

SUBJECT

copied: Master Set
Euro Pol: Budget
Defence: TNF

BRIEF RECORD OF MAIN POINTS DISCUSSED AT THE TETE-A-TETE BETWEEN THE PRIME MINISTER AND SIGNOR COSSIGA AT 1900 ON 4 OCTOBER AT THE PALAZZO CHIGI.

Signor Cossiga said he was most grateful for this opportunity of a meeting with the Prime Minister, the first he had had with the Head of a foreign government. He spoke of the traditional friendly relations between Britain and Italy and of his own personal interest in British constitutional history.

Signor Cossiga said he would shortly meet Chancellor Schmidt and the Dutch Prime Minister, Mr van Agt, and then President Giscard in preparation for the Dublin Summit and to discuss TNF.

Italy had been shocked by the death of Lord Mountbatten. Both countries had a common obligation to fight terrorism. He was grateful for British collaboration in this field.

Signor Cossiga hoped that Anglo-Italian meetings could now be placed on an institutional basis. There were meetings between himself, the German and French leaders twice a year, and he hoped the same pattern could be established between Britain and Italy.

The Prime Minister thought that we should examine this idea. Such meetings should not be too long. Her present visit to Rome was the right length, ie inside 24 hours. We too had regular meetings with the Germans and French, and the more preparation that took place before European Council Meetings the better. Italy had a very important defence burden. Italy would also be the host at the forthcoming Economic Summit in Venice.

Signor Cossiga congratulated the Prime Minister on the British initiative on Rhodesia. In this problem, as in the very delicate question of South African relations with the rest of the world, Britain had a key role.

/The Prime Minister

The Prime Minister referred to the constitutional proposals which the parties at the Conference had until Monday to examine. It was vital to maintain momentum in these negotiations.

The Prime Minister went on to express sympathy for the recent earthquake disaster in central Italy. She also thanked Signor Cossiga for his efforts to resolve the Schild case, which could not be in more expert hands. Anything Italy and Britain could do together to combat terrorism had her whole-hearted support. This was a field in which she would also agree to extra expenditure.

Signor Cossiga said that as a Sardinian he felt particular concern for the Schild case. He handed the Prime Minister a document which he had prepared on this matter. He also referred to collaboration which had taken place with the British Metropolitan Police and M15 and M16. In this connection the Italian Government would do both what was possible and "what was impossible". They would arrange matters so that the Schild family could take any necessary initiative.

The Prime Minister then referred to the two most important problems relating to her visit, namely Community questions and Theatre Nuclear Forces. On the Community, there was no question of the British Government being anti-European, but there was this particular injustice concerning the Budget which had to be resolved soon. No doubt Italians had felt similarly about their problems relating to the CAP.

Signor Cossiga said that on the Community Italy was not in an easy situation. He was not an economic expert and was in the hands of his Economic Ministers. But before dealing with the Community he wished the Prime Minister to know what he was trying to achieve with respect to the Italian economy. [There then followed a lengthy explanation by Signor Cossiga of his economic strategy on lines which the Embassy has already reported.] In the course of this discussion and in reply to the Prime Minister's questions, Signor Cossiga said that as a former Minister for the Civil Service he personally enjoyed good relations with the trade unions and hoped that they would in the end do no more than make noises.

/Signor Cossiga

Signor Cossiga said that Italy's experience in the EMS had been relatively painless so far, and had in effect helped the Italian Government in their attempts to convince Italian political forces of the need to struggle against inflation. He perfectly understood that the fact that Britain was not a member of EMS was not in conflict with her membership of the Community as a whole.

Signor Cossiga then explained his Government's position on the Budget/convergence. Italy was in complete agreement with the rest of the Community on this subject. Anglo-Italian collaboration had resulted in the agreement achieved at the European Council at Strasbourg. But he had told President Jenkins that the Commission reference paper was not in complete accordance with the directives of the Strasbourg European Council. **The problem was not exclusively one of the Budget, but was also one of the poorer regions which were to be found in Britain, Italy and Ireland.** In addition to the resolution of the budgetary problem there had to be parallel measures, and the Commission had to reflect this in the reference document as a basis for the forthcoming Dublin Summit. He hoped that the Prime Minister would understand the Italian position and referred to the fact that his Government had been created in exceptionally difficult circumstances.

The Prime Minister hoped that a resolution of the budgetary problem would not have to wait. Britain was the third poorest country in the Community and the biggest single net contributor. This was a unique situation, with the exception of the Italian net budgetary deficit in 1978. The problem created sharp political resentment in Britain since it was neither reasonable nor just. Britain did not ask for benefit from the Community but should not be asked to pay heavily to it, particularly at a time when the British Government had had to introduce significant measures of economy. There was an immediate need for a solution and unless this could be obtained at Dublin the attitude of the British public could be very resentful. The Prime Minister added that she was very anxious to be constructive and quite accepted that those like Britain which were among the poorer countries [ie Italy and Ireland] should not be asked to pay more for a solution to the budgetary problem.

/Signor Cossiga

Signor Cossiga said that although the short-term objectives of the two countries might be different their objectives were surely the same. Britain faced in the short-term an imbalance in the budget while Italy suffered a hidden transfer of resources through the trade effects of the CAP. The Prime Minister made it clear that Britain also suffered from the requirement to buy dear Community products.

Signor Cossiga said that Britain and Italy should agree that the budget should be formed in order to increase expenditure on structural and regional support. He then spoke of the political price which Italy had to pay for concessions to Mediterranean countries. (NB: although in reply to Mrs Thatcher's question, he said that he was referring to the enlargement question, it seems likely that this was a reference to the Italian wish to be compensated for tariff concessions to third country Mediterranean suppliers, eg Cyprus).

He repeated that Italy and Britain should have the same objective viz to restructure the Budget so that there was more expenditure on regional and social funds; on structure; and on new research, energy and industrial policies, etc.

Signor Cossiga said that the Italians had a draft proposal for an addition to the Commission reference paper and he thought that Minister Malfatti would discuss this with Lord Carrington this evening.

The Prime Minister said that these were matters that had to be discussed at the Plenary meeting. The net payment of £1,000 m. a year to the Community Budget caused considerable political resentment in Britain and the matter had to be resolved in Dublin. Otherwise there could be no advance in Community policies. She did not wish to cause trouble in the Community or to dominate the Community with this issue. But it had to be got out of the way. This was a matter of equity. Once justice had been established we could make a more creative contribution to many questions for example to the reform of the CAP. The Agriculture Ministers only made little
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adjustments to the CAP and never got to grips with the basic problem. Signor Cossiga agreed and said that although his Agriculture Minister was a personal friend he was one of his most difficult colleagues!

The conversation then turned to TNF. Signor Cossiga said that he was glad that SALT II had been successful and hoped the US Congress would ratify it soon. The Madrid Conference in 1980 was very important and there should be close co-operation between the European partners to prepare for this. In an international situation the only serious basis for detente was the re-establishment of a balance of forces between East and West. In a situation where the Soviet Union had conventional and strategic superiority, the TNF problem was vital. Italy was determined to take a positive decision. He had been shocked to read of the cynical way in which Gromyko had spoken to Minister Malfatti recently about the Soviet missiles (SS20) and Backfire bomber as if they were children's toys. These weapons were a threat to the whole of Europe as well as North Africa.

Signor Cossiga repeated that Italy would take a positive decision on TNF in the forthcoming alliance meetings. But it was highly desirable to have the approval of all the countries of the Alliance. Denmark and Norway though not nuclear countries should give their approval while all the existing nuclear countries should accept the modernisation of nuclear weapons. In this context his forthcoming meeting with the Dutch Prime Minister, Mr van Agt, was important. He intended to exert maximum pressure on him and the Dutch Foreign Minister, who would also be present. He was also trying to help Chancellor Schmidt by persuading German Christian Democrat contacts, eg Dr Eckt, Herr Strauss and Kohl, that they should not make party difficulties for the German Government. Signor Cossiga hoped that the British Government would also bring pressure on the Dutch. He, Cossiga, had an internal problem with the Italian Socialists and Chancellor Schmidt and the Dutch Government could, by a positive decision, also help him. This morning, 4 October, he had a special meeting in preparation for Mrs Thatcher's visit with his Foreign, Defence, and Interior Ministers as well as co-opted Ministers from
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the Liberal and Social Democrat Parties in the Coalition. They completely agreed with his positive decision on TNF. When the time came to make an announcement this would be by a routine statement by the Defence Minister. Cossiga would not make a lot of speeches.

Nevertheless, he regretted that there would at present be a gap between the decision of the Nuclear Planning Group and the subsequent decisions in the Defence Planning Committee and the NATO Council. In that period the Soviet Union could bring damaging pressure to bear on Italy as well as on Germany and Holland. He, Cossiga, would not change his position but hoped something could be done to associate the countries of the Alliance which were not members of the Nuclear Planning Group with the latter's positive decision so that a definitive decision could be taken at the NPG. Finally, he intended to consult (he later said "inform") the PCI and try to make them accept that this was an opportunity of proving that they were independent of the Soviet Union.

The Prime Minister thanked Signor Cossiga for his resolute attitude.

As the Prime Minister was leaving Signor Cossiga made the expected request for British support for the candidature for Zichichi for the direction of CERN. He would also be approaching the Germans since there was a rival German candidate. He handed a document on this to the Prime Minister.

The Prime Minister said that she believed there was a study group which was producing a report and that we would be examining this.