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cc. Master set

10 DOWNING STREET

From the Private Secretary

24 November 1980

Dear Gunge,

Conversation between the Prime Minister and
the Prime Minister of Italy

As you know, no notetaker was present for the tête-à-tête discussion between the Prime Minister and Signor Forlani in Rome yesterday evening. This letter therefore gives only a brief summary of the discussion.

The two Heads of Government began with a discussion of Community problems. The Prime Minister repeated her gratitude for the help given by the Italian Presidency in finding a solution to Britain's budget problem in the spring. Referring to current problems, she said that it would be important to find solutions to the difficulties over New Zealand butter and the negotiations on a Common Fisheries Policy. However she was convinced that the worst of the immediate problems had now been resolved. She and Signor Forlani agreed that a two-speed Europe was unacceptable to them.

In a discussion of Italy's oil supply situation, Signor Forlani said that the cessation of oil supplies from Iran created substantial difficulties for Italy. They were now getting more oil from Saudi Arabia and some from Venezuela. Supplies from Iraq were returning to not far short of the level that had obtained before the war between Iran and Iraq. Signor Forlani had expressed some concern about his country's relations with Libya. Colonel Qadhafi was unbalanced. He might react badly to Italy's recent neutrality agreement with Malta. Italy's fishing agreements with Libya might be at risk.

The Prime Minister and Signor Forlani were both optimistic about the prospects for Governor Reagan's Administration.

The Prime Minister thought that Signor Forlani's views on the Middle East question and its handling at the forthcoming European Council were very similar to ours. Signor Forlani saw no need for a new initiative next week. The Foreign and Commonwealth Secretary thought that Signor Colombo might have more ambitious ideas than his Prime Minister. He seemed to be hoping that the Foreign Ministers would be instructed by the Heads of Government to construct a blueprint for the future.

/Signor Forlani

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Signor Forlani told the Prime Minister that Italy's economy had been very badly affected by the latest oil price rise. It was not merely that prices had gone up so sharply. Italy's oil imports tended to be invoiced in dollars, which had lately been a strong currency, while her exports had been paid for in currencies which were, relatively speaking, weak e.g. the deutschmark. The Prime Minister said that she had been impressed by one measure which the Italian Government were about to take to re-invigorate their economy. They were making arrangements for non-quoted companies to borrow through the market rather than through banks. Companies acting in this way would be excused tax on the borrowings. This would mean that they would have to pay an effective rate of about 14% at a time when inflation was running at about 20%.

I am sending copies of this letter to John Wiggins (HM Treasury), Kate Timms (MAFF), Julian West (Department of Energy), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

George Walden, Esq.
Foreign and Commonwealth Office.

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