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Ref. A0350

PRIME MINISTER

Visit to Rome

I should like to comment on two aspects of the briefing:-

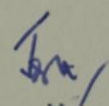
- (a) The trickiest part of your meeting will be to maintain the alliance you had with the Italians in Strasbourg without imperilling our own timetable given that the Italian requests are imprecise and likely to be almost as unwelcome to our other Community partners as our own demands for a budget refund. The Italian nuisance value can be very great: but if you make too precise promises to Signor Cossiga it could be expensive for us as well as for the rest of the Community. You will want to probe Signor Cossiga as to his precise objectives for the Dublin Summit but it will essentially be an exercise in showing sympathy and understanding. We want cash in Dublin: the Italians will probably have to be content with words. There is a political argument which I think you will need to deploy with Signor Cossiga in the tete-a-tete. Although the present Government's firm commitment to the Community has had some effect, British public opinion still remains sceptical and in some quarters hostile towards the EEC. This is not a sound basis for United Kingdom participation in the Community. If our claim for fair play over the budget is rebuffed by our partners even the pro-Marketeers will find it hard to maintain their support and the old hostilities will be rekindled. The sooner this issue is settled the sooner can the Government set about rebuilding public support. The Italians do not have this fundamental difficulty: support for the Community is still overwhelmingly strong and although public enthusiasm may have waned in recent months this is in part because the Italian Government has made much of the imbalance in Community policies which, so far as Italy is concerned, is now on the way to being corrected. Signor Cossiga should therefore understand that a solution to the budget problem is an overriding political necessity for you if the Government's co-operative attitude is to be sustained.

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(b) On the CAP the Italians have complex interests. One is undoubtedly to support their southern agriculture and this has been the dominant Italian concern when it has come to the crunch. But there are people, notably in the Bank of Italy, who are worried about the import cost of the CAP. Our calculations confirm that the non-budgetary resource costs of the CAP for Italy are even higher than for the United Kingdom because of the large quantities of beef, sugar and dairy products which they import. The rapidly rising standard of living in Italy during the '60s and early '70s led to a rapid expansion of demand which Italian agriculture has not been able to meet. While their balance of payments position has been good, this worry has diminished, but it should certainly reappear as their balance of payments surplus disappears. While they are criticising the high resource cost of the CAP we can support the Italians 100 per cent. It is only when they want to secure greater protection for Mediterranean products at the expense of third countries or the Community budget that we have difficulties. In terms of the Dublin meeting, therefore, you can offer your support for any commitment designed to bring about a reduction in the resource cost of the CAP. On Mediterranean agriculture, you could take the line that our ability to be helpful depends on getting our own budget problem right.

2. Finally, I attach a note prepared by the Treasury which gives you figures on how the Italian budgetary position has developed and why their large net contribution in 1977-78 looks like being a temporary aberration.

3. I am sending a copy of this minute to the Foreign and Commonwealth Secretary.


JOHN HUNT

2nd October, 1979

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The evolution of Italy's net contribution to the Community Budget

The following table charts the recent and prospective evolution of Italy's net contribution to the Community Budget.

	£m				
Attribution of MCAs	1976	1977	1978	1979	1980
1. "Exporter-pays"	+130.4	- 43.4	-480.3	+324.7	+495.5
2. "Importer-pays"	+154.0	+191.9	-202.5	+509.0	+588.0

+ : net beneficiary

- : net contributor

Sources : Commission estimates (for 1979 and 1980 : Commission "reference paper")

2. Italy's substantial net contribution in 1978 shows up as an aberration. The reasons for it are not clear and the Italians themselves consider it to have been a fluke.

3. Italy's emergence as the largest net beneficiary from the Budget in the Commission's forecasts for 1980 can be explained by a number of factors:

- i. a small reduction in their gross contribution due to the switch from a GNP-based to a VAT-based contribution;
- ii. the introduction of new EEC policies of benefit to Italy, especially those benefitting fruit and vegetable growers;
- ~~iii. the devaluation of the green lira; and,~~
- (iii). a much-increased uptake of money voted in the Community Budget, resulting from improved domestic administration.

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4. The Italians themselves do not expect to be net beneficiaries from the Budget on the scale foreseen by the Commission. This probably reflects continued doubts about their ability to spend in full their Budgetary entitlements.