements. But the development of nuclear power could be hampered by further anxiety about the safety of nuclear reactors;

(b) responsibility for nuclear safety rests primarily within member states but an international study of this problem, building on the IAEA would be useful. However we should take care to ensure that it does not enable opponents of nuclear power to press for a moratorium;

(c) we welcome the idea put forward at the March European Council that there should be greater consultation on non-proliferation issues. Nuclear developments in the Indian Sub-continent and the nature of non-proliferation arrangements after INFCE are topics which might be discussed in the framework of political cooperation.

/Background

Background [Information which can freely be used]

3. The latest IEA assessment suggests that, with a gradual build up of demand restraint by consumers, there will be a shortfall of 0.7 million barrels per day (mbd) (or 1%) in free-world oil supplies in 1979. A 5% demand reduction throughout 1980 would allow a modest degree of stock rebuilding next year. The present price position is unstable, with all OPEC producers other than Saudi Arabia charging premia above the "official" price for light Arabian crude. These premia are likely to be incorporated into the official price at the OPEC meeting in June, and further increases later in the year are probable. Contract prices are already over 30% above last year's level. In the spot market (which accounts for only 3-5% of sales) prices have risen to about twice the equivalent official prices.

4. The March European Council adopted an oil demand restraint target for 1979 amounting to 5% of expected consumption. The UK should be able to meet this target. The measures we have taken include burning coal in place of oil in power stations, and energy savings in the public sector.

5. The French Presidency have put forward proposals for greater control over the spot market proposals. High spot prices certainly provide a useful argument for OPEC price hawks, but we and others, especially the Germans, are sceptical about the possibility (or the value) of trying to control the Rotterdam spot market in isolation. Other possibilities which we are studying urgently, but on which we have not yet received conclusions, include (a) a concerted short term effort by all Western consumers to persuade oil companies to stay out of the spot market and (b) some kind of voluntary allocation system which gave each country the level of oil imports which would apply if countries fully implemented the agreed 5% cuts.

6. Recent interest in expanded consumer/producer contacts stems initially from a Saudi communique of 28 February, which called for such contacts in order to stabilise the oil market. The

European Council in March welcomed the Saudi statement. A dialogue with producers on energy matters would be to our long term advantage, and that of other consumers, but we cannot be sure that it will be on offer, or whether it would be on terms which we and our partners could accept. The extent to which other producers support the Saudi call is doubtful (and there have been some signs of second thoughts by the Saudis themselves). The producers, and probably the Third World too, are likely to insist that discussion of energy should be only part of a wider negotiation on the New International Economic Order. The Americans have considerable reservations about producer-consumer contacts and continue to pin their hopes on Saudi influence within OPEC. We believe they exaggerate current Saudi influence even if the Saudis chose to use it following the Israel-Egypt peace treaty. Nonetheless, it is important that the industrialised countries should show themselves ready to respond to any move towards a dialogue by the producers. The French Presidency have had contacts with the Saudis, which have led to agreement to a meeting on 28 June between Giraud and Brunner, representing the EEC, and Yamani for OPEC, to pave the way for low-key, technical discussions, with the minimum of publicity, on future world supply and demand forecasts for energy. This would be a useful beginning; but any sensible discussion of world supply and demand (and so indirectly, of oil prices) must at some stage involve the Americans and Japanese. Their views can be sought at the Summit.

7. The French have also given public support to Mexican ideas for a UN energy forum. It is useful that an oil producer has proposed wider discussions on energy problems, but we do not know what specific objectives the Mexicans have in mind, nor are OPEC members yet ready to accept world energy discussions. For our part we have encouraged the Venezuelan initiative for a meeting this summer of OPEC and non-OPEC oil producers including ourselves, Mexico, Norway and Canada, with the UK acting as host. But it remains to be seen whether this will materialise.

8. [Information which should not be disclosed]

It is doubtful whether the Italians have had much time, before or after their elections, to consider these questions. They are heavily dependent on imported oil, most of it from the Middle East. Their demand restraint measures have not been very effective as yet. With their Middle East interests in mind, they will probably be in favour of producer-consumer contacts provided they are handled cautiously and discreetly.

NUCLEAR MATTERS

9. The Italian Government has embarked on a substantial nuclear programme of 12000 MW capacity designed to reduce its dependence on imported oil by 1985 by about 10%, to about 55%. It has also invested in the French Eurodi programme to provide fuel for its reactors. But its implementation has been substantially delayed because of public opinion and the resistance of regional and local Government matters. Earlier this year the Government appointed a committee to look into the problems of the programme, and also safety aspects.

10. Signor Andreotti may therefore share the view recently expressed by Mr Schmidt that the development of nuclear power could be hampered by public doubts about reactor safety, and welcome his recent proposal for an international initiative on reactor safety. He may also share the concern that this should not lead to demands for a moratorium while the study is in progress.

11. The Department of Energy will be recommending that the Prime Minister should welcome in general terms Chancellor Schmidt's initiative pending further discussion, perhaps at the Summit and at the June meeting of the IAEA Governing Board.

12. (Non-proliferation). Discussion of the non-proliferation arrangements is complicated because of the sensitivity of the other members to anything which seems to confer an industrial or

/commercial

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commercial advantage on Britain and France as nuclear weapon states. The most promising way forward may lie in establishing a dialogue among the Nine on non-proliferation. The Italians, who are anxious not to be excluded from discussions may be attracted by this approach. By obtaining a better understanding of the political and security importance of non-proliferation we would hope to reduce the chances that the Euratom Treaty will be used to over-ride our non-proliferation concerns.

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BRIEF NO 5

COPY NO

1

13 JUNE 1979

VISIT BY THE PRIME MINISTER OF ITALY, 15 JUNE 1979

REFUGEES FROM INDO-CHINA

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE

HONG KONG

1. Hong Kong is at saturation point. Can Italy do more to help Hong Kong, from where she is so far taking no refugees?

CONFERENCE

2. Dr Waldheim welcomes Mrs Thatcher's call for a special conference but UNHCR's ideas of preliminary consultations lack vision. He may be constrained by his own mandate for refugee relief and resettlement. Dr Waldheim should be using the authority of his own position to get things moving.

3. Italy can help by emphasising to Dr Waldheim it supports a conference and by saying so publicly.

VIETNAMESE POLICY

4. Unless Vietnamese policy changes, the problem will get worse. We have left the Vietnamese in no doubt of what we think of their behaviour and have also spoken to the Russians; a Soviet Deputy Foreign Minister has just been in London. Can Italy reinforce these representations at a high level, both jointly in the Nine, and directly through its Embassy in Hanoi?

5. Vietnam will use its limited agreement with UNHCR (a controlled emigration for family reunification) as a "con trick" to convince the rest of the world that it is now collaborating fully with the international community. We must not let them get away with this.

/ASEAN

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ASEAN

6. The Thais and Malaysians are at their wits' end to cope with the refugee flood. The Malaysians and Indonesians now refuse to allow more boat people to land. The Refugees Processing Centre, which may be set up on an Indonesian island is only a palliative, though every little helps.

THAI POLICY

7. I am horrified at the Thais' decision to push thousands of Cambodians back across the frontier to misery and probably death. This is a separate problem but we cannot ignore it. Can we do anything to prevent it?

BACKGROUND

ITALIAN POLICY

8. The Italian response to the Prime Minister's call for a conference has been generally sympathetic; they will probably go along with the majority of the Nine. The matter is on the agenda for the Ministerial Political Co-operation meeting in Paris on 17-18 June.

9. Italy's highest priority in refugees is as a reception centre for Jewish refugees from the Soviet Union, at the rate of 5,000 a month. They have agreed to take 100 refugees from Malaysia and Thailand and have said they will consider taking some from Hong Kong in any further group. Their contributions to UNHCR funds are low, but they are considering a total of about £0.4 million.

NUMBER OF REFUGEES

10. About 350,000 are awaiting resettlement. The Americans and Chinese have already taken over 200,000 each for settlement. The French have received 50,000, the Canadians 15,000 and Hong Kong 9,200. The UK had already accepted 1,573 Vietnamese by 22 May, and 350 other Indo-Chinese. Over 51,000 refugees await resettlement in Hong Kong.

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11. We have accepted over 1,000 from the MV Sibonga (to be offset, as far as possible, against the unused part of a quota of 1,500 agreed by the previous Government). It has been made clear that future ships' cases will be considered on their merits, but refugees from the MV Roach Bank will be accepted, if the Taiwanese will not take them.

VIETNAMESE POLICY

12. Relations with China are unlikely to improve. Discrimination against Vietnam's Chinese minority is unlikely to stop. The Vietnamese are resentful of foreign advice.

THE UNHCR-VIETNAM AGREEMENT

13. The Vietnamese authorities are claiming that arrangements under an agreement of 30 May with the UN Deputy High Commissioner to allow "refugees" to leave Vietnam directly to countries of final settlement show their willingness to co-operate with the world community. This proposal only covers those who already have offers of settlement places, because of links with relatives already in the USA etc; at present levels of outflow the 20,000 to 30,000 who qualify equal about two weeks' flow of boat people.

THE PRIME MINISTER'S PROPOSAL

14. Dr Waldheim has reacted positively, but the UNHCR who is conducting soundings with interested governments, is reluctant to convene the conference without receiving advance pledges of resettlement and financial contributions from major countries like the UK. Unless Dr Waldheim can be persuaded to take the initiative, a conference will be delayed, or will be of insufficient scope.

ASEAN

15. The Refugee Processing Centre, if it comes about, will be for only a maximum of 10,000 people already accepted for settlement. Thailand is hard put to it to contain the latest flood of Cambodians across its land frontier. The policy is now to turn them back, although the Khmer Rouges may kill them.

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BRIEF NO 6

13 JUNE 1979

COPY NO

1

THE PRIME MINISTER'S MEETING WITH SIGNOR ANDREOTTI :
15 JUNE 1979

AFRICAN QUESTIONS (DEFENSIVE)

Points to Make

Rhodesia [Defensive]

Consultations/Timetable

1. UK policy was explained in official level bilateral talks on Africa in Rome on 7/8 June. Further steps on Rhodesia not to be expected by time of European Council meeting [21/22 June].
2. Government will decide on best way forward in light of consultations now under way. Lord Harlech visiting Front Line States and Nigeria and expects to meet Patriotic Front (returning 28 June): may visit other countries later. Mr Luce to visit Liberia (host to OAU Summit in July), Senegal, Ivory Coast, Zaire. Importance of Lusaka Commonwealth Meeting.

U S Policy

3. Presidential determination showed difference of emphasis over Rhodesian elections and Muzorewa Government. But similar practical approach to common objective.

Sanctions

4. Expiry of UK legislation in November. Earlier lifting by US would make it difficult not to follow suit.

/Evacuation

Evacuation of UK and Italian Nationals

5. Rhodesia not about to collapse. Each country should plan as necessary.

Namibia

6. Mr Luce reported that all the parties are still committed to the original Proposal. We must build on this.

7. The remaining differences can be overcome by negotiation if the right atmosphere of confidence can be restored.

8. The Five will resume negotiations, in the first instance with the South Africans, in the near future.

Background

Rhodesia [Not for use]

[1. In talks with his Italian counterparts on 7/8 June, an FCO Under Secretary gave a full description of present British views on Rhodesia. The Italians are kept regularly up to date through Political Cooperation meetings of the Nine. There are no special points to raise with Signor Andreotti.

2. The Italians have fairly frequent contact with Mr Mugabe. They are inclined to sympathise with the Patriotic Front (perhaps in part to avoid clashing with Communist opinion at home). They will wish the UK to consult widely over Rhodesia, and to promote an accommodation between internal and external parties.

US Policy

3. Italian officials have said they hope the US Government will continue to be closely involved in efforts to find a Rhodesian settlement.

/Sanctions

Sanctions

4. Special laws were passed in Italy to enforce sanctions. Their repeal might meet strong opposition. The Italian Government would need time to prepare the ground.]

[For use as necessary]

Evacuation

5. There are about 2000 Italian nationals in Rhodesia. We have told the Italian Government that we do not have contingency plans to assist with their evacuation. A mass evacuation is not likely to be needed in the short term. Should the need arise, the UK's ability to assist 200,000 or more potential evacuees would be limited.

Present Situation

6. Muzorewa is still feeling his way, and has not yet taken decisive action to promote internal change, eg to constitution. His offers of reconciliation with Front Line States and amnesty for guerillas not taken up. On the other hand ZANU and ZAPU are achieving little; their Addis Ababa "agreement" does not provide basis for effective integration.

Namibia

7. The Foreign Ministers of the Five discussed Namibia during the North Atlantic Council in The Hague last month. It was agreed that negotiations should be resumed. The substance of the new initiative is still (12 June) being discussed. The likelihood of a Security Council meeting on 18 June necessitates some early public move to demonstrate that the UN plan can still be put into effect.

/8.

8. The South Africans and the political groups in Namibia have rejected Dr Waldheim's proposals in his Report of 26 February on the question of UN monitoring of SWAPO troops outside and inside Namibia. Mr Luce concluded that there was no justification for giving up. The Five should find alternatives to Dr Waldheim's proposals and promote a series of measures designed to restore confidence among the parties.

[Not for Use

9. Mr Luce recommended in his report to the Secretary of State that the negotiations be resumed by a single negotiator representing the Five with a broad mandate. Apart from the French our partners in the Five did not agree to this approach. Led by the Americans, they have argued for a continuation of a joint negotiating team including representatives from all five countries. They are reluctant to extend discussion beyond the two controversial issues in Dr Waldheim's Report.

10. In view of the need to produce some evidence of progress in the next few days if, together with the US and France, we are to be on good ground in opposing calls for sanctions in the Security Council we have agreed to drop our insistence on the appointment of a single negotiator for the moment. The New York Contact Group are now (12 June) working on the substance of the next round of negotiations.

11. South Africa's desire to establish closer relations with the new Conservative administration, will give HMG greater influence over the South African Government than our partners in the Five. Lord Carrington will probably speak for the Five in launching the new round of negotiations when he sees the South African Foreign Minister in London on 20 June.]

Foreign and Commonwealth Office

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BRIEF NO 7

COPY NO 1

13 JUNE 1979

VISIT BY THE PRIME MINISTER OF ITALY: 15 JUNE 1979

BILATERAL QUESTIONS

Brief by the Foreign and Commonwealth Office

(a) Fuel supplies by Mobil (UK) to Italian Charter Company, Itavia, at Gatwick Airport

(b) Police Co-operation

(a) ITAVIA: POINTS TO MAKE (only if raised)

1. Glad that ITAVIA has managed to find fuel so far for its greatly expanded 1979 charter programme, and hope that the firm will continue to do so.

2. HMG are leaving it to the oil companies to decide on allocation and pricing of the fuel available. The Government cannot therefore intervene officially.

ESSENTIAL FACTS

(Paras 3-5 can be used freely)

3. In 1974 during the 3-day week the Italians were the only ones to threaten retaliation against the British Government's rationing system (which affected an Italian charter company particularly heavily) by stopping British charter

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flights to Italy, although there was no fuel shortage there. As a result they were given extra fuel.

4. Now the Italian Civil Air Authorities have threatened to cut British charters' fuel if ITAVIA (a different Italian charter company this time) runs short this summer season. After earlier difficulties in May (when MOBIL, ITAVIA's supplier, were persuaded to resolve by increasing their allocation) MOBIL this month cut ITAVIA (along with all their other customers in the UK and most other countries) to 90 percent of their June 1978 supply. ITAVIA need twice as much again for their expanded 1979 programme. After officials had made informal enquiries of oil companies in this country at the request of the Italian Embassy, BP have offered to let ITAVIA have enough extra to last through June, but at the spot rate of \$1.30 per US gallon, as compared with the contract rate of about 65c. ITAVIA are unhappy at this. They have enough fuel from MOBIL to last until early next week.

5. The Italians complain that UK charters are managing to fly over 3000 flights to Italy this summer in spite of the fuel shortage; ITAVIA with less than 300 flights planned is the only company with problems. And there is plenty of aviation fuel in Italy, for the moment. This argument would sound plausible to Italian opinion. Retaliation against British charter traffic, at least against those refuelling in Italy on their way to Yugoslavia, cannot be ruled out. There is some risk that retaliation might go beyond this, and lead to bad feeling spilling over into other fields. This would be unfortunate, given the advantages of making common cause with Italy on some major EEC issues.

6. (Not for use with Andreotti) ITAVIA has strong political backing from Forlani, the Italian Foreign Minister, who is powerful in the Christian Democratic Party. This accounts for the fuss the Italians are making over this question.

(b) POLICE CO-OPERATION: Background Note

1. Co-operation has been developing in the Nine in the fight against terrorism. Ministers of the Interior and officials have regularly met to draw up plans

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for collaboration before, during and after terrorist incidents. In addition, numerous bilateral exchanges have taken place.

2. After the Moro kidnapping, the SAS visited Italy and provided a crash training course to their Italian counterparts. In consequence, the Italians now have a capable reaction force for dealing with terrorist hostage-taking incidents.

3. HMG has offered further assistance and advice to the Italians on command, control and government coordination.

4. The Italians have expressed gratitude for our help.

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BRIEF NO 8

COPY NO

1

13 JUNE 1979

VISIT BY THE PRIME MINISTER OF ITALY
15 JUNE 1979

ITALIAN INTERNAL SCENE

Brief by Foreign and Commonwealth Office

INTRODUCTION

1. The Italian political scene is once again in a state of flux. His domestic position will be much on Signor Andreotti's mind when he meets the Prime Minister on 15 June. Personality Notes on Sgr Andreotti and Sgr Forlani are attached at Annex A.
2. From August 1976 to June this year, Signor Andreotti presided over Christian Democratic governments supported by various groupings of smaller parties and relying on Communist support or abstention in Parliament for survival. The breakdown of the last government in January was brought about by the intransigence of the Communist Party (PCI) over the terms on which it would continue to offer that support. Since then the PCI line, as exemplified at a recent party congress, has been that the party should either actually participate in government or go into opposition. A majority of Christian Democrats oppose any

/coalition

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coalition with the PCI.

3. The most significant features of the results of the General Election on 3-4 June were as follows:

- a) The Communists fell back a few points as had been predicted. This was the first time they have lost ground since the war. But they still remain above the psychologically important threshold of 30%;
- b) the Christian Democrats held up well, though less well than they expected. Their share of the vote dropped half a percent; they nevertheless gained 3 seats in the Senate but lost one in the Chamber of Deputies;
- c) the Socialists gained several seats but did not substantially improve their percentage of the vote;
- d) significant gains in terms of seats were registered only by the smaller parties. The Social Democrats, Republicans and Liberals all improved their position. The Radical (left-wing anti-Establishment Party) won about 3% of the vote and will now have 18 representatives in the Chamber against 4 in 1976;
- e) the turnout, at 89.9%, was the lowest ever recorded in a post-war Italian election (voting is compulsory).

4. These results are inconclusive. On past form it will take 4 to 6 weeks for a new government to be formed and it is impossible to predict its eventual form. A change in the direction of Italian politics can only be produced if either the Christian Democrats or the Communists can be left unambiguously in opposition. The good showing of the smaller centre parties, together with the decline in the Communist vote, could make it marginally easier to form a stable coalition of the centre (ie including the Christian Democrats) leaving the Communists in opposition. But such a government would lack a majority without Socialist support. The Socialists have not yet declared their intentions, but their leader Craxi has implied that a condition of his support for such a coalition would be the replacement of Andreotti as Prime Minister. There are other

/candidates

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candidates in the Christian Democrat leadership who could fill this role, including the Party President, Piccoli, and Forlani, the Foreign Minister.

5. Signor Andreotti is expected to be the first to be invited, in due course, to form a new government. For the time being he continues in power on a caretaker basis.

6. The Elections to the European Parliament took place in Italy on 10 June. The detailed results are at Annex C. At 85.9%, the turnout was lower than that for the general election the previous week. The results of the Euro-Elections confirm the trends apparent in the General Election, particularly the drop in the Communist vote and the swing towards the smaller parties. The fact that the Christian Democrats did less well than in the General Election suggests that voters are less afraid than in the past that failure to vote Christian Democrat will let the Communists into government.

THE ECONOMY

7. The continuing political uncertainty means that no serious decisions on economic policy are likely to be taken before the autumn. The economy continues to perform well on the external front, and recent figures on industrial production are encouraging. But there is still considerable unease about the rate of inflation (now at nearly 14%), and the industrial scene is getting tenser as negotiations on new wage contracts, most of which still have to be completed, reach a critical stage. The visit of an IMF team for routine consultations in early April was the occasion for some severe warnings about inflationary prospects, and there have recently been rumours that Italy is to seek a \$US1 billion IMF credit so that the Government can blame the conditions which would be attached to such a loan for the implementation of restrictive policies which it knows are necessary but which it would itself be unable to introduce. The Government will of course be particularly worried about the economic impact of recent international oil price increases.

PERSONALITY NOTES ON SIGNOR ANDREOTTI AND SIGNOR FORLANI

Signor Andreotti

1. Signor Giulio Andreotti is 60 and is married with several children. He is perhaps the cleverest and coolest political leader in Italy today. A man of government rather than of the Christian Democrat Party machine, he has held office in most governments since 1947. He has been President of the Council (Prime Minister) for 2 long stretches (5 governments) and has presided over centre-right and centre-left coalitions as well as single party Christian Democrat governments. His latest tenure of the Premiership (1976 to present) has been notable for his skilful management of parliamentary alliances, involving the support of the Italian Communist Party, without making serious concessions to the latter.
2. In 1978 Sgr Andreotti won justifiable praise for his calm and courageous handling of the Moro kidnapping and murder. In the recent elections, he won more preference votes (whereby electors may express a personal preference on party lists) than any other parliamentary candidate. But despite these impressive achievements, his critics, particularly the Italian Socialist Party, are now trying to unseat him on the grounds that a fresh, more dynamic leader is required. His chances of surviving as Prime Minister in the end cannot at present be regarded as higher than 50%. But he is likely to remain in office at least until after the Tokyo Summit.
3. Sgr Andreotti has a dry humour and a concise style of expression. He has a huge capacity for hard work, but always appears relaxed and has found the time to write several historical/mystery novels set in Papal Rome. He speaks no English but quite good French.
4. One of the few fixed points in his essentially pragmatic approach is his attachment to the ideal of European unity. His reputation as a devoted supporter of the Community was enhanced by his decision to adhere, in difficult circumstances, and against Communist and Socialist opposition, to the European monetary system (EMS). Within the Community he has built up his closest personal relationships with Chancellor Schmidt. His relations with Giscard, whom he tends to mistrust, have been less cordial.

/Since

the Italians began a year ago to make common cause with the UK in criticising the unjust pattern of the Community Budget, Andreotti has been a generally effective ally. But he has so far undoubtedly been inhibited by:

- a) Apparent British lack of enthusiasm for the Community ideal;
- b) our relative lack of enthusiasm for solutions to the Budget problem involving increased expenditure (eg to the Regional Fund).

5. Sgr Andreotti is therefore likely strongly to welcome the accent being placed on the European Community by the new British Government.

Signor Forlani

6. Signor Forlani, the Foreign Minister, who will be accompanying Sgr Andreotti to London, is 54; married with 2 children. He does not make a great impression on the foreign affairs scene, but he is a clever politician who has cultivated good links with the Socialists while remaining on the right of the Christian Democrat Party.

Results of General Election: 3-4 June.

1. FOLLOWING ARE DETAILED RESULTS (1976 IN BRACKETS)

CHAMBER OF DEPUTIES

	PERCENTAGES	SEATS	GAIN/LOSS
CHRISTIAN DEMOCRATS (DC)	38.3 (38.7)	262 (263)	-1
COMMUNISTS (PCI)	33.4 (34.4)	201 (228)	-27
SOCIALISTS (PSI)	9.8 (9.6)	62 (57)	+5
NEO-FASCISTS (MSI)	5.3 (6.1)	30 (35)	-5
NATIONAL DEMOCRATS (DN)	0.6 (-)	- (-)	-
SOCIAL DEMOCRATS (PSDI)	3.8 (3.4)	20 (15)	+5
REPUBLICANS (PRI)	3.0 (3.1)	16 (14)	+2
LIBERALS (PLI)	1.9 (1.3)	9 (5)	+4
ULTRA-LEFT (PDUP)	1.4 (1.5)	6 (6)	-
RADICALS (PR)	3.4 (1.1)	18 (4)	+14
S. TYROL PARTIES	0.6 (0.5)	4 (3)	+1

/ val.

VAL D'AOSTA PARTY	0.1 (0.1)	1 (-)	+1
OTHERS	1.4 (0.2)	1 (-)	+1

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SENATE

	PERCENTAGES	SEATS	GAIN/LOSS
DC	38.3 (38.9)	138 (135)	+3
PCI
KX	31.5 (33.8)	109 (116)	-7
PSI	10.4 (10.2)	32 (29)	+3
MSI	5.7 (6.6)	13 (15)	-2
DI	0.6 (-)	- (-)	-
PSDI	4.2 (3.1)	9 (6)	+3
PR	3.4 (2.7)	6 (6)	-
PLI	2.2 (1.4)	2 (2)	-
RADICALS	1.3 (0.8)	2 (-)	+2
NEW UNITED LEFT	0.1 (0.2)	- (-)	-

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S. TYROL PARTIES	0.5 (0.5)	3 (2)	+1
VAL D'AOSTA	0.1 (0.1)	1 (1)	-
OTHERS	1.7 (1.7)		
	<hr/>	<hr/>	
	100	315	

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Results of Euro-Election: 10 June

1. THE FINAL RESULTS IN ITALY, WITH ALL VOTES COUNTED EXCEPT THOSE OF SOME 40,000 EMIGRANTS, WERE ANNOUNCED THIS MORNING AS FOLLOWS:

<u>PARTIES</u>	<u>% OF VOTES</u>	<u>LAST WEEK'S GENERAL ELECTION</u>	<u>SEATS</u>
CHRISTIAN DEMOCRATS (DC)	36.5	(32.3)	37
COMMUNISTS (PCI)	29.6	(37.4)	24
SOCIALISTS (PSI)	11.6	(9.8)	9
NEO-FASCISTS (MSI)	5.4	(5.3)	4
NATIONAL DEMOCRATS (DN)	0.4	(0.5)	-
SOCIAL DEMOCRATS (PSDI)	4.3	(3.8)	4
REPUBLICANS (PRI)	2.5	(3.8)	2
LIBERALS (PLI)	3.6	(1.9)	3
RADICALS (PR)	3.7	(3.4)	3
ULTRA-LEFT (PDUP)	1.1	(1.4)	1
PROLETARIAN DEMOCRATS (BP)	0.7	(0.8)	1

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cc briefing Fowler

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FM ROME 111600Z JUN 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 204 OF 11 JUNE

INFO PRIORITY BONN, PARIS.

INFO SAVING WASHINGTON, UKDEL NATO, UKREP BRUSSELS, ALL OTHER
EEC POSTS. ^{12/4}

Prime Minister

NY TELNO 190: SIGNOR ANDREOTTI'S VISIT TO LONDON AND THE ITALIAN
POLITICAL SITUATION.

1. THE ITALIAN DOMESTIC SITUATION WILL BE MUCH ON SIGNOR
ANDREOTTI'S MIND WHEN HE MEETS THE PRIME MINISTER ON 15 JUNE.
2. THE GENERAL ELECTION ON 3 AND 4 JUNE HAS NOT PROVIDED ANY
OBVIOUS SOLUTION TO THE STALE-MATE WHICH BEGAN LAST JANUARY WHEN
THE COMMUNISTS PROVOKED THE FALL OF ANDREOTTI'S FOURTH
GOVERNMENT BY WITHDRAWING THEIR PARLIAMENTARY SUPPORT.
ANDREOTTI'S FIFTH GOVERNMENT - A COALITION OF CHRISTIAN
DEMOCRATS, REPUBLICANS AND SOCIAL DEMOCRATS - FAILED TO OBTAIN AN
INITIAL VOTE OF CONFIDENCE AT THE END OF MARCH, AND SINCE THEN
HE HAS REMAINED IN CHARGE ON A CARETAKER BASIS. IT IS EXPECTED
THAT HE WILL BE THE FIRST TO BE INVITED TO FORM A NEW
SUBSTANTIVE GOVERNMENT (PROBABLY NOT UNTIL AFTER THE EUROPEAN
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REGISTERED BY THE SMALL PARTIES OF THE CENTRE (ESPECIALLY THE
SOCIAL DEMOCRATS AND LIBERALS) AND BY THE RADICALS. THESE
TRENDS WERE ALL SUBSTANTIALLY CONFIRMED IN THE EUROPEAN ELECTIONS
ON 10 JUNE.

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4. THE INCREASE IN THE NUMBER OF SEATS HELD BY THE SMALLER CENTRE PARTIES, TOGETHER WITH THE DECLINE IN THE NUMBER OF COMMUNIST SEATS, SHOULD IN THEORY MAKE IT EASIER TO FORM A STABLE COALITION OF THE CENTRE WITH THE COMMUNISTS IN OPPOSITION. BUT SUCH A COALITION WOULD STILL LACK A RESPECTABLE MAJORITY WITHOUT SOCIALIST SUPPORT. THE SOCIALISTS HAVE NOT YET MADE CLEAR WHETHER THEY WOULD BE PREPARED TO JOIN OR SUPPORT SUCH A COALITION. THEIR PARTY LEADER, CRAXI, APPEARS TO BE MAKING IT A CONDITION OF HIS SUPPORT THAT ANDREOTTI SHOULD BE REPLACED AS PRIME MINISTER. IF CRAXI STICKS TO THIS POSITION IT IS HARD TO SEE HOW ANDREOTTI CAN SUCCEED IN FORMING A NEW GOVERNMENT, AND THE MANTLE MAY WELL THEREFORE PASS IN DUE COURSE TO ANOTHER CHRISTIAN DEMOCRAT LEADER (SEE ALSO PARA 3 OF MIFT).

5. WHEN I SAW ANDREOTTI THIS MORNING HE SPOKE HOWEVER OF TRYING TO COAX THE COMMUNISTS AND SOCIALISTS INTO A POSITION OF "NON-BELLIGERENCE". HE INDICATED THAT A FEW WEEKS WOULD BE NEEDED TO ALLOW TEMPERS TO COOL (NO DOUBT HE HAD IN MIND CRAXI'S DISAGREEABLE REMARKS ABOUT HIMSELF). HE GAVE ME AN IMPRESSION OF CONSIDERABLE SELF-CONFIDENCE FORTIFIED BY HIS PERSONAL SUCCESS IN HIS CONSTITUENCY. I CONCLUDE THAT HE HOPES TO FORM IN DUE COURSE A NEW GOVERNMENT OF CHRISTIAN DEMOCRATS, REPUBLICANS AND SOCIAL DEMOCRATS AND POSSIBLY LIBERALS, WITH THE COMMUNISTS AND SOCIALISTS AGREEING TO ABSTAIN IN PARLIAMENTARY VOTES.

6. PLEASE SEE MIFT FOR AN ASSESSMENT OF ANDREOTTI'S PERSONAL POSITION.

7. F O PLEASE PASS TO ALL SAVING ADDRESSEES.

CAMPBELL

[REPEATED AS REQUESTED]

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PRIME MINISTER

Your lunch with Signor Andreotti on
15 June

I think it would be very useful if you could include Mr. Michael Butler, the FCO EEC expert, in your lunch for Signor Andreotti on 15 June. He could take the place of Mr. Arculus, who would eventually replace Sir Alan Campbell in Rome as our Ambassador but who is not yet thoroughly briefed on EEC matters.

The object of including Mr. Arculus was to enable him to meet Signor Andreotti. If you agree, Mr. Arculus could simply come to the pre-lunch drinks and meet you and Signor Andreotti then. Would this be acceptable?

G.M.,

He can come too if he
wishes, and meet in
room no

13 June 1979

FCO informed: "Arculus
to come for drinks - no
room at table". G.M.,

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Foreign and Commonwealth Office

London SW1A 2AH

13 June 1979

Dear Bryan Briefs at Back of File G.A. Mr.
Briefing for Andreotti Visit

I am now sending you, as agreed, four copies of the Briefs which have been prepared by this Department for Signor Andreotti's visit.

Copies go also to the Private Offices of the Chancellor of the Exchequer and the Minister of Agriculture (one copy each) and to the office of the Secretary to the Cabinet (three copies).

Yours etc

P Lever

B G Cartledge Esq
10 Downing Street

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PP BONN

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FM ROME 111640Z JUN 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 205 OF 11 JUNE

INFO PRIORITY BONN, PARIS.

INFO SAVING TO WASHINGTON, UKDEL NATO, UKREP BRUSSELS, ALL OTHER
EEC POSTS.

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Sir A Parsons

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FCO

MIPT: SIGNOR ANDREOTTI'S VISIT TO LONDON.

1. SIGNOR GIULIO ANDREOTTI IS PERHAPS THE CLEVEREST AND COOLEST POLITICAL LEADER IN ITALY TODAY. A MAN OF GOVERNMENT RATHER THAN OF THE CHRISTIAN DEMOCRAT PARTY MACHINE, HE HAS HELD OFFICE IN MOST GOVERNMENTS SINCE 1947 WHEN HE WAS THE UNDER-SECRETARY AND FAVOURED PROTEGE OF DE GASPERI. HE HAS BEEN PRESIDENT OF THE COUNCIL (PRIME MINISTER) FOR 2 LONG STRETCHES (5 GOVERNMENTS) AND HAS PRESIDED OVER CENTRE-RIGHT AND CENTRE-LEFT COALITIONS AS WELL AS SINGLE PARTY CHRISTIAN DEMOCRAT GOVERNMENTS. HIS LATEST TENURE OF THE PREMIERSHIP (1976 TO PRESENT) HAS BEEN NOTABLE FOR HIS SKILFUL MANAGEMENT OF PARLIAMENTARY ALLIANCES, INVOLVING THE SUPPORT OF THE ITALIAN COMMUNIST PARTY, WITHOUT MAKING SERIOUS CONCESSIONS TO THE LATTER.

2. IN 1978 ANDREOTTI WON JUSTIFIABLE PRAISE FOR HIS CALM AND COURAGEOUS HANDLING OF THE MORO KIDNAPPING AND MURDER. IN THE RECENT ELECTIONS, HE WON MORE PREFERENCE VOTES (WHEREBY ELECTORS MAY EXPRESS A PERSONAL PREFERENCE ON PARTY LISTS) THAN ANY OTHER PARLIAMENTARY CANDIDATE. BUT DESPITE THESE IMPRESSIVE ACHIEVEMENTS, HIS CRITICS, PARTICULARLY THE ITALIAN SOCIALIST PARTY, ARE NOW TRYING TO UNSEAT HIM ON THE GROUNDS THAT A FRESH, MORE DYNAMIC LEADER IS REQUIRED. THERE ARE SEVERAL

ELECTORS MAY EXPRESS A PERSONAL PREFERENCE ON PARTY LISTS) THAN ANY OTHER PARLIAMENTARY CANDIDATE. BUT DESPITE THESE IMPRESSIVE ACHIEVEMENTS, HIS CRITICS, PARTICULARLY THE ITALIAN SOCIALIST PARTY, ARE NOW TRYING TO UNSEAT HIM ON THE GROUNDS THAT A FRESH, MORE DYNAMIC LEADER IS REQUIRED. THERE ARE SEVERAL POTENTIAL CHRISTIAN DEMOCRAT SUCCESSORS WAITING IN THE WINGS TO SUPPLANT HIM. THUS, HIS CHANCES OF SURVIVING AS PRIME MINISTER IN THE END CANNOT AT PRESENT BE REGARDED AS HIGHER THAN 50%. BUT HE IS LIKELY TO REMAIN IN OFFICE AT LEAST UNTIL AFTER THE TOKYO SUMMIT.

3. ANDREOTTI HAS A DRY HUMOUR AND A CONCISE STYLE OF EXPRESSION. HE HAS A HUGE CAPACITY FOR HARD WORK, BUT ALWAYS APPEARS RELAXED AND HAS SOMEHOW FOUND THE TIME TO WRITE SEVERAL HISTORICAL/MYSTERY NOVELS SET IN PAPAL ROME. HE SPEAKS NO ENGLISH BUT QUITE GOOD FRENCH.

4. ONE OF THE FEW FIXED POINTS IN HIS ESSENTIALLY PRAGMATIC APPROACH IS HIS ATTACHMENT TO THE IDEAL OF EUROPEAN UNITY. HIS REPUTATION AS A DEVOTED SUPPORTER OF THE COMMUNITY WAS ENHANCED BY HIS DECISION TO ADHERE, IN DIFFICULT CIRCUMSTANCES, AND AGAINST COMMUNIST AND SOCIALIST OPPOSITION, TO THE EUROPEAN MONETARY SYSTEM (EMS). WITHIN THE COMMUNITY HE HAS BUILT UP HIS CLOSEST PERSONAL RELATIONSHIPS WITH CHANCELLOR SCHMIDT. HIS RELATIONS WITH GISCARD, WHOM HE TENDS TO MISTRUST, HAVE BEEN LESS CORDIAL. SINCE THE ITALIANS BEGAN A YEAR AGO TO MAKE COMMON CAUSE WITH THE UK IN CRITICISING THE UNJUST PATTERN OF THE COMMUNITY BUDGET, ANDREOTTI HAS BEEN A GENERALLY EFFECTIVE ALLY. BUT HE HAS SO FAR UNDOUBTEDLY BEEN INHIBITED BY:

A) APPARENT BRITISH LACK OF ENTHUSIASM FOR THE COMMUNITY IDEAL:

B) OUR RELATIVE LACK OF ENTHUSIASM FOR SOLUTIONS TO THE BUDGET PROBLEM INVOLVING INCREASED EXPENDITURE (EG TO THE REGIONAL FUND).

6. I AM GLAD TO KNOW THAT THE PRIME MINISTER INTENDS TO BEGIN THE MEETING WITH A RESTRICTED SESSION. THIS IS, I AM SURE, THE BEST WAY OF INFLUENCING ANDREOTTI, WHO DESPITE AN INITIALLY WARY MANNER, RESPONDS TO WARMTH AND TRUST. THE MORE THE PRIME MINISTER CAN TAKE HIM INTO HER CONFIDENCE ABOUT HER ASPIRATIONS BOTH FOR BRITAIN AND FOR THE COMMUNITY THE BETTER. WHETHER HE SURVIVES AS PRIME MINISTER OR NOT HE WILL BE A MAJOR ACTOR ON THE ITALIAN SCENE FOR MANY YEARS TO COME.

7. APART FROM THE EUROPEAN COMMUNITY, AN ISSUE OF GREAT SENSITIVITY FOR ITALY IS HER EXCLUSION FROM QUADRIPARTITE

ASPIRATIONS BOTH FOR BRITAIN AND FOR THE COMMUNITY. WHETHER HE SURVIVES AS PRIME MINISTER OR NOT HE WILL BE A MAJOR ACTOR ON THE ITALIAN SCENE FOR MANY YEARS TO COME.

7. APART FROM THE EUROPEAN COMMUNITY, AN ISSUE OF GREAT SENSITIVITY FOR ITALY IS HER EXCLUSION FROM QUADRIPARTITE MEETINGS INVOLVING HER MAJOR WESTERN ALLIES. ANDREOTTI WAS PARTICULARLY DISTRESSED THAT HIS EUROPEAN PARTNERS DID NOT EVEN WARN HIM IN ADVANCE OF THE PRESS ANNOUNCEMENT OF THE GUADALOUPE SUMMIT IN DECEMBER LAST.

8. SIGNOR FORLANI, THE FOREIGN MINISTER, WHO WILL BE ACCOMPANYING SIGNOR ANDREOTTI TO LONDON, IS ONE OF THE SENIOR SUCCESSORS TO ANDREOTTI (OTHERS ARE SIGNOR PICCOLI, THE PARTY PRESIDENT, AND SIGNOR FANFANI, THE VETERAN PRESIDENT OF THE SENATE). AS YOU WILL KNOW FROM YOUR PREVIOUS MEETINGS WITH HIM, FORLANI DOES NOT MAKE A GREAT IMPRESSION ON THE FOREIGN AFFAIRS SCENE. BUT HE IS A CLEVER POLITICIAN WHO HAS CULTIVATED GOOD LINKS WITH THE SOCIALISTS WHILE REMAINING ON THE RIGHT OF THE CHRISTIAN DEMOCRAT PARTY.

9. ANDREOTTI PAID OFFICIAL BILATERAL VISITS TO BRITAIN IN MARCH 1962 AND NOVEMBER 1978, AS WELL AS VISITS FOR THE EUROPEAN COUNCIL AND THE NATO SUMMIT IN JUNE 1977.

10. FCO PLEASE PASS TO ALL SAVING ADDRESSEES.

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FM ROME 111600Z JUN 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 204 OF 11 JUNE

INFO PRIORITY BONN, PARIS.

INFO SAVING WASHINGTON, UKDEL NATO, UKREP BRUSSELS, ALL OTHER
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Prime Minister

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7. F O PLEASE PASS TO ALL SAVING ADDRESSEES.

CAMPBELL

[REPEATED AS REQUESTED]

FCO/WHITEHALL DIST
WED



CABINET OFFICE

With the compliments of
The Private Secretary to the
Secretary of the Cabinet

B. G. Cartledge, Esq.

70 Whitehall, London SW1A 2AS
Telephone 01-233 3000

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Italy.



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir John Hunt GCB

11th June, 1979

Ref. A09747

Visit of Signor Andreotti

Thank you for your letter of 7th June about the briefs for the visit of Signor Andreotti. I am entirely content with the list of briefs suggested in your paragraph 3, and that they should go direct to No. 10 from the Foreign and Commonwealth Office. No doubt brief no. iv. will be done in close consultation with the Department of Energy.

No. 10's deadline for these briefs is 5.00 pm on Wednesday, 13th June.

I am copying this letter to the recipients of yours.

M. J. VILE

(M. J. Vile)

R. A. Burns, Esq.

(FCO)

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1979

PRIME MINISTER

SIGNOR ANDREOTTI'S VISIT, 15 JUNE 1979

We have now heard that Signor Andreotti will be bringing his Foreign Minister, Signor Forlani, with him on 15 June.

This means that those present for the talks (11.30-13.00) will be:

Yourself, Signor Andreotti, Lord Carrington, Signor Forlani, Signor Ruggiero and me (as notetaker).

Would you like the two Ambassadors to take part in the talks as well? Signor Ducci and Sir Alan Campbell would naturally very much like to be there; but a total participation of eight might be a little too many for the White Drawing Room and if you wished Ambassadors to be present it might be better to have the talks in the Cabinet Room instead. Would you like to do this?

Lord Carrington is already committed to giving a lunch for the Australian Foreign Minister, Mr. Peacock, on 15 June. He hopes, therefore, that you can excuse him from your lunch for Signor Andreotti: the Lord Privy Seal will of course be there.

This would allow the whole of the talks to be held in the Cabinet Room.

No Ambassadors
They
can come to lunch if they wish.
1st preference?

11 June 1979

F-CW
informed - JW
P.A. RW

etc.

PRIME MINISTER

Signor Andreotti's visit to London - 15 June 1979

You approved the brief outline programme which I put to you last night for Signor Andreotti's visit on 15 June. Would you be content with the following more detailed arrangements?

Friday 15 June

- I should prefer if we see also further straight away.*
- 1130 Signor Andreotti (accompanied by the Italian Ambassador and Signor Ruggiero) arrive at No. 10
Photocall
Tete-a-tete discussion (white drawing room) with only note-takers present, Signor Ruggiero acting as interpreter.
- 1215 Foreign and Commonwealth Secretary, Signor Ducci and Sir Alan Campbell join the talks.
- 1300 for Lunch (small dining room), to be attended by:
1315 Prime Minister
Signor Andreotti
Foreign and Commonwealth Secretary
Chancellor of the Exchequer
Minister of Agriculture, Fisheries and Food
Lord Privy Seal
Signor Ruggiero
HE The Italian Ambassador
Sir Alan Campbell (HM Ambassador, Rome)
Mr. Michael Franklin (Cabinet Office)
Mr. Ronald Arculus (shortly to succeed Sir Alan Campbell)
Mr. B.G. Cartledge
- 1445 Signor Andreotti departs.
(approx)

Briefing is in preparation and will reach you on the evening of Wednesday 13 June.

But.

Speed not.

8 June 1979



10 DOWNING STREET

Prime Minister

Signor Andreotti has ^{11/6} accepted with alacrity.

Would you agree to: -

11.30 - 12.15 : Tête à tête
(with note-books)

12.15 - 13.00 : Joined by
Foreign Minister
or advisers.

13.00 : Small working
lunch, including
Mr. Byrnes and Mr.
Walker?

+ Treasury Minister.

Byrnes
7/6

NY

DIB

1137

DWF G 135/87

LIC 548/87

OO FCO (DESKBY 071100Z)

GR 250

CONFIDENTIAL

DESKBY 071100Z JUN

FM ROME 071045Z JUN

TO IMMEDIATE FCO

(Dep. dist.)

IMMEDIATE

TELEGRAM NUMBER 194 OF 7 JUNE 1979

ADVANCE COPY

(14) PS
 PS/KPS
 PS/A. Hurd
 PS/A. Blaker
 PS/A. Hume
 PS/PUS
 Mr Bullen
 Mr Fergusson
 Mr Gretwell
 Mr WED
 Mr EITD (2)
 Mr Newsid
 PS/No 10 Downing St.

INFO SAVING UKDELNATO AND ALL OTHER EEC POSTS

TELECON FERGUSSON/ADAMS:

VISIT BY THE ITALIAN PRIME MINISTER TO LONDON

1. AS INSTRUCTED ORALLY, I CALLED ON RUGGIERO, DIPLOMATIC ADVISER TO THE ITALIAN PRIME MINISTER, AND CONVEYED AN ORAL INVITATION FROM MRS THATCHER FOR SIGNOR ANDREOTTI TO VISIT LONDON ON FRIDAY, 15 JUNE, FOR TALKS LASTING AN HOUR AND A HALF IN THE MORNING, FOLLOWED BY LUNCH. I STRESSED THE IMPORTANCE WHICH THE PRIME MINISTER ATTACHED TO AN EARLY MEETING WITH SIGNOR ANDREOTTI IN THE CONTEXT NOT ONLY OF THE FORTHCOMING EUROPEAN COUNCIL BUT OF OUR BILATERAL RELATIONS. RUGGIERO SAID HE SUPPOSED THE TALKS WOULD START ABOUT 11.30 AM AND I AGREED. SIGNOR ANDREOTTI HAS ACCEPTED THIS INVITATION WITH GREAT PLEASURE AND DID SO WITHIN AN HOUR.

2. THE ITALIANS BELIEVED THAT THERE MIGHT HAVE BEEN SOME POSSIBILITY OF A VISIT BY YOURSELF TO ROME IN THIS PERIOD. I HAVE TOLD THEM THAT THIS IS NOT BEING PROPOSED. I SAID THAT IF SIGNOR ANDREOTTI WISHED TO TAKE SIGNOR FORLANI WITH HIM TO LONDON I HAVE NO DOUBT THAT HE WOULD BE VERY WELCOME, BUT BOTH RUGGIERO AND SIGNOR FORLANI'S PRIVATE SECRETARY HAVE MADE IT CLEAR THAT THIS IS MOST UNLIKELY.

3. IN CONVEYING SIGNOR ANDREOTTI'S ACCEPTANCE RUGGIERO ASKED THAT NO INFORMATION SHOULD BE GIVEN TO THE PRESS ABOUT THE VISIT AS YET. I SHOULD BE GRATEFUL FOR INSTRUCTIONS IF POSSIBLE BY LUNCHTIME ON 8 JUNE ABOUT THE FORM AND DATE YOU PROPOSE FOR ANY ANNOUNCEMENT, SO THAT THESE CAN BE DISCUSSED WITH RUGGIERO.

FCO PSE PASS SAVING ADDRESSEES

GOODISON

NNNN

CONFIDENTIAL

~~SECRET~~



Foreign and Commonwealth Office
London SW1A 2AH

7 June 1979

Martin Vile, Esq
Cabinet Office

Dear Martin,

SIGNOR ANDREOTTI'S VISIT TO LONDON: 15 JUNE 1979

1. Signor Andreotti has accepted the Prime Minister's invitation to visit London for a session of talks followed by lunch on 15 June. Our Embassy in Rome think that he will only bring a few officials with him: in particular, Sgr Forlani, the present Foreign Minister, is unlikely to be able to come.

2. The purpose of the visit from the British point of view will be to establish contact with the Italians at the highest level in advance of the meeting of the European Council on 21 / 22 June, and to put across the British case on the major issues which will arise at that meeting. But it will also provide a useful opportunity to take stock of the prospects for the Tokyo Summit and in that context to discuss in particular the international energy problem.

3. In these circumstances we think, after consulting the Embassy at Rome, that only the following briefs will be required:

- i. Steering brief
- ii. European Community Affairs (sub-divided as in the brief provided for the Prime Minister's visit to Paris)
- iii. Prospects for the Tokyo Summit.
- iv. International Energy questions
- v. Refugees from Indo China
- vi African questions (defensive)
- vii Bilateral questions (defensive)
- viii Italian Internal Scene

4. Given the shortage of time the Foreign and Commonwealth Office will, if you agree, draft these briefs and clear them with other interested departments. I should also be

/grateful

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grateful if you would confirm as soon as possible
the precise deadline for the submission of these briefs.

Yours ever,
Andrew

R A Burns
PS/PUS

ccs:

PS/Sir Douglas Wass
HM Treasury

PS/Sir Jack Rampton
Dept of Energy

PS/Sir Peter Carey
Dept of Industry

PS/Sir Kenneth Clucas
Dept of Trade

M D M Franklin Esq CB CMG
Cabinet Office

B G Cartledge, Esq
No 10



1-8 JUN 1979





Foreign and Commonwealth Office

London SW1A 2AH

6 June 1979

*NORMAN
BRYAN
W*

Dear Bryan,

Possible Meeting with the Italian Leaders Before European Council

*See:-
Italy (Rome)
May 79*

In the light of your letter of 1 June, Lord Carrington has been considering the best way of putting our case on the Community Budget over to the Italians before the meeting of the European Council.

Unfortunately, although he would have liked to visit Rome himself for this purpose, it is now not possible for him to do so. But in view both of the importance of the Italians to us as allies on the budgetary issue and of their possible sensitivity at being left out of the Prime Minister's first round of contacts with European leaders, he believes that it would be very helpful to the preparation of our case if there could be an exchange of views at the highest level. He wonders, therefore, whether the Prime Minister, despite her very heavy programme, could spare time to invite Signor Andreotti to visit London briefly between 11 and 21 June. On the model of the Prime Minister's visit to Paris, such a visit need only comprise say one and a half hours' working session followed by a working lunch. Although EEC issues would be the main topic of discussion, it would also be an opportunity to hear at first hand from Signor Andreotti how he sees the prospects for Italy in the light of the election results.

The Embassy in Rome think that Signor Andreotti would share our view on the importance of an exchange with the Prime Minister before the European Council Meeting. Although he might be a little disappointed at not being able to welcome her in Rome, he would observe that of the two major Community leaders with whom she had had meetings, one had already come to London, and he is not the sort of man to worry about who formally should go to whom next. Even if, in the difficult period following the Italian elections, he is in the event unable to get away, the Embassy think he would much prefer to receive an invitation than not to do so at all. It might be possible, if the Prime Minister agrees, to indicate that Mrs Thatcher would hope later on to pay a rather longer visit to Rome, as suggested in your letter of 1 June.

Finally, if a meeting between the two Prime Ministers is not possible, Lord Carrington firmly intends to arrange for a talk with the Italian Foreign Minister himself.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

Yours etc
Paul
(P Lever)
Private Secretary

B G Cartledge Esq
10 Downing Street

16 JUN 1979



CONFIDENTIAL

70 ITALY,
May 79

Poss. visit by PM to Rome

CCCO

48



10 DOWNING STREET

From the Private Secretary

1 June 1979

Possible visit by the Prime Minister to Rome

Thank you for your letter of 22 May, in which you conveyed the Foreign and Commonwealth Secretary's recommendation that the Prime Minister should pay a short visit to Rome before the meeting of the European Council at Strasbourg on 21/22 June.

The Prime Minister has now considered your letter. She finds that her very heavy engagements between now and the European Council meeting would prevent her from visiting Rome for more than three or four hours; and she considers that it would be wrong to pay her first official visit to Rome without having sufficient time to call on the Pope in addition to having talks with the Italian Prime Minister and his colleagues. In the circumstances, therefore, the Prime Minister has decided that she must defer her visit to Rome until later in the year. I should be grateful if you would let me know if Lord Carrington is, in the event, able to visit Rome himself in the near future, as suggested in the last paragraph of your letter.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

B. G. CARTLEDGE

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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END

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Archives (TNA) in London

February 2010