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PART 4.

CONFIDENTIAL FILING

Visits by the Prime Minister to Rome
Anglo / Italian Consultations Policy
Anglo / Italian Summits in Italy.

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ITALY

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cc PC
JSW

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 November 1991

Dear Richard,

PRIME MINISTER'S TALKS WITH SIGNOR ANDREOTTI:
ROME, 27 NOVEMBER

Following the Prime Minister's and Foreign Secretary's talks with Signor Andreotti and Signor de Michelis about IGC issues on the morning of 27 November, discussion over lunch covered internal Italian politics, Yugoslavia and Libya.

Internal Italian Politics

Signor Andreotti talked in general terms about the possibility of changing Italian political practice to help forestall the fragmentation of Italian parties. Until recently reality had belied appearances: despite frequent government crisis (50 since the war) and the emotions of Italian politics, voters' strong party loyalties had provided a stability more usually associated with British phlegmatism. Andreotti had fought ten elections since 1946 in all of which the working class voters in certain Roman suburbs had remained remarkably loyal to him. However, such stability was now under threat: the fragmentation of parties had been evident in the success a few days earlier of the League in Northern Italy. Signor Andreotti did not think that increasing the threshold above which parties secured representation would overcome the danger of fragmentation. He saw a need for what he called new arrangements between government and parliament. So far, however, there was no agreement on the necessary changes.

Signor Andreotti saw strong signs of people wearying of the existing political system. The more vocal opponents were led by President Cossiga himself. He did not believe the government would be able to modify the election system before the coming general election; nor would it be fair to do so. He recalled the black President of Curacao, at a recent meeting of Christian Democrat leaders, saying that while modernisation without tradition could be a killer of men, tradition without modernisation was both a killer and a sign of hypocrisy.

Yugoslavia

Signor Andreotti said that the Italians wanted to see if a UN peace-keeping force could be sent to Yugoslavia. Although recognition of Slovenia and Croatia would not mean the end of those countries' problems, the Italians were inclined to think that a decision (in favour of recognition) should be reached by Christmas. Signor de Michelis agreed with the Foreign Secretary's gloss on this time table: early recognition would only be a useful option if efforts to introduce a UN peace keeping force stalled.

The Foreign Secretary reported that during the latest exchanges in New York late on 26 November, the non-aligned and the Americans had been reluctant to move quickly to approve a Security Council Resolution, ahead of Mr. Vance's next report. Britain and France were pressing for the passage of the Resolution that day, 27 November; it would encourage the idea of peace-keeping without a formal decision to establish a force. If progress towards a UN peace-keeping force faltered, recognition might become inevitable but it was far from clear that it would be advantageous.

Signor Andreotti said it was unreasonable to claim that pressure for a peace-keeping force was premature given the long period over which the situation on the ground had been degenerating. However the non-aligned still regarded Yugoslavia as a leading member of their Movement and countries such as China and India were frightened at the possible implications for themselves.

Libya

The Prime Minister briefed Signor Andreotti on the UK/US/French declaration and the US/UK statement which would be issued that afternoon. The Americans had already given the Italians the text.

Signor Andreotti said the Italian Government wanted Libya to be discouraged from further terrorist activities. The Libyan Government should be prepared to send the two accused to Scotland and had told them so. At the same time, the Italians were concerned about the possible Libyan reaction, including the threat of violence to Europeans in Libya (he recognised that this was of more direct concern to Britain, with four times as many Britons and Italians living in Libya) and the effects of the issue on the delicate balance with the Maghreb.

Signor Andreotti noted that Abu Nidal were no longer based in Libya; their headquarters there had been dismantled.

Qadafi had told him, early in 1991, that accusations of Libyan help for Abu Nidal were absurd. The organisation was enormously wealthy. Qadafi claimed he could provide lists of Abu Nidal business contacts in what he called moderate countries. Signor Andreotti also said that there was no trace of recent contacts between Libya and the international terrorist Carlos.

An oil embargo on Libya would have severe repercussions for Italy.

The Prime Minister said the case was built on arguably the most outstanding detective work of the 20th century; the evidence was compelling. Britain's intelligence was that Qadafi still funded terrorism in Northern Ireland. There was no way of knowing whether the recent upsurge in IRA terrorist outrages was directly linked to Libyan funding. But both the upsurge and Libyan funding were facts.

The Foreign Secretary said that, if the Libyans ignored beyond a reasonable time the US/UK/French demands, the British Government would be in touch through the Twelve and the G7 about possible measures against Libya. There would be difficulties but there had to be effective measures in response to Libya's action in blowing up the Pan Am 'plane .

Signor de Michelis said that the message delivered in Rome on 26 November by King Hassan of Morocco, about the establishment of a judicial commission, had, in strictly legal terms, some validity. If Britain was seeking the extradition of the two Libyans, for example, she would need to satisfy the Libyans of a prima facie case against them. The judicial commission might be a necessary step. The Prime Minister said he saw huge difficulties with such an idea, which looked to be a Libyan delaying tactic. He thought that King Hassan's message would have to be put to the Lord Advocate. Sir Stephen Egerton said that the evidence against the two was not to be found in Libya itself. Signor Andreotti thought there should be no objection to allowing a Libyan court to examine the evidence against the two Libyan nationals. He, too, favoured the idea of a judicial commission.

Signor de Michelis said the Italians wanted to see major changes in Libya. (He later explained to the Foreign Secretary that he had in mind using the Lockerbie evidence to get rid of Jalloud, with the help of the Egyptians.) North African countries had the same wish but also shared the Italians' fears about Libyan reactions to American and British action. The Italians, on their doorstep, saw the issue vividly: the French, too, were more aware of the difficulty; hence their unwillingness to sign up to the US/UK statement being issued on 27 November. The Foreign Secretary denied this. The reason lay in the difference in the French legal system. However, the Foreign Secretary understood the need for care and concertation before any political measures were taken. He did not agree with the suggestion from Signor de Michelis that the problem should necessarily be put to the UN. The Twelve and G7 could act. We needed to remember that the facts of what the Libyans had done were clear and that they were looking for delay in the hope that feelings in the US, Britain (and France) would cool.

Signor Andreotti returned to the need, as he saw it, to abide by the legal norms. It the Italians were seeking to extradite someone from Britain to Italy the British authorities would ask about the case against him. US military action against Libya would be most unwelcome and would be a form of state

terrorism itself. Signor de Michelis thought that the other Arab countries could be persuaded to ask the Libyans to give up the two accused, provided the judicial commission was allowed to go to Libya first. President Mubarak was very clear on this point. King Hassan of Morocco would join in. Britain, the US and France had to follow the right procedures and react seriously to the North African government's concerns.

I am copying this letter to Simon Webb (Ministry of Defence), Alan Maxwell (Lord Advocate's Department) and Sonia Phippard (Cabinet Office).

I am very grateful to you for providing the draft of this record.

Yours, Stephen

J. S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office

POINTS FOR PRESS CONFERENCE

- Pleased to return to Rome so soon after NATO Summit

- Part of preparations for Maastricht

- We are working towards agreement and I believe that is possible, but still many difficult issues to be resolved

- Need to move away from ambiguous 'federal' to 'ever closer union of peoples'

- We agreed on defence to keep pushing ideas contained in the Anglo-Italian paper

- Also agreed on need for strengthened co-operation on foreign policy

- We are very worried about proposed extensions of competence and QMV.

- No PM could get existing proposals on social policy measures through UK Parliament. He might as well 'fall on his own sword'

- We considered ways of improving cohesion of EC while maintaining firm control of EC budget

- PM stressed need to stay close to existing Presidency text on EMU and the opt-out (-in) clause

27 November 1991
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You may want to cut down a bit.

DRAFT LETTER FROM ~~STEPHEN~~ WALL TO RICHARD GOZNEY

27/xi

cc PS

Prime Minister's talks with ~~Mr~~ Signor Andreotti, Rome, 27 November

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Signor Andreotti saw ~~confirmed~~ strong signs of people wearying of the existing political system. The more vocal opponents were led by President Cossiga himself. He did not believe the government would be able to modify the election system before the coming general election; nor would it be fair to do so. He recalled the black President of Curacao, at a recent meeting of Christian Democrat leaders, saying that while modernisation without tradition could be a killer of men, tradition without modernisation was both a killer and a sign of hypocrisy.

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The Prime Minister said that he had not given up hope of the Libyans handing over the two accused. The case was built on arguably the most outstanding detective work of the 20th century; the evidence was compelling. Britain's intelligence was that Qadaffi still funded terrorism in Northern Ireland. There was no way of knowing whether the recent upsurge in IRA terrorist outrages was directly linked to Libyan funding. But both the upsurge and Libyan funding were facts.

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provided the judicial conclusion was

allowed to take its course.

SUBJECT MASTER

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cc Fin. Sec HMT

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 November 1991

Dear Richard,

PRIME MINISTER'S TALKS IN ROME:
WEDNESDAY 27 NOVEMBER

The Prime Minister and the Foreign Secretary held talks and a working lunch in Rome today with Signor Andreotti and Signor De Michelis. The talks lasted about three hours altogether. There was no whiff of the 'offer' from CD Heads of Government reported in the press today. The following were the main points of the discussion.

Signor Andreotti said that he had read the Prime Minister's speech in the Debate which had set out clearly the advantages and sacrifices involved in Community membership and in the proposed Treaties. The Prime Minister said that quite good progress had been made in the negotiations. There was still some way to go. There was a package which could be agreed but there were some things which we could not accept.

Sr. Andreotti said that at the meeting of EPP leaders the previous evening all present had said that they wanted to try to meet each others' needs and Britain's needs especially, given the difficult situation we were in. The Prime Minister would find the same attitude from Chancellor Kohl.

'Federal'

Sr Andreotti said the first problem they might tackle was one of semantics i.e. whether to describe the Community as having a federal vocation or not. Maybe we should use the term union, which embraced many things, including the concept of coming closer and closer together. The Prime Minister said that we could live with the concept of ever closer union among the peoples of Europe. He knew that the idea of a Federal Europe was attractive to many in the Community but in Britain it implied the ever-growing removal of powers from the British Parliament. Right or wrong, that was the perception. If we could change the words in the chapeau to ever closer union as per the Treaty of Rome we would have no difficulty.

Defence

The Prime Minister said that we and the Italians had devised a joint position and stood by it. If the concepts in the Anglo-Italian paper were incorporated in the Treaty that would be fine. What we could not accept was the idea that an enhanced WEU would be accountable to the European Council. France and Germany already knew that.

Sr. Andreotti raised WEU membership, making the case for Greek membership of the WEU and claiming that Mitsotakis had said that the Greeks would not object to Turkish membership. The Prime Minister said that if that was the case it might change the perception quite dramatically. However, from the subsequent backstage whisperings between De Michelis and Andreotti it appeared that Sr. Andreotti had got it wrong, and he corrected himself to say that maybe Turkey should join WEU as an observer in the first instance.

Foreign Policy

The Prime Minister described the extent to which a binding agreement on joint account would be a considerable move forward for Britain. He cited South African sanctions as one example where our freedom of action would be constrained under what was now proposed. We were prepared to accept that. Implementation by qualified majority vote was, however, an insurmountable difficulty. There was the practical difficulty of drawing a clear distinction between decisions of principle and implementing measures. Nobody had been able to make that distinction. We also saw QMV for implementation as a precursor to QMV on issues of principle as well.

Sr. De Michelis said that we needed to show a clear step forward from the existing pattern of intergovernmental co-operation. Sticking to unanimity risked no decisions being taken at all. A possible compromise would be to give the European Council a chance to decide that QMV could apply to certain implementing modalities. Britain, as a proponent of efficiency, should be in favour of that. The French were ready to make such a move. The Prime Minister repeated our objections. Sr. De Michelis said that the problem might be tackled in two phases. In the first, positions might be less binding. Later, we might arrive at binding common positions. The Prime Minister said he was puzzled by this. He did not want to take a step backwards. We were ready to take binding decisions. We could look at various formulae but if the proposition was that we should agree to something now and commit ourselves to going further in four or five years time, that was not possible.

Sr. De Michelis then redefined his proposal. Some issues, e.g. South Africa as far as Britain was concerned, were sensitive and where we would insist on unanimity on everything. Those like Zaire might be less sensitive. Equally, the modalities of participation in a Middle East Conference might be subject to QMV.

The Prime Minister said that he understood the Italians to be proposing that joint action would be determined by unanimity. Thereafter, there would be a general clause under which the European Council or the Council of Ministers could, in urgent cases, agree to implementation by QMV on a case-by-case basis. If it was the case that this would only arise in instances of urgent need, and if the workings of a subsequent review were genuinely neutral, then this was something we could look at. By genuinely neutral we meant that we must keep open the possibility of reverting to the existing system if any new system did not work satisfactorily.

Sr. De Michelis confirmed that this was the Italian position. They would try to put something on paper.

European Parliament

The Prime Minister said that co-decision was unacceptable. We did not like the alternative of negative assent but we were prepared to consider it in some areas, as the Foreign Secretary had outlined at the conclave. The Prime Minister then described the position as set out by the Foreign Secretary at the last conclave, adding that even this had been extremely controversial at home. There might be one or two other areas we could look at, but only as part of an overall package.

Sr. Andreotti, whose mind seemed to be on competence rather than powers of the European Parliament, talked about culture and implied that it would be useful to codify the competence which already existed in this area. Sr. De Michelis said that the point at issue was that we should agree to apply the negative assent procedure to decisions taken by majority vote. At the conclave, Ministers had discussed increasing the Community's role in some areas, codifying it in others and ruling it out in some areas altogether. This had been done in part to enable Britain to say we had got certain things deleted from the Treaty. As regards the negative assent procedure, he hoped we could agree to the general provision that it should apply to issues decided by majority vote even if there were then some agreed exceptions to the rule. The Prime Minister said he was prepared to look at that presentation but we would insist on a much narrower coverage then Sr. De Michelis was implying.

Competence

The Prime Minister said there were areas such as health and education where we could contemplate some extensions of competence. We understood the Presidency were working on revised texts on industry. We would like to delete culture altogether on expenditure grounds. He could easily think of projects costing £1 billion in the UK alone by the year 2000. If that was true of Britain, how much more might be spent in Italy? Cultural expenditure might be important but it could hardly be called a top priority. We would want unanimity for the research and development framework programme, for networks and for development cooperation - all areas of huge expenditure. Mr. Hurd added that

the Commission would argue that decisions on competence did not carry expenditure implications. But of course the Commission would subsequently argue that extending competence implied an obligation to take action.

Sr. De Michelis said that Italy did not want to create lists of new expenditure but he hoped we could look at the list again, especially in non-ideological areas. It might be possible to devise some formula on expenditure so that competence did not imply new expenditure.

The Prime Minister illustrated our difficulty by reference to the working time directive which showed that, once the Commission was given a foot in the door, it tended to use it for very expensive proposals even if this meant distorting the correct legal base. Indeed, he was surprised that Italy could live with the working time directive given the extent of her tourist industry. We would consider the points which the Italians had made and we would make our position on competence clear at the next conclave.

Sr. Andreotti did not respond to the Prime Minister's question about the working time directive beyond saying rather lamely, that Italy already had to abide by ILO rules in this area.

Social Policy

Sr. Andreotti said that UNICE and the ETUC had agreed a text on management/union rules. But on social policy more generally the text was still open. To judge by the debate in the House of Commons it appeared that Britain wanted the entire section of the treaty deleted. The Prime Minister agreed that that was the position. The Social Charter in fact dealt with employment legislation. No Conservative Prime Minister could get any Conservative MP to vote for that text. To use a Roman analogy that would be tantamount to falling on one's sword. This was the one area where the present draft provisions of the treaty could in no circumstances command majority support in the House of Commons.

Sr. Andreotti wondered whether it was possible to draw a distinction between the social charter as such (by which he meant the social provisions of the treaty) and the issue of having some expression of social policy as a legitimate part of EC business. He thought it should be possible to solve the problem by drawing that distinction. He had been encouraged by yesterday's discussion among EPP Heads of Government. The Dutch were keen to reach a compromise. The Prime Minister said that we were looking for agreement on the treaty, not a breakdown, but this was a very difficult area.

Sr. De Michelis said that EC member countries could not ask one of their fellow governments to commit political suicide. For our part, we should look at the possibility of agreeing clearly defined areas where the Community could act in social affairs. There could be a compromise as between substance and

presentation. The Italian Employment Union had for example come up with some ideas for acceptable EC action.

The Prime Minister said that there were some areas where action in the social field was already taken by the Community but using non-social articles, e.g. working time under the health and safety provisions of the treaty. He was willing to look and see whether some codification of competence could be devised that would block off this misuse of the treaty.

Own Resources

Sr. Andreotti canvassed the nation of progressivity in the own resources decision as put forward by M. Delors. This might be a way round the Spanish Prime Minister's problems over cohesion. The European Council could endorse the concept but it would not be binding since subsequent implementation of the concept would require unanimity.

The Prime Minister said that we understood Spain's problems. They did not do particularly well from the Community in relation to relative prosperity. What we would not accept was Spain's demands for large increases in Community spending. Spain's problems should be discussed in next year's financial negotiations. M. Delors was talking about a re-allocation of existing resources. That was one thing. More resources overall was quite another. We would examine Delors' proposals against two criteria. One, that they should not lead to an increase in overall expenditure. The second was that the UK abatement must be maintained intact. Our net contribution this year was £3 billion.

Sr. De Michelis said that the Delors proposal was for a reallocation of resources, but with the principle of progressivity built into the system. The Prime Minister said that the problem with that approach was that if Spain was to gain by progressivity other Member States would presumably lose and would want to know how they would lose. Sr. De Michelis said that this could be a make or break issue for the Spaniards. It was a real difficulty and the Spaniards could not simply live with a declaration of intent. The rest of the Community had to try to help them, just as it was trying to help Britain.

EMU

Sr. Andreotti said he knew it was not easy in public terms to talk of a reservation for one Parliament only. But a general opt-in clause might mean that some Parliaments would not ratify the treaty. He hoped the treaty could be written so that all duties and rights were held in common under the Treaty, but with the possibility of derogations for those countries which could not abide by the requirements of the treaty. Britain could have a reservation, not in the treaty, but in a separate document.

His real worry was that a general clause could be used as a pretext for not going ahead with EMU. He was particularly worried about Germany - not its present leaders, but the leaders who might be there in eight or ten years' time.

The Prime Minister said that whatever was written in the Treaty could not compel a future German government to go to Stage Three if they did not want to do so. They could plead that the convergence conditions had not been met, or public opinion. Nobody could compel Germany, particularly as they were the largest contributor to the Community budget. That was quite a different proposition from whether a country could come out once it had gone into single currency. He did not envisage how that could happen in practical or political terms as it would be ruinously chaotic.

The Prime Minister said that opinion in Britain on the issue of a single currency had shifted over the last year but not without pain and difficulty and only because of the prospect of a treaty clause of general obligation enabling us to opt in. This was not a matter of being stubborn or difficult. It was a practical question.

Sr. Andreotti said that Chancellor Kohl had told his fellow EPP Heads of Government the previous evening that he had an idea to solve the problem but thought he would keep it to himself until he could talk to Mr. Major about it.

Sr. De Michelis said that it was clear that the British parliament must have the last word as far as Britain was concerned. Exactly the opposite circumstances applied in the Italian parliament. They might not ratify the treaty if the commitment to a single currency was not absolutely clear from the outset. We could write in what the British Parliament wanted. But Britain could not force the other Member States to write in provisions which they did not want. The Prime Minister said there were two issues, that of a general versus a particular opt-in provision and the question of whether the opt-in provision was legally binding. He quite understood that we could not compel other Member States to have an opt-in position for themselves but we must have an opt-in position for Britain in the treaty. Sr. De Michelis said that we had to find something which met Britain's requirement for a legally binding opt-in clause and the fact that other Member States would not accept a general obligation. The Prime Minister said that such an approach was conceivable.

Over lunch, non-EC issues were discussed. I am writing separately about these.

Follow up

The concept of progressivity as a means of improving Spanish needs sounds an expensive one. The idea was mentioned in passing by the Dutch Finance Minister at last Friday's talks. It would be helpful to have a brief on the point for the Prime Minister's talks with Mr. Lubbers on Sunday.

I am copying this letter to the Private Secretaries to Members of Cabinet and to Sonia Phippard (Cabinet Office).

Yours

Stephen

(J. S. WALL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office

FROM EGMG FOR COI RADIO TECHNICAL SERVICES

TRANSCRIPT OF JOINT PRESS CONFERENCE
GIVEN BY THE PRIME MINISTER, MR JOHN MAJOR,
AND MR ANDREOTTI
IN ROME
ON WEDNESDAY, 27 NOVEMBER 1991

MR ANDREOTTI:
Within the framework of the preparation for the European Council, we had the pleasure of meeting this morning the British Prime Minister and Foreign Minister of the United Kingdom and this falls within the framework of an intense activity of meetings and contacts which will be furthered in the days which still have to pass before the Maastricht meeting.

Prime Minister Major will fly this afternoon to Bonn to have a meeting with Chancellor Kohl and on Sunday will have a meeting with the Dutch Prime Minister, Mr Lubbers, and on Monday with President Mitterrand. I myself had the possibility yesterday to participate in Brussels in a meeting of the six Prime Ministers who belong to the popular parties, the Christian Democrat parties, and tomorrow I will fly to Bonn to meet Chancellor Kohl.

And of course the final rush will be entrusted to the Foreign Ministers who in the preceding days of the meeting in Maastricht will set out the text upon which discussion, the debate will be carried out between Heads of State and Government.

We had read with the utmost interest the statement that Prime Minister Major made in front of the House of Commons, pointing out that the Community certainly involves some sacrifices, everyone has to give up something. Each one of us has his own view points and interests but for each of our states the EC provides a positive opportunity because they extend our possibilities and provide us with a set of opportunities that otherwise would be lacking.

We had a chance with the utmost frankness to consider those issues that are still being discussed, but I think that we can say that in spite of the fact that there is still a lot to be done in order to arrive at a convergent position on all issues, the position of Prime Minister Major is clearly positive as far as the possibility is concerned to reaching an agreement at the end of the two inter-governmental conferences which will be an agreement that helps the Community to stride towards greater forms of union.

Therefore, setting aside that very useless way of saying if you are optimistic or pessimistic, we say that the work which has been carried out up to now is very serious and that we have to bear in mind all positions and that we have the reasonable expectation

that the inter-governmental conferences may conclude in the best possible way for the development of the European Community.

For our part, I have confirmed that Italy is committed to honour what have been the positions we adopted also within our nation and in particular as far as the convergency plan of our budget and public expenditure, and in this respect it is my chance that the discussion of the budgetary law occurs in the same month when we have to conclude the European conference in particular as far as the monetary system is concerned which is marching towards this monetary union. For us it is an absolutely indispensable precondition of abiding by those guidelines that the Community has already appreciated and the indispensable passport in order not to be left out of this common path.

I believe that none amongst you will be surprised that if in this stage when we are still discussing and debating the unresolved issues we keep a certain confidentiality so that through this work carried out in these last days our positions may further come nearer.

PRIME MINISTER:

Prime Minister, thank you very much indeed and thank you for what you said over the last few moments.

I am very pleased to be back again in Rome with the Foreign Secretary so very soon after the NATO Summit. Not only was that an extremely successful summit in every respect, it was also an opportunity a few weeks ago that you and I had to have a look at the whole catalogue of matters that need discussing and agreeing if we are to reach a conclusion in the two inter-governmental conferences at Maastricht next month.

I was very pleased that we were able to return to those matters in a very frank and worthwhile way this morning as we try and bridge the differences that still exist in the negotiating positions of the various partners in the Community.

As you set out, this is part of a wide ranging preparation for the discussions in Maastricht next month. I will, as you say, be meeting Chancellor Kohl later on today, Prime Minister Lubbers on Sunday and President Mitterrand on Monday, and I will have further meetings later on next week with other colleagues in the Community. I think that is both necessary and desirable as we deal with the matters that are still yet undetermined.

And the Foreign Secretary of course, with Signor de Michelis, will be attending the Conclave next week where many of these matters will also be discussed.

We had no difficulty this morning in agreeing upon the desirability of a satisfactory conclusion at Maastricht, we are all working for that and I reiterate the points that I made in my speech at the House of Commons, I need not set them out, they were there perfectly clearly, about the desirability of an agreement and the areas where we believe an agreement presents difficulties and those where we are prepared to meet the general wishes of some of our colleagues.

I believe an agreement is possible, but it has to be said there are still a lot of difficult issues that need to be resolved. We will continue to discuss those and it may be such is the nature of the negotiations upon which we are embarked that many of those issues will not be solved until a very late stage in these discussions.

We did this morning have the opportunity of reinforcing our agreement on defence matters, that we will continue to press the ideas set out in the joint Anglo-Italian paper that was published some time ago, and we also agreed on the need for a strengthened cooperation on foreign policy. It has worked very well in the last few years and it seems to us to be collectively in the

interests of the Community nations to maximise their authority on foreign policy matters where that is appropriate.

We also discussed the areas of difficulty and as the Prime Minister said, it is not appropriate to go into those in any detail except to say we had a very free and frank discussion about those areas of difficulties, what lies behind them and whether in certain circumstances they may be capable of being bridged.

I am grateful for the opportunity of these discussions today, I have no doubt whatsoever that in one way or another, whether face to face or perhaps over the telephone, the Prime Minister and I will talk again before we come to the conference next month. But I do not think in terms of introductory remarks there is anything else I wish to say about Maastricht this morning.

We did discuss some other bilateral matters as well and we also had a brief discussion over lunch on matters of mutual international concern and it may be that those will turn up in questions but I do not think I need elaborate on them now.

(END OF TRANSCRIPT A, CONTINUED ON TRANSCRIPT B)

TRANSCRIPT B - PRIME MINISTER - PC - ROME - 27 NOV 91

FROM JAMES LEE FOR COI RADIO TECHNICAL SERVICES

TRANSCRIPT OF PRESS CONFERENCE
GIVEN BY THE PRIME MINISTER, MR. JOHN MAJOR,
IN ROME
ON WEDNESDAY, 27 NOVEMBER 1991

TRANSCRIPT B - (CONTINUED FROM TRANSCRIPT A)

QUESTIONS AND ANSWERS

ADAM BOULTON (SKY TV):
Do either of you see room for a possible compromise on political union based around the idea of dropping the federal goal from the treaty in exchange for fixed milestones making a commitment to greater political union in the future at set times?

PRIME MINISTER:
Adam, our position on many of these matters has been set out perfectly clearly. We have had the opportunity of discussing those today. I don't think from what the Prime Minister has said and what I have said this morning that either of us are going to go into details of our discussions this morning. It is not appropriate and I am not proposing to do it.

SILVIO TOMASI (SPLIT DAILY):

Probably in your discussion on international affairs you also touched upon the issue of Yugoslavia and I would like to ask the two Prime Ministers whether an agreement has been reached on the fact that a UN peacekeeping force should be sent to the area and whether there have been any steps towards a recognition of Slovenia and Croatia on the part of Germany and Italy as opposed to what the British position may be.

PRIME MINISTER ANDREOTTI:

We strongly supported the initatives and debates in course in the Security Council of the United Nations where both Great Britain and France as Permanent Members are pushing towards a solution. We believe that this is in favour of the possibility of reaching the sending of the UN peacekeeping force to the area which should allow a resumption of dialogue and the beginning of a settlement post-federation in Yugoslavia which might correspond to the wish and aspirations expressed by the peoples of each single republic.

As far as recognition is concerned, our hope is that it might occur within the unanimous framework of the EEC and for the time being we do not wish to add anything more and certainly both Croatia and Slovenia know that there are for us no doubts as to their recognition.

PRIME MINISTER:

On recognition and on a peacekeeping force, we have been looking at recognition there for some time and by "we" of course I don't just mean the United Kingdom, I do mean the European Twelve, because I think when we come to the question of recognition we will do it together - that is desirable - and indeed I think it is now inevitable that we will do it together.

The question really now is substantially a matter of timing. What we need to consider is whether recognition will complicate the task of peacemaking or assist the task of peacemaking and that is a crucial decision for us to take. Up until now, our view - and again I mean our view as the Twelve in the Community - is that we should hold off, that we shouldn't yet recognise Croatia and Slovenia because we believe that would actually complicate the prospects to making peace which must be the first priority but in due course things will change and then no doubt we will move to recognition.

On the subject of a peacekeeping force, there is of course an essential preliminary to a peacekeeping force and that is that you need a peace if you are going then to keep it and we don't yet have that peace. If in due course we have that peace and if there is a clear and evident wish amongst those forces that have been in conflict that there should then be a peacekeeping force, the circumstances have changed, it may then be right to have one. Indeed, it may even be right, as parts of the country become

peaceable, for a peacekeeping force to move step by step into those parts of the country in which conflict has ended in an endeavour to ensure that conflict does not re-ignite. That is a possibility that no doubt will be discussed over the weeks ahead, so that I think is largely precisely where we are on peacekeeping at the moment.

QUESTION (ITALIAN PAPER):
Mr. President, I understand your invitation to acknowledge confidentiality at this moment but could you just at least mention the issues upon which the frankness of your discussion was particularly important?

PRIME MINISTER ANDREOTTI:
I believe that since the speech made by John Major in front of the Commons was public and you too have edited the document that was thereupon issued by the House of Commons, the issues were reiterated that we shall seek through the work in these weeks to clear our positions and see how to find satisfactory solutions. There are some issues which concern other countries of the Community and also these we have discussed for the very reason that we have to try to arrive at Maastricht with the clearest possible ideas and the fewest points to be still solved.

PRIME MINISTER:

You may safely presume that we discussed all the relevant as yet undetermined points in the treaties. We ran through them very comprehensively.

DAVID SHUKMANN (BBC):

Without asking you to comment in any way on the details of negotiation as I know you don't want to, could you just tell us whether yesterday's meeting in Brussels of the Christian Democratic leaders - which I know you didn't attend - is significant in helping find a solution?

PRIME MINISTER:

There is no doubt in my mind that the Christian Democratic leaders of the Community want an agreement at Maastricht that carries with it every member of the Community - they all understand that very well. Individually, I have spoken to them all. I had the pleasure of being here this morning with Prime Minister Andreotti and it is their intention, I am sure, to try and assist in reaching an agreement next month - that is our wish too. I will discuss with them what was said there and what the implications of what was said there may be but as to their objective, I have no doubt.

GEOFFREY ARCHER (ITN):

Could I ask you to give in broad brush terms an outline of what you see as the main differences that you will have to bridge in your talks with Chancellor Kohl this evening?

PRIME MINISTER:

I did so, Geoffrey, in very great detail, in the House of Commons last Wednesday and the situation is still the same.

GEOFFREY ARCHER:

Has that not changed at all following the announcement in Brussels?

PRIME MINISTER:

You asked me to set out what the broad areas were. They are the broad areas that I set out last week. I am not going to touch on detailed discussions today.

GEOFFREY ARCHER:

Can I ask you one other thing not to do with the EEC? In your bilateral talks, did you talk about Lockerbie and possible sanctions against Libya?

PRIME MINISTER:

We had a general discussion about Lockerbie and about the investigation, yes.

GEOFFREY ARCHER:

But you are not prepared to say whether you are taking any steps?

PRIME MINISTER:

We had a general discussion about Lockerbie this morning most certainly. I think there may be an announcement from elsewhere later on today but not one I can anticipate now.

(END OF TRANSCRIPT B AND END OF WHOLE TRANSCRIPT)

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Foreign &
Commonwealth
Office

London SW1A 2AH

CC JSP PS GOD Spare DC.

26 November 1991

Prime Minister

Jean Stephen,

ITALY: PRIME MINISTER'S BILATERAL MEETING WITH SIGNOR ANDREOTTI: ROME, 27 NOVEMBER

The Prime Minister will have talks for about three hours (including a working lunch) with the Italian President in Rome on 27 November. The Foreign Secretary and his Italian counterpart, Signor Gianni De Michelis, will attend.

We and the Treasury will send later today briefing on the IGCS in the revised format commissioned on 25 November. This letter covers non-IGC issues:

- Italy internal
- UK/Italian Relations and the Mafia
- Enlargement
- GATT
- Libya/Lockerbie
- Yugoslavia
- China
- Middle East Peace Conference
- Aid to the Soviet Union
- The election of the Director General of Intelsat

Italy Internal

A General Election will be held by June. All four coalition parties are on the defensive, in the face of growing popular disaffection at the inability of the Government to solve problems such as public sector inefficiency and the Mafia. There is also growing public support for referenda, to be held in 1993, to introduce an element of UK-style majority voting in senate elections.

Recent new measures against the Mafia provide a partial answer to accusations of government inactivity. Craxi's (leader of the Socialists) commitment to the coalition still appears to hold, at least for the time being (perhaps as the price for Christian Democrat agreement to Craxi succeeding Andreotti as Prime Minister after the election).

UK/Italian Relations and the Mafia

The Italians are aware from a leaked press report in the Times (12 November) that the Ambassador in Rome has warned in a recent despatch of the increasing spread of the Mafia and the possible consequences for the UK. They are worried about implications of the leak for their confidential cooperation with us. The Italian press has also speculated that the leak might be deliberate, in order to provide ammunition for the "hard line" British position in the internal frontiers' debate.

If asked, the Prime Minister may like to assure Signor Andreotti that:

- the leak was unwelcome and certainly not deliberate (some risk to UK personnel involved);

- we are investigating and will take corrective action.

Enlargement

The Prime Minister has agreed to support Swedish Prime Minister Bildt's suggestion that the Community issue a statement at Maastricht, agreeing to process applications for EC membership quickly. Some member states have reservations about enlargement and may want to delay or block the process by calling for another IGC after Maastricht to consider the institutional implications. That could threaten the enlargement process and our own interests within the Community. (Another IGC would bring pressure for more integration.) The Italians support the principle of enlargement (and in particular early Austrian accession). They also favour (unlike us) early membership for Malta. But they fear that substantial numbers of new entrants could slow down further integration. The Italians may therefore push for another round of institutional reform before others join.

The Prime Minister may wish to say:

- Once the IGCs are over, enlargement will be the next big item on the Community's agenda.

- It would smooth and accelerate the application process for Austria and other EFTA applicants if Maastricht could issue a statement on enlargement. The Community could commit itself to consider specific applications early next year

(this would not affect the Community consensus that there should be no negotiations until 1993).

- The EFTA countries are the natural candidates for the first wave of accession. (Austria and Sweden have already applied, Finland and Norway may do so next year and Switzerland thereafter). Hope Community can agree next year to open negotiations with EFTAn applicants in 1993 with a view to membership around 1995.

- Southern applicants (Malta, Cyprus and Turkey) all present difficult problems. Community should work for closer relations with all three, but may have to develop alternatives to full membership.

- (if required) No need for further institutional changes before taking the first wave of applicants. Community structures post-Maastricht will suffice for (say) three or four EFTAns.

- (if required) Maltese application raises practical questions (role of microstates - Luxembourg not a true precedent) and political ones (closeness to Libya). Will need to reflect further on these.

GATT

Good progress was made at the 9 November EC-US Summit. But there will be very little time to reach an overall agreement before Christmas unless the broad understanding on agriculture can be translated into a firm deal by the end of November. The Prime Minister wrote to G7 colleagues on 18 November to remind them of their London Summit commitment to personal intervention if necessary. Should negotiations

11

become stalled in December, there might be a case for G7 action, perhaps via Sherpas.

Some member states, including the Italians, complain that the Commission have not briefed them fully on recent negotiations. However, the Presidency, UK, and others believe that the Commission are working for the best available deal for the Community. The Prime Minister might say:

- Good progress made at EC-US Summit, especially on agriculture. Vital that follow up negotiations should capitalise. Aim must still be agreement this year on overall package.

- Need breakthrough on agriculture to unblock other sectors, but timing now getting critical. Ready to consider G7 action if all else fails. Hope you will intervene personally if necessary.

Libya/Lockerbie

An Anglo-American team recently toured key European capitals, including Rome on 22 November, to encourage partners to act with us. There was little response from the Italians, who enquired how the US and UK authorities could be sure that no others were involved in the incident. We are intending to issue further demands of the Libyans, jointly with the Americans and French, perhaps today. We will be seeking support at the Political Committee on 27-28 November for a démarche by the Twelve to reinforce the demands, and will seek further support from the Twelve in due course. We are considering measures against Libya.

The Italians (our protecting power in Tripoli) have a closer relationship with Libya than most Western nations and are Libya's main EC trading partner. They will dislike the idea of sanctions. Although Craxi cancelled a visit to Libya and De Michelis made a robust public statement, Andreotti has avoided taking a public stand. However, his spokesman has said that he and President Mubarak had agreed that action should be taken "using the processes of law and not through the use of force". Those responsible deserved "exemplary punishment". But Andreotti is likely to want to give the Libyans the benefit of the doubt if possible.

The Prime Minister might thank the Italians for forwarding the warrants to Libya and for their continuing cooperation in looking after British interests in Libya. The Prime Minister might then take the following line:

- We want the Libyans to hand over the accused and accept complete responsibility for the actions of their officials. We demand that the Libyans comply with the other demands which are being made public by the UK, US and France. Hope Italy will support EC action to reinforce these demands;

- there is no evidence, despite Israeli claims, to suggest that any other States were involved in the Lockerbie disaster;

- grateful for De Michelis' statement that Libya should abide by the rules and procedures of international law; and for Andreotti's reported agreement with Mubarak that those responsible should be brought to justice;

- pleased that ex-Prime Minister Craxi cancelled his two day visit to Tripoli. This gesture will not have been lost on the Libyans;

- UK and US authorities are considering next steps and will continue to discuss closely with key partners, including Italy, about how to bring pressure to bear on Libya to meet our demands.

Yugoslavia

We are working in New York for a resolution which, if there is a ceasefire, would set up a UN peacekeeping force ~~or, if there is not, would impose an oil embargo.~~ Mr Vance has reported to the PS that all the parties in Yugoslavia agree on the broad principles of a peackeeping force. If the ceasefire does not hold throughout Yugoslavia, one possibility may be to put peacekeeping forces into those areas where the fighting has stopped. The Italians favour the deployment of international peace-keeping forces and De Michelis has said that they would contribute troops. Italy has taken a forward line on the recognition of Slovenia and Croatia but is likely to stay in line with the EC. The Prime Minister might wish to use the following line:

- Do not object to UN peace-keeping operation in principle, but conditions (ceasefire holding; agreement of all parties) must first be met.

- If no peacekeeping force hope UN Security Council resolution will institute an oil embargo, as requested by the Twelve, but it is clear that the neutral and non-aligned have considerable reservations.

- Must continue to work for political solution.

- Decision to help humanitarian operation is separate from any decision on peace-keeping.

China (if raised)

Andreotti has suggested that the Prime Minister and he should discuss China at the 27 November meeting. The Prime Minister and Andreotti exchanged messages on China following their respective visits to Peking in September. There have been no significant developments since the exchange of letters which the Prime Minister needs to raise with Signor Andreotti. Italy has recently agreed to provide a further concessional finance programme (soft loan) to China. If Signor Andreotti raises China the Prime Minister might like to say:

- We are continuing high-level exchanges with China. I met Chinese Vice-Premier Zou last month when he visited UK. Malcolm Caithness is visiting China from 27 November.

- Human rights now firmly established as a central element in China's relations with Western countries - as seen most recently in James Baker's visit. Important we keep up the pressure.

- Hong Kong issues likely to continue to dominate our own bilateral agenda with China. Grateful if Italy could continue to remind Chinese of need not to tamper with Hong Kong's basic autonomy if confidence in Hong Kong is to survive.

Aid to the Soviet Union and Recognition of Republics

The Italians share our view that we must urgently seek means to get EC aid to its destinations as soon as possible. The subject is under discussion among experts in Brussels. The Prime Minister might stress our view

- that animal feed should be included in EC aid and should form part of the next delivery of aid or credits.

The Prime Minister might also mention

- we are giving serious thought to the issue of recognition of republics, which could come to a head ~~with~~ after the Ukrainian independence referendum on 1 December: and

- we shall be seeking close EC coordination on a cautious line to enable us to raise with the Ukrainians (and Russians/Soviets) before recognition our concerns over nuclear weapons, international obligations and debt.

INTELSAT (election of Director-General

It would be very helpful if the Prime Minister could seek Italy's support for John Mills, the UK candidate. Mills [redacted] works in the No 10 Policy Unit. He is a late entrant in the race, against American, Australian, and Indonesian opposition. Early indications from Rome are that the Italians may back Mills, as the only European candidate. The Prime Minister might like to make it clear that Mills has his personal endorsement. Mills was closely involved with INTELSAT from 1985-89, and has wide experience of

political and telecommunications issues. He well understands the interaction between business and regulatory activity. He managed a large multinational staff when seconded to the Hong Kong Government from 1981-85.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

J S Wall Esq
10 Downing Street

The Times

12 NOV 1991

Embassy warns of Mafia in Britain

By Stewart Tendler, Crime Correspondent

BRITISH embassy officials in Rome have sent a secret report to the government urging increased action to prevent Italian Mafia gangs expanding their operations into Britain.

The report, drawn up a month ago by a diplomat and a a Scotland Yard detective on secondment to the embassy, is understood to be based on discussions with the Italian authorities. It has been circulated to senior figures in the Foreign Office, Home Office, Scotland Yard and customs, and suggests that Britain could face increasing Mafia interest in drugs and money laundering, although neither names nor numbers of Mafia figures in Britain are given.

The report calls for greater international co-operation between police and government agencies and a streamlining of judicial systems as the European Community liberalise its internal borders next year. Many investigators in this country do not believe that Mafia groups have established themselves and some have suggested that the warning is exaggerated.

In Italy, the Mafia has been defined by Pino Arlacchi, a sociologist, as a series of powerful gangs or clans based mainly around Palermo in Sicily and Naples in the southwest. Other Mafia gangs operate further north.

The Rome report was drafted by John Ashton, the first secretary, and Detective Chief Inspector Gus Jones, who became Britain's first drug liaison officer in Italy more than a year ago. He is an expert on money laundering and worked for the national drug intelligence unit before moving to Rome.

The unit regularly receives assessments from officers abroad. The Rome report is said to be very unusual because instead of passing into the files, it went into the Whitehall network.

Two years ago, Carlo Ciampi, the governor of the Bank of Italy, issued a warning of the threat to international banking from a Mafia need to launder cash. London has long been seen as part of the laundering chain.

The number of convictions in Britain of Sicilians or Italians linked to Mafia gangs still remains small. For years, police officially denied any Mafia presence until Operation Devotion, organised by customs officers, discovered the organisation was using Britain as a staging post for heroin bound for America and disclosed the presence of several important *mafiosi* and their underlings.

DRAFT

A TRIPARTITE DECLARATION BY THE US, THE UK AND FRANCE

DECLARATION OF THE UNITED STATES, FRANCE AND GREAT BRITAIN ON TERRORISM

The three states reaffirm their complete rejection of terrorism in all its forms and in particular the complicity of states in terrorist acts. The three states reaffirm their commitment to put an end to terrorism.

They consider that the responsibility of states begins whenever they take part directly in terrorist actions, or indirectly through harbouring, training, providing facilities, arming or providing financial support, or any form of protection.

In this connection, following the investigations carried out into the bombings of Pan Am 103 and UTA 772 the three states have presented specific demands to the Libyan authorities related to the judicial procedures that are underway. They require that Libya comply with all these demands, and, in addition, that Libya commit itself concretely and definitively to cease all forms of terrorist action and all assistance to terrorist groups. Libya must promptly, by concrete actions, prove its renunciation of terrorism.

LOCKERBIE: STATEMENT FOR 26 NOVEMBER

Following the issue of warrants against two Libyan officials for their involvement in the Lockerbie atrocity, the Government demanded of Libya the surrender of the two accused for trial. We have so far received no satisfactory response from the Libyan authorities.

The British and American Governments today declare that the Government of Libya must:

- surrender for trial all those charged with the crime; and accept complete responsibility for the actions of Libyan officials.

- disclose all it knows of this crime, including the names of all those responsible, and allow full access to all witnesses, documents and other material evidence including all the remaining timers.

- pay appropriate compensation.

We are conveying our demands to Libya through the Italian authorities, as our protecting power.

We expect Libya to comply promptly and in full.

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Italian Embassy,
14, Three Kings Yard,
London, W.1.

BY HAND

30th September, 1991

Dear Mr. Wall,

I take pleasure in enclosing herewith the text of a message addressed to the Prime Minister, from the President of the Italian Council of Ministers, Senator Giulio Andreotti, together with an unofficial translation of the same.

I avail myself of this opportunity to send you my best regards.

Yours sincerely

Livio Muzi-Falconi
Chargé d'Affaires a.i.

Encs

Mr Stephen Wall, LVO
Private Secretary to the Prime Minister
(Overseas Affairs)
10 Downing St
London S W 1

UNOFFICIAL TRANSLATION

Dear Mr Major,

In going over the exchange of correspondence we had soon after your return from the Far East, I note that the considerations you drew from your visit to China correspond, by and large, to the ones that I myself have drawn from my personal experience. I can also confirm that in my talks with the Chinese leadership I expressed myself in accordance with the general lines outlined in my letter to you of the 12th September.

I now wish to draw your attention to some points which seem to me to be of particular interest.

With regards to human rights, whenever my interlocutors hid behind the five principles of peaceful coexistence, I tried, patiently but firmly, to make them understand that these have now been overtaken by events and that there must be an upgrading in quality. In this context we hope that the spirit of Helsinki becomes a value shared by all continents. On several occasions I reiterated that there exist some principles of respect of the human person which go beyond the mere national context. It is moreover inconceivable, in today's world, given the diffusion of the mass media, to hope that what happens in a country does not have repercussions in another. I did not fail to remind all my interlocutors, and especially Li Peng, Jaing Zemin and Yang Shangqkun, that the most recent events, and in particular those which have taken place in the Soviet Union, bear witness to the fact that peace can only be preserved by governing by consensus and not by the use of force.

Chinese reation to my arguments was the one we had foreseen and which is well know to you. However, I, like you, am convinced that the best way to help the Chinese people is to maintain a constant exchange of views with the top level leadership, which one day will surely have a concrete impact, notwithstanding the apparent "dialogue among deaf people" of the present moment.

cont.d

Worthy of mention is the fact that when I indicated to Li Peng the importance that an Italian Parliamentary delegation, due to visit China, should also visit Tibet, he agreed that this would be a good idea. This is proof of the fact that the Chinese are by now resigned to an inevitable confrontation in the field of human rights (which naturally at present is strongly contained).

According to your wish, I raised the question of Hong Kong when I touched upon relations between EC member states and China. My interlocutors expressed themselves in a very positive way on the understandings reached with you on this point and told me that they looked upon it as a most useful step towards improving the general situation in Asia.

To my considerations on the fundamental importance of a general reduction in the level of armaments, which at present no longer seems to be a hopeless utopia, the Chinese affirmed to be favourable to disarmament, especially in the nuclear field, but repeatedly declared that their limited nuclear arsenal, as well as their conventional one, has a purely defensive role.

Li Peng also said that the reduction of armaments must be controlled and balanced, making esplicit reference to the complex reality of the Middle East. He added that, should a control of sales come about, it would be necessary to take into account the capability of certain countries, such as Israel, to manufacture sophisticated weapons.

The Chinese leadership must be extremely worried by the recent events in the Soviet Union, but conceal their concern very well indeed. Jaing Zemin, for instance, confined himself to saying to have learned from China's ancient history that there is an inevitable tendency to alternate between aggregation and division in the history of nations.

As for the various Asian questions, I received confirmation of their optimism with regard to Cambogia and of their improved relations with Vietnam. Li Peng gave the impression of deeming unfounded the concern expressed by some countries about North Korea's nuclear programme. He also said that China finds reasonable Pyongyang's proposal to make the whole peninsula nuclear free.

cont.d

To complete this, inevitably brief, account of my trip, I wish to add that the Chinese seemed to be sincere when they said they hoped for a long period of peace and stability to pursue their internal development. They hope in a multi-bloc world (their fear of American hegemony surfaced on several occasions) governed by the famous five principles of peaceful coexistence. To achieve this kind of international order they are prepared to act with pragmatism.

No doubt China's stance has limits, but if nothing else, it could spur the country into steering a realistic and reasonable course. In the meantime all we can do is to keep all channels of communications open.

I would like to conclude by saying that I too have been critized for visiting China and for my methods in assessing the reality of the People's Republic of China, but I believe that the path we have chosen is the only valid one.

I am glad that you have accepted the invitation to come to Rome on November 27th next for the traditional summit between our two countries. It will be an occasion for discussing more in-depth these and other topics of major interest to us.

With my warmest regards,

Giulio Andreotti

TEXT OF THE MESSAGE ADDRESSED TO THE RT. HON. JOHN MAJOR, MP FROM THE PRESIDENT OF THE COUNCIL OF MINISTERS, SIGNOR GIULIO ANDREOTTI.

"Roma, 24 settembre 1991

Caro Major,

rileggendo lo scambio di corrispondenza che abbiamo avuto subito dopo il tuo rientro dall'Estremo Oriente, ho notato che le valutazioni che tu hai fatto del tuo viaggio in Cina corrispondono in linea di massima a quelle che io stesso ho ricavato dalla mia esperienza personale. Ti posso inoltre confermare che, con i cinesi, mi sono espresso secondo le linee generali che ti avevo anticipato nella mia lettera del 12 settembre.

Desidero adesso riferirti su alcuni punti che mi sembrano di particolare interesse.

Per quanto riguarda i diritti dell'uomo, tutte le volte che i miei interlocutori si sono trincerati dietro i cinque principi di coesistenza pacifica ho cercato di fare loro comprendere con pazienza, ma con fermezza, che questi sono superati ed occorre ormai effettuare un salto di qualità. In questa cornice ci auguriamo che lo spirito di Helsinki diventi valore comune in tutti i continenti. Vi sono - ho voluto a più riprese precisare - dei principi universali del rispetto della persona che escono dall'ambito nazionale. E' inoltre inconcepibile, nel mondo moderno, data la diffusione dei mass media, sperare che ciò che avviene in un paese non abbia riflessi anche in un altro. Non ho perso occasione per ricordare a tutti i miei interlocutori, ma specialmente a Li Peng, Jiang Zemin e Yang Shangqkun che gli eventi più recenti, specialmente in Unione Sovietica, provano che la pace può essere preservata soltanto governando per consenso e non con l'uso della forza.

./.

La reazione cinese a queste mie argomentazioni è stata quella prevedibile che tu ben conosci. Sono comunque come te convinto che il modo migliore di aiutare il popolo cinese sia quello di mantenere con i massimi leader un costante scambio di idee che sicuramente un giorno avrà un impatto concreto nonostante l'apparente "dialogo tra sordi" del momento attuale. Noto che, quando ho indicato a Li Peng l'importanza di far visitare il Tibet ad una delegazione parlamentare italiana che si recherà in Cina, il Primo Ministro ha convenuto che questa sarebbe una buona idea: ciò mi conferma se non altro che i cinesi sono ormai convinti della inevitabilità di dover accettare un confronto (ovviamente per ora contenuto al massimo) nel campo dei diritti dell'uomo.

La questione di Hong Kong è stata da me sollevata nei termini da te desiderati, quando ho toccato l'argomento dei rapporti tra paesi membri della Comunità e la Cina. I miei interlocutori si sono espressi in maniera molto positiva sulle intese con te raggiunte in materia e mi hanno confermato che le considerano un passo assai utile per il miglioramento del quadro generale in Asia.

Alle mie argomentazioni sulla fondamentale importanza di una riduzione generale del livello degli armamenti, che nel momento attuale non sembra più un'utopia irragiungibile, i cinesi hanno affermato di essere loro stessi favorevoli al disarmo, specialmente nel settore nucleare, ma hanno ripetutamente dichiarato che il loro limitato arsenale nucleare e quello convenzionale servono scopi puramente difensivi. Li Peng ha anche osservato che il controllo delle armi deve essere globale ed equilibrato, ed ha fatto un esplicito riferimento alla complessa realtà del Medio Oriente precisando che, qualora si addivenisse ad un controllo delle vendite, bisognerebbe anche tener conto della capacità di certi paesi, quali Israele, di produrre armamenti sofisticati.

I massimi leader cinesi sono verosimilmente molto preoccupati per i più recenti sviluppi in Unione Sovietica ma lo sanno

./.

nascondere molto bene. Jiang Zemin, ad esempio, si è limitato a dire di aver imparato, dall'antica storia cinese, che vi è un'inevitabile tendenza alterna all'aggregazione e alla divisione delle entità statali.

Circa i vari temi asiatici, ho avuto conferma dell'ottimismo cinese sulla questione cambogiana e dei migliorati rapporti con il Vietnam. Li Peng ha dato l'impressione di ritenere infondati i timori di certi paesi per il programma nucleare della Corea del Nord, ed ha affermato che la Repubblica Popolare Cinese considera ragionevole la proposta di Pyongyang per una denuclearizzazione di tutta la penisola.

A completamento di questo, per forza di cose breve, resoconto del mio viaggio vorrei soltanto aggiungerti che i cinesi sembrano sinceri quando affermano di volere un lungo periodo di pace e stabilità per portare avanti il loro sviluppo. Essi sperano in un mondo multipolare (i timori dell'egemonismo americano sono indirettamente trapelati varie volte) governato dai noti cinque principi di coesistenza pacifica, e per la realizzazione di questo tipo di ordine internazionale dichiarano di voler operare con pragmatismo. L'impostazione cinese indubbiamente ha dei limiti, ma se non altro può spingere il paese a seguire un corso ragionevole e realistico. Nel frattempo non possiamo fare altro che tenere aperti tutti i canali di comunicazione possibili.

Vorrei concludere osservando che anch'io sono stato criticato per il mio viaggio in Cina e per il mio modo di valutare la realtà della Repubblica Popolare Cinese, ma mi sembra che la strada che abbiamo scelto sia veramente l'unica valida.

Sono lieto che tu abbia accettato l'invito a venire a Roma il 27 novembre prossimo, per il tradizionale incontro al vertice tra i nostri due paesi. Sarà questa una importante occasione per approfondire questi ed altri temi di maggiore interesse per noi.

Con i miei più cordiali saluti,

Giulio Andreotti"

UNOFFICIAL TRANSLATION

MESSAGE
From: The Italian Prime Minister, Senator Giulio Andreotti
To: The Prime Minister, The Rt Hon John Major, MP
Date: 17th September, 1991

Dear John,

Thank you for the information and considerations contained in your kind message, which will prove particularly useful to me in the contacts that I too shall have with the Chinese leadership in Peking this week.

First of all I wish to reassure you that Italy has always recognized how fundamentally important it is that China honours the pledges undertaken to guarantee a smooth transition of sovereignty over Hong Kong and to upkeep the stability, prosperity and freedom of that territory.

Indeed, in the course of my visit to Peking, it is my intention to reiterate how in our view the future of Hong Kong is not only the concern of the United Kingdom, but of the entire European Community, since it represents a key element in the assessment of China's willingness to pursue a policy of openness of its economy and of development of the cooperation with Western democracies.

I too will raise the question of human rights, to impress upon our interlocutors that progress in this field is needed if they hope for a lasting improvement in their relations with Italy and the European Community.

Lastly, I share your belief that, in order to influence the Chinese leadership, it is necessary to develop direct contacts with them. I am convinced that, given the power structure existing in Peking, it is essential to maintain contacts at the highest level to ensure that a clear and effective message reaches those who actually control the country. As you rightly say, China today plays an irreplaceable role in world politics and cooperation with its leadership appears necessary. This would not only benefit the management of crises and give renewed impetus to the United Nations actions, it would also promote specific initiatives, important for the preservation of peace, for example in the fields of non-proliferation and that of armament systems transfer controls.

cont.d

I shall not fail to convey to you the impressions of my own visit to China. In the meantime, I avail myself of this opportunity to send you my best regards.

Giulio Andreotti

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PRIME MINISTER'S VISIT TO CHINA AND HONG KONG: MESSAGE TO PRIME MINISTER ANDREOTTI

1. PLEASE PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO PRIME MINISTER ANDREOTTI. THERE WILL BE NO SIGNED ORIGINAL

BEGINS

DEAR GIULIO
I THOUGHT YOU MIGHT LIKE TO HAVE THIS ACCOUNT OF MY VISIT TO PEKING AND HONG KONG BEFORE YOUR OWN VISIT TO CHINA IN A FEW DAYS' TIME.

THE CONTRAST BETWEEN MOSCOW AND PEKING COULD NOT BE GREATER. IN MOSCOW THE PLACE IS HUMMING POLITICALLY BUT IN DIRE STRAITS ECONOMICALLY. PEKING IS THE REVERSE AND THE CHINESE SET SOME STORE BY THEIR THRIVING MARKET ECONOMY AS ONE REASON WHY CHINA IS DIFFERENT FROM THE SOVIET UNION.
AS YOU KNOW, THE MAIN REASON I WENT WAS TO SIGN A MEMORANDUM OF UNDERSTANDING WITH THE CHINESE WHICH ALLOWS HONG KONG'S NEW AIRPORT DEVELOPMENT TO GO AHEAD UNHINDERED. I ALSO REACHED AGREEMENT WITH THE CHINESE ON A NUMBER OF OTHER DETAILED HONG KONG ISSUES WHERE PROGRESS HAS BEEN BLOCKED ON THE CHINESE SIDE.

THE CHINESE LEADERSHIP VALUE HONG KONG AS A CENTRE OF ENTERPRISE: IT IS INVESTMENT FROM HONG KONG IN SOUTHERN CHINA THAT HAS LED TO AN INDUSTRIAL REVOLUTION THERE. PEOPLE IN HONG KONG NOT SURPRISINGLY FEAR THAT CHINA WILL TRAMPLE ON THEIR FREEDOMS IN 1997, WHILE THE CHINESE SEE HONG KONG AS THE THIN END OF A DEMOCRATIC WEDGE. THEY ALSO THINK THAT BRITAIN IS SOMEHOW GOING TO USE HONG KONG AFTER 1997 AS A BASE TO SUBVERT CHINA. I HOPE THAT WE HAVE NOW GOT OUR RELATIONS ONTO A SUFFICIENTLY SOUND FOOTING TO RID THEM OF SOME OF THESE SUSPICIONS. WE MUST AVOID A SITUATION IN WHICH CHINA USES THEM AS A PRETEXT FOR UNDERMINING THE JOINT DECLARATION, WHICH PRESERVES HONG KONG'S CAPITALIST SYSTEM AND ITS FREEDOMS FOR AT LEAST 50 YEARS AFTER 1997. IT

WOULD BE ENORMOUSLY HELPFUL IF YOU WERE ABLE TO TELL THE CHINESE LEADERS THAT THE WHOLE OF THE EUROPEAN COMMUNITY HAS A CONTINUING INTEREST IN HONG KONG'S STABILITY, PROSPERITY AND FREEDOMS AFTER 1997 AND THAT CHINESE BEHAVIOUR IN THAT RESPECT WILL BE ONE TOUCHSTONE OF HER GROWING RELATIONSHIP WITH THE COMMUNITY.

I MADE A DETAILED EXPOSITION TO LI PENG ON THE ISSUE OF HUMAN RIGHTS. I RAISED A SERIES OF INDIVIDUAL CASES AS WELL AS HUMAN RIGHTS IN TIBET AND THE FREEDOM TO PRACTISE RELIGION. I HANDED OVER A DETAILED LIST OF CASES AND WE ARE BRIEFING YOUR EMBASSY HERE IN LONDON ABOUT THEM. LI PENG RECOGNISED THAT HE COULD NOT AVOID A DISCUSSION ON HUMAN RIGHTS AND SAID THAT THE CHINESE GOVERNMENT WAS PREPARED TO TAKE DELIVERY OF OUR LIST. I AM SURE THEY HOPE THAT THE MATTER WILL NOW GO AWAY BUT I THINK IT IS IMPORTANT THAT ALL OF US KEEP UP THE PRESSURE, JUST AS WE KEPT UP THE PRESSURE ON THE SOVIET UNION IN THE PRE-GORBACHEV PERIOD WHEN, DESPITE ALL THEIR REBUTTALS, THE SOVIET AUTHORITIES DID QUIETLY START TO RELEASE INDIVIDUAL DETAINEES.

LI PENG RAISED WITH ME THE QUESTION OF THE SOVIET UNION. HE WAS AT PAINS TO POINT OUT TO ME THAT EVENTS IN THE SOVIET UNION HAD NO RELEVANCE TO CHINA BECAUSE, ALTHOUGH IDEOLOGICALLY SIMILAR, THE TWO COUNTRIES HAD BEEN AT LOGGERHEADS FOR MUCH OF THE LAST 40 YEARS AND THEIR ECONOMIES WERE VERY DISSIMILAR. I MADE THE POINT THAT THERE WAS AN INCREASING, INEVITABLE AND IRREVERSIBLE FEELING THROUGHOUT THE WORLD THAT GOVERNMENTS MUST BE ACCOUNTABLE TO THEIR PEOPLE.

AS A MEMBER OF THE SECURITY COUNCIL, CHINA WANTS DIALOGUE ON INTERNATIONAL ISSUES. BECAUSE WE HAD SPENT SO MUCH TIME ON HONG KONG WE WERE NOT ABLE TO COVER THE BOARD, BUT I FOUND LI PENG WELL INFORMED ABOUT INTERNATIONAL EVENTS, INCLUDING DEVELOPMENTS IN THE EUROPEAN COMMUNITY. I DID DISCUSS WITH HIM IN SOME DETAIL OUR PROPOSAL FOR A REGISTER OF ARMS TRANSFERS AND I URGED HIM TO SUPPORT THE RESOLUTION WHICH THE EUROPEAN COMMUNITY WOULD BE TABLING IN THIS YEAR'S UN GENERAL ASSEMBLY. HE WAS REASONABLY FORTHCOMING THOUGH HE SAID THAT THE REGISTER MUST BE BALANCED AS BETWEEN COUNTRIES AND THAT ARMS CONTROL MUST BE BALANCED AS BETWEEN DIFFERENT WEAPONS SYSTEMS. THE CHINESE SAID THEY HOPED TO ACCEDE TO THE NPT SOON, PERHAPS BY THE END OF THE YEAR.

I FACED QUITE A LOT OF DOMESTIC CRITICISM FOR GOING TO CHINA AT ALL BUT I AM GLAD THAT I DID. I NEEDED TO DO SO FOR THE SAKE OF HONG KONG BUT I ALSO BELIEVE THAT WE HAVE TO DEAL WITH CHINA AS

WE FIND IT AND WE CANNOT INFLUENCE THE CHINESE LEADERSHIP BY LONG-DISTANCE LOUDHAILER. IF THEY ARE EXPOSED TO SIMILAR ARGUMENTS AND PERSUASION FROM ALL OF US THIS MAY HAVE AN EFFECT. I CERTAINLY THINK THE EFFORT SHOULD BE MADE.
I WOULD BE MOST INTERESTED TO HEAR YOUR IMPRESSIONS WHEN YOU GET BACK.

I AM SENDING A COPY OF THIS LETTER TO OUR OTHER COLLEAGUES IN THE COMMUNITY SINCE THEY MAY BE INTERESTED TO KNOW HOW MY VISIT WENT.

WITH BEST WISHES. JOHN. ENDS.

2. (FOR EC POSTS). PLEASE PASS A COPY OF THIS MESSAGE TO YOUR HEAD OF GOVERNMENT.

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PRIME MINISTER'S MEETING WITH ANDREOTTI

POLITICAL UNION IGC

General

- The UK want to sign a deal at Maastricht that will be acceptable to Parliament. We want an agreement, but not at any price. We want closer European cooperation, but cannot move too fast. Any movement in that direction cannot be clawed back, but others will always have the opportunity to move further.

- But must be a package acceptable to Parliament. Evident from last week's debate that some proposals on the table will not be acceptable to Westminster.

- Presidency text shaping up, but still some significant changes needed before it could be acceptable to us. Large parts of it are now broadly acceptable, eg the institutional provisions, including negative assent procedure; citizenship; some extensions of competence; and QMV (though Presidency texts still go to far on both); new chapters on a CFSP; and interior/justice cooperation.

- This a considerable package. It gives a clear indication of where the Community is going. But if we try to move too far this time, we will risk upsetting the apple cart and making the next step even harder than this one.

GL4ACB/1

Defence

- Glad that we have been able to work so closely together on European defence, in Rome, and in WEU in run-up to Maastricht. Anglo-Italian Declaration made a great - and positive - impact: recognise that you, like us, made compromises to achieve it.

- Anglo-Italian ideas - longer-term perspective, compatibility with NATO, independent WEU closely linked to both Union and Alliance - contain essentials for agreement at Maastricht on Treaty article on defence, underpinned by WEU Declaration on its future role, and links with Union/Alliance.

- Concerned, however, that French and Germans, at least at official level, simply blocking progress towards compromise. Real risk that, if they persist in that strategy, defence will be in too raw a state to be agreed at Maastricht. Will have to be held over to 1996.

- Shall therefore be urging Helmut Kohl and Francois Mitterrand to instruct their offiicals to get down to serious work now. Hope you can take a similar line; and that we can stick together in this area in run-up to, and at, Maastricht.

GL4ACB/2

Background

Defence

1. The Presidency text provides for the longer term perspective of a common defence policy and implies that the Union could make decisions on defence and give instructions to the WEU.

2. Italy has remained remarkably faithful to the ideas in the Anglo-Italian declaration. French and Germans hanging tough and blocking discussion of a WEU declaration to underpin a Treaty article on defence. So we need continued Italian support.

3. We want Treaty reference/declaration to make clear:

- that common defence policy is a long-term goal and must be compatible with the Alliance;
- that defence questions arising from the CFSP should be the responsibility of the WEU;
- that the WEU remains separate from both the Union and the Alliance, with balanced, but not identical links to both.

European Parliament

- Willing to accept the negative assent (Article 189b) procedure now proposed only if scope is strictly limited. We have proposed Article 100a legislation (subject to some practical limitation), R and D (if unanimity retained) and environment multi-annual programmes, (but not on the basis of the current text).

- Recognise others want to go further, but Presidency list too ambitious. Accepting principle of EP veto is in itself on significant change.

- Rest of package to increase non-legislative powers of the EP acceptable. Taken as a whole these measure will represent an important step forward.

Background

European Parliament

The Presidency text includes a range of proposals to improve financial accountability and the EP's monitoring powers (eg rights of enquiry and petition and an EC Ombudsman), and an EP role in the appointment of the President and members of the Commission. It includes an EP right to request the Commission to bring forward a proposal, but not an EP right of initiative.

We can accept this package, and could suggest a Parliamentary involvement in the operation of Association Agreements. We would oppose giving the EP the power to dismiss individual Commissioners and any formal EP right of initiative (both German demands, not in the text). Italy would like to go further (eg a Commission elected by the EP), but will probably not insist.

The latest Presidency text introduces a negative assent procedure in specific policy areas. The Presidency also proposed some extensions of its existing cooperation and assent procedures.

- The UK want the scope of the new procedure limited to Article 100a, and R and D, provided unanimity is retained and multi-annual environment programmes, provided our other requirements on environment are met.

Italy supports the Presidency proposals and would happily give the EP greater powers.

Interior/Justice

- UK supports greater cooperation among member states on all these issues. Welcome provisions in separate chapter.

- Can also accept is Article K in interior/justice text, allowing transfer into Community competence in due course.

- But very great difficulties accepting Community competence on immigration. Do not see advantages in this over cooperation.

- No need to put any specific subject into Community competence at this stage.

Background

Immigration and asylum:

The Presidency text includes a separate pillar for interior/justice matters, but some immigration matters (short-term immigration and visa issues) are placed within EC competence, with visas subject to QMV (Article 100c). A link with between inter-governmental cooperation and the Treaty of Rome is also provided (Article K) which would enable other immigration and asylum issues to be brought within Community competence, subject to unanimity and a national ratification procedure.

- The UK accepts the separate pillar but not competence on any immigration or other interior/justice issues.

Italy supports the Presidency text, claiming it is the minimum acceptable, but agree that asylum should stay outside competence.

Cohesion

- Recognise importance to a number of member states. Therefore willing to make an effort to accept the Presidency's amendments to cohesion provisions in the treaty (subject to one or two small changes).

- But cannot accept Spanish demands for major increase in Community spending in this IGC. A new treaty and a bigger bill would be an unacceptable combination for Westminster. Must therefore remit these issues, without prejudicing the outcome, to next year's future financing negotiations. At most, could accept non-committal declaration.

Background

Cohesion

Presidency text as now drafted does not cause major problems, although the cross reference to EMU in Article 130 B could be used to distort economic and monetary policy to support cohesion. Italy supports greater provision for cohesion, but not Spain's demands for more ambitious changes on both the expenditure and revenue sides of the budget.

Competence

- Deletion of four marginal texts a significant improvement. No need to have texts on everything.

- Of remaining texts, willing to see extension of competence in areas such as health and education. But not to industry or culture, which would be contrary to free market principles of Treaty and to subsidiarity.

- Also essential to maintain unanimity for R and D, development cooperation and networks. The expenditure implications make QMV unacceptable.

- Principle of subsidiarity should be respected in individual competence texts, and throughout Community activity. An essential element for UK. Hope you can accept a text in the treaty on the lines UK and Germany are looking for.

Background

Competence

1. Italy favours all extensions of QMV and Community competence. It was one of the staunchest defenders of the provisions on tourism and civil protection that the Dutch propose to delete. They are likely to defend the texts on culture and industry and QMV for networks, development and R and D. We will therefore need to emphasise that the current list is too extensive and unrealistic.

Social Policy

- No change in these treaty articles is justified. A key issue for UK.

- UK accepts Community social dimension, but this is adequately expressed already. These are primarily matters for national governments to decide. No wish to hinder other individual member states if they want to adopt national legislation. But cannot accept Community legislation which would undermine decade of political change in UK.

- Commission has already abused existing treaty provisions to introduce some directives by QMV where this is scarcely justified by treaty text. Cannot therefore envisage extending further the scope for Commission abuse.

Background

Social

The Presidency text proposes extensions of Community competence and QMV to cover a wide range of employment-related legislation, though some areas are reserved for unanimity and a few excluded from competence altogether. Some have proposed replacing unanimity with QMV in Article 51 (social security).

- UK has made clear our objection to any extension of Community action or QMV in the social area or in Article 51.

- Italy regards the Presidency text as the bare minimum.

CFSP

- Willing to accept stronger and more binding obligations to cooperate on foreign policy under joint action, provided it can be made to work in practice. This means ensuring the scope and duration are specified and that actions can be reviewed and reverged if necessary.

- This would provide a significant step forward from the SEA, allowing action by the Twelve in the direction you want.

- But still do not see any advantage in introducing majority voting. Would undermine not reinforce coherence of foreign policy. Even if providing for implementing decisions, this would be seen as the thin end of the wedge, particularly in Parliament. Debate last week demonstrated deep hostility to this idea.

- We must also have a "supreme national interest" clause covering the whole CFSP chapter. This point "potentially met in the present draft but it must be explicit that we can act independently in foreign policy when there is an overriding need to do so.

Background

Common Foreign and Security Policy

1. If joint action is to be given a Treaty basis we believe it must be defined more closely so that:

- joint action is specific in scope;
- it will be time-limited; and can be reversible;
- defence-related issues are excluded;
- there is no list of areas for joint action in or annexed to the treaty (the most we could accept is a permissive list in the Maastricht conclusions).

Italy supports the Presidency text as it stands, ie joint action without conditions and with a list as part of the treaty.

2. The UK, with dwindling support from Denmark, has opposed QMV in CFSP, arguing that it would weaken the Twelve's influence, and in any case the distinction between substantive and implementing decisions cannot be made in practice. If we do accept any QMV in the future we will require:

- a unanimous decision (within each joint action) to apply QMV to implementing decisions (ie not "as a general rule");
- the specific measures to which QMV applies to be designated at the same time (so we can ensure they are narrowly defined).

3. Italy is not among the strongest proponents of QMV. They can accept the Presidency text, but may be persuaded to accept our requirements as part of a final deal. We should lobby them on our supreme national interest let-out clause.

Chapeau

- Broad structure as delineated in the Chapeau now acceptable.

- But references to "federal vocation" in both introductory Articles and review clause are unacceptable. No need to predict end result of process of ever closer union. Sure a more acceptable formula based on ever closer union could be found.

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PRIME MINISTER'S VISIT TO ROME, 27 NOVEMBER : SCENE SETTER

SUMMARY

1. MAASTRICHT WILL DOMINATE THE AGENDA. ANDREOTTI WILL PRESS US HARD ON THE EMU OPTING-OUT CLAUSE, SOCIAL POLICY AND QMV IN CFSP. ITALIANS WILL EXPECT TO BE LOBBIED ON LIBYA, AND MAY WANT TO DISCUSS YUGOSLAVIA, ABOUT WHICH THEY FEEL INCREASINGLY UNEASTY BUT AT A LOSS.

DETAIL

2. THIS IS A WELL-TIMED VISIT, PARTICULARLY SINCE ANDREOTTI HIMSELF WILL BE TRAVELLING TO BONN FOR TALKS WITH KOHL THE FOLLOWING DAY. IT IS SEEN HERE AS A CONTINUATION OF THE USEFUL AND FRIENDLY BILATERAL ON 7 NOVEMBER IN THE NATO SUMMIT MARGINS.

3. THE MAIN FEATURES OF THE DOMESTIC SCENE ARE POLITICAL TURBULENCE (DESCRIBED IN MY TELNO 715) AND THE FALTERING OF THE ITALIAN ECONOMY. ALL THE MAIN INDICATORS ARE GLOOMY. INFLATION REMAINS ABOVE 6%. GDP GROWTH WILL BARELY EXCEED 1% THIS YEAR AND THE MANUFACTURING SECTOR IS IN RECESSION, WITH INDUSTRIAL OUTPUT FALLING BY ALMOST 3% OVER THE FIRST THREE QUARTERS. HIGH LABOUR COSTS ARE DAMAGING THE COMPETITIVITY OF ITALIAN EXPORTS AND THE BUDGET DEFICIT WILL AGAIN EXCEED 10% OF GDP THIS YEAR, DESPITE INEFFECTUAL GOVERNMENT ATTEMPTS TO CONTROL IT. THE NORTHERN INDUSTRIAL BARONS, PARTICULARLY AGNELLI OF FIAT AND DE BENEDETTI OF OLIVETTI, ARE CRITICISING THIS ECONOMIC MISMANAGEMENT IN INCREASINGLY STRIDENT AND ALARMIST TONES AND THEIR VIEWS ARE SHARED BY THE IMF TEAM WHICH RECENTLY VISITED ITALY. THE (UNCONVINCING) 1992 BUDGET IS ON COURSE FOR PARLIAMENTARY APPROVAL BEFORE END DECEMBER, FOLLOWING ACRIMONIOUS SENATE DEBATE, BUT WITH THE GENERAL ELECTION DUE WITHIN 6 MONTHS, TOUGHER ECONOMIC MEDICINE SEEMS BOUND TO BE DELAYED.

4. THESE DOMESTIC WOES MEAN THAT, WHILE MAASTRICHT IS NOT DOMINATING THE ITALIAN HEADLINES, IT IS BECOMING INCREASINGLY IMPORTANT TO ANDREOTTI. A SUCCESS THERE (WHICH IN ITALIAN TERMS MEANS AN OUTCOME THAT CAN BE PRESENTED AS A SIGNIFICANT STEP TOWARDS A FEDERAL EUROPE) WOULD BE A HELPFUL PRE-ELECTORAL BOOST: A FAILURE, CONVERSELY, WOULD LEAVE THIS ADMINISTRATION, HIS SEVENTH, WITH A THREADBARE RECORD TO PRESENT TO THE ELECTORATE.

5. I THEREFORE EXPECT ANDREOTTI TO CONCENTRATE LARGELY ON MAASTRICHT ISSUES AT THE MEETING. BUT TWO OTHER SUBJECTS MAY COME UP:

A) FOLLOWING THE UK/US PRESENTATION ON NEXT STEPS POST-LOCKERBIE HERE ON 22 NOVEMBER THE ITALIANS WILL BE EXPECTING, UNHAPPILY, TO BE INVITED TO EXPRESS PUBLIC SUPPORT FOR WHATEVER STEPS IT IS DECIDED SHOULD BE TAKEN AGAINST LIBYA. ITALY HAS TRADITIONALLY BEEN SOFT ON LIBYA, WHERE TRADE LINKS ARE QUITE CLOSE. DE MICHELIS CAN BE EXPECTED TO BE MORE ROBUST THAN ANDREOTTI. IT WOULD BE TACTICALLY BEST TO COVER THIS SUBJECT IN THE EARLY STAGES OF THE DISCUSSIONS, BEFORE ANDREOTTI GETS GOING ON THE MINUTIAE OF THE EUROPEAN COUNCIL.

B) FOR THEIR PART THE ITALIAN SIDE WILL ALMOST CERTAINLY WISH TO EXCHANGE VIEWS ON YUGOSLAVIA, WHERE STRONG DOMESTIC PRESSURES FOR THE RECOGNITION OF SLOVENIA AND CROATIA ARE GROWING, AND AS TELEVISION COVERAGE OF THE WAR IS PRODUCING INCREASING HOSTILITY TOWARDS SERBIA AND THE JNA. BUT THE ITALIANS REMAIN WILLING TO STAY IN LINE WITH AGREED EC POLICY ON RECOGNITION, AT LEAST UNTIL AFTER MAASTRICHT (AND POSSIBLY A LITTLE LONGER).

6. AS FOR THE MAASTRICHT AGENDA, I EXPECT ANDREOTTI TO FOCUS ON THE FOLLOWING POINTS (NOT NECESSARILY IN THIS ORDER):

(I) EMU : THE ITALIANS ARE STRONGLY AGAINST ANY GENERAL OPTING-OUT CLAUSE IN THE EMU TREATY (WITH FIRM FRENCH AND GERMAN SUPPORT AT RECENT MEETINGS). THEY CLAIM THAT THIS IS NOT AN ANTI-BRITISH CRUSADE, BUT AN ATTEMPT TO PREVENT OTHERS, PARTICULARLY THE GERMANS, FROM USING THE CLAUSE. ANDREOTTI WILL AGAIN TRY TO PRESS US TO ACCEPT A UK-SPECIFIC CLAUSE, IN A PROTOCOL RATHER THAN THE MAIN TREATY TEXT. THE ITALIANS REGARD RECENT BELGIAN IDEAS ABOUT MEMBER STATES HAVING TO DECIDE AT THE TIME OF RATIFICATION WHETHER TO USE THE OPTING-OUT CLAUSE AS INTERESTING BUT INADEQUATE.

(II) SOCIAL POLICY : ANDREOTTI WILL ALSO PRESS HARD FOR UK CONCESSIONS IN THIS AREA. HE WILL CLAIM TO BE UNDER MUCH PRESSURE FROM THE ITALIAN TRADE UNIONS. THE SOCIAL ACTION PROGRAMME CARRIES LITTLE PRICE FOR ITALY, SINCE THEIR SOCIAL PROVISIONS ARE ALREADY EXCESSIVELY GENEROUS: AND POLITICALLY, IT IS MORE ATTRACTIVE TO THEM TO TRY TO BRING EUROPEAN LEVELS UP THAN TO WHITTLE THEIRS DOWN. THEIR DEPUTY LABOUR MINISTER ADMITTED AS MUCH WHEN CRITICISING THE RECENT PREGNANCY DIRECTIVE AS 'PUTTING ITALY AT A COMPETITIVE DISADVANTAGE'. DE MICHELIS MAY EXPRESS DISAPPOINTMENT THAT WE ARE NOT TRYING TO DRAFT A JOINT PAPER WITH THEM ON THE SOCIAL CHAPTER AND PROPOSE ANOTHER EFFORT : WE CAN POINT TO THE DRAFT FOR A JOINT TEXT ON INDUSTRY THAT WE HAVE OFFERED.

(III) COMPETENCE : THE PRIME MINISTER HINTED AT UK FLEXIBILITY ON COMPETENCE AT THE 7 NOVEMBER BILATERAL. ANDREOTTI MAY ASK US TO BE MORE SPECIFIC AND PRESS US TO GO FURTHER EG ON HEALTH, CIVIL PROTECTION ETC (THOUGH SOCIAL POLICY IS WHAT HE REALLY WANTS).

(IV) CFSP AND QMV : THE ITALIANS REMAIN KEEN ON AN OPENING TO THE USE OF QMV IN CFSP BUT THEY FIND IT AS DIFFICULT AS OTHERS TO RESPOND CONVINCINGLY WHEN ASKED HOW IT WOULD WORK IN PRACTICE. THEY HOPE THAT WE WILL BUY A COMPROMISE UNDER WHICH, AFTER MAASTRICHT, THE COUNCIL CAN DECIDE BY UNANIMITY IF AND WHEN QMV SHOULD APPLY (SEE MY TELNO 710).

(V) ON THE EUROPEAN PARLIAMENT, ANDREOTTI WILL PRESS US TO GO A LITTLE BEYOND THE CONCESSION SIGNALLED BY YOU AT THE NOORDWIJK CONCLAVE. BUT I JUDGE THAT THEY WILL BUY A DEAL ON THESE LINES, EVEN THOUGH RATIFICATION OF THE TREATIES HAS BEEN TIED BY THE ITALIAN PARLIAMENT TO PRIOR APPROVAL BY THE EP.

(VI) FUTURE IGC'S : ANDREOTTI MAY SEEK OUR VIEWS ON FUTURE DEVELOPMENT OF THE COMMUNITY THROUGH ANOTHER IGC ON POLITICAL UNION, BY 1996 AT THE LATEST. AS ONE WHO HAS BEEN A MINISTER FOR FORTY YEARS AND PRIME MINISTER SEVEN TIMES, HE IS ACCUSTOMED TO THE LONG MARCH AND SEES MAASTRICHT AS MERELY THE LATEST MILESTONE.

(VII) WEU/EDI : THE PRIME MINISTER MIGHT THANK ANDREOTTI FOR THE ROBUST SUPPORT THAT THE ITALIANS HAVE GIVEN US IN RECENT DISCUSSIONS ON THE FUTURE ROLE OF THE WEU (SEE, FOR EXAMPLE, TELNO 544 TO BONN ABOUT THE 22 NOVEMBER SWG), AND UNDERLINE THE IMPORTANCE OF CONTINUING TO STICK FIRMLY TO THE CONCEPTS OF THE ANGLO-ITALIAN JOINT DECLARATION IF AGREEMENT IS TO BE REACHED ON DEFENCE AT MAASTRICHT.

(VIII) FOLLOWING HIS LENGTHY DISCUSSION WITH LUBBERS ON SEATS OF INSTITUTIONS, ANDREOTTI MAY HAVE SOME IDEAS TO FLOAT WITH THE PRIME MINISTER. THE IDEA THAT THE EUROPEAN PARLIAMENT PROBLEM SHOULD BE SOLVED BY STRASBOURG HAVING THE PLENARY SESSIONS AND BRUSSELS THE REST WAS ORIGINALLY HIS. ITALY IS NOT A STRONG CANDIDATE FOR ANY OF THE INSTITUTIONS, BUT HAS PUT IN A FIRM BID FOR THE ENVIRONMENT AGENCY TO GO TO MILAN. THEY WOULD PROBABLY PREFER THE ECB TO GO SOMEWHERE OTHER THAN FRANKFURT.

(IX) FINALLY, THE F-WORD. REFERENCES TO A FEDERAL VOCATION CAUSE NO ANGST HERE - BUT NOR, I BELIEVE, IS IT A CRUCIAL POINT FOR ANDREOTTI. I SUSPECT HE MAY REGARD ITS CURRENT INCLUSION AS USEFUL NEGOTIATING FAT.

ANGLO-ITALIAN BILATERAL RELATIONS

7. THESE ARE PRETTY GOOD ON ALL FRONTS AND I HOPE WE CAN NOW STOP THINKING OF THEM AS 'INSUBSTANTIAL'. ANDREOTTI MAY EXPRESS THE HOPE THAT WE SHOULD NOT LOSE SIGHT OF THE FACT THAT THE NEXT FULLSCALE ANGLO-ITALIAN 'SUMMIT' IS STILL DUE TO BE HELD IN ITALY. THE PRIME MINISTER MIGHT SAY THAT WE LOOK FOWARD TO THIS, BUT WHEN THINGS ARE A LITTLE QUIETER.

8. COMMS PLEASE ADVANCE TO PS/NO 10.

EGERTON

YYYY

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FILE
DA

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 October 1991

Dear Christopher,

ITALY

Thank you for your letter of 2 October with an outline programme for the Prime Minister's visit to Italy on 27 November. This looks fine and I suggest we plan on that basis.

The Chancellor of the Exchequer's Private Office have told me that they would like to keep open the possibility that the Chancellor might go with the Prime Minister.

We can decide on the exact composition of our delegation nearer the time.

I am copying this letter to Jeremy Heywood (HM Treasury) and Sonia Phippard (Cabinet Office).

Yours,

Stephen

J.S. WALL

Christopher Prentice, Esq.,
Foreign and Commonwealth Office.

10 DOWNING STREET

Stephen

Sandra

Is this OK for
Amy?

AC to

It will be close
to get him to
Robert Balchin's
Grant Maintained
School Reception in
EC2 at 1900, but I
don't see how
programme can be
suggested. S 3/10

cc PC

Foreign & Commonwealth Office

London SW1A 2AH

RESTRICTED

2 October 1991

Dear Stephen,

Italy

Thank you for your letter of 17 September about the Prime Minister's bilateral with Andreotti in Rome on 27 November. This reply has been agreed with the Treasury.

Our Ambassador has spoken to Andreotti's Diplomatic Adviser, Vattani. The Italians have suggested the following programme which looks fine to us:

0730 (GMT)	ETD Northolt
1100 (GMT+1)	ETA Ciampino Airport
1130	Talks in the Palazzo Chigi (the Prime Minister's official residence)
1300	Working lunch: Villa Madama (official guest house)
1530 (approx)	Joint press conference
1600	Departure from Villa Madama
1630	ETD Ciampino
1800	ETA Northolt

We suggest that the Prime Minister's aircraft use the military airport at Ciampino, which is about 30 minutes drive from the centre of Rome.

Whether or not the Prime Minister should be accompanied by the Foreign Secretary and Chancellor of the Exchequer will depend in part on a tactical judgement of our negotiating position in the IGCs at the time. In principle, the Foreign Secretary thinks it might be more productive for the Prime Minister to go without him as that might enable Andreotti to talk to the Prime Minister without the inhibiting

presence of de Michelis. The Chancellor's office take a similar view of Carli and therefore think the Chancellor would suggest he should not accompany the Prime Minister. But 27 November will be kept free in both the Foreign Secretary's and Chancellor's diaries, so that they could accompany the Prime Minister to Rome if necessary.

We suggest, therefore, that we should tell the Italians that our delegation will consist of the Prime Minister, you, Sir Stephen Egerton and Michael Jay. This would allow the Italians to match us with Andreotti, Attolico (their new Ambassador to London), Nigido (the MFA Under-Secretary) and Vattani.

I am copying this letter to Jeremy Heywood (HM Treasury) and Sonia Phippard (Cabinet Office).

Yours ever,

Christopher Prentice.

(C N R Prentice)
Private Secretary

Stephen Wall Esq CMG LVO
10 Downing Street

ITALY. Pius visits to Rome Pt 4

RESTRICTED

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 September 1991

ITALY

I told Vattani last week that we had pencilled in 27 November for a bilateral with Prime Minister Andreotti in Rome. The Prime Minister is content to confirm this as a firm engagement and you may wish to tell our Ambassador.

The main focus of the visit will obviously be the European Council in Maastricht and I do not think, therefore, that we are looking for a full Anglo/Italian Summit. The Prime Minister could either go on his own or with the Foreign Secretary and the Chancellor of the Exchequer. The Prime Minister will fly over to Rome on the morning of 27 November for talks and lunch or lunch and talks. He would need to be back in No. 10 by 1900 hours on that day. I should be grateful if you could work out a possible timetable accordingly, and for advice on attendance.

I am copying this letter to Jeremy Heywood (H M Treasury) and Sonia Phippard (Cabinet Office).

J. S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office

RESTRICTED

With the compliments of

HER BRITANNIC MAJESTY'S
CONSUL-GENERAL & MINISTER

MILAN

IL PREFETTO DI VARESE

Varese, 16 novembre 1988

Illustre Signor Primo Ministro,

sono veramente commosso per le gentili espressioni di saluto e di augurio che Ella ha voluto cortesemente farmi pervenire dopo l'incontro all'aeroporto della Malpensa del 21 ottobre scorso, in cui ho avuto l'onore di conoscerLa.

Nell'esprimerLe vivi e sentiti ringraziamenti, La prego, Illustre Signora, di voler accogliere i voti augurali più fervidi unitamente ai sensi della mia più alta considerazione.

Con deferente ossequio,

Dr Ferrario Carballo

Ill.ma
Signora Margaret THATCHER
Primo Ministro
del Regno Unito di Gran Bretagna
10 Downing Street

LONDRA

010

From: THE PRIVATE SECRETARY

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2

CONFIDENTIAL
covering
SECRET

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SWIH 9AT

25 October 1988

CP 26/1

Dear Stephen,

ANGLO-ITALIAN SUMMIT, 21 OCTOBER 1988

I attach a record of the discussions between the Home Secretary and the Italian Minister of the Interior during last Friday's Summit. You will see that Signor Gava confirmed his invitation for the Home Secretary to visit Rome in January. The two Ministers agreed that they should aim to conclude a bilateral agreement on the confiscation of drug traffickers' assets, in the hope that the agreement could be signed during the Home Secretary's visit. Officials on both sides were instructed to work to that end.

The other point to emerge was agreement that senior Italian officials should visit London before Christmas for discussion on a wide range of bilateral matters. This development was initiated by Signor Parisi, the Head of Police Services at the Ministry of the Interior who was present during the Summit meeting, who accepted that PIRA terrorism was now a European rather than simply a UK problem. He asked for discussions with his British counterparts to facilitate the exchange of information and intelligence. The Home Secretary invited him to visit London before Christmas, and in discussion after the meeting with Ministers had concluded, this invitation was broadened to include Signor Gava's Chef de Cabinet who said that other Italian officials would welcome the opportunity to discuss their draft legislation on confiscation of the proceeds of crime and on immigration with their British counterparts. Such discussions would form a very useful preparation for the Home Secretary's visit in January, and I am in touch with Martin Williams in Rome to follow up this development and to finalise the dates for the Home Secretary's visit.

I am copying this letter and enclosure to Charles Powell (No 10), Mike Maxwell (NIO), HM Ambassador and Martin Wiliams in Rome, and the Director General of the Security Service.

Yours sincerely,

Philip Mawer

P J C MAWER

S Wall, Esq
PS to the Foreign Secretary

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F.R.

ANGLO-ITALIAN SUMMIT, 21 OCTOBER 1988,
NOTE OF HOME SECRETARY'S DISCUSSIONS
WITH ITALIAN MINISTER OF INTERIOR

The Home Secretary had an hour and a half of bilateral discussion with Signor Gava, the Italian Minister of the Interior, as part of the Anglo-Italian Summit at Pallanza on 21 October. Signor Gava was accompanied by his Chef de Cabinet, Diplomatic Councillor and the Head of the Police Services responsible to the Minister, Signor Parisi. Mr R M Morris, Mr Martin Williams of the British Embassy in Rome and I accompanied the Home Secretary. The discussions were friendly and businesslike, providing a valuable opportunity to pave the way for the Home Secretary's visit to Rome in January next year.

2. Signor Gava made a long opening speech of welcome, covering each of the main issues to be discussed: -

(i) **drugs** - the Italian Government looked for an agreement with the British Government on the confiscation of drug traffickers' assets. The laws of the two countries were already very similar and yesterday the Council of Ministers had introduced in Parliament a draft law against organised crime which was aimed at confiscating the proceeds of drug trafficking, kidnapping and other aspects of organised crime. Signor Gava expected Parliament to approve the draft law rapidly. This would provide the opportunity for the signing of a bilateral agreement;

(ii) **terrorism** - each country had its own particular problems. The recent arrests of 21 suspected members of the Red Brigades/Fighting Communists (BR/PCC) in Rome and of two other members of the group in Paris had struck left wing terrorists in Italy a severe blow. But terrorism was

/increasingly

increasingly international in nature and there were proven links between Italian left wing groups and groups in the Federal Republic of Germany and the Middle East. Right wing terrorism still posed some danger, though less than in the past. Legislative diversity between countries could cause problems, eg the crime of subversion did not exist in France. Italy therefore looked for close co-operation between countries in an endeavour to defend free institutions against terrorist attack;

(iii) **immigration and the free movement of EC citizens** - the Italian Government was busy drafting a Bill which would rationalise and consolidate its immigration laws. It looked to harmonise these with a view to admission to the Schengen group. Signor Gava was conscious of differing views on immigration issues such as visas. The only way through these was by discussion;

(iv) **Home Secretary's visit to Rome** - Signor Gava confirmed his invitation to the Home Secretary to visit Rome in January. He hoped that this would provide the opportunity for the two men to sign a bilateral agreement on drugs and to engage in deeper discussion of the issues he had raised;

(v) **extradition** - the Ministry of Justice was involved as well as his own Ministry in consideration of these issues. A bilateral agreement between Britain and Italy had been signed in 1986 but Italian legislation needed to be up-dated, eg the list of crimes covered by the agreement needed revision.

/Signor Gava

Signor Gava concluded his opening remarks by commenting on the proliferation of groups within the European Community and the Council of Europe with overlapping responsibilities. He wondered whether there was scope for rationalising the number of these groups and invited the Home Secretary's comments on this and the other issues he had mentioned.

3. The Home Secretary responded by thanking Signor Gava both for his welcome to the Summit and for his invitation to visit Rome in January. He welcomed very much what Signor Gava had said about an agreement on drug trafficking, and was grateful for clarification of the Italians' plans. The UK had passed parallel legislation to that which was proposed in Italy and was anxious to establish a network of international agreements to catch the proceeds of drug trafficking and other aspects of crime. Discussions were underway in the Council of Europe on a Convention on confiscation of proceeds of crime and the UK hoped that this would be successful. But progress was slow and there was therefore every advantage in securing a bilateral agreement meanwhile. He hoped that officials could undertake further work on the proposed agreement before the end of the year, so that the agreement could be signed during his visit to Rome in January.

4. On terrorism, the Home Secretary said that the British Government admired the way in which the Italian Government had dealt with the serious problems with which it had been faced. He had been told that operational co-operation between the Italian and British police and security services was very good. The UK was undergoing a difficult period because of an increase in activity by the Provisional IRA, and a number of incidents on the Continent had indicated that while there was no intelligence of planned action against British targets in Italy, the possibility could not be excluded. PIRA was well placed to mount operations because of its acquisition of major supplies of arms from Libya. While co-operation between the British and Irish Governments and

/Security Services

Security Services was improving because of the machinery established by the Anglo-Irish Agreement, it was very important to ensure that Libyan support for PIRA ceased.

5. Turning to extradition, the Home Secretary said that British legislation had recently been up-dated and it was hoped to ratify the European Convention on Extradition. The Home Secretary suggested that during his visit to Rome in January he and Signor Gava could discuss further the question of ratification of the 1986 Extradition Treaty, having regard to the likely timing of UK accession to the European Convention.

6. On immigration the Home Secretary agreed with Signor Gava that the question of third country nationals post 1992 was crucial. The discussions underway in the EC ad hoc working group on immigration were therefore particularly important. The UK Government felt that there would be a continuing need for checks on third country nationals after the introduction of the single market. Detailed work would be needed to agree the nature of these checks. Agreement was also required on the question of refugees and the country of first asylum.

7. Concluding his opening remarks, the Home Secretary said that he sympathised with Signor Gava's concern about the proliferation of international groups with overlapping remits. There would no doubt be difficulties in simplifying matters, but he accepted that the issue was worth discussion.

8. After these opening exchanges, the two Ministers agreed that the communique following the Summit could announce agreement in principle to the preparation of the bilateral agreement on the confiscation of drug traffickers' assets. Discussion then moved to consider more deeply some of the topics raised in the opening remarks. The Head of the Ministry's Police Services, Signor Parisi, said that there had been close collaboration with UK

/agencies, particularly

agencies, particularly since 1985. Relations were developing well. This collaboration embraced organised crime as well as drugs and terrorism. Nevertheless, he was worried about the growing internationalisation of terrorist activity. PIRA was trying to undermine collaboration between Governments by criticising British Government policy. Its recent actions in Gibraltar, Holland and West Germany meant that the possibility of action in Italy could not be ruled out. He would like to extend the Italian police and security service's knowledge of Irish terrorism and was prepared to visit London or to receive British officials in Rome for this purpose. He looked for a pooling of information and intelligence about terrorists and possible targets in Italy which might come under attack. He acknowledged the role of Libya in supporting PIRA, though the degree of this support was not totally known. Nevertheless, some intervention by Italy might perhaps help to control support for PIRA from this source. The Home Secretary responded by welcoming the suggestion for increased exchanges and invited the Chief of Police to visit London, preferably before Christmas, so as to pave the way for his own visit to Rome in January.

9. The Home Secretary went on to describe the British Government's proposals for UK legislation and getting at the assets of terrorists. He enquired whether the Italian Government was moving in the same direction. Signor Gava replied that terrorism in Italy was different from that in the United Kingdom. So far Italian terrorism was not well organised financially: Italian terrorists tended simply to steal money and keep their assets in cash. The new Italian legislation on confiscation of the proceeds of crime would enable the freezing, seizing and confiscation of the proceeds of crime. But the Italian proposals would not get at terrorism supported by normal economic activity, since this was not a feature of the Italian problem.

10. Discussion then turned to immigration matters, both Ministers noting that the visa issue was a difficult one,

/particularly in

particularly in relation to Turkey and the Maghreb. Signor Gava said that the issue could only be solved at a European level in the run up to 1992. Italy had decided to reintroduce some visas, a course which was not without difficulty because the Italian Government was looking for co-operation, eg in the fight against terrorism from countries on whose nationals it was about to impose a visa requirement. There was some tension between the Italian Ministry of Foreign Affairs and the Interior Ministry on this issue. Nevertheless, it was intended to announce the introduction of visas for Turkey and the Maghreb, probably in December, with a view to Italy joining the Schengen group. Italy was ready now to join, but these and other practical issues would have to be resolved first.

11. The meeting concluded with Signor Gava and his colleagues giving an extended description of Italian terrorism. They estimated that there were still about 250 supporters of the BR/PC at large, some 200 of whom were active either in terrorist operations or eg in spreading the doctrine of the organisations in Universities. They increasingly operated as small cells. The recent arrests in Italy and France had netted a number of senior figures, including those involved in the murder of Senator Ruffili. The arrests had constituted a hard blow. The average age of those arrested was 32, the youngest arrested being 24. Some previously unknown supporters of the organisation had been discovered and the arrests in Rome had given the police more leads. There were indications that the organisation had a centre for planning and documentation in France. These leads were being pursued.

12. The police response to terrorism had improved greatly since Italian terrorist organisations had first emerged. Left wing terrorism in Italy had been born in the prisons, which had proved a fertile recruiting ground. Right wing terrorism was much closer to traditional organised crime and there were occasional

/exchanges of

exchanges of favours between criminal organisations and terrorist groups on the right. Recent years had seen an extension of links between left wing Italian terrorist organisations and their counterparts in other European countries. For example there were numerous contacts through the post between Italian and West German terrorists: clear evidence of the links had emerged at the third Moro trial. The groups had common objectives and targets, eg they were anti-NATO and opposed to the armaments industry. But there were limits to their co-operation, for example co-operation between Italian terrorists and those in France was much more limited. There were signs that Italian terrorists living in France did not trust Action Directe. But literature found in police raids indicated clear support by Italian terrorists for independence movements, including the IRA. So while the police had scored recent successes in combating terrorism in Italy it retained a limited but distinct force which meant that co-operation with other police and security organisations was vita

Private Office
25 October 1988

P J C MAWER
Principal Private Secretary

26. X. AMSB

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T161/88

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

24 October 1988

Dear President de Mita,

I am writing at once to say how very grateful I was for your kind hospitality during the Anglo/Italian Summit at the Villa Taranto. It was a marvellous place to meet and I am most grateful for all the trouble to which your staff went to make us so comfortable and welcome. I was particularly pleased that we were able to meet so soon after your return from your very successful visit to Moscow, so that I could hear your impressions. I think our broad assessment is very similar, even if there are some differences of emphasis. But I do think we must approach the whole question of a Human Rights Conference in Moscow very cautiously, insisting on substantial improvements in the Soviet Union's practice on human rights being put into effect before such a conference can take place.

May I also add a particular word of thanks for your kind gift - it is very pretty and will help remind me of a happy and successful meeting.

I look forward to seeing you again at the European Council in Rhodes.

With every good wish.

Yours sincerely

Margaret Thatcher

His Excellency Signor Ciriaco De Mita

Ate on
cetro

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

24 October 1988

Dear Ambassador,

I was most grateful for your help and support, and that of your staff, during the recent Anglo/Italian Summit at the Villa Taranto. I think it was a day well spent. I hope you did not think I was too firm at the press conference in setting out my views on Europe. But there is so much woolly thought about, that it is important to set out our position with absolute clarity and precision.

We were fortunate to have such a lovely day and to be able to enjoy the beauty of the gardens and the Villa. Please convey my gratitude to all members of your staff who helped in the complicated but successful arrangements for the meeting.

With best wishes,

Yours sincerely

Margaret Thatcher

His Excellency
Sir Derek Thomas, K.C.M.G.

DSS

Cite CM
CCFO

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

24 October 1988

Excellency,

It was very good of you to meet me at Malpensa Airport on my arrival in Italy for the Anglo/Italian Summit on 21 October, and I was most grateful to you for the excellent facilities made available to us. It was a very enjoyable day and we were fortunate to be able to meet at such a lovely spot.

With best wishes,

Yours sincerely,

Margaret Thatcher

S.E. Dott. Antonio Cavallo

DSS

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

24 October 1988

Illustrissimo Signor Questore,

I am most grateful for the excellent arrangements made for my security and protection at the Villa Taranto during the recent Anglo/Italian Summit. It was delightful to be able to meet in such a beautiful spot - and to be so fortunate with the weather. I should be most grateful if you would pass on my warm thanks and appreciation to all those under your command.

Yours sincerely

Margaret Thatcher

Dott. Annino Berardino

Cile GM
cc FCO

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

24 October 1988

Dear Dr. Arlunno,

I am most grateful to you for the very generous gift of wine which I look forward very much to tasting. I am sure it will live up to its distinguished reputation. Would you please also convey my thanks to Signor Mario Curatitoli who has so beautifully hand-painted the bottles. They are a real work of art and I am delighted to have them.

With best wishes,

Yours sincerely

Margaret Thatcher

Dott. Alberto Arlunno

DSS

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

24 October 1988

Dear On. Melloni,

I was delighted to receive your magnificent painting and thank you most warmly for your kind thought in presenting it to me. Apart from its intrinsic beauty, it will remind me of a very happy day spent in the lovely surroundings of the Villa Taranto and its gardens.

With best wishes,

Yours sincerely

Margaret Thatcher

Signor Nino Melloni

DSS

File

SUBJECT
cc MASTER

bc: PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 October 1988

Dear Lyn,

ANGLO-ITALIAN SUMMIT:
THE PRIME MINISTER'S MEETING WITH THE ITALIAN PRIME MINISTER

The Anglo-Italian Summit was held at the Villa Taranto in Pallanza on Lake Maggiore on 21 October. The Summit consisted of a number of bilateral meetings between British and Italian Ministers: but because the Prime Minister's meeting with Signor De Mita ran over the allotted time, there was no plenary session. You will be receiving separately the transcript of the subsequent Press Conference. I enclose a copy of the introductory statement which the Prime Minister used at the Press Conference, although she embroidered on it in delivery.

The Prime Minister's meeting with Signor De Mita lasted about an hour and a quarter. Most of this was devoted to East/West relations, although they also touched briefly on the Italian economy, credit for the sale of Tornado to Jordan, Libya and Operation Cleansweep in the Gulf. The two Foreign Ministers then joined the meeting to discuss the proposal to hold a human rights conference in Moscow and a number of European Community questions.

Italian Economy

Signor De Mita gave a generally bullish account of the Italian economy. The main problem was the public sector deficit, but the government was firmly resolved to deal with this. Another major task was to reform Italy's public administration before 1992. Although there were some tensions within the coalition government, he expected it to survive. It was the only feasible combination.

East/West Relations

The Prime Minister invited Signor De Mita to tell her about his visit to Moscow. Signor De Mita said that his visit had included some ten hours of discussion with President Gorbachev. Much of their talk had been of a very general, philosophical nature. President Gorbachev was indeed an extraordinary personality who did not fit the classical Marxist pattern. He was clearly committed to changing the

system. But relatively little had been achieved so far. Many of those around Gorbachev did not seem to grasp fully the scale and seriousness of the Soviet Union's problems. This applied even to Ryzhkov, the Prime Minister. Gorbachev himself seemed to have a better understanding of the problems than the others.

In their discussions, Gorbachev had laid great stress on the urgency of further arms control agreements. This seemed to stem from his need to reduce military spending. He was willing to take full account of Europe's interest in these matters and had denied any intention to separate Europe from the United States. He had spoken a good deal about the Common European Home and had complained bitterly about a recent article by Henry Kissinger which asserted that the boundaries of Europe ended at Poland's eastern border. He wanted the United Nations to have a much more active role. He had also distanced the Soviet Union from the activities of foreign Communist parties. They should not be seen as instruments of Soviet power. They were simply part of the internal politics of other countries. Gorbachev had also spoken a great deal about the Mediterranean and urged Italy to take the initiative in holding a conference on the Mediterranean. De Mita had pointed out in reply the complexity of the Mediterranean, which made a conference embracing all its problems impractical.

De Mita concluded that his overall impression was that Gorbachev could be the beginning of a new process in the Soviet Union. But it was too early to conclude that this was definitely so. We were clearly dealing with someone who wanted to reach agreements, but we had to be careful and realistic and avoid hasty judgements. It was very important to maintain a co-ordinated Western approach to the Soviet Union. There was no point in any one country trying to obtain individual advantage, particularly in the commercial sphere. But we should encourage economic and commercial contacts with the Soviet Union and Eastern Europe, be prepared to invest in them and offer help with training in management and other techniques: this was what he had intended in speaking about a Marshall Plan. There should also be a shift in the emphasis of Western policy. Since World War Two our whole effort had been devoted to avoiding war: now we needed to think in terms of achieving peace.

The Prime Minister said that President Gorbachev was indisputably a major event in Russian history. It was in our interest that he should succeed. Any feasible successor was likely to be worse from the West's point of view. But we could not yet assume that his position and policies were irreversible. Moreover, he had so far only scratched the surface when it came to changing the Soviet system. The Soviet Union was not remotely a free society. People still expected to be told what to do. They felt insecure about the future. It was not impossible that they would want to return to the more regimented, but also more secure, system which they had enjoyed under Brezhnev.

In the light of all this, continued the Prime Minister, we must maintain our defences. In considering further arms control agreements we had to start from a recognition that the Soviet Union was a world power only because of its military strength. They would not easily give this up. We needed to examine all proposals very carefully and realistically. Her own expectation was that arms control negotiations would continue to be very difficult. We must not chase after quick agreements. There was particular cause for concern over chemical weapons, where it was quite clear that the Soviet Union had deceived us about its own stocks and programmes. We also had to recognise that Mr. Gorbachev's ambitions did not go beyond a one-party state in which the Communist Party was supreme. We were entitled to hope that a more plural society might develop, but there was little evidence to sustain this. The conclusion she drew was that Signor De Mita was absolutely right to say that we must be cautious and realistic in our approach, giving priority to maintaining our defences and keeping the United States firmly linked to Europe. British and Italian views were not very far apart, though there was some difference of emphasis.

Signor De Mita said that he agreed with much of the Prime Minister's analysis. He recalled telling Ryzhkov that Italy's strength lay in its hundreds of thousands of small family businesses. Ryzhkov's immediate reaction had been to ask how on earth the Government managed to control them. That said a lot about his approach. He agreed that the military strength and solidarity of the West must not be called into question. Equally, we should not under-estimate the pressures on Gorbachev to cut defence spending and achieve arms control agreements.

Conference on Human Rights

The Prime Minister said that she was very concerned about the apparent readiness of some governments to accept the proposal to hold a conference on human rights in Moscow without insisting on proper conditions. Many people in the Soviet Union and Eastern Europe who had fought bravely for human rights would feel that the West had allowed itself to be hoodwinked if it accepted such a proposal. The reality was that there were still political prisoners and prisoners of conscience in the Soviet Union, together with restrictions on religion and emigration. We should only consider a conference on human rights in Moscow once the Soviet Union had fully met our criteria on human rights.

Signor De Mita said that he did not dissent from this. He had understood that the Prime Minister was altogether opposed to such a conference on grounds of principle. The position she now put forward was a more sustainable one, namely that we could agree to a conference in Moscow if clear progress was being made in extending basic human rights. If there was not sufficient progress, then the West would not attend and it would be the Russians' own fault. The Prime Minister pointed out that this was not quite what she had said. The Soviet Union wanted the accolade of having a human

rights conference in Moscow without actually guaranteeing full human rights. Her point was that the most we could do was say that we would provisionally accept the proposal for a conference if certain agreed criteria for the Soviet Union's human rights performance had actually been met. It was not enough to talk about progress or steps in the right direction: the Soviet Union must actually have implemented its commitments under the Helsinki Agreements in full. The balance of probability must be that the Soviet Union would not achieve this, in which case there should be no conference in Moscow. Signor De Mita said that he agreed that there could only be a conference if the Soviet Union had improved its performance.

The issue was pursued further when Foreign Ministers jointed the meeting. Signor Andreotti argued that many of the West's criteria for Soviet human rights performance had already been met. We should need to obtain guarantees about the conduct of a conference, but should not be too exigent. The Prime Minister said that it would be a calamity to have a conference in Moscow unless the Soviet Union had already implemented its obligations. Once again she had to say that talking of improvements was not enough. We must set out clear criteria and not compromise on them. Signor Andreotti said that the Soviet Union had never had human rights. It would be sufficient to say that they were on the right path. A conference would itself be a means of taking forward the process. The Prime Minister's position might make it impossible to bring the Vienna meeting to a successful conclusion. Signor De Mita said that he was comfortable with a conclusion to the effect that it was possible to envisage holding a human rights conference in Moscow provided that specific improvements in the Soviet Union's human rights performance had been registered. In practice it would be clear in three years' time whether or not there had been genuine improvements.

Tornado For Jordan

The Prime Minister said that she was discouraged at the failure of the Italian Government so far to agree credit arrangements for the sale of Tornado to Jordan. It was already bad enough that Germany had failed to provide credit cover. The UK could not bear the burden alone. There would be implications for future collaborative projects.

Signor De Mita said that the Italian Government faced a parliamentary problem not a financial one. He had discussed the matter with the Finance Minister, who had suggested that Italy's 12 per cent share should be exempted from the arrangements for credit cover. It would be difficult to get Parliament's agreement to repeal the existing ban on credit for arms sales overseas. The Prime Minister said this was not good enough. She really must appeal to Signor De Mita to make an effort to resolve the problem in a way which did not leave the United Kingdom alone to bear the burden. Signor De Mita said that he did not exclude being able to persuade Parliament

of the need to help in this case. But they would be worried about creating a precedent.

Libya

The Prime Minister said that she hoped that, before taking any steps to improve relations with Libya, the Italian Government would reflect on Libya's record of supplying arms to the IRA, which were used to indiscriminately kill people in Northern Ireland.

The Gulf

The Prime Minister welcomed the Italian Government's decision to take part in Operation Cleansweep, to clear mines in the main shipping lanes in the Gulf.

European Community

This was discussed when Foreign Ministers joined the meeting. After the Foreign Secretary had reported on their discussions, Signor Andreotti expressed the hope that the Prime Minister would rally to the concept of European union. The Prime Minister asked Signor Andreotti to define what it meant. Signor Andreotti listed three points: giving more power to the European Parliament; seeking convergence in the foreign policies of Member States; and speaking with a single voice on the greatest possible number of issues. The Prime Minister said that this was a rather limited definition. She had no problem with the two latter points which had featured in her speech in Bruges (from which she proceeded to read an excerpt). She reminded Signor Andreotti that the original idea of a Treaty on political co-operation had been ours. But she was against giving any extra powers to the European Parliament.

Signor Andreotti countered that the Single European Act had committed the members of the Community to create a European union. The Prime Minister retorted that the only way to move forward in Europe was by practical steps and here the United Kingdom was well ahead of most other Member States. But she was worried by a number of proposals which were being made. It was neither practical nor desirable to harmonise taxes. Anyway it would require unanimity and that would not be forthcoming. The biggest obstacles to the Single Market were the hidden barriers to trade which no regulation could reach. The demands made in some quarters for reciprocity in the field of trade were a veil for protectionism. Signor Andreotti said there could not be a Single Market without tax harmonisation. Moreover, the Single European Act imposed a juridical obligation to gradual harmonisation of policies across the board. Signor De Mita interjected that it was clearly difficult to agree on principles. There was no need for the Community to decide on political union now, but we must not forget that it was the eventual goal. There were a number of practical problems such as tax harmonisation, a single European currency and a European Central Bank which would need to be discussed at the

European Council in Madrid. In his own view, you could not have a Single Market without a single currency and a political union. But all these matters must be discussed in a practical spirit. The Prime Minister said that the credentials which one brought to such a discussion were important.

I am copying this letter to Alex Allan (HM Treasury), Philip Mawer (Home Office), Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours sincerely,

Charles Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

SL3BEF

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PRIME MINISTER

cc Mr. Ingham

ANGLO-ITALIAN SUMMIT

Programme

You fly to Italy tomorrow for the Anglo-Italian Summit. You leave No. 10 at 0715, depart from Heathrow at 0800 and arrive in Milan just before 1000. From there you helicopter - if the weather permits - or drive to the Villa Taranto in Pallanza, at the northern end of Lake Maggiore. The Villa has the finest botanical garden in Europe after Kew, founded by a Scotsman - Captain McEacharn - in the 1920s and passing to the Italian Government after his death in the 1960s.

The order of business is:

1100-1200	Meeting with De Mita
1200-1230	Joined by Foreign Ministers
1230	Plenary
1300	Group photograph
1315	Lunch
1435	Press Conference
1530	Plant a tree as a memorial to Captain McEacharn
1545	Return to Milan by helicopter
1615	Depart for London
1830c	Return to No. 10

You will be accompanied by the Foreign Secretary, the Home Secretary, the Defence Secretary and the Minister for Trade plus officials.

Background

De Mita has just returned from a successful (in public relations terms) visit to Moscow, which has left him starry-eyed about Gorbachev's reforms. He has sold the pass on a Human Rights Conference in Moscow. He is spouting a lot of nonsense about a Marshall Plan for East Europe. On the

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home front, he has had a significant parliamentary victory in limiting the use of secret ballots in Parliament. This should make for a more stable government. The Italian economy is doing well.

In short, De Mita will be feeling pleased with himself and much more confident than when you met him in Toronto in June (whether he will make much more sense is another matter). He will be bursting to tell you all about Gorbachev. And for his own political purposes, he will want to show that he is fully your equal and capable of standing up to you, particularly on Europe, on which he plays well out on the federalist wing. You may need to do some gentle cutting down to size at the press conference.

One other development is that the Italians have now agreed to participate in Operation Cleansweep in the Gulf.

Agenda

You might start by asking about developments in Italy. But I think he will want to move rapidly on to East/West so that he can tell you about his visit to the Soviet Union. You will want to put the case for realism. We must not delude ourselves that the Soviet threat has disappeared. It will be very important to set stiff conditions for agreement to a human rights conference in Moscow, making clear that the West will not attend unless they are met. You will want to be sceptical about a Marshall Plan: there is no reason for our taxpayers to rescue the Soviet Union and Eastern Europe from their self-inflicted problems.

You might then move on to the European Community. You could ask what he understands by the phrase European Union. We need to focus on practical steps such as completing the internal market and implementing the steps we are already committed to take on financial and monetary issues. You will want to explain the difficulties of a European Central Bank and why we are opposed to harmonisation of direct and indirect taxes. You will also want to make clear that you will not countenance

social policy laid down by Brussels, particularly of a sort which increases the burdens on business. Measures to help reduce unemployment and provide training, yes: worker participation, no.

Next might be international trade and economic issues. It will be very important to make a success of the MTM meeting in Montreal and that means that the Community will have to move further on agriculture. There will have to be further specific commitments by the Community. Before that, there is still a lot of hidden protectionism in the form of cultural and structural barriers which needs to be overcome.

You should deal with a number of points on the Middle East. You can welcome Italy's agreement to take part in Operation Cleansweep and their support for the sale of Tornado to Jordan (although we wish they would complete their procedures on credit). We hope that the Italians will not step up their relations with Libya significantly, let alone sell arms. They really must remember what the Libyans have done to us by supplying arms to the IRA. People are being killed almost every day because of them.

Finally there are some bilateral issues to tackle. We are grateful for the excellent intelligence cooperation we have. We welcome the Double Taxation Agreement just signed (at the Summit). We hope they will speed up parliamentary approval of the Extradition Treaty. We are keen to get a move on with a bilateral agreement to trace, freeze and confiscate the assets of drug-traffickers.

Press Conference

Bernard will do a separate note on this. It will probably be dominated by attempts to draw out differences between you and De Mita on Europe: there is no harm in this, they are real. There is likely also to be an attempt to do the same thing on East/West: again it is an opportunity to get across our views.

CDP

C. D. POWELL
20 October 1988

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Foreign and Commonwealth Office

London SW1A 2AH

19 October 1988

Dear Charles

Anglo-Italian Summit: 21 October: Press Conference

The following are notes on which the Prime Minister might draw at the press conference at the end of the Summit. They are intended as a quarry, and may need some adjustment in the light of the Prime Minister's discussion with De Mita.

General

Relations are excellent. My discussions with Prime Minister De Mita covered wide field: European Community, defence and security matters, world regional and economic problems and matters of bilateral interest. In our discussion of East/West relations it was valuable to hear Prime Minister De Mita's impressions of his visit to Moscow.

European Community

We agree on the basics of EC policy, particularly on pressing ahead with the Hanover priorities for completion of the Single Market. 1992 offers the best opportunity for EC partners to achieve higher growth and better economic prospects for their citizens, and at the same time keeping the Single Market open to third countries. Joint seminar on deregulation in November will be chaired by Mr Maude (PUSS, DTI) and Professor La Pergola (Italian Minister for EC Policy). This and discussions between the CBI and Confindustria, its Italian counterpart, are important in preparations for the common challenge of 1992. Progress at the GATT MTM is crucial for the future of multilateral trading. Agriculture is a key issue, and the EC and its major trading partners must stand by their commitment to make it more responsive to market forces.

Defence

We work closely together within NATO and agree on the need for Europe to assume a greater share in its own defence. We agree also on the need to keep NATO and conventional forces up to date as required; and that next arms control priorities are a 50% reduction in US Soviet strategic arsenals, elimination of conventional disparities and conclusion of an

/effectively

effectively verifiable global ban on chemical weapons. We collaborate closely on important defence projects; EH101, EFA and A129 helicopters. I have welcomed particularly Prime Minister De Mita's commitment to the agreement for the sale of Tornado to Jordan.

Regional

Hold many views in common. Shared desire to further peace in the Middle East. Have valued opportunity to work with Italian naval force in the Gulf. Share also condemnation of terrorism and of governments that support it. Italy to be congratulated on its initiative on the Convention against Maritime Terrorism (under the auspices of the International Maritime Organisation), which the UK signed last month.

On South Africa, Italy and UK united in their abhorrence of apartheid, though the UK does not accept that further economic sanctions would bring its end more quickly.

Bilateral

Many examples of close bilateral co-operation beyond the fields I have already mentioned:

- Industrial and Scientific Collaboration: Italy soon to sign a formal agreement on participation on ISIS (Spallation ~~Neutra~~l Source) in the UK. We work together in the European Community's Research and Development and EUREKA programmes. Many collaborative links between British and Italian companies. Italy doing valuable work in new materials, Information Technology, telecommunications and robotics.

Neutron

- Trade: Italy and the UK each other's fifth largest supplier.

- Bilateral Double Taxation Convention concluded and signed today by Foreign Ministers.

- Working together towards an agreement on reciprocal arrangements to confiscate assets of drug traffickers.

- Long tradition of cultural collaboration. Look forward to major exhibition of modern Italian art at the Royal Academy in London next January. In 1989 Glyndebourne Opera Company will pay first visit to Italy.

- Fruitful and intensive pattern of Ministerial exchanges:
Treasury Minister Amato visiting Chancellor of Exchequer in November;

/Mr Hurd

Mr Hurd visiting Rome in January;
Sir Geoffrey Howe hopes to welcome Foreign Minister Andreotti in London in January for opening of the Royal Academy exhibition.

Minister Ruberti due to visit London soon for later talks on scientific collaboration.

I am copying this letter to Philip Mawer (Home Office), Brian Hawtin (MOD) and Marjorie Davies (DTI).

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

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Foreign and Commonwealth Office

London SW1A 2AH

19 October 1988

Dear Charles

Anglo-Italian Summit: 21 October

The following proposed additions to the Steering Brief for the Anglo-Italian Summit take account of events since the Brief was circulated. The Ambassador's scene-setting telegram is also attached.

WEU/Gulf

Andreotti told the Foreign Secretary at Yannina on 14/15 October that he had no further problems with our proposal for Operation Cleansweep. We recommend that the Prime Minister welcome this confirmation of Italian participation.

Angola/Namibia

In contrast with earlier progress, the latest round of talks in New York (7-9 October) proved unproductive. The Angolans and Cubans failed to move forward either on their 30-month timetable for Cuban troop withdrawal or on the mechanics. All parties recognise that 1 November is unrealistic for implementing UNSCR 435 but have not publicly dropped the objective. These events underline the need for internal reconciliation in Angola and the vital importance of keeping the US engaged.

(Not for use with the Italians:) Chester Crocker has tabled a new proposal based on a 24-month period for full Cuban troop withdrawal with 70% (38,000) to leave in the first year. The South Africans have accepted this. As at 18 October, the Cubans and Angolans have not replied. A further round of expert-level talks may be held in Geneva in the next two weeks. Crocker hopes to conclude the negotiations by 1 November, but there are signs that the Angolans and Cubans are holding back until after the US elections.

East/West

Reports of De Mita's visit to Moscow (13-16 October) suggest that he is likely to have returned with unduly optimistic views about Gorbachev and perestroika. We recommend that the Prime Minister put Soviet reform into perspective and underline the risk of deluding ourselves that

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the Soviet threat has largely disappeared. De Mita may echo Gorbachev's theme of a "Common European Home". The Prime Minister could remind him that it is the East which, far from building a Common Home, has created physical barriers like the Berlin Wall and other restrictions on freedom of movement. To be taken seriously, Gorbachev should reduce Soviet troops and their forward deployment, and allow East Europeans to work out their own future. Any "Common Home" should be based on real co-operation and shared values.

During his visit De Mita resurrected the idea of a "Marshall Plan" for Eastern Europe, financed by the West. Italy is already a keen proponent of Western finance for the East (particularly Yugoslavia). But, while we are ready to offer the East advice in key areas, such as management training, we do not accept that Western tax-payers should rescue them from their self-inflicted problems. The experience of the 70s does not encourage optimism about the way the money would be used.

This rather more austere perspective could reinforce the current impression that the UK is Europe's back-marker in East/West relations. But a restatement of our positive approach to Gorbachev, the Common European Home and the need for the Russians to live up their words, would be an effective counter to that.

CSCE

You will be aware from our recent correspondence that the UK approach on the subject of a Moscow CSCE Humanitarian Conference has been slightly modified recently. While it would be premature to reveal this in advance of further consultations with the US, the Prime Minister could press De Mita on his desiderata for a Conference. (The evidence suggests that he has sold the pass in Moscow without insisting on any conditions.)

Industrial, Scientific and Technological Collaboration

DES are sending separately a brief on the outcome of 13/14 October CERN Committee of Council.

Confiscation of Drug Trafficking Assets

At a recent meeting of British and Italian officials, the Italians seemed more ready to enter into a bilateral agreement to trace, freeze and confiscate the assets of drug traffickers, than the brief currently suggests. Our objective is now to promote negotiation of such a treaty, and further official discussions are planned. The Italians are however

/still

still likely to want to ensure that a bilateral treaty is consistent with possible multilateral agreements as and when they are negotiated.

I am copying this letter to Philip Mawer (Home Office), Brian Hawtin (MOD), Marjorie Davies (DTI) and Trevor Woolley (Cabinet Office).

Yours ever

(R N Peirce)
Private Secretary

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Charles Powell Esq
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19 October 1988

Dear Charles

ANGLO-ITALIAN SUMMIT: 21 OCTOBER (SCIENCE)

As foreshadowed in the main brief provided for Friday's discussion, I attach further background material about the UK's position on CERN prepared in the light of discussions at last week's Committee of Council meeting in Geneva.

We see this as essentially defensive material and do not propose that these questions should be raised from the UK side at this Summit.

I am sending copies of this letter to the Private Secretaries to the Foreign Secretary, the Home Secretary, the Secretary of State for Defence, and the Minister of Trade and to John Fairclough and Mr Manning at the Cabinet Office.

Yours ever,

Tom.

T B JEFFERY
Private Secretary

REVISED SECTION TO THE ANGLO-ITALIAN SUMMIT BRIEF FOR PRIME MINISTER Scientific, Technological and Industrial

CERN

LINE TO TAKE (Defensive)

New Method of calculating Contributions to CERN

Disappointed that it has not yet proved possible for Italy to agree a fair compromise over the implementation date for the new method of calculating member states' contributions. But understand their budgetary constraints which we also face. Hopeful that there will be a favourable decision very soon (by end October). Important for UK that Italian view is known within next three weeks.

UK'S Membership of CERN

Taking stock of CERN's response to the Abragam report. Some encouraging signs; decision by end December.

Longer term attitude to CERN if UK remains a Member

UK will want to work with new Italian Director General (Prof. Rubbia) to:-

- promote and maintain high quality scientific achievement;
- improve and sustain effective management;
- widen the base of CERN's income to reduce the cost burden on member states.

BACKGROUND

CERN CONTRIBUTION RATES

1. The present method of calculating Member States' subscriptions to CERN fixes the relative proportion of the budget to be met by each Member State for three years, based on the relative (averaged) size of the latest available three year run of NNI figures. Thus, in the last of these three years (e.g. in 1989) the rate is based on NNI figures of 4, 5 and 6 years previously (each of which, importantly, is converted into a common currency for comparison through use of exchange rates prevailing at the time). In the early 1980s the pound was stronger than at present, and hence in pounds sterling the UK is now paying more than its fair share of the budget.

2. The new method of calculating the contribution rate is a rolling one. Each December the relative proportion of the Budget to be paid by each Member State is calculated using the most recent three sets of NNI data, which are compared using a single average exchange rate for the previous July to October. In the short term this will have the effect of reducing the UK's subscription by £8M per annum and will thereafter reduce considerably the volatile effect of exchange rate variations.

IMPLEMENTATION OF NEW SYSTEM

3. Since the contribution rate is constitutionally fixed for 1989, the new method can only be introduced in that year by unanimous agreement of the CERN Council. The only members affected significantly by the change are the UK, who would save £8M (£6M in FY 1989/90), and Italy, who would have to find an additional £10M or so. Hence the Italians have so far vetoed implementation before 1990, pleading budgetary constraints.

4. At the last CERN Committee of Council meeting on 14th October all other Member States agreed that 1989 should be a "transitional year" incorporating a fair compromise (e.g. starting the new system half-way through the year on 1st July 1989). It was left to the President of Council to agree this between Italy and the UK. The only compromise at which the Italians have so far hinted would disadvantage other Member States and be unacceptable to them.

5. Italy are known to be considering their position further in the light of UK assurances about its longer term approach to CERN (if it remains a Member). These were put to the Italian Science Minister, Professor Ruberti, by Mr. Jackson in Rome on October 8th, and in a subsequent letter. We are optimistic Italy will agree to the compromise given adequate co-ordination between the three Ministers involved (Science, Finance, Foreign Affairs).

6. CURRENT AND FUTURE UK CONTRIBUTION COST

1987/88	£56M
1988/89	£54M
1989/90	£47M (estimated - assuming Italian agreement to compromise)
1990/91	£45M (estimated)

CERN - CHANGES ACHIEVED BY UK FOLLOWING ABRAGAM RECOMMENDATIONS

MAIN ACTION AREAS	CHANGES AT CERN
1. Review method of calculating CERN contributions to achieve greater fairness to Member States.	New method favoured by UK approved for 1990. Implementation in 1989 under discussion (see background brief). Saving by UK in 1990 £8M pa compared with 1988. Future payments less affected by exchange rate variations.
2. Introduce Programme of Staff reductions	Staff to be cut by 500 starting 1989 (procedures already under way). Re-structuring to be achieved at no additional cost.
3. Management improvements:	
(i) Long term financial plan	4 year rolling budget to be supplemented by forward look covering longer term scientific options and financial profile of future CERN income (from all sources).
(ii) Budget arrangements	New budgetary lay-out to be introduced on lines recommended by UK which will bring out projects costs clearly.
(iii) Project control	New procedures proposed by UK to be adopted covering project appraisal/approval; progress monitoring; and evaluation.

(vi) Personnel Management	New personnel policy under development by CERN Management. Moratorium on indefinite contract awards pending DG's coherent overall policy. UK pressing for clearer cost-efficiency.
(v) New top management	New DG's structure will create clear focus for administrative control. Final version expected at December Council. UK proposals for strengthening Finance/Personnel director welcomed by new DG.
3. Wider membership	Working Group created at UK's request under Spanish Chairmanship. UK proposals among options for future progress. Report back to Council in 1989.
4. Host Country Premiums	FRG President of CERN Council (Dr. Rembser) in the lead with Swiss and French. Informal indication of co-operation from Swiss. UK has informally targeted areas for greater host country assistance.

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UK/ITALIAN SUMMIT, 21 OCTOBER: SCENE SETTING

SUMMARY

1. DE MITA HAS HAD A GOOD FIRST SIX MONTHS. HE HAS PROVED A MORE EFFECTIVE LEADER THAN MANY EXPECTED. HE WILL BE KEYED UP BY HAVING GOT THE PROCESS OF REFORM LAUNCHED AT THE END OF LAST WEEK AND BY THE SUCCESS OF HIS RECENT HIGH PROFILE VISIT TO MOSCOW. HE WILL COME TO THE SUMMIT WITH ENHANCED CONFIDENCE.

DETAIL

2. WHEN DE MITA BECAME PRESIDENT OF THE COUNCIL OF MINISTERS IN APRIL, HIS PREVIOUS EXPERIENCE OF MINISTERIAL OFFICE WAS VERY LIMITED. HIS TENURE OF THE SECRETARYSHIP OF THE CHRISTIAN DEMOCRAT PARTY HAD BEEN REASONABLY SUCCESSFUL, BUT HE HAD NOT CUT MUCH OF A DASH. HIS RIVALRY WITH CRAXI, LEADER OF THE SOCIALIST PARTY, THE SECOND BIGGEST PARTNER IN THE COALITION, SEEMED TO SPELL TROUBLE. BUT ABOVE ALL HIS EXPERIENCE AS A BEHIND-THE-SCENES BROKER BETWEEN THE DIFFERENT FACTIONS OF THE CHRISTIAN DEMOCRAT PARTY SEEMED UNLIKELY TO HERALD THE DECISIVE LEADER WHO WAS NEEDED TO TACKLE ITALY'S DAUNTING POLITICAL AND ECONOMIC PROBLEM. IN FACT HE HAS FIRMLY SEIZED CENTRE STAGE, AND IS CLEARLY ENJOYING BOTH THE ATTENTION AND THE POWER AT HIS COMMAND.

INTERNAL AFFAIRS

3. UNDOUBTEDLY DE MITA'S BIGGEST DOMESTIC ACHIEVEMENT SO FAR IS THE REFORM OF THE SECRET VOTE IN THE LOWER HOUSE OF PARLIAMENT (MY TELNO 560). HE MADE THIS ONE OF THE MAIN PLANKS OF HIS GOVERNMENT FROM THE OUTSET AS THE MOST IMPORTANT FIRST STEP IN THE PROCESS FOR REFORM, SHOWING THEREBY A SHREWD JUDGMENT OF WHAT

WAS MOST NEEDED TO MODERNIZE ITALY'S INSTITUTIONS. HE PURSUED THIS OBJECTIVE WITH DOGGEDNESS AND CONSIDERABLE TACTICAL SKILL. HE HAD TO BALANCE THE CLAIMS OF CRAXI AND HIS SOCIALISTS, WHO WANTED A MORE RADICAL REFORM: MANY OF HIS OWN PARTY, INCLUDING ANDREOTTI, WHO WANTED A MORE MODEST CHANGE IN SLOWER TIME, IF AT ALL: AND THE COMMUNISTS, WHO WERE DESPERATELY KEEN NOT TO BE LEFT OUT OF THE DEBAT, BUT WHO WERE NOT AT ALL SURE WHICH POLICY TO FAVOUR. DE MITA CAN PERSONALLY TAKE THE CREDIT FOR THE FINAL SUCCESSFUL APPROVAL, BY SECRET VOTE, OF AN AMENDMENT TO THE CHAMBER'S RULES OF PROCEDURE WHICH WILL MAKE OPEN VOTING THE NORM, MOST CRUCIALLY FOR FINANCIAL MEASURES.

4. DE MITA HAS ALSO INTERVENED PERSONALLY TO RESOLVE OTHER INTRACTABLE DISPUTES, SUCH AS THE TEACHER'S PAY ISSUE IN JUNE AND THE ARGUMENT WHICH BROKE OUT IN JULY OVER REDUCED SPEED LIMITS. NEITHER OUTCOME WAS TOTALLY HAPPY. THE FORMER BOUGHT PEACE, BY CONCEDING A HIGH PAY SETTLEMENT, BUT THE PRECEDENT MAY HAVE HELPED TO ENCOURAGE THE CONTINUATION OF PUBLIC SECTOR STRIKES THIS AUTUMN. HOWEVER HERE AGAIN THE GOVERNMENT HAS TAKEN POSITIVE STEPS, BOTH BY INTRODUCING LEGISLATION TO CONTROL STRIKES IN ESSENTIAL PUBLIC SERVICES AND RECENTLY ISSUING A SERIES OF FORMAL ORDERS TO WORK TO FORESTALL PARTICULARLY SERIOUS THREATENED STRIKES. ON SPEED LIMITS, THE COMPROMISE FINALLY AGREED WAS A PRACTICAL NONSENSE, WITH HIGHER SPEED LIMITS ON WEEK DAYS THAN AT WEEKENDS AND HOLIDAYS, AND IS LIKELY SOON TO BE REVISED IN FAVOUR OF A SINGLE LIMIT. NEVERTHELESS IT WAS AT THE TIME RECOGNISED AS A POLITICAL ACHIEVEMENT.

THE ECONOMY

5. DE MITA HAS BEEN FORTUNATE IN ENJOYING A PERIOD OF ECONOMIC AND BUSINESS BOOM IN ITALY WITH GROWTH RATE OF AT LEAST 3.6 PER CENT PREDICTED FOR THE YEAR. ALL MAJOR INDICATORS ARE MOVING THE RIGHT WAY, EXCEPT FOR THE PUBLIC SECTOR DEFICIT. THIS IS A MAJOR EXCEPTION, BUT DE MITA AND HIS TEAM OF ECONOMIC MINISTERS, HEADED BY AMATO ARE SHOWING DETERMINATION IN TACKLING IT. THEY HAVE MADE A SERIOUS STAR CHAMBER-TYPE EFFORT TO INVOLVING CASH LIMITS TO CONTAIN THE GROWTH OF EACH MINISTRY'S BUDGET, AND APPEAR SO FAR TO HAVE BEEN SUCCESSFUL. THIS YEAR'S FINANCE BILL IS ON THE RIGHT LINES, AND IS NOT LIKELY TO BE DAMAGINGLY AMENDED IN PARLIAMENT AS HAS HAPPENED IN PRECEDING YEARS SINCE ALL VOTES ON IT WILL FOR THE FIRST TIME BE OPEN.

INTERNATION AFFAIRS

6. ON THE INTERNATIONAL SCENE DE MITA IS STILL FINDING HIS WAY. ANDREOTTI CONTINUES TO SET POLICY ON MOST ISSUES. IT IS ANDREOTTI RATHER THAN DE MITA WHO HAS LED THE DOUBTERS ABOUT WEU NAVAL ACTIVITIES IN THE GULF, AND WHO HOLDS THE VIEW THAT MANDATORY ECONOMIC SANCTIONS AGAINST SOUTH AFRICA ARE A NECESSARY PART OF THE WEST'S EFFORTS AGAINST APARTHEID. HOWEVER DE MITA GIVES NO SIGN OF WISHING TO TAKE ISSUE WITH ANDREOTTI ON THESE POINTS.

7. THERE IS NO SPACE BETWEEN THEM ON POLICY TOWARDS THE EAST, AND ESPECIALLY THE RUSSIA OF GORBACHOV. BOTH TEND TO ASSUME THE SUCCESS OF GORBACHOV'S CHANGES AND TO WANT TO DRAW BIGGER POLITICAL AND COMMERCIAL CONCLUSIONS FROM THEM THAN THEY YET WARRANT. HENCE DE MITA'S PROPOSAL FOR A MARSHALL PLAN FOR EUROPE AND HIS DANGEROUS CONCEPT OF EUROPE AS A BRIDGE BETWEEN EAST AND WST. HENCE ALSO THE MAJOR ITALIAN COMMERCIAL EXHIBITION IN MOSCOW, ITALIA 2000, WHICH DE MITA AND GORBACHOV OPENED PERSONALLY ON 14 OCTOBER. THIS WAS SEEN HERE AS A CONSIDERABLE COUP FOR ITALY, OF WHICH DE MITA WILL BE PROUD. IN THE ACCOMPANYING COMMERCIAL DISCUSSIONS, SEVERAL IMPORTANT BUSINESS DEALS WERE STRUCK, INCLUDING THE ESTABLISHMENT OF A JOINT COMPANY TO MANUFACTURE SPECIAL RUBBERS IN RUSSIA, AND A TWO-WAY AGREEMENT FOR TRADE IN STEEL PRODUCTS. DE MITA WILL BE KEEN TO GIVE THE PRIME MINISTER A FIRST HAND ACCOUNT OF HIS TALKS WITH GORBACHOV AND HIS ASSESSMENT OF THE LATEST POLITICAL DEVELOPMENTS IN RUSSIA. IT WILL BE USEFUL FOR HIM TO BE EXPOSED TO A HEALTHY DOSE OF REALISM.

CONCLUSION

8. DE MITA'S STYLE AS HEAD OF ITALY'S COALITION GOVERNMENT HAS PROVED MORE PROMINENT AND DECISIVE THAN ORIGINALLY SEEMED LIKELY. THE GOVERNMENT HAS SET ITSELF THE TASK OF ACHIEVING RESULTS IN A NUMBER OF IMPORTANT SECTORS, AND SO FAR IS ON COURSE. DE MITA PERSONALLY HAS NOT HESITATED TO PLUNGE INTO THE THICK OF THE MOST INTRACTABLE ISSUES, AND UP TO NOW HAS EMERGED WITH CREDIT ON EACH OCCASION. IN THE RECENT NEAR-CRISIS OVER THE SECRET VOTE, WHEN HE WAS BEING SUBJECTED TO A SEVERE BUFFETING BOTH BY CRAXI AND BY HIS OWN SIDE, HE KEPT HIS NERVE AND WON. HE HAS DEFENDED HIS GOVERNMENT'S RECORD VIGOROUSLY AND EFFECTIVELY WHEN THE PRESS HAS CHALLENGED HIM, FOR EXAMPLE ON LAW AND ORDER. AND HE HAS CLEARLY ENJOYED THE LIMELIGHT. HE MUST BE PLEASED BY HIS FIRST SIX MONTHS AND SEEMS READY TO TACKLE THE PUBLIC SECTOR DEFICIT, THE

NEXT STAGE OF REFORM OF THE INSTITUTIONS, AND THE QUESTION OF HIS KEEPING THE JOB OF SECRETARY OF THE CHRISTIAN DEMOCRAT PARTY AT THE SAME TIME AS BEING HEAD OF THE GOVERNMENT. THIS WILL BE A MAJOR ISSUE AT THE DC CONGRESS DUE TO BE HELD IN JANUARY NEXT YEAR.

9. DE MITA'S SUCCESSES SO FAR, BOTH IN KEEPING HIS COALITION TOGETHER AND IN ACHIEVING PRACTICAL RESULTS, HAVE GIVEN HIM A GOOD BASIS ON WHICH TO CONTINUE. THE MOST COMMON ASSUMPTION HERE IS THAT HE SHOULD HAVE LITTLE PROBLEM IN REMAINING IN OFFICE NOW UNTIL THE EUROPE ELECTIONS IN JUNE 1989, WHEN CRAXI WILL RECEIVE A CLEAR READING ABOUT HOW THE SOCIALIST VOTE IS GOING. THAT IS THE NEXT POINT AT WHICH CRAXI MIGHT DECIDE TO MOUNT A CHALLENGE. DE MITA OF COURSE IS AIMING TO HOLD ON TO OFFICE UNTIL THE PRESENT ELECTORAL MANDATE EXPIRES IN 1992. IF HE WERE TO SUCCEED HE WOULD HAVE BROKEN ALL RECORDS.

THOMAS

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Foreign and Commonwealth Office

London SW1A 2AH

17 October 1988

Prime Minister

CDP

17/X

Dear Charles,

Anglo-Italian Summit: Tree Planting

The Prime Minister has agreed to plant a tree in the course of her visit to the Villa Taranto. The tree will be a Magnolia Kewensis. I attach details of the tree together with a pamphlet about the Villa Taranto.

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

THE GARDENS

The origin of the Botanical Gardens of Villa Taranto, situated in Pallanza and covering an area of about 16 hectares on the northern slopes of the Castagnola promontory, dates back to 1931 when Capt. Neil McEacharn bought the property with the intention of converting it into one of the best botanical gardens in the world.

Over the years, with patience, determination and method, this Scottish gentleman, a member of the Royal Company of Archers and Linnaean Academician, worked at his grandiose task landscaping the untidy wooded area into a spacious garden with 7 km. of avenues from which innumerable unexpected evocative vistas open out.

Many thousands of plants, brought from the far corners of the world, and rare collections, some of them unique in Europe and acclimatized after long and laborious efforts, have been arranged with art in this beautiful setting, between the mountains and the lake.

Amongst the most significant works are the "Valletta", created by large scale excavations; the irrigation plant, fed by water pumped directly from the lake to a reservoir from which it is conveyed to the furthest limits of the garden; the Terrace Gardens with waterfalls, swimming-pool, waterlily and lotus pools; the Winter Garden and the Water Garden; ornamental fountains and water sprays.

When the garden, which he named "Villa Taranto" in memory of an ancestor, Marshal McDonald, on whom Napoleon conferred the Dukedom of Taranto, Capt. McEacharn wanted to ensure that his work would be continued after him and with great generosity presented it to the Italian state.

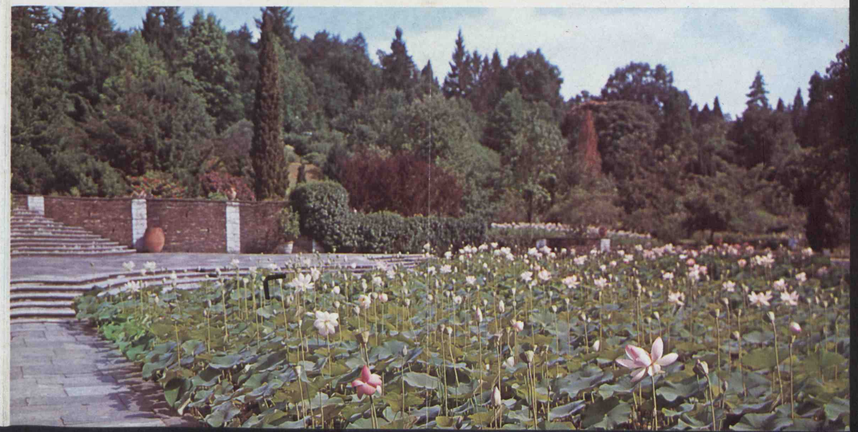
The Villa is not open to visitors. It is used as a mansion house by the Cabinet President for conferences and high-level meetings.

Since 1952 the gardens have been open to the public, from April to October, and the constantly rising number of visitors has now reached over 220,000 per annum. Groups of scholars and garden lovers come to Villa Taranto from Australia, North and South America and Europe, drawn by its interesting botanical collections, perfect organisation and exquisite hospitality.

Folklore events, meetings and congresses attended by important political and artistic personalities of all countries, have made of Villa Taranto the ideal embassy of a world which knows no boundaries and is united by a common love of nature.

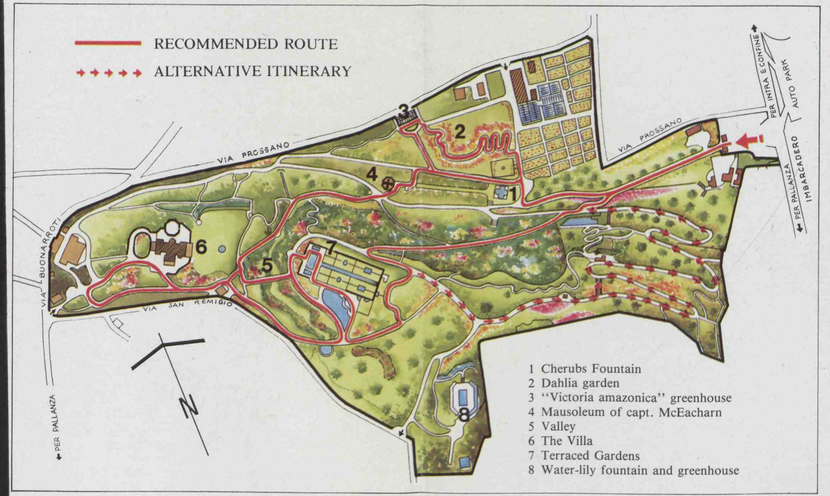
The burden of maintaining the estate was taken over by the Ente Giardini Botanici Villa Taranto "Capt. Neil McEacharn" after the founder's death on April 18, 1964. He was buried in a mausoleum built for the purpose, in the garden. The Ente's purpose is to preserve for Italy and the world this incomparable botanical treasure and its natural beauties.

When visiting the gardens, one can find dream landscapes and captivating reflections in the water of mysterious flowers, sacred to Egyptian mithology. From the romantic Valletta to the carpets of Erikas, from the hot-houses with "Victoria amazonica" to the Azalea, Maple, Rhododendron and Camelia avenues, from the rare lilies and the gardens of Dahlias with more than 300 varieties to the miriad hues of spring blooms, against the background of the Italian Garden or in the mellow glow of autumn, Villa Taranto rewards the visitor with endless scenes of changing beauty and deep inner poetry.



USEFUL INFORMATION

— The Villa Taranto is 96 Km. from Milan, 172 Km. from Turin and 40 Km. from Locarno — There is a railway and bus connection from Milan and Turin and a daily bus service from Locarno and Lugano — All lake steamers stop at the Villa Taranto pier and boat station which adjoins the entrance to the Gardens — Direct trains from London, Paris, Cologne, Zurich, Romeand Railway line of the Simplon or Milan Nord N.L.M. — Free car parking and facilities for the purchase of souvenirs and refreshments and very comfortable hotels in the surroundings — **Holy Mass is celebrated at the Chapel on Sundays at 11 a.m. when visitors are welcomed.** — The Gardens are open to the public from 8.30 a.m. until sunset (ticket office until 6.30 p.m.) every day from 1st April until 31st October — The services of professional guides may be secured, when available, on request.



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THE BOTANICAL GARDENS OF

villa taranto

Tel.
Administrative office: 0323-506667
Ticket office (April to October): 0323-44555
Bar: 0323-44066

VERBANIA PALLANZA
LAKE MAGGIORE - ITALY

PRINCIPAL FLOWERING PERIODS

APRIL
Approximately 6,000 - *Cinerarias* and *Calceolarias. Violets, Anemones, Primulas, Lily-Valley.* Thousands of naturalized *Narcissus* and *Crocus.* Chinese and Japanese *Magnolias. Forsythias,* hybrid *Chaenomeles. Viburnums, Daphnes, Mimosa, Wistarias, Ericas.* Rich collection of *Camellias* and *Rhododendrons. Davidia involucrata* and *Flowering Cherries.* About 80,000 Dutch *Tulips.*

MAY
Tulips, Iris, Cinerarias and *Calceolarias.* Hundreds of *Azaleas* and large trees of *Paulownia, Rhododendron* woods. *Caesalpinia sepiaria, Kalmia latifolia, Syringas.* Beds of *Hemerocallis, Hostas* and *Ericas. Liriodendron tulipifera, Lilac, Genistas. Aesculus indica, Magnolias. Philadelphus, Styrax, Cornus florida rubra.*

JUNE
Ponds of *Nelumbiums. Victoria amazonica* and *Waterlilies. Melia azederach. Rosa soulieana.* Magnificent *Lilies, Oleanders,* thousands of *Petunias. Callistemons* from Australia, *Romneyas* from California. *Ceanothus, Lavander, Spiraeas, Oranges* and *Lemons, Cornus Kousa.*

JULY
Ponds of *Nelumbiums. Victoria amazonica* and *Waterlilies.* 10,000 *Cannas* in flower. *Gardenias.* Thousands of *Salvias* and *Petunias. Hibiscus. Magnolia grandiflora, Oleanders.* Thousands of annuals (*Zinnias, Asters, Antirrhinums, Carnations*, etc.), Beds of *Coreopsis, Dahlias, Portulaca, Lobelia.* Herbaceous borders. *Campanulas, Monardas.* Plants of *Coffee, Cotton* and *Tea.* Flower-show with more than 300 sorts of *Dahlias* (end July).

AUGUST
Ponds of *Nelumbiums. Victoria amazonica* and *Waterlilies. Koelreuteria paniculata. Lagerstroemia indica. Tuberoses* and *Gladioli. Petunias, Zinnias* and *Asters.* Vast display of many rare species and varieties of *Hidrangeas.* Herbaceous borders. *Dahlias. Cannas.* Flower-show with more than 300 sorts of *Dahlias.*

SEPTEMBER & OCTOBER
Ponds of *Nelumbiums* and *Victoria amazonica.* Magnificent tints among the *Acers, Cornus, Hydrangeas, Lagerstroemias, Liquidambars, Euonymus, Enkianthus,* etc. *Camellia sasanqua. Ericas. Petunias, Zinnias, Cannas, Asters. Berberis, Cotoneasters, Callicarpa, Celastrus, Pyracanthas* and other colourful berried shrubs. Flower-show with more than 300 sorts of *Dahlias.*

flowers, broader petals (1½ ins.), broader leaves (up to 3 ins. wide), differently scented bark, and in flowering a fortnight or so later'. Dr Sprague of Kew recognised this as the var. *concolor* of Miquel.

M. (*salicifolia* × *kobus*) 'KEWENSIS'.—This hybrid arose at Kew as a self-sown seedling found near the two parents. Bark of young stems smelling strongly of lemon-scented verbena (as in *M. salicifolia*); growth-buds with a few silky hairs. Leaves 3½ to 5 in. long, 1¼ to 2 in. wide, narrowly obovate or elliptic, narrowed at the apex to a blunt tip, cuneate at the base, smooth and rather glossy above, slightly glaucous green beneath. Flowers very fragrant, with six petals about 3 in. long. A.M. 1952. It grows vigorously and plants of a good size can be seen in many magnolia collections. The original plant at Kew grows by King William's Temple.

The name *M.* × *kewensis* has never been validated by a Latin description.

M. × PROCTORIANA Rehd.—A hybrid between *M. salicifolia* and *M. stellata* described by Rehder in 1939. As in 'Kewensis' the leaves are broadest at or slightly above the middle and the growth-buds silky-hairy. Petals six to twelve —hence less numerous than in *M. stellata*; they are also broader.

If *M. stellata* is treated as a variety of *M. kobus*, it would follow that *M.* × *proctoriana* is the collective name for all hybrids between *M. kobus* and *M. salicifolia*. The Kew hybrid described above would then come under it as *M.* × *proctoriana* 'Kewensis'.

M. SARGENTIANA Rehd. & Wils.

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

ANGLO-ITALIAN SUMMIT: 21 OCTOBER 1988

Copy No 1

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

OUR OBJECTIVES

General

- To convince the Italians that we value them as important partners and allies.

A EC Issues

- To maintain momentum on the Hanover priorities for the Single Market and to play down the "social dimension" and any visionary Italian ideas on monetary cooperation.
- To persuade the Italians that movement by the Community on agriculture is necessary for a successful Mid Term Meeting (MTM) in Montreal.

B Regional Issues

- On Iran/Iraq, to underline the continuing need to support the UN Secretary General in settlement talks.
- To persuade the Italians to join Operation Cleansweep in the Gulf.
- On Libya, to thank the Italians for representing UK interests, but dissuade them from improving bilateral relations with Qadhafi and forestall a major Italian arms sale.
- To inform Italians that we have signed the International Maritime Organisation maritime terrorism pact.
- On Tornado for Jordan to urge the Italians to finalise their share of credit package.

OUR OBJECTIVES

- On Arab/Israel to keep Italians firm on policy toward PLO and dampen enthusiasm for pro-Arab EC initiatives.
- On Southern Africa, to challenge view that further EC restrictive measures may be required and to emphasise that new US sanctions would be damaging to the region.

C International Economic Issues

- To seek Italian views on prospects for world economy.
- To avoid substantive discussion on debt, especially schemes for middle-income debtors.

D East/West Relations

- To enquire about De Mita's Visit to Moscow.
- To encourage a realistic analysis of Soviet changes and prospects for East/West relations.
- On CSCE, to urge that proposed follow-up events be reduced.

E Arms Control and Defence Issues

- To stress that NATO's security depends for foreseeable future on deterrence based upon an appropriate mix of conventional and nuclear weapons.
- To explain why we do not agree that political will is only necessary catalyst for early conclusion of effective CW Convention.
- To rehearse the need for all Europeans to be seen to make equitable contribution to NATO's defence burden.
- To express hope of completing WEU enlargement soon.

F Industrial, Scientific and Technological Collaboration

- To endorse the importance of scientific, technological and industrial collaboration with Italy.
- To welcome the imminent signing of a bilateral agreement on Italian participation in ISIS (spallation neutron source at Rutherford Appleton Laboratory).
- To deflect detailed discussion of any points raised by the Italians to forthcoming meeting of Ministers responsible for science and technology.

OUR OBJECTIVES

G Bilateral

- Signature by Foreign Ministers of Double Taxation Convention.
- To move towards reciprocal agreements to trace, freeze and confiscate the assets of drug traffickers.
- To urge rapid approval by Italian Parliament of the new Extradition Agreement.
- On air traffic control, to persuade Italians to join Eurocontrol as a full member, and to support moves towards greater co-ordination.

ITALIAN OBJECTIVES

General

- To demonstrate Italy's standing as a major power enjoying prosperity and stability.

A EC Issues

- To appear liberal in principle on external implications of the Single Market (and the Uruguay Round), but in practice to retain protectionist options such as reciprocity powers and VRAS restricting access to EC markets.
- To resist the Community committing itself to further agricultural reform without action from others.
- Possibly to argue that progress on the Single Market should be accompanied by social measures regulating workers' rights; and by increased monetary co-operation.
- To press Italian proposals that Community nationals living in other Member States should have the right to vote in European Parliament elections in their country of residence.

B Regional Issues

- On Iran/Iraq to reaffirm support for UN Secretary General as shown by Italian contribution to UN monitoring forces in Iran.
- To enquire about restoration of British diplomatic relations with Iran.
- Perhaps to equivocate (Andreotti particularly) over participation in Cleansweep.
- On Libya, to convince us that Qadhafi has turned over a new leaf (as justification for improving relations in advance of possible arms deal).
- To claim our commercial presence in Libya shows we are allowing our own relations to improve, and to ask for proof that Qadhafi is still supporting terrorism.
- On Tornado, to assure us that necessary formalities going forward swiftly.
- On Arab/Israel, to seek support for pro-Arab EC initiatives (eg dialogue with PLO), ostensibly designed to carry peace process forward.

ITALIAN OBJECTIVES

- On South Africa, to argue that the international community should consider sanctions.
- To ask about Angola/Namibia.

C International Economic Issues

- To express concern about intra-European imbalances and possibly seek UK support in pressing Germany to reduce its surplus.
- To express concern about rising interest rates, which affect Italy's debt servicing obligations.
- To probe our position on middle-income debt schemes.

D East/West Relations

- To argue that Gorbachev represents a historic opportunity for East-West peace, which the West should seize.
- To report impressions of De Mita's visit to Moscow.
- To seek support for Italian proposal for CSCE Scientific Forum.

E Arms Control and Defence Issues

- Possibly to argue that implementation of nuclear modernisation decision not yet necessary.
- To accuse UK of aiming to slow pace of CW negotiations.
- To deflect any pressure for substantial increases in Italian defence budget.
- To voice caution about bilateral defence arrangements which exclude Italy and concentrate on the Central Region.
- To secure UK support for early WEU enlargement.

F Industrial, Scientific and Technological Collaboration

- To demonstrate Italy's attractiveness as a partner in collaboration and to seek the Prime Minister's commitment to the UK's continued participation in major multilateral collaborative projects, particularly CERN.
- To intensify Anglo-Italian collaboration as a counterbalance to the Franco-German technological axis, including by establishing a bilateral mixed commission.

ITALIAN OBJECTIVES

- High definition television: to secure support for Italy's inclusion in the Intergovernmental Board.
- Space Science: to secure lifting of UK blockage of increased ESA core budget funding.

G Bilateral

- Signature by Foreign Ministers of Double Taxation Convention.
- Possibly to express preference for multilateral agreements on sequestration of drug-related assets.
- To assure us that action on ratification of Extradition Agreement is well in hand.
- To persuade us they have a serious interest in Eurocontrol, but that terms need to be negotiated.
- To enquire about reinstatement of State Visit.
- Possibly to complain at UK press reporting of Karin B incident.

ARGUMENTS FOR USE

A. EC Issues

- German Presidency did well on Single Market. We must now keep up progress on four Hanover Priorities: public purchasing, banking and financial services, standards and intellectual property. We also want progress on further transport liberalisation, telecommunications and food law.
- Key-note of Single Market must be liberalisation and competitiveness, not harmonisation for its own sake.
- Single Market must also contribute to global liberalisation. Uruguay Round offers a mechanism to claim credit where appropriate for external liberalisation brought about by creation of Single Market, and so encourage others similarly to open their markets.
- We agree on the need to make a success of the Uruguay Round. The MTM in December must push this - and take decisions where possible (eg on tropical products, dispute settlement).
- Community well placed for MTM on almost all issues but agriculture. This remains one of the key elements politically and economically.
- We are all agreed on the need to make agriculture more responsive to market forces. Islamabad meeting showed Cairns Group proposals likely to be basis for negotiation. February EC reforms a valuable first step but Community must be prepared to go further in context of Uruguay Round, both in terms of further short term measures, and a commitment to long term reform. US has started to move: Community will need to be ready to move too.

B. Regional Issues

- Iran/Iraq: ceasefire holding, but progress in settlement talks slow. Vital that Secretary-General has full backing of Security Council members if he is to bring parties to compromise.
- Gulf: Operation Cleansweep a valuable practical operation by WEU. Positive public impression - European pillar

ARGUMENTS FOR USE

sharing burden out of area. Rest of WEU, Iran in favour, Secretary General sees merit: his Office has said so to your Representative in New York. No objection from Iraq.

- Libya still a dangerous supporter of international terrorism. Offers Abu Nidal a refuge and promotes friendly links with other terror groups.
- No case to relax EC measures especially ban on arms sales.
- British servicemen/civilians at daily risk from pre-Eksund shipments of explosives/weapons.
- PIRA attacks affect not only UK but other EC partners. Italy may not be immune.
- British public not understand how major EC partner could contemplate closer relations with Qadhafi on strength of a few theatrical gestures in Tripoli.
- Concerned at prospect of Libyan CW development. Wrong time to reward Qadhafi with signs of friendship.
- Terrorism: UK now signed International Maritime Organisation convention against maritime terrorism. Congratulate Italy on this initiative.
- Tornado for Jordan: MOU and Sales Agreement signed at Farnborough. Must finalise financial package before 90-day deadline (8 December).
- Grateful your assurance in August of support for sale. But your credit agency still not able to confirm credit terms for Italian share. Hope they can soon.
- Arab/Israel: encourage Palestinians to face key policy issues i.e. renounce violence, accept UNSCRs 242 and 338 and recognise Israel's right to secure existence.
- Palestinians' best response to Hussein's measures and to tactical gains of intifada is to form effective negotiating group, comprising representatives from inside and outside Occupied Territories. Gestures like proclaiming independence miss the point.
- Some encouraging signs in Arafat's Strasbourg speech. But ambiguous on key points. Can he deliver on moderate line? Some Palestinian factions still committed to violent means: eg, "Achille Lauro", Khartoum bombings.

ARGUMENTS FOR USE

- South Africa: further restrictive measures would hinder search for solution to region's problems.
- Some encouraging signs recently. Important to preserve US involvement and leverage.
- Extra-territorial scope of Dellums/Wolpe would damage international trading system, if enacted.

C. International Economic Issues

- Toronto Summit noted international economic co-ordination working effectively. Latest G7 communiqué reaffirmed commitments to non-inflationary growth, exchange rate stability, and structural reform.
- Growth in industrialised countries likely to be 4%, highest since 1984.
- Main risk, acknowledged at Berlin meetings, is inflation. Must continue to be vigilant: all major countries responded appropriately by raising interest rates since May.
- Current account imbalances of G3 still large. But have declined as percentage of GNP. Action on US fiscal deficit priority for new President.
- Welcome Berlin agreement on arrangements for sub-Saharan debt relief. Beats end year deadline set at Toronto.

D. East/West Relations

- Impressions from your visit to Moscow?
- Soviet leadership changes at end September showed Gorbachev's impatience and dominance.
- He is more than ever committed to rapid results but these still look distant, while nationality problems are accumulating and opposition (Ligachev) still there.
- Impact on KGB still unclear, but no reason to expect cut in subversive/overseas activities. No real effect on military. Continue to push for change.
- Western unity and firmness important. Encourage Gorbachev and draw benefit from movement over arms control, regional conflicts and human rights. But no unrequited concessions with illusion of "helping him".
- Signs Russians taking EC more seriously. Ensure mutual

ARGUMENTS FOR USE

benefit in any agreements.

- Afghanistan: expose any Soviet attempt to argue withdrawal should now halt, to claim credit for withdrawing, or to pretend Kabul regime is "neutral".
- Draft UNGA resolution agreed by Pakistan and USSR preserves all essential principles. Hope for consensus.
- CSCE: early end to Vienna desirable, but not at cost of lower human rights objectives. Continuing Western unity crucial to extract Eastern concessions.
- Remain opposed to Moscow Humanitarian Conference. Soviet human rights performance has not improved enough. None of recent changes irreversible. No guarantee that conditions accepted now would be fulfilled in 1991.

E. Arms Control and Defence Issues

- Keep nuclear deterrent up to date. Obsolete weapons do not deter. Must not over-relax post-INF.
- Deterrent must be flexible and effective. Redeployment of DCAs and SLCMs to SACEUR important.
- Also keep SNF up to date, even if public opinion difficulties.
- NATO should agree orderly undramatic approach to modernisation decisions. Can start process in 1989.
- Conventional talks could start this year. Need agreed Western proposal. Or risk negotiating on Warsaw Pact terms.
- UK/Italy co-operating well. Hope for Allied consensus on basis of recent UK proposal.
- Chemical: some encouraging progress but much detailed work remaining. Convention must be effective and enhance security. Effective verification important.
- Welcome agreement on action against CW use and proliferation, particularly UNSCRs 612 and 620. Welcome Reagan initiative for Conference on 1925 Geneva Protocol.
- "Burden-sharing" will remain important. Europeans together will have to take on more; and be seen to do so by new Administration.
- Italy's acceptance of F16s from Spain valuable.

ARGUMENTS FOR USE

- For each nation to examine what it can do: some in US will concentrate on those who spend lower GDP proportion on defence.
- Important also to improve value for money: competition in procurement; collaboration where it makes financial and operational sense.
- Bilateral defence contacts should strengthen, not detract from, commitment to Alliance. Maximise contributions of France and Spain to common defence.
- WEU useful in support of Alliance's European pillar.
- Negotiations with Spain/Portugal going well. Hope to sign Protocol of Accession at 14 November Ministerial, provided outstanding issues can be resolved.

F. Industrial, Scientific and Technological Collaboration

- Welcome continuing and effective collaboration in many areas of science, technology and industry. Much mutual benefit. Pleased that signature of ISIS agreement will soon be possible. Professor Ruberti's reinstated visit will enable detailed discussion of all these issues.
- Wish Italians well in their forthcoming EUREKA presidency. UK strongly committed to EUREKA and its industry-led market-driven philosophy.

G. Bilateral

- Double Taxation: welcome agreement.
- Sequestration of Drug-Related Assets: international action needed to fight drug trafficking.
- Officials' discussions of arrangements for judicial co-operation should be pursued quickly.
- UK Drug Trafficking Offences Act created effective powers to trace, freeze and confiscate assets. Reciprocal agreements make these available to foreign governments.
- Agreements already with USA, Bahamas, Canada and Australia. Others expected.
- Please do what you can to speed up Parliamentary approval of Extradition Treaty.
- European Air Traffic Control: co-ordination has to be on

ARGUMENTS FOR USE

widest basis to be effective; Eurocontrol best prospect.

- Establishment of a single supranational ATC organisation impractical. Current UK initiative in Eurocontrol for a Central Flow Management Unit (CFMU) more effective: monitor airspace demand/performance of individual air traffic zones, minimize bottlenecks, even out delays.
- Participation by Italy would benefit your tourist industry. No effective voice in control/administration of CFMU without full membership.

OUR RESPONSE TO THEIR ARGUMENTS

A. EC Issues

- Raising external barriers inconsistent with purpose of Single Market - to stimulate competition and efficiency.
- Difficult to see how national measures could survive post 1992. Each sector will need scrutinising (eg VRAs) rigorously.
- "Reciprocity" needs careful handling. Speculation has alarmed trading partners; can too easily lead to raising of barriers. Must make full use of opportunities offered by Uruguay Round to secure equivalent liberalisation from trading partners.
- Now that the US have moved in the GATT agricultural negotiations on short term measures and on the longer term objective, the Community simply cannot sit tight. This would risk isolation, and failure of the negotiations: not in EC interest. Community must play a constructive role.
- On "social dimension" must avoid excess regulation, increasing costs (and so killing jobs). Need instead to build on 1986 Employment Growth Resolution (which you co-sponsored with us), to help business, and provide more training.
- We favour more monetary co-operation. But let's be practical; implement capital liberalisation; develop ecu; increase cross-holdings of national currencies in reserves.
- Little prospect of agreement at Community level on right to vote for non-nationals. But open to Italians to resubmit their proposal.

B. Regional Issues

- UK/Iran: have agreed to restore full diplomatic representation. Response to signs of positive changes in Iran which we hope to reinforce.
- Gulf: Italians alone if hold back from Cleansweep.
- UN Secretary General unsighted when first spoke to Andreotti. Now confirmed he sees merit in proposal.
- Merchant shipping organisations also in favour.

OUR RESPONSES TO THEIR ARGUMENTS

- Libya: we would welcome a reformed Qadhafi. He is courting the West. But internal changes either limited or cosmetic, and all EC partners agree no evidence of change in foreign policy or on terrorism. Too many people being killed/wounded by weapons he supplied to give him benefit of doubt.
- Must continue to isolate him and do all we can to cut off supplies of arms/CW precursors.
- Our views on economic sanctions well known. We maintain the arms embargo. We do not encourage businessmen to go to Libya but cannot prevent them. Number of British in Libya about half that before break in relations. UK market share less than Italy and FRG.
- Arab/Israel: Twelve should be realistic. US engagement in peace process crucial if Israelis are to move: any action by Twelve should be complementary.
- Agree Palestinians must be involved. But we must stand firm on conditions for PLO to become negotiating partner.
- Twelve already play valuable role: representations to Israelis on practices in Occupied Territories, EC trade access agreement for produce from Occupied Territories.
- South Africa: punitive sanctions would stiffen resistance to change, hurt black South Africans and South Africa's neighbours. Foreign Secretary found increasing acceptance of our position during recent visit to Africa.
- Angola/Namibia: encouraging progress, but difficult obstacles remain: eg timetable for Cuban troop withdrawal. Steps needed towards internal reconciliation in Angola. Europe should encourage US to remain engaged.

C. International Economic Issues

- Agree prospects for reductions in FRG surplus not encouraging. Best to emphasise need for structural reforms. But problem of imbalances should be kept in proportion as Chancellor pointed out in IMF Berlin speech.
- If interest rates had not risen now to choke inflation, could have been worse trouble later.
- On debt, continue to believe in case-by-case voluntary

OUR RESPONSES TO THEIR ARGUMENTS

approach. Welcome Berlin agreement that risk should not be shifted from banks to public sector. Encouraging recent developments on "menu approach". Await further details of French and Japanese initiatives.

D. East/West Relations

- CSCE: too many proposals for follow up. Too costly. 6/7 meetings enough. Our priorities: Conventional Stability/Confidence Building talks; 3 stage Conference on the Human Dimension (CHD); London Information Forum. Most other proposals, if not withdrawn, should be referred to next Follow-up Meeting.
- British Scientists unenthusiastic about 1980 Hamburg CSCE Scientific Forum. No interest in another such meeting, at least now.

E. Arms Control and Defence Issues

- NATO should take modernisation decisions as necessary, not wait on developments in East/West relations.
- CW: UK remains committed to global ban, active in negotiations.
- Italy's defence spending is 2.2% of GDP: half that of UK.
- Vital importance of Southern Region not forgotten, though most UK forces naturally concentrate on Central and Northern Region.
- WEU: attach importance to securing agreed conclusions of negotiations which can be used with Parliaments.

F. Industrial, Scientific and Technological Collaboration

- CERN: too soon after Council meeting for us to have been able to study implications in detail. [Outcome of Council on 14 October may enable Prime Minister to say more.]
- Mixed Commission: Professor Ruberti's visit an opportunity to discuss this suggestion. But primarily for industry to take decisions. No extra bureaucracy needed.
- HDTV: first step should be for Italian companies to apply to project directorate: Government has very limited influence on Board's composition.

OUR RESPONSES TO THEIR ARGUMENTS

- Space Science: we have no wish to prevent other Member States increasing their contributions if a way can be found to do this: we hope to put forward practical suggestions soon.

G. Bilateral Issues

- Drug-Related Assets: also strongly support multilateral agreements, but they can be slow to establish, are usually of a general nature and may not address specific differences between legal systems. Bilateral agreements more detailed, complement multilateral ones.
- Air Traffic Control: decision on membership needed soon or Italy could be too late to influence developments within Eurocontrol.
- State Visit: wish to reinstate but programme fixed long in advance, and cannot yet propose firm date.
- Sure you understand why we could not accept Karin B cargo. Needed proper description and details in advance.
- UK not set against import of difficult waste. Our regulations to implement EC directive on trans-frontier shipment of hazardous waste came into force from 14 October 1988.

BACKGROUND

A. EC Issues

Single Market

- Fifty six measures agreed during the German Presidency including liberalisation of capital movements, mutual recognition of diplomas, opening up of public contracts, road haulage and non-life insurance. Nearly 200 measures agreed since 1985 Milan European Council.
- Italians may have difficulties on the Commission proposal to extend liberalisation of public purchasing to sectors hitherto excluded: water, energy, transport and telecommunications. Among our priorities, they are not keen to see further transport liberalisation, particularly on shipping cabotage. The Italians aim for harmonisation. They are reluctant to liberalise or deregulate. UK coastal waters are open to the merchant navies of other member states. Those of Italy are not.

External Aspects of Single Market

- The Hanover European Council Declaration in June stated "The internal market should not close in on itself. In conformity with the provisions of GATT, the Community should be open to third countries and must negotiate with those countries where necessary to ensure access to their markets for Community exports."
- Italian instincts remain relatively protectionist. They are likely to argue in favour of retaining some national or EC-wide trade restrictions. Their views on reciprocity and need to align EC policy on the Single Market with EC negotiating stance in Uruguay Round closer to our own in principle, but they may be less liberal on specific Single Market issues (eg Second Banking Directive).

Reciprocity in the Second Banking Directive

- Commission proposal: authorisation of a non-EC bank in London would be conditional on all EC banks having access to

the home market of the non-EC bank. We and others have made our opposition clear, although a majority of member states seem to want some kind of reciprocity. The Italians have not decided their line, but are wary of the Commission's proposals.

Social Dimension

- Social policy likely to receive greater prominence under Greek, Spanish and French Presidencies. But so far practical results have been few and have if anything reflected our priorities, eg at Hanover. Commission proposals in September were not as bad as we feared. But we could have difficulty on labour relations proposals.
- Results of Social Ministers Informal Council on 20 September encouraging. The main points of agreement were on vocational training, labour market flexibility, and respect for national differences. All three are central to our approach to social aspects of Single Market.

European Company Statute (ECS)

- The Commission are consulting on a proposal for a European Company Statute. We are consulting UK industry. Problem areas: worker participation; scale of work required; implications for taxation. Italians inclined to support the ECS, but their thinking is at an early stage.

GATT: Uruguay Round

- GATT Mid Term Ministerial Meeting (MTM) will take place on 5/8 December in Montreal. Lord Young will represent UK. The informal meeting of Trade Ministers in Islamabad on 1-3 October cleared much of the ground. General agreement on need for early decisions where possible (tropical products, functioning of GATT, including dispute settlement) and for detailed frameworks to guide negotiations in other areas. On agriculture US indicated willingness to look at short term measures within a framework which also addresses the long term (eg the Cairns Group proposals); and some flexibility on the long term goal of zero support by the

BACKGROUND

year 2000. The Community is in danger of becoming isolated, camping on initial short term proposals, and refusing to address the long term seriously. We need to generate support for a more constructive approach to counter-balance French views.

- On most MTM subjects, Italian objectives are broadly in line with ours, although they remain cautious on new issues. But on agriculture they are likely to resist further specific commitments by the Community at the MTM, arguing instead for agreement on a general framework for rest of Round.

Voting in EP elections

- Italian proposal: EC citizens resident in another Member State should have right to vote in country of residence. This either through bilateral agreements between Member States or multilaterally EC-wide. Little prospect of agreement EC-wide. UK has no interest in bilateral agreement.

VAT/Excise Duty Approximation

- Italians accept principle of tax approximation but have difficulty with substance of Commission proposals. Major problem is on wine, on which they currently have no excise duty and low rate of VAT. At ECOFIN Informal, Italians neither accepted nor dismissed Chancellor's market approach, but wanted more flexibility in Commission proposals. Suggested range of rates for excise duty as well as VAT, and time for gradual convergence of rates.

BACKGROUND

B. Regional Issues

- Iran/Iraq: Italians contribute 15 men to the UNIIMOG force in Iran, but their offer to provide men in Iraq was rejected. They have refused to supply the Iraqis with a frigate ordered a few years ago, despite the ceasefire. They have maintained close links including trade with Iran.
- Libya/Terrorism: Jalloud is to visit Italy 26 October. Andreotti was reported as planning to go to Tripoli but Italians have told us at official level that no visit is in prospect. Italians have recently agreed to supply turn-key hospital project to Libya as reparations for Mussolini's colonial government.
- Lord Glenarthur signed Intergovernmental Maritime Organisation Convention on Maritime Terrorism on 22 September. It is based on the "prosecute and extradite" principle of the anti-hijacking conventions. Joint initiative of Italy, Austria and Egypt.
- Tornado for Jordan: MOU and Sales Agreement for sale of 8 Tornado IDS aircraft signed at Farnborough on 9 September. Total contract value approx. £500 million (UK £338 million, FRG £116 million, Italy £46 million). Italian credit arrangements still bogged down in bureaucracy.
- Arab/Israel: several Italian politicians are keen on European initiative. In Tunis in August, Craxi encouraged Arafat to declare an independent Palestinian State and government. The Italians have insisted that their policy remains based on agreed position of the Twelve. But Andreotti told the Foreign Secretary at UNGA that he thought Arafat's Strasbourg address went as far as he might before the Israeli elections: and that more pressure should now be put on the Israelis.
- South Africa: in recent letter to the Foreign Secretary, Andreotti stated that sanctions are an "integral part of a politically systematic strategy" towards South Africa. Italians favour an EC ban on coal imports but oppose action on airlinks (Alitalia fly to South Africa and are currently trying to capture a larger share of South African Transatlantic traffic). On 8 March, Italy voted for a UN Security Council Resolution calling for selective mandatory sanctions.

BACKGROUND

C. International Economic Issues

- The latest G7 communiqué was issued on 24 September in Berlin; Finance Ministers met in the margins of the IMF/IBRD meetings.
- IMF forecasts for 1989 suggest that G7 growth will moderate to 3% and inflation increase slightly to 3.5%. IMF estimate that Japanese surplus will have declined between 1986 and 1988 from 4.5% of GNP to 2.75% and German surplus from 4.5% to 3.75%; the US deficit should decrease from a peak of 3.5% in 1987 to 2.5% in 1988. The imbalances are forecast to continue to decline, but more slowly in 1989.

- G7 positions on the Toronto debt concessions are:

interest rate reductions	- UK, Italy, Canada and (probably) FRG
principal reduction	- France
extended repayment	- US

- Japan has accepted comparability arrangements but not declared preferred option.
- Japan and France have both proposed outline schemes for middle-income debtors. We are concerned that holding out hopes of a global solution could undermine progress on the current case-by-case approach. The Japanese scheme, first floated in Toronto, involves debtors contributing reserves into escrow accounts at the IMF as collateral for securitised debt (bond issues) for which banks might exchange their existing debt. The weak reserve position of many debtors could lead to pressure for a creditor government contribution to such a scheme. The French proposal involves developed countries contributing their share of an SDR allocation (which we oppose on other grounds). The Japanese also offered to provide substantial untied concessional finance from their Export-Import Bank for middle-income debtors in parallel with IMF programmes. Camdessus suggested that other countries, "particularly surplus countries", should follow the Japanese examples. Because of close links with many Latin American countries, Italians may be tempted to follow either Japan or France; in any case they favour a new SDR allocation.

BACKGROUND

D. East/West Relations

- De Mita is visiting Moscow 14-16 October, primarily to inaugurate the Italia-2000 Exhibition on 15 October but also to meet Gorbachev and Ryzkhov. Italian industry successful in winning major Soviet contracts.
- Some progress recently at Vienna CSCE Meeting on human rights but some key issues unresolved (autonomy of Conventional Stability Talks; Helsinki Monitors; freedom of Movement; jamming of radio broadcasts; follow-up activities). Meeting now likely to end in November.
- Russians renewing campaign for Moscow Humanitarian Conference. Signs of possible US change of position in the light of human rights improvements in USSR and hope of squeezing out more. (This could leave UK and Portugal isolated in opposition. France has now shifted ground.) Italy in favour of Moscow in return for Soviet fulfilment of minimal conditions. Alternative venues for 3rd CDH meeting are Geneva and Valletta.
- Many in West agree on need to restrict number of follow-up activities but no-one prepared to take the lead or to drop pet projects. We are arguing against less well supported proposals including the Italian sponsored Scientific Forum. Our scientists see little point in it and there are doubts about the Italian "World Laboratory" and its director who is behind it.

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E. Arms Control and Defence Issues

- Comprehensive Concept exercise designed to help (especially) FRG politicians to maintain public support for SNF modernisation. We are prepared to see internal Alliance "examination" of the possibilities for SNF arms control, but do not want to see NATO's SNF capability, and the HLG/SHAPE analysis of SNF requirements after INF agreement, held hostage to an arms control negotiation.
- Discussions continue in Brussels about Alliance proposals at the coming conventional stability negotiations. Italians participate in the "Quint" (with FRG, France, US and UK), but contribute little.
- UK compromise proposal does not yet command the support of Norway, Denmark or Turkey, or of some sections of the US Administration.
- US Deputy Defence Secretary Taft is to report on burden-sharing by December. He appears to have accepted that the issue must be approached within the Alliance, rather than between the US and individual Allies; and to recognise the value of eg an increased Spanish contribution and successful relocation of 401st Tactical Fighter Wing. NATO preparing a report on areas in which Europeans could do more.
- WEU: Spain has indicated her support of nuclear deterrence and plans for creating Rapid Deployment Force. Prospects for agreement of Spain/NATO Guidelines improved. If agreed in time, could sign Protocol of Accession at 14 November WEU Ministerial.

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F. Industrial, Scientific and Technological Collaboration

- Industrial Collaboration: Italy one of DTI's priority European countries for promotion of bilateral industrial collaboration. UK investment in Italy (1986) more than French, less than Germans. Work underway on setting up initial contact points for companies seeking collaborative partners as suggested at Inter-regional Co-operation Conference in Italy by Mr Maude (PUSS, DTI). Examples of current major collaborative projects include GEC/ANSALDO Trasporti (railway development) and ICI/ENICHEM (PVC production: 25% of European market). Italians have just cancelled 25 October officials' Round Table on aspects of industrial collaboration.

- Mr Jackson (PUSS, DES) called on Italian Science Minister Professor Ruberti in Rome on 8 October, to seek Italian agreement at 14 October CERN Council to introduction of revised contribution system in 1989: significantly to UK's advantage and Italians' disadvantage (other members have agreed, but unanimity is required). Italians refused, but hint of compromise. Revised contribution already agreed from 1990.

- Professor Ruberti accepted in principle Mr Jackson's invitation to reinstate cancelled 27-29 September visit, when he would have called on DES, DTI and FCO Ministers.

- ISIS Intergovernmental Agreement: nearly ready for signature; should lead to Italian financial contribution (Italian scientists use 10% of ISIS research time).

- EUREKA: Italians take over presidency from Austria for 1 year from June 1989.

- Mixed Commission: Italy has recently set up bilateral mixed commissions on scientific co-operation with France and Germany, and seeks equivalent with UK, in particular, to develop new materials, micro-electronics and biology collaboration.

- High Definition Television: UK involved in industry-led EUREKA project developing European standard, in competition with Japanese. Project developing well. Italians putting much effort into the work but not yet ready to be

BACKGROUND

represented on project directorate.

- Space Science: 5-year 5% pa cumulative increase in ESA core budget (Horizon 2000) requires unanimous agreement of Member States: only UK against. UK was asked to reconsider when admitted to Columbus Space Station programme in June.
- EC R&D: UK made a significant contribution in Research Council to the decision in June this year, which set a more satisfactory course for EC's Joint Research Council. The largest JRC laboratory is at ISPRA in North Italy.
- Scientific Collaboration: good links based on UK Research Council (specifically SERC) with Italian participation in major UK facilities, joint projects eg space science, and informal collaboration. Exchange supported by long-standing programme between British Council and Italian National Research Council (CNR). Royal Society wishes to expand bilateral schemes; currently awaiting Italian agreement.

BACKGROUND

G. Bilateral

- The Prime Minister and De Mita last met at Hanover Summit in June 1988, and had their first bilateral in the margins of Toronto Economic Summit.
- Double Taxation: see Annex D.
- Extradition: see Annex E.
- Sequestration of Drug-Related Assets: Officials met in Rome earlier this month to discuss compatibility of UK and Italian law. Italians are strengthening legislation on confiscation and mutual assistance.
- Draft UN Convention Against Illicit Trafficking due for adoption in Nov/Dec. Italians lead on European Convention on Confiscation, but some years from completion.
- European Air Traffic Control: Single supranational air traffic control system for Europe is unrealistic - disadvantages include bureaucratic control, implications for military use of air space susceptibility to industrial action. In September we launched an initiative in Eurocontrol to establish Central Flow Management Unit (CFMU). The CFMU would monitor air space demand across Europe, monitor the performance of individual air traffic zones, and take appropriate action to minimise bottlenecks and even out delays. It could come under ICAO auspices so that any state (even non members of Eurocontrol) could take advantage of it on a repayment basis.
- State Visit: the State Visit planned for 17-20 November 1987, cancelled at the last moment when Prime Minister Goria resigned. No date has yet been set for reinstatement.
- Environment: in August UK authorities turned away West German ship Karin B, chartered by Italian Government, carrying toxic waste back from Nigeria, where it had been dumped illegally.
- Styles of Address: Worth noting that eminent Italians hardly ever address each other as just "Signor". De Mita is called "Signor Presidente", and other Ministers "Signor Ministro" or "Ministro so and so".

ANNEX A

ANGLO-ITALIAN SUMMIT : VILLA TARANTO 21 OCTOBER

Programme

0940	Foreign Secretary arrives Milan.
0955	Prime Minister's party arrives Milan by RAF VC10. Met by De Mita, Sir Derek Thomas and HM Consul-General, Milan.
1040	Arrive Villa.
1100-c.1230	Ministerial bilaterals
1200	Prime Ministers joined by Foreign Ministers.
1230-1300	Plenary Session.
1315-1415	Lunch.
1415-1430	Available for private briefing for press conference.
1435-1515	Press Conference.
1515-1545 (approx)	Tree planting (with De Mita).
1515	Depart Villa Taranto.
1715 (approx)	Arrive Milan Airport. Return to London.

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PERSONALITY NOTES

Onorevole Luigi Ciriaco De Mita

Onorevole Giulio Andreotti

Onorevole Antonio Gava

Onorevole Valerio Zanone

Ministro Renato Ruggiero

Professor Antonio La Pergola

HE Ambassador Boris Biancheri

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DE MITA, ONOREVOLE LUIGI CIRIACO

President of the Council of Ministers (Christian Democrat/DC).

Born the son of a tailor near Avellino in 1928. Deputy for Avellino since 1963.

Graduated in Law from the Catholic University of Milan.

Under-Secretary in the Ministry of the Interior during the third Rumor government, April-August 1970. Minister of Industry, July 1973-November 1974. Minister for Foreign Trade, November 1974-August 1976 when he was appointed Minister for the South, which he remained in Andreotti's Fourth Government (March 1978-January 1979).

De Mita came to the top in 1969 when, working together with Forlani, he succeeded in temporarily wresting control of the party Secretariat from the older generation. De Mita himself became a Vice Secretary of the DC at this time. As one of the leaders of the leftish "Base" faction, he openly attacked the second (centre-right) Andreotti Government (1972-73), while retaining his post in the Secretariat until early 1973. He remained very active in party politics, generally opposing and in the end helping to unseat Fanfani as Party Secretary. His position improved after 1976, when Andreotti began to pursue his policy of collaboration with the PCI. In March 1979, he again became Vice Secretary of the DC and, although he lost the position after the party congress in early 1980 decided on an anti-PCI line, he was reappointed Vice Secretary in December 1980. During the DC Congress in May 1982, he was directly elected Secretary to the Party, in succession to Piccoli: this was a new procedure for the DC. Member of the Chamber Foreign Affairs Commission. President of the Council of Ministers April 1988 in succession to Giovanni Goria.

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Independent and ambitious, De Mita did something to restore DC self-confidence in 1982, not least by taking a firm line with Craxi during the V Fanfani Government. He has surrounded himself at DC Headquarters with cronies. There has been no sign of any move back to his earlier policy of greater openness to the PCI. Indeed he has denounced the line taken by the PCI under Natta in very strong and forthright terms. He paid well-publicised visits to the United States in January 1983, December 1984 and January 1986. He remains popular in his home area and speaks a fairly thick dialect (a gift to political cartoonists) which he is trying to eliminate. As Party Secretary, he kept to his political circles and avoided meeting Ambassadors. An advocate of more rigorous economic policies before the elections in June 1983; he was blamed by many in the party for the DC's poor performance at the polls, but successfully survived the party Congress held in February 1984. Despite his efforts, he is not very popular with the DC in North Italy. He made strenuous efforts to clean up the image of the scandal-ridden regional section of the DC in Sicily. He visited several Latin American states in January 1986 and attaches importance to links with DC parties in that continent.

Alleged to have been a somewhat reluctant candidate for the Presidency of the Council, but seems, despite his inexperience, to be making a good showing. Likely to remain DC Party Secretary until DC Congress in January.

Married with three daughters (one of whom comes to UK to study English) and one son.

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ANDREOTTI, ONOREVOLE GIULIO

Minister for Foreign Affairs.

Born Rome 1919. Graduated in law. Served in the army for 12 months 1940-41, but released for health reasons. Member of the Constituent Assembly 1946-48 and a Christian Democrat (DC) Deputy for Rome since 1948. Under-Secretary (Junior Minister) in the Prime Minister's office 1947-54; Minister of the Interior 1954; Finance 1955-57; Treasury 1958; Defence 1959-66; Industry 1966-68. DC group leader in the Chamber 1966-72. Prime Minister February to July 1973. Minister of Defence March to November 1974; Minister for the Budget, Economic Planning and Mezzogiorno (the South) November 1974 to August 1976. In January 1979, Andreotti headed a caretaker government (his fifth) to prepare for elections. President of the Chamber's Foreign Affairs Commission 1979-1983. Foreign Minister in the first Craxi Government in 1983 and subsequently.

A supreme political tactician, unsurpassed in experience by other Italian politicans. A reputation as the most adroit and least scrupulous of DC leaders. Close links to Vatican. Hard worker, and pushes staff hard. Has brought greater confidence to conduct of Italian foreign policy. An operator and manipulator, he works a large and efficient patronage system. Keeps a detailed diary, which is feared by his enemies and friends alike. Reputation suffered in 1984 from alleged connections with organised crime in Sicily.

A witty and effective speaker, appearing regularly on television. Sometimes initially chilly, improves on acquaintance and is generally very courteous. A devout Catholic. A prolific author. Writes a weekly magazine column. Keenly interested in football and horse racing.

Married (Livia) with two daughters and a son. No English but good French.

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GAVA, ONOREVOLE ANTONIO

Minister of Interior (Christian Democrat).

Born at Castellamare (near Naples) in 1930, one of eight sons of Silvio Gava, who was a DC Minister in many post-war Governments. Lives in Naples where his brand of patronage politics goes down well. A graduate in law, he became President of the Provincial administration of Naples in 1961, DC Provincial Secretary for Campania in 1969, and President of the first Regional Assembly of Campania in 1970. He has been a Deputy for Naples/Caserta since 1972. He survived fierce accusations of mismanagement and corruption during the Naples cholera outbreak in 1973. He is a member of the DC Directorate. His Ministerial appointment for Relations with Parliament in Forlani's Government (October 1980 - May 1981) was his first and he made little impression on what was essentially a non-job. But his weight within the party is such that he was likely to receive another Ministerial post, especially given his support for De Mita at the 1982 DC Congress. He was rewarded with the Ministry of Post and Telecommunications in Craxi's First Government in 1983 and with the Finance Ministry in Goria's government (July 1987). Minister of Interior, April 1988 under De Mita.

In party terms he is effectively the leader of the "Doroteo" (left-centre) faction. He has also been head of the political secretariat of Piccoli. He is the worst kind of DC Southern boss, but the party needs him to gather Neapolitan votes at election time. His critics persistently accuse him of links with organised crime in Naples (the Camorra). Most recently, he was accused of involvement with the Mafia, but De Mita personally defended him and refused his resignation.

He is married with three sons. Astute but not intelligent. No foreign languages.

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ZANONE, ONOREVOLE VALERIO

Minister of Defence (Liberal).

Born Turin 1936.

Degree in literature. Journalist. Member of PLI National Council since 1969. Member of Piedmont Regional Council 1970-76. Member of PLI Directorate since 1971. Elected Party Secretary in February 1976. Deputy for Turin since June 1976, but lives in Rome. Member of Chamber Foreign Affairs Commission.

Zanone was elected PLI Secretary in a generational change after the removal of Malagodi, following the party's severe defeat in the general election of June 1976, in which it was reduced from 20 to 5 seats in the Chamber of Deputies. Malagodi was thought to have taken the party too far to the right, identifying it with middle-class and business interests, and Zanone tried to give it a more reformist image. At the party's 1981 Congress Zanone led it still further in the direction of an Italian-style "Lib-Lab" alliance, isolating the small group of right wingers who still opposed him. But he is rather grey, and the Liberals did not do as well as they had hoped in the 1983 elections. Re-elected Secretary at the 1984 Congress. In August 1985 he became Minister for the Environment. Minister of Defence under De Mita (April 1988).

Zanone is well disposed towards Britain, where his daughter was for a short time at school, and spent his summer holidays there in 1983. He has sought increased contact between the PLI and the British Liberal Party. One of the few leading politicians who goes out and about in Rome. Friendly and sociable, but inclined to pomposity. His wife is rather shy, but can speak English. He speaks French but not English.

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RUGGIERO, RENATO

Minister for Foreign Trade (Socialist).

Born in Naples in 1930. He graduated in law from Naples University in 1953, and joined the Foreign Service in 1955. Served in San Paolo 1956-58, Moscow 1959-60, Washington 1962-64. After a spell in Rome, Counsellor Belgrade 1966-68. Head of the Under-Secretary's Private Office in 1968. Counsellor to the Italian Mission to the EC in 1969. In 1970 chef de cabinet of the President of the Commission and in 1973 Director General responsible for Regional Policy. In 1977 Spokesman and Director General of Information in the Commission. Returning to the Ministry in 1978, he worked on economic affairs until seconded as Diplomatic Counsellor to the Prime Minister in April 1979. Private Secretary to the Foreign Minister in August 1979, then Permanent Representative to the EC in mid-1980. He returned to Rome in January 1984 to become Director General of Economic Affairs at the MFA. In January 1985 he became Secretary General (PUS equivalent). In August 1987 appointed to present portfolio in Goria government. Retained it under De Mita (April 1988).

In the Commission he co-operated very closely with British colleagues in attempting to develop the Regional Fund as an effective instrument to benefit disadvantaged areas, notably in the UK and Italy. In 1979/80 and in 1983 he had the principal say in determining Italian policy on Community issues, hogging the subject and making it his own. Deeply committed to the European Community, he had a fund of constructive ideas, many of them sound, and was very helpful to the UK over the budget problem in 1980. Can intrigue and conspire effectively which makes him an awkward opponent if Italian interests conflict with ours. Awarded the KCMG during the 1980 State Visit.

Speaks good English and French. Ebullient, oversize and still very Neapolitan. Married. His attractive wife is of partly English descent.

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LA PERGOLA, ANTONIO

Minister for EC policy.

Born at Catania in 1931. Graduated in Law from Catania University. Post-graduate studies at Edinburgh (on a British Council fellowship), The Hague, Salzburg, Oxford and Harvard Universities. Author of numerous publications and constitutional law in Italian, English and Spanish. An authority on legal aspects of the relationship between central government and local authorities and that between national and European Community institutions.

President of the Constitutional Court, June 1986 to August 1987. Hosted a visit to Rome by Lord Hailsham, as Lord Chancellor in January 1987. Appointed Minister Without Portfolio by Goria (August 1987), after nomination by the PSDI.

Married. Quiet. Intelligent. Very good English. Friendly towards UK.

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BIANCHERI-CHIAPPORI, BORIS

Italian Ambassador, London.

Born in Rome in 1930. Degree in Law from Rome University, 1953. Entered Italian Diplomatic Service in 1956. Second Secretary in Athens from 1959-62; Vice-Consul in Toulon from 1962-64; Economic Affairs Directorate, MFA from 1964-68; Office of Special Commission for EXPO 70, 1968-70; Cultural Relations Directorate MFA from 1971-72; London from 1972-75; Secretary-General's office MFA from 1975-78; Private Secretary to Foreign Minister from 1978-80; Ambassador to Tokyo from 1980-84; Director-General for Personnel and Administration from 1984-85. Political Director MFA 1985-87.

Speaks good English and French. Married (Flavia), two children. Engaging and amusing, he is said to be well regarded by Andreotti. Interests: gardening, sailing, swimming, riding horses.

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ANNEX C

ANGLO-ITALIAN SUMMIT: 21 OCTOBER

Internal Situation

Political

- De Mita become President of the Council of Ministers in May 1988 following the resignation of Goria. His authority has grown in office. But he faces difficulties: key decisions are required on parliamentary procedures, finances, organised crime and pollution. He has to contend with continued sniping from Craxi, the PSI leader and former Prime Minister (1983-1987) whose ambitions to resume the leadership are undimmed.

- On 13 October De Mita secured the necessary majority to limit the secret vote (which hinders financial discipline; its use brought down the Goria government). Failure to do so would have precipitated a government crisis as Craxi would have withdrawn his party from the coalition. A good beginning.

Bilateral Trade

- Italy was the UK's fifth largest export market in 1987. UK visible exports to Italy £4.1 billion in 1987, 20% up on 1986 giving us a 5.3% share of Italian imports (FRG 21%; France 14%). Results to July 1988 disappointing - £2.3 billion compared with £2.5 billion for January-July 1987.
- UK enjoys good trade relations with Italy although there are some minor irritants arising from Italian protectionist measures. These are being pursued at official level.

Economy

- Italy's fiscal deficit is likely to overshoot the planned L 115 trillion (10.8% of GDP) level in 1988; present trends suggest that if additional restrictive measures are not taken, the deficit could increase to L 140 trillion (13.1% of GDP). The public debt/GDP ratio would consequently rise

from 93% of GDP at end 1987 to 98% at end 1988, the third highest level in the EC (behind Ireland and Belgium). In accordance with De Mita's medium-term fiscal programme - which aims to stabilise the debt ratio at 106% of GDP in 1992 - the 1989 draft budget, yet to be passed by Parliament, incorporates a reduction in the budget deficit to L 117 trillion (10% of GDP). Expenditure restraint is expected to leave scope for cuts in direct taxes and the deficit; but the debt ratio would continue to rise, to about 101%. The economy nonetheless continues to perform well. Italy is in her fifth year of vigorous growth (expected to be about 3½% in 1988), inflation remains close to 5% and the current account, though slipping deeper into deficit, remains easily manageable. Unemployment, at around 12% (the worst in the G7), continues to cause problems. The unusually lengthy period of economic growth is now raising concerns about overheating, as capacity utilisation has reached high levels and inflation is edging up.

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ITALY: Basic Statistics

		Italy	U.K.
Population (m)	1987	57.3	56.9
GDP ($bn)	1987	758.1	669.6
GDP per capita			
Market rate ($)	1987	13,224	11,767
Purchasing power parity (UK=100)	1987	98.0	100.0
Policy targets			
Real GDP growth (%)	1987	3.1	4.6
Inflation (%)	1987	4.7	4.2
	July 1988	4.9	4.8
Unemployed (OECD standardised rate %)	1987	12.2e	10.3
Current account balance ($bn)	1987	-1.0	-4.1
Volume growth			
Exports (%)	1987	3.1	5.7
Imports (%)	1987	10.6	7.4
Policy variables			
General govt. deficit (% GDP)	1987	-10.5	-1.4
Growth of broad money supply (%)	1987	6.7	21.0
3-month interest rate (%)	1987	11.7	8.2
	August 1988	11.1	12.1
Real effective exchange rate	1987	1.9	-0.4
(% change)	Q2 1988	-3.0	6.7

Bilateral trade	1986	1987	1988 H1	(1987 H1)
UK exports to Italy (£bn)	3.5	4.1	2.0	(2.2)
UK imports from Italy (£bn)	4.7	5.2	2.7	(2.5)
Trade balance	-1.2	-1.1	-0.8	(-0.3)

Economic Advisers FCO
29.09.88

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UK/ITALY DOUBLE TAXATION CONVENTION

1. The existing UK/Italy double taxation convention dates from 1962, with a protocol in 1973. Talks on a replacement convention originally took place as far back as 1977 but, although a text was initialled that year, no further progress was possible. Negotiations were resumed in 1987. Two rounds of talks followed - in Rome last September and in London in February this year - and a text was initialled at the end of the second round.

Main features of the convention

2. The main features of the proposed convention are as follows.

3. Dividends Companies controlling 10% or more of the voting power in the company paying a dividend to individual investors and other companies, will be entitled to the half and full tax credit given by the other country respectively. This is subject to tax of 5% and 15% of the gross dividend being withheld in each case. This arrangement is reciprocal.

4. Interest Most interest will be subject to withholding tax at 10% in the state in which it arises, although a nil rate will apply in certain cases (such as in connection with the sale on credit of certain industrial, commercial or scientific equipment).

5. Royalties These will be subject to withholding at 8% (again in the state in which they arise).

6. Oil Special rules are included to cover the taxation of offshore activities.

7. Italian local income tax This tax will be covered by the Convention for the first time.

8. General In other respects the convention has been considerably modernised and generally follows the form of our agreements with other developed countries. Certain trading profits not arising through a permanent establishment, profits from shipping, inland waterways and air transport, pensions and the earnings of temporary business visitors and teachers are (subject to certain conditions) to be taxed only in

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the country of the taxpayer's residence. Government salaries and pensions are normally to be taxed only by the paying government. Certain payments to visiting students and business apprentices are to be exempt from tax in the country visited.

9. Income from immovable property and capital gains arising from the disposal of such property may be taxed in the country in which the property is situated as well as in the recipient's country of residence. Capital gains from the disposal of moveable property are to be taxed only in the country of residence of the person making the disposal unless they arise on assets of a permanent establishment or fixed base in the other country.

10. Where income continues to be taxable in both countries, relief from double taxation is to be given by the country of the taxpayer's residence. There are the usual provisions for safeguarding the nationals and residents of one country against discriminatory taxation in the other country and for the exchange of information and consultation between the taxation authorities of the two countries.

Double taxation conventions generally

11. The UK has some 80 double taxation conventions throughout the world. The purpose of the conventions is the elimination or reduction of double taxation and the prevention of fiscal evasion. The structure of the convention with Italy is typical of the UK's conventions generally.

INLAND REVENUE
October 1988

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ANGLO-ITALIAN SUMMIT: 21 OCTOBER 1988

BACKGROUND BRIEF FOR PRIME MINISTER
EXTRADITION TREATY

Background

1. Extradition with foreign states is currently governed by the Extradition Act 1870 which enables extradition arrangements made under bilateral treaties to be embodied in Orders in Council under the Act. The present UK/Italian Extradition Treaty dates from 1873. It has never been amended and for many years it has been recognised that the Treaty has defects. In particular, it does not allow for extradition for offences involving drugs, firearms or explosives. A new draft treaty was initialled in 1970 but the Italians (in whose court the ball lay), failed to take action for many years. They subsequently produced a revised draft in 1983 based mainly on the European Convention on Extradition (ECE), to which the UK cannot accede under the 1870 Act because of the prima facie requirement in the legislation.

2. In 1985, discussions took place on a new Treaty based on the 1970 draft. Agreement was reached and the Treaty was signed by the Foreign Secretary and the Home Secretary at the Anglo-Italian Summit in 1986. The text of the new Treaty was laid before Parliament on 12 June 1986.

Provisions of the new Treaty

3. The main changes between the 1873 Treaty and the new Treaty are as follows:-

- it adds drugs, firearms and explosive offences to the list of crimes for which extradition should be granted;
- it reflects current evidential requirements as clarified in recent judgements of the English courts;
- it provides, in accordance with the wish of the Italians, that the Director of Public Prosecutions may represent the Italian authorities in extradition proceedings in the UK;
- it imports into the text several of the provisions of the European Convention on Extradition and in places is modelled fairly closely on the 1985 Treaty with Spain.

Present position

4. Although the UK has been ready since 1986 to exchange instruments of ratification, the Italians have taken rather longer to secure the approval of their Parliament. It is understood that their Foreign Affairs Committee have submitted a favourable report on the Treaty and it only remains for it to be considered by the full House but this will not happen before the Summit.

5. Since the new Treaty was signed, the UK has enacted new extradition legislation, in Part I of the Criminal Justice Act 1988, which enables us to enter into extradition arrangements which do not include a requirement for prima facie evidence. When these provisions are brought into force, it will be possible for the UK to ratify the ECE. The Convention can then be embodied in an Order in Council under the 1988 Act and, if there are no Parliamentary objections, this would form the basis of our future extradition arrangements with other countries who are parties to the Convention.

6. The Italians have acceded to the ECE and would obviously prefer this to be the vehicle for extradition with the UK. But the timing of implementation of Part I of the 1988 Act is not yet certain (because of an exercise to consolidate extradition legislation) and it is not clear when we shall be in a position to ratify the Convention. When the Italians have completed their formalities on the Treaty, we shall need to consider with them whether it is worth proceeding with ratification in the light of the likely timing of our accession to the European Convention.

October 1988

C5 Division
Home Office
50 Queen Anne's Gate

LJR:DISK4

[redacted]

(1)

PRIME MINISTER

ANGLO-ITALIAN SUMMIT

You may like to look at the brief for the Anglo-Italian Summit next Friday. Actually there is not much in it and the Summit is largely a formality.

The particular points you will want to cover with De Mita are:

- He will just have returned from Moscow where he will have seen Gorbachev and Ryzkhov. You will want to ask about his impressions.

- You will want to urge him to agree to stiff pre-conditions - release of all political prisoners and prisoners of conscience, genuine freedom of emigration - before the West agrees to a human rights conference in Moscow. Otherwise, we shall be letting down people who have struggled valiantly for years to win human rights in the Soviet Union.

- You will also want to press the Italians hard to join Operation Cleansweep in the Gulf. They will be odd man out if they refuse to join in. It is a chance for Europe to make a direct and practical contribution in the area.

- They really must complete their procedures soon on credit for Tornado for Jordan. You spoke to De Mita about this in Toronto in June.

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- You will need to go over European Community issues - the Single Market, the social dimension, monetary co-operation - and try to inject some realism into Italian thinking.

- Finally, we need to start bearing down heavily on the protectionist Europeans like the Italians for progress on agriculture in the GATT, so that the Mid Term Meeting in Montreal is a success. The United States has started to moderate its hitherto unreasonable position. The European Community cannot just sit put on last February's reforms.

C. D. POWELL
14 October 1988

DASAPS

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1 (a-b) cc PS/DC

Foreign and Commonwealth Office

London SW1A 2AH

14 October 1988

Dear Charles, CDP 14/X.

Anglo-Italian Summit: 21 October 1988

The main brief for the Anglo-Italian Summit has been passed to the Cabinet Office for circulation.

The Prime Minister should also have the attached Annex classified Secret.

Yours ever,

Lyn Parker

(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

CONFIDENTIAL COVERING SECRET

The National Archives

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CCA

Foreign and Commonwealth Office

London SW1A 2AH

12 October 1988

Dear Charles,

Anglo-Italian Summit, 21 October

We do not yet have the Italian proposals for participation at the meetings between Prime Ministers nor the Plenary meeting. As it is unlikely that we shall have these in the near future, it is as well for us to make our own proposals. For the meeting between Prime Ministers one Private Secretary and an interpreter normally attend from each side. When Foreign Ministers join them, no extra officials are involved. For the Plenary session past form has been for each Minister to be accompanied by one senior official. In addition, the Ambassador normally attends, and the record is taken by a member of the Embassy. I expect that the Prime Minister's wish will be to maintain these limits on attendance. Subject to your views, therefore, we propose to urge the Italians to keep numbers to a minimum.

I am copying this letter to Philip Mawer (Home Office), Brian Hawtin (MOD) and Marjorie Davies (DTI).

Yours ever,

Lyn Parker

(L Parker)
Private Secretary

C D Powell ESq
10 Downing Street

12 X 21
PM

006400
MDHIAN 7120

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TO IMMEDIATE FCO
TELNO 556
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FOR WED

ANGLO/ITALIAN SUMMIT: BRIEFING

1. I HAVE BEEN CONSIDERING IN THE LIGHT OF LYN PARKER'S LETTER OF 29 SEPTEMBER TO NO 10 (COPIED TO US) SOME ADDITIONAL POINTS WHICH COULD BE USEFULLY INCORPORATED INTO THE BRIEFING FOR THE PRIME MINISTER AND OTHER MINISTERS.

2. PRIME MINISTER

(I) EAST/WEST RELATIONS. SEE MY LETTER OF 6 OCTOBER TO RATFORD.

(II) EC. THE PRIME MINISTER WILL WISH TO REINFORCE THE THEMES IN HER BRUGES SPEECH (OF WHICH A COPY IN ITALIAN HAS GONE TO DE MITA'S OFFICE). THE PRIME MINISTER'S PRAGMATIC APPROACH GAINS A CERTAIN UNDERSTANDING, IF NOT SYMPATHY HERE, AT LEAST AMONG AUDIENCES OF BUSINESSMEN. DE MITA WILL NOT ALLOW HIMSELF TO BE DISLODGED FROM THE ULTIMATE OBJECTIVE OF EUROPEAN UNION, WHICH SEEMS SO NATURAL TO MOST ITALIAN POLITICIANS. BUT HE IS NOT LIKELY TO INSIST ON THIS BEING PRESSED NOW, STILL LESS ADVOCATE THAT IT SHOULD TAKE ANY PARTICULAR FORM. HE WILL NOT ARGUE AGAINST THE IMMEDIATE IMPORTANCE OF WILLING AND ACTIVE COOPERATION BETWEEN INDEPENDENT SOVEREIGN STATES: NOR AGAINST THE IMPORTANCE OF PULLING DOWN THE BARRIERS TO ENTERPRISE: NOR AGAINST KEEPING THE COMMUNITY OPEN: NOR (WITH A BIT OF AN ALLOWANCE FOR ITALIAN HYPOCRACY) AGAINST THE NEED FOR THE EUROPEANS TO SHOULDER A GREATER SHARE OF ALLIANCE DEFENCE. SO THERE SHOULD BE A GOOD DEAL TO SHOW IN COMMON IN THE FINAL PRESS CONFERENCE, PERHAPS IN A FORM WHICH WILL BE USEFUL TO US AFTERWARDS WHEN THE ITALIANS SEEM TO BE BACKSLIDING FROM SOME OF THESE FIVE OBJECTIVES.

I ALSO HOPE THE PRIME MINISTER WILL INCLUDE IN THIS PART OF THE DISCUSSION HER PRACTICAL RESERVATIONS ABOUT THE NEED TO BE DEVOTING MUCH ENERGY AT THIS STAGE TO THE IDEA OF A EUROPEAN CENTRAL BANK, TO THE OBJECTIONABLE SIDE OF THE IDEAS CIRCULATING ON THE QUOTE SOCIAL SPACE UNQUOTE (BOTH OF WHICH DE MITA IS

INCLINED TO ACCEPT WITHOUT MUCH ARGUMENT) AND TO THE NEED TO MAINTAIN SOME BORDER CONTROLS IF WE ARE TO KEEP CONTROL OF TERRORISM, DRUGS TRAFFICKING AND ILLICIT ARMS SALES. THESE ARE LONG-TERM QUESTIONS WHICH WILL NOT BE DECIDED DURING DE MITA'S LIKELY TERM OF OFFICE, BUT IT IS IMPORTANT THAT HE SHOULD HEAR, AT FIRST HAND, THE OTHER SIDE OF THE ARGUMENT.

(III) TORNADO FOR JORDAN. CONSIDERATION IN THE ITALIAN BUREAUCRACY MAY STILL NOT HAVE PRODUCED A FINAL DECISION BY 21 OCTOBER: IN THAT CASE IT WOULD BE RIGHT FOR THE PRIME MINISTER TO RAISE IT WITH DE MITA.

(IV) SCIENTIFIC COLLABORATION. SEE MY TELNO 552, FOLLOWING MR JACKSON'S MEETING WITH RUBERTI ON 8 OCTOBER.

(V) LIBYA. IT WOULD BE USEFUL FOR THE PRIME MINISTER TO REINFORCE WITH DE MITA OUR CONCERNS OVER RECENT SIGNS OF ITALY'S WISH TO IMPROVE BILATERAL RELATIONS. ANDREOTTI, OF COURSE, KNOWS OUR VIEWS WELL BUT THE SECRETARY OF STATE SHOULD NEVERTHELESS GO OVER THEM AGAIN WITH HIM (SEE BELOW): THE SUBJECT COULD USEFULLY BE RETURNED TO WHEN THE FOREIGN MINISTERS JOIN THE PRIME MINISTERS TOWARDS THE END OF THE MEETING.

(VI) INTELLIGENCE LIAISON. SEE LAMPORT'S LETTER OF 15 SEPTEMBER TO FRY (WED).

(VII) PRESS CONFERENCE. WE DO NOT YET KNOW WHETHER DE MITA WILL MAKE THE OPENING STATEMENT, OR INVITE THE PRIME MINISTER TO DO SO. AS WELL AS DESCRIBING THE SUBJECTS DISCUSSED (HIGHLIGHTS WILL BE EAST/WEST RELATIONS, THE GULF, MIDDLE EAST, EC FUTURE DEVELOPMENT AND 1992), WE SHOULD USE THIS AS AN OPPORTUNITY TO BRING OUT POSITIVE ASPECTS OF OUR BILATERAL RELATIONS. THESE WOULD INCLUDE: FORTHCOMING BILATERAL MINISTERIAL VISITS, SUCH AS MR HURD'S, COOPERATION OVER DRUG TRAFICKING, SCIENTIFIC COLLABORATION IN THE CONTEXT OF RUBERTI'S REINSTATED VISIT. THE VISIT TO THE UK OF THE HEAD OF THE ITALIAN EMPLOYER'S FEDERATION IN EARLY NOVEMBER: AND (IF A FINAL TEXT CAN BE AGREED IN TIME) THE DOUBLE TAXATION AGREEMENT, WHICH I HOPE FOREIGN MINISTERS WILL BE ABLE TO SIGN ON 21 OCTOBER.

3. SECRETARY OF STATE

I HOPE THAT THE SECRETARY OF STATE WILL RAISE, AMONG OTHER SUBJECTS:

(I) DEVELOPMENTS IN YUGOSLAVIA, ALGERIA AND CHILE. THE ITALIANS HAVE STONG INTERESTS IN ALL THREE. ANDREOTTI IS LIKELY TO PUT THE CASE ONCE AGAIN FOR PROPPING UP THE YUGOSLAVS WITH MORE MONEY.

(II) MIDDLE EAST. THIS SHOULD INCLUDE BOTH THE GULF (OPERATION CLEANSWEEP) AND LIBYA. IT WOULD BE USEFUL - PARTICULARLY IF THE SECRETARY OF STATE HAS BEEN ABLE TO INCH ANDREOTTI FORWARD ON EITHER FRONT - TO REPORT ON THESE WHEN THE FOREING MINISTERS JOIN THE PRIME MINISTERS. IF ITALIAN HESITATION OVER CLEANSWEEP HAS BEEN OVERCOME BY THEN, WE SHALL BE ABLE TO WELCOME CONTINUED COOPERATION BY WEU MEMBERS OUT OF AREA.

(III) EAST/WEST RELATIONS. ANDREOTTI IS ACCOMPANYING DE MITA TO MOSCOW LATER THIS WEEK. THE SECRETARY OF STATE WILL WISH TO FOLLOW UP IN PARALLEL WITH THE PRIME MINISTER'S DISCUSSION WITH DE MITA.

(IV) ARMS TO ARGENTINA. THE SECRETARY OF STATE WILL NOT WISH TO MISS THIS OPPORTUNITY OF MAKING CLEAR THAT WE ARE STILL WATCHING THIS SPACE.

(V) EC. ANDREOTTI HAS ASKED THAT LA PERGOLA SHOULD BE PRESENT FOR A DISCUSSION ON EC AFFAIRS. I HAVE WELCOMED THIS.

4. DEFENCE MINISTERS

I HOPE THAT MR YOUNGER WILL BE BRIEFED TO COVER:

(I) ARGENTINA. ZANONE WILL HAVE RETURNED ON 20 OCTOBER FROM HIS VISIT TO ARGENTINA. IT WILL BE USEFUL TO HAVE A FIRST-HAND ACCOUNT.

(II) FIXED-WING AIRCRAFT FOR THE ITALIAN NAVY. IT IS A GOOD MOMENT TO RAISE THIS NOW THAT THE MARITIME AVIATION BILL IS ALMOST THROUGH PARLIAMENT. BUT IF WE ARE GOING TO SPEAK EFFECTIVELY, WE MUST HAVE CLEARED OUR MINDS ABOUT HOW TO TACKLE THE CHOICE BETWEEN AV8B AND SEA HARRIER. WHETHER WE DECIDE TO BACK THE AV8B OPTION OR LEAVE THE CHOICE TO THE ITALIANS, WE NEED TO BE ABLE TO EXPLAIN OUR REASONS TO ZANONE IN A WAY THAT DOES NOT LEAVE THE IMPRESSION THAT WE HAVE SOLD OUT TO THE US AIRCRAFT INDUSTRY.

5. HOME SECRETARY

WE HAVE FED INTO GAVA'S OFFICE A LIST OF SUBJECTS FOR DISCUSSION PROPOSED BY THE HOME SECRETARY. GAVA HAS NOW SAID THAT HE WOULD LIKE TO CONCENTRATE ON FRONTIER CONTROLS, TERRORISM, DRUGS AND

EXTRADITION. WE HAVE NO COMMENTS TO OFFER ON THESE. WE HAVE INFORMED THE HOME SECRETARY'S OFFICE.

6. TRADE MINISTERS

WE HAVE BEEN IN TOUCH DIRECTLY WITH THE DTI AND HAVE HAD A CHANCE TO COMMENT ON THEIR DRAFT BRIEF: NOTHING FURTHER TO ADD.

THOMAS

YYYY

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NNNN

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CDP 23/4.

Foreign and Commonwealth Office

London SW1A 2AH

Sir Patrick Wright KCMG
Permanent Under-Secretary of State

19 September 1988

Sir Robin Butler KCB CVO
Cabinet Office

cc- M. Powell (No 10)
M. Weston
M. Lavelle

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20 SEP 1988
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My dear Robin,

ANGLO-ITALIAN SUMMIT: 21 OCTOBER 1988

1. This letter sets the scene for the next Anglo-Italian Summit, due to be held at Lake Maggiore in Northern Italy on 21 October. The Summit was originally scheduled for 20 April, but had to be postponed because of the formation of a new Italian Government. The Prime Minister and Signor De Mita have since met at the Toronto Economic Summit and the Hanover European Council. Participation at the Summit is likely to include Foreign, Defence, Interior and Trade Ministers.

Objectives

2. Of our European partners, the Italians come close behind the French and Germans in their importance for UK interests. Italy, as a founder member of the European Community and NATO and as a modern, industrially advanced state with an economy roughly the same size as Britain's, is sensitive to any hint of exclusion from "top-table" gatherings. The Summit provides us with an opportunity to pursue some specific UK objectives and to demonstrate that we value Italy as a worthwhile partner and ally. Our objectives include:

- Influencing Italian views on current Community issues;
- Encouraging the Italians to maintain a realistic approach to East/West negotiations and to make a more effective contribution to NATO;
- Encouraging them to continue their naval presence in the Gulf in co-ordination with WEU partners;
- Encouraging them to continue a firm policy towards external terrorism and to stick to the agreed European approach to Libya;
- Encouraging increased industrial, scientific and technological collaboration;
- Accelerating progress on various bilateral agreements.

Internal

3. Ciriaco De Mita, the Christian Democrat Party Secretary, became Head of the Government in April 1988 with the same five-party coalition as his predecessor, Giovanni Goria. Because of

his standing within the largest party in the coalition and his greater political experience, De Mita's appointment was generally viewed as promising firmer and more stable government. As well as tackling pressing economic and social problems, such as the budget deficit and labour unrest in the public sector, the coalition's aim is to achieve structural reforms in both political and economic life to prepare Italy for 1992. The challenge for De Mita is to show that he and his government can provide effective and stable leadership after Craxi's relatively successful performance as President of the Council in 1983-86 and Goria's poor showing. De Mita's peformance during the summer has displayed considerable political agility. But the question remains whether he has the fibre to exercise sufficiently firm management of the coalition to bring about the painful changes which are necessary.

Economy

4. A medium-term budget consolidation programme was introduced this year, prompted by two fears: that the high and rising level of public debt (already 93% of GDP) would eventually lead investors to question the government's long-term solvency; and that EC capital market liberalisation (agreed in June) could lead to funding problems for the government, as it should make competition for domestic savings more intense and could increase upward pressure on interest rates. The programme aims to stabilise the public debt/GDP ratio at 106% in 1992, for which budget cuts of about 4% of GDP will be required compared with the policies De Mita inherited. Meanwhile, the real economy continues to perform well. Italy is in her fifth year of vigorous growth (expected to be over 3% in 1988), inflation remains close to 5% and the current account, though slipping deeper into deficit, remains manageable. But unemployment, at a national average around 12% (the worst in the G7), continues to cause problems, as does the worsening disparity between the economically successful North and the less prosperous South, where unemployment is now over 20%. The unusually long period of economic growth is now raising concerns about overheating.

European Community

5. The Summit will be an opportunity to discuss progress on the Single Market, and to try to influence Italian attitudes to the social dimension. We shall also want to explain our alternative approach to tax approximation, and to inject a note of realism into discussions on monetary co-operation.

6. On external EC issues, the Italians profess to be aware of the dangers of protectionism, but often - under pressure from interests like the Agnellis - find it difficult to live up to this on particular issues. We will wish to put across our strong views on the need for the Single Market to be outward looking and open (the Italians will have particular difficulty over removing quotas on Japanese vehicle imports, and perhaps over third

country access to financial service markets). We will also wish to stress the need for the Community to play a constructive role in the forthcoming Mid Term Meeting at the GATT Uruguay Round, not least on agriculture. It may also be appropriate to touch on the Community's other major preoccupation, the Lomé renegotiations which will just have started.

International Economic Issues

7. We may also want to raise other international economic issues following the Toronto Economic Summit and the IMF/IBRD meetings this month. Prospects for the world economy are now more encouraging than they appeared earlier in the year, and current attention is likely to focus on the risk of inflation and how to achieve the right mix of fiscal and monetary policies to combat it. The Italians continue to be concerned about intra-European imbalances (particularly Germany's trade surplus), which work against them and the French. If problems over the Toronto agreement on debt have not been resolved, we may need to raise this at the Summit.

Arms Control/Defence

8. Another major area for discussion will be the nexus of East/West and defence issues. De Mita, who is enjoying his first real exposure to international political life, is to visit Moscow on 14/15 October. Italians generally tend to be too ready to take an optimistic view of the changes taking place in the Soviet Union. This will be an opportunity to inject our own assessments of Gorbachev and to hear De Mita's impressions. We shall also wish to discuss the Alliance's arms control priorities. Depending on progress at the CSCE conference in Vienna, conventional arms control is likely to be particularly topical.

9. De Mita himself has publicly voiced some unrealistic thoughts about European defence co-operation, and it would be useful to go over this ground with him. The Italians are firm supporters of NATO and of the US contribution to Europe's defence. They earn high marks in Washington for their constructive approach to US forces in Italy. Their own defence spending is, however, low (the generally accepted, though possibly generous, figure is 2.1 per cent of GDP). Earlier this year, the Defence Minister, Zanone, announced plans to increase by 30 billion Lire over 10 years the funds devoted to long overdue equipment modernisation, but he will have great difficulties in getting approval for increased expenditure on this scale, given the present budgetary difficulties. One major procurement plan concerns fixed-wing aircraft for the navy: Sea Harrier is a serious contender. The Italians have agreed to take the American F16s from Spain and instal them in a base in Calabria, the move being financed by NATO's infrastructure budget. They recently resisted Gorbachev's suggestion that removal of the F16's be traded against increased Warsaw Pact reductions in aircraft.

Gulf/WEU

10. Italy's naval force in the Gulf was despatched only after considerable debate by a divided cabinet, and with instructions to distance itself from close European naval co-operation. The force has emerged unscathed from the conflict; and, following the cease-fire, De Mita committed his Government to close consultation with allies on the force's future moves. However, the Italians are proving reluctant to go along with our proposal to carry out one final route-survey of the main international shipping lanes. Andreotti is keen to keep on good terms with both parties to the conflict, and Italy has provided a contingent for the United Nations Iran/Iraq Monitoring Group; but it is serving only in Iran, apparently because Iraq refused to have the Italians on its territory.

Terrorism

11. In the 1970s and early 1980s Italy suffered badly from domestic terrorism. Incidents still occur, such as the murder of De Mita's adviser, Senator Ruffilli, by a faction of the Red Brigades. There have been a number of recent terrorist attacks in the Alto Adige/South Tyrol. But domestic terrorism has largely been brought under control as a result of a firm political line, and of successful actions by the security authorities, who carried off a major success in early September with the arrest of 21 Red Brigade suspects, including at least two of their leading members. Partly because of its geographical position, Italy remains vulnerable to the activities of Middle Eastern terrorist groups. Internal controls have improved, however, and there have been no incidents by Middle Eastern groups against Western targets since 1985. Two incidents in 1987 and 1988 against UK and US targets bear the hallmark of the Japanese Red Army. Bilateral co-operation against terrorism is good. Senior officials met most recently in April, and a bilateral visit by the Home Secretary to Rome is planned for January 1989.

12. The Italian government attaches considerable importance to its relations with its North African neighbours and to maintaining links with Libya. The Libyans have recently been working hard to improve bilateral relations. The Libyan Foreign Minister is due to visit Rome in October: and Andreotti may visit Tripoli soon after the Summit to take part in the first meeting for some years of the Italy/Libya Joint Economic Commission.

Bilateral Projects

13. A number of bilateral agreements are currently under negotiation. We hope to be able to sign a new Double Taxation Agreement during the Summit. We hope too to be able to announce the ratification of a new Extradition Agreement, agreement on minor amendments to the Consular Convention, and the start of talks on an agreement on sequestration of drug-related assets.

15. An area where there are opportunities to do more with the Italians is the whole field of industrial, scientific and technological co-operation - to build on Italy's industrial success and fears of French/German domination of European markets. Our share of the Italian market has been rising, but we are still well behind France and the FRG. Major current projects include Tornado, the European Figher Aircraft, the EH101 and A129 helicopters, and NFR90. Rolls Royce is providing Spey engines for the large AMX Fighter Programme. Although it will be up to industry to make the running, the Summit may help focus attention on the possibilities.

Other Issues

16. The Summit will provide an opportunity to review the position on AIDS nationally and internationally. The Karin B incident recently brought environmental issues into prominence, and these too may merit discussion.

Public Handling

17. We propose to agree with the Italians on announcement of the Summit on 11 October. We shall arrange pre-Summit briefing of London correspondents. The Summit will conclude with a press conference, at which we hope to highlight aspects of Anglo-Italian collaboration. I should welcome from other Departments any suggestions of "good news" items to which the Prime Minister could refer at the press conference.

Briefing

18. Briefing for the Prime Minister will consist of a Steering Brief which will be cleared through the Cabinet Office (MISC 76). I should be grateful to know of any subjects which Departments think the Steering Brief should cover in addition to those listed in this letter and annex, or on which separate briefs may be required. I shall myself have an opportunity to review preparations for the Summit when I see my Italian counterpart on 3 October.

19. I am sending copies of this letter to colleagues on the attached list.

Yours ever,

Patrick

Patrick Wright

List of Topics for Briefing

1. EC Issues

2. - East/West relations including developments in Soviet Union and Eastern Europe

   - Arms Control

   - Defence topics including European co-operation

3. International economic issues

4. Regional issues:

   a) Middle East

   b) South Africa

   c) Afghanistan

5. Terrorism

6. Bilateral

   a) Double Taxation

   b) Industrial, scientific and technological collaboration

   c) Bilateral Agreement on Sequestration of Drug-Related Assets

   d) Extradition Agreement

   e) UK/Italy Consular Convention

   f) Air Traffic Control

   g) State Visit (defensive)

7. Other Topics

   a) AIDS

   b) Environment

...

cc:

Sir Peter Middleton KCB, HM Treasury

Sir Clive Whitmore GCB CVO, Home Office

Sir Michael Quinlan KCB, MOD

Geoffrey Holland Esq CB, Department of Employment

Sir Terence Heiser KCB, Department of the Environment

Sir Brian Hayes GCB, Department of Trade & Industry

Christopher France Esq CB, Department of Health

Derek Andrews Esq CB CBE, MAFF

Sir Alan Bailey KCB, Department of Transport

Richard Francis Esq, British Council

Foreign and Commonwealth Office

London SW1A 2AH

Sir Patrick Wright KCMG
Permanent Under-Secretary of State

6 April 1988

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FILE No. .....

Sir Robin Butler, KCB CVO
Cabinet Office

cc: Mr. Powell (No 10)
Mr. Weston
Mr. Lavelle

My dear Robin,

ANGLO-ITALIAN SUMMIT: 20 APRIL 1988

1. This letter sets the scene for the next Anglo-Italian summmit, due to be held at Lake Maggiore in Northern Italy on 20 April. Although the summit may yet fall victim to the political uncertainties in Rome, we see little choice but to continue to plan on the assumption that it will go ahead. This in turn is based on the assumption that by 20 April a new Italian Government will be formed - something on which no-one is currently rushing to offer a prediction.

Objectives

2. The general objective of a Summit would be to demonstrate early to the new Italian government that we value Italy as a worthwhile partner and ally and give due weight to Italian views.

3. Specific objectives would include:
- Seeking Italian support in the run-up to Hanover for our objectives on Single Market issues;
- Encouraging the Italians to take a firm line in discussions of arms control and to make an effective contribution to NATO;
- Encouraging them to continue their naval presence in the Gulf and to coordinate more closely with Western partners there and in the Security Council;
- Concerting our approaches to the Toronto Economic Summit, and other international economic meetings;
- Encouraging the Italians to continue a robust anti-terrorism policy.

Internal

4. The appointment of Giovanni Goria as Prime Minister in June last year brought to an end one of Italy's worst political crises since the war, but still represented only a temporary solution, as was widely recognised at the time. It did not resolve the deep tensions between Socialists and Christian Democrats, and within the Christian Democrat party itself. Goria resigned twice - in November (leading to the

cancellation of President Cossiga's State Visit) and in February - but was persuaded to continue until passage of the Finance Bill and 1988 Budget. That achieved, he resigned again on 11 March, and President Cossiga asked Ciriáco de Mita (Christian Democrat Party Secretary) to try to form a Government. De Mita is now engaged in difficult negotiations with the Socialists led by Craxi about forming a new coalition.

Economy

5. The Italians claimed last year to have overtaken the UK and even France as fifth or fourth world industrial power: the "sorpasso". While there is some doubt about the statistics which justified these claims, it is clear Italy's economy is prosperous and performing well. In 1987 GDP growth was 3% for the fourth successive year; inflationary pressures have abated, from 20% in 1980 to 5% in 1987; and the current account of the balance of payments looks to have been in equilibrium in 1987 after a small surplus in 1986. The labour market remains a weak spot, however. Unemployment continues to rise, from 11.1% in 1986 to 12% in 1987; and the Government is currently assailed by a rash of public sector wildcat strikes - particularly affecting air and rail transport - for inflationary improvements in pay and conditions. So far, both the Government and the national trades union confederations have proved powerless to control them. In the longer term, Italy's inability to reduce significantly her budget deficits - now some 11-12% of GDP - casts a shadow over her financial prospects: central government debt is already equivalent to 90% of GDP and is growing apace. The adverse consequences of this are at present mitigated by the high savings ratio. However, prospects for sustaining the improvement in Italy's real economy depend on an improvement in financial policies. EC capital market liberalisation in the run-up to 1992 probably means that the Bank of Italy's firm monetary policy will ultimately be unable to offset the consequence of weak fiscal policy.

External

6. Italy is conscious of her position as a major European country and co-founder of the Community and NATO. She is sensitive to any hint of exclusion from "top-table" meetings. Her growing self-confidence has encouraged a more active rôle in international affairs, especially in the Middle East and Mediterranean, but the complexities of domestic politics can often obtrude. The sending of a naval force to the Gulf, for example, was an unusual departure for Italy and the subject of considerable political nervousness

fought shy of close European naval coordination. In the Security Council (of which Italy is a member in 1987/88), Andreotti has at times seemed to be too anxious to be evenhanded between Iran and Iraq, but has never pushed this so far as to challenge a consensus among the five Permanent Members. Italy has long had close links with Argentina. Although Italian Ministers have privately shown understanding over Fire Focus, they have been under much pressure from the Argentinians and have felt it necessary in the UN to take a neutral line on the issue. Before this, they had given an assurance, for which we had pressed for three years, not to supply advanced torpedoes to Argentina so long as their commercial rivals do likewise.

EC

7. In the future financing negotiations Italy took a fairly helpful line on the UK abatement and CAP reform, while largely securing her own objectives for her budget contribution. The Italians are nominally supporters of a single European market, but have argued the need for cohesion to compensate for the alleged disadvantages it will bring to the poorer regions of the Community. However, following the generous settlement on structural funds at the Brussels Summit it will be possible to argue for a more positive attitude on their part. We need to discourage Italy from forming a blocking Mediterranean minority with Spain and Greece. Under the pretext of progress towards greater monetary co-operation, the Italians are starting to argue for let-outs on liberalisation of capital movements. We shall need to look at the small print of anything they propose in this sector.

8. On external EC issues, we may wish to remind the Italians of the need to discourage Maltese ambitions for membership of the EC. Italy professes to realise that Maltese membership is in no-one's interest, but because of its strong links to Malta takes rather too positive a line with the Maltese themselves. An exchange of views on the progress of the EC/GCC agreement (where our views are generally close) would also be useful.

Defence/Arms Control

9. The Italians are staunch supporters of NATO and of the US contribution to Europe's defence. Italian defence spending is, however, low (2.1% of GDP). Although the Defence Minister, Zanone, has just announced plans for a long-term effort to increase considerably the funds devoted to long overdue equipment modernisation, it is difficult to be optimistic that this will get very far given the present political and economic uncertainties. One major procurement

plan concerns fixed-wing aircraft for the Navy: Harrier is a serious contender. The Italians appear willing that the American F16s which have to leave Spain should be based in Southern Italy, provided that NATO requests this and Allies share the transfer costs. In arms control, Italy as a basing country warmly welcomed the INF agreement. The Italians are not always robust about Western requirements for further disarmament agreements (eg CW verification) or about the dangers of a non-nuclear world. They are sometimes inclined to take off-beam initiatives (for example on CW and arms exports). They have expressed reservations about Franco-German defence co-operation, partly from fears of being left out, partly because they see potential consequences for US and NATO defence arrangements for the Southern Flank. These issues merit discussion at the Summit.

Terrorism

10. In the 1970s and early 1980s Italy suffered badly from domestic terrorism. Despite minor and sporadic incidents it has now been defeated: largely as a result of a firm political line, effective legislation, and successful action by the security authorities. Partly because of its geographical position Italy remains vulnerable to the activities of Middle Eastern terrorist groups. Internal controls have improved, however, and there have been no incidents against Western targets since 1985. Bilateral co-operation against terrorism is good, and senior officials from the FCO, Home Office and Security Service are to meet their opposite numbers in Rome on 11 April.

International Economic

11. Although growth has held up better than some predicted after the stock market collapse last October, the main problem besetting the world economy is still that of persistently large trade and financial imbalances; the process of adjustment needs to be continued and intensified. The Italians are increasingly concerned about intra-European imbalances, which work against them and the French. Attention has indeed shifted to continental Europe and the need for growth there, especially in Germany. But there is little freedom for manoeuvre on macroeconomic policy co-ordination: constraints include the US (and French) elections, and the unlikelihood of a recovery in German domestic demand growth on the scale already seen in Japan. A more promising approach may be the contribution that microeconomic policy changes (structural reform) could make in the medium term.

12. Other issues on the broad international economic agenda include protectionism, agricultural reform and debt. These will, no doubt, all feature in the forthcoming high level meetings this spring and summer: of the Fund and Bank in April (the week before the Anglo-Italian Summit), the OECD Ministerial in May and the Toronto Economic Summit in June. We shall continue to push for the Chancellor's initiative on sub-Saharan debt in these fora. While it will be useful to sound out the Italians on the themes they see as likely to come up at Toronto, it is too early to identify subjects in any detail. The Italians are alert to the dangers of protectionism and the need for satisfactory progress in the Uruguay Round negotiations. The EC must continue to play an active and constructive role in Geneva, and in particular should use the CAP reforms agreed in Brussels to further the negotiations on agriculture (resisting the temptation to sit back and wait for others to move). The Italians realise this, as was shown by their joining the UK and the Netherlands in a declaration at the European Council that they would not be bound by protectionist interpretations of the Council declarations on trade implications of the discussion on CAP reform.

Bilateral Relations

13. Much of the business done between the two Governments relates to multilateral discussions such as those mentioned above. Our pattern of bilateral meetings is fairly intense, though not as intense as our contacts with France or the FRG. Italy's industrial success offers good opportunities for bilateral and multilateral cooperation. Major projects include Tornado, EFA, and the EH101 and A129 helicopters. Our share of the Italian market has been rising, but we are still well behind France and the FRG. We hope to be able to sign a new Double Taxation Agreement during the Summit.

Participation

14. We have been thinking in terms of participation by Foreign, Defence, Interior, and Trade Ministers, with the possible addition of Agriculture Ministers.

Public Handling

15. Subject always to the Italian political situation, we propose to agree with the Italians on announcement of the Summit on 11 April. We shall arrange pre-summit briefing of London correspondents by senior FCO officials. The Summit will conclude with a press conference at which we hope to highlight aspects of Anglo-Italian collaboration. I should welcome any 'good news' items to which the Prime Minister could refer at the press conference.

Briefing

16. Briefing for the Prime Minister will consist of a Steering Brief which will be cleared through the Cabinet Office (MISC 76). I should be grateful to know of any subjects which Departments think the Steering Brief should cover in addition to those listed in this letter, or on which separate briefs may be required.

17. I am sending copies of this letter to colleagues on the attached list.

Yours ever,

Patrick

Patrick Wright

cc:
Sir Peter Middleton KCB
HM Treasury

Sir Clive Whitmore KCB CVO
Home Office

Sir Michael Quinlan KCB
MOD

Sir Terence Heiser KCB
Department of the Environment

Sir Brian Hayes GCB
Department of Trade and Industry

D H Andrews Esq CB CBE
MAFF

Sir Alan Bailey KCB
Department of Transport

Richard Francis Esq
British Council

Lists of Topics for Briefing

1. EC Issues

2. East/West relations,
   Arms control and
   Defence topics

3. International economic issues

4. Regional issues:

   a) Middle East
   b) South Africa
   c) Falklands
   d) Afghanistan

5. Terrorism

6. Bilateral

   a) Double Taxation
   b) Industrial collaboration
   c) State Visit (defensive)

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ANGLO/ITALIAN SUMMIT.

SUMMARY:

1. THE EASTER HOLIDAY HAS NOT PRODUCED A NEW ITALIAN GOVERNMENT. WE WILL NEED TO TAKE A DECISION AT THE LATEST ON 11 APRIL WHETHER OR NOT TO STICK TO 20 APRIL AS THE DATE FOR THE NEXT ANGLO/ITALIAN SUMMIT.

DETAIL:

2. IT IS NOW BARELY TWO WEEKS UNTIL 20 APRIL, THE DATE SET FOR THE NEXT ANGLO/ITALIAN SUMMIT ON LAKE MAGGIORE. DE MITA'S NEGOTIATIONS WITH HIS PROSPECTIVE PARTNERS IN GOVERNMENT HAVE CONTINUED OVER EASTER BUT HAVE NOT YET PRODUCED AGREEMENT. HE IS NOW ENGAGED IN A FURTHER ROUND OF BILATERAL CONSULTATIONS AND HOPES TO HOLD A MEETING WITH ALL HIS PROSPECTIVE PARTNERS AT THE END OF THIS WEEK. THE PEOPLE IMMEDIATELY CONCERNED IN THE PARTY SECRETARIATS ARE UNREACHABLE AT PRESENT BUT THE MOOD AMONG COMMENTATORS IS THAT AGREEMENT MAY BE REACHED BY THE END OF THIS WEEK ON A PROGRAMME FOR A NEW GOVERNMENT. THE NEXT STEPS WOULD BE TO WORK OUT A DISTRIBUTION OF PORTFOLIOS BETWEEN THE PARTIES AND THEN TO SECURE VOTES OF CONFIDENCE IN BOTH HOUSES OF PARLIAMENT. CRAXI COULD DECIDE TO HOLD UP AGREEMENT FOR A BIT LONGER TO DEMONSTRATE THE UNDERLYING WEAKNESS OF DE MITA'S POSITION. BUT EVEN IF HE DOES, NOT, IT IS DIFFICULT TO SEE THAT A NEW GOVERNMENT COULD BE FUNCTIONING BEFORE THE END OF THE WEEK BEGINNING 11 APRIL AT THE VERY EARLIEST.

3. THIS WOULD LEAVE VERY LITTLE TIME FOR A NEW GOVERNMENT TO PREPARE FOR A FULL ANGLO/ITALIAN SUMMIT ON 20 APRIL. ITALIAN OFFICIALS ARE NEVERTHELESS KEEN TO STICK TO THE DATE AND RECOGNIZE THAT AN EARLY MEETING WITH MRS THATCHER WOULD HELP TO ESTABLISH THE AUTHORITY OF THE NEW HEAD OF THE ITALIAN GOVERNMENT. MOREOVER, THEY ARE WORRIED ABOUT THE IMPLICATIONS OF YET ANOTHER ANGLO/ ITALIAN EVENT FALLING VICTIM TO THE VAGARIES OF ITALIAN POLITICS. BUT I BELIEVE THEY WOULD ACCEPT THAT IT WOULD BE PREFERABLE TO RE-SCHEDULE THE MEETING BY AGREEMENT THAN TO RISK A MESSY LAST-MINUTE CANCELLATION OR A HASTILY PREPARED AND THEREFORE UNSUCCESSFUL

MEETING. FROM OUR SOUNDINGS TODAY OF PALAZZO CHIGI ADVISERS WE UNDERSTAND THAT BOTH GORIA AND ANDREOTTI MAY HAVE DOUBTS ABOUT THE FEASIBILITY OF HOLDING THE SUMMIT AS EARLY AS 20 APRIL.

4. I PROPOSE TO SEEK AN APPOINTMENT ON 7 APRIL TO DISCUSS THIS WITH GORIA'S CHEF DE CABINET (UNTIL A NEW GOVERNMENT IS FORMED, GORIA RETAINS THE UNEVIABLE JOB OF CARETAKER). IF BY THEN IT LOOKS AS THOUGH, THE WAY IS CLEAR FOR DE MITA TO FORM A GOVERNMENT IN THE COURSE OF NEXT WEEK, I WOULD THEN SUGGEST THAT WE STICK TO THE PRESENT DATE AND PLACE FOR THE BILATERAL SUMMIT MEETING. IF THE PROSPECTS FOR A DE MITA GOVERNMENT BEING FORMED LOOK PROMISING BUT NOT YET DEFINITE, I WOULD SUGGEST THAT WE TAKE A FINAL DECISION ON 11 APRIL, BUT I WOULD MAKE IT CLEAR THAT THAT WOULD HAVE TO BE THE ULTIMATE DEADLINE. IF THE PROCESS OF NEGOTIATION HAS MET SOME FURTHER OBSTACLE AND IT IS CLEARLY NOT GOING TO BE POSSIBLE FOR A NEW GOVERNMENT TO BE FORMED NEXT WEEK, I WOULD SUGGEST THAT WE AGREE TO POSTPONE THE NEXT SUMMIT UNTIL A NEW ITALIAN GOVERNMENT HAS HAD TIME TO GET ESTABLISHED. IN EITHER OF THE SECOND TWO CASES, I WOULD MAKE IT CLEAR THAT IF IT DID COME TO POSTPONEMENT THE PRIME MINISTER WOULD NOT BE ABLE TO OFFER ANOTHER DATE UNTIL THE AUTUMN.

5. I HAVE DISCUSSED THIS INFORMALLY WITH NO. 10 WHO ARE CONTENT THAT I SHOULD PROCEED IN THIS WAY. THEY HAVE AGREED THAT, IT IT SEEMS A USEFUL ALTERNATIVE, I SHOULD KEEP OPEN THE OPTION OF A MORE LIMITED MEETING ON 20 APRIL, EITHER IN LONDON OR IN ROME, ON THE LINES OF GORIA'S VISIT TO LONDON SHORTLY AFTER HE TOOK OFFICE IN 1987. IN THAT CASE, HOWEVER, I WOULD NEED TO LEAVE NO DOUBT IN ITALIAN MINDS THAT THIS WOULD NOT BE ADDITIONAL TO A FULL SUMMIT LATER IN THE YEAR, BUT INSTEAD OF IT.

THOMAS

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10 DOWNING STREET
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From the Private Secretary

23 March 1988

Anglo-Italian Summit, 20 April
Ministerial Participation

Thank you for your letter of 23 March about the Anglo-Italian Summit. I agree that we should keep the options open until Easter. I am sure the Prime Minister would be content with the participation which you propose.

I am copying this letter to Brian Hawtin (Ministry of Defence), Philip Mawer (Home Office), Shirley Stagg (MAFF) and Miranda Harvey (PS/Mr. Maude, DTI).

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

23 March 1988

Dear Charles,

Anglo-Italian Summit: 20 April: Ministerial Participation

As discussed on the telephone, we are keeping a close eye on whether it makes sense to hold the Anglo-Italian Summit. There would clearly be little merit in doing so with an Italian Government which was not viable; but it is too early to predict whether this will turn out to be the case. De Mita has only just started his consultations. If he manages to form a coalition in the next week or so, a Summit on 20 April would be a good opportunity to influence the new Government. If however we called off the Summit at this stage, De Mita would be very likely to see it as a snub. For the time being therefore we see little alternative to continuing to plan on a contingency basis for a summit on 20 April. Sir Derek Thomas has recommended from Rome that we should wait till Easter before deciding whether to postpone the Summit. If by that stage there seems little chance of a Government being formed rapidly, we would recommend postponing the Summit.

For the moment, however, we need to establish on a contingency basis which Ministers might be involved. The Italians have not yet made formal proposals on this and seem unlikely to do so straight away. We should like to clear our own minds in good time.

The main topics for discussion at the Summit seem likely to be EC issues (especially the single market), defence and arms control, counter-terrorist co-operation and regional issues such as the Gulf. This suggests a similar pattern of Ministerial attendance to that of recent years:

Foreign Ministers
Ministers of Defence
Ministers of Home Affairs
Ministers responsible for Trade.

/We

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We have considered whether Ministers of Agriculture should be added; but there is no particular reason to favour a discussion of the CAP. Ministers of Finance did not take part in the last two Summits, and there is no special requirement for them to attend this one. Our own Department of Trade and Industry has no single counterpart in Rome, and I understand that Lord Young has other engagements on that day; but given the current relevance of the single market we suggest that Mr Maude might take part on this occasion.

I am copying this letter to Brian Hawtin (MOD), Philip Mawer (Home Office), Shirley Stagg (MAFF), and Miranda Harvey (PS/Mr Maude, DTI).

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

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PART 3 ends:-

fco to cop. 27.3.88

PART 4 begins:-

fco to cop. 23.3.88

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