

GRS 1200

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FROM ROME 231315Z FEB 83

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INFO PRIORITY PARIS, UKREP BRUSSELS

INFO SAVING BONN, WASHINGTON

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**IMMEDIATE**

*(request of wed)*

MY TELNO 106: **ANGLO-ITALIAN SUMMIT**

ITALIAN MINISTER OF INDUSTRY

1. THE ITALIAN MINISTER FOR INDUSTRY (ALSO RESPONSIBLE FOR ENERGY), PANDOLFI, IS NOW TO JOIN FANFANI AND OTHER MINISTERS FOR THE ANGLO-ITALIAN SUMMIT, AND WILL, I UNDERSTAND, SEE MR JENKIN FOR DISCUSSIONS IN ADDITION TO THOSE THE LATTER WILL HAVE WITH ROMITA (SEE TUR). HE WILL BE ACCOMPANIED BY TWO OF HIS DIRECTORS-GENERAL: PROF. GIUSEPPE AMMASSARI (RESPONSIBLE FOR ENERGY) AND DOTT. VITTORIO BARATTIERI (RESPONSIBLE FOR INDUSTRIAL PRODUCTION). THIS TELEGRAM OFFERS AN UPDATED REPORT ON THE ITALIAN POSITION ON THE EH101 HELICOPTER AND AIRBUS, WHICH WILL BE UPPERMOST IN PANDOLFI'S MIND, AND IS ALSO RELEVANT TO THE PRIME MINISTER'S TALK WITH FANFANI. MR JENKIN WILL ALSO WISH TO RAISE OUR CONCERN ON ITALIAN FAILURE TO CUT STEEL CAPACITY ON WHICH THERE IS NOTHING TO ADD TO THE SITUATION DESCRIBED IN RICHARDSON'S LETTER TO MOGG (DOI) OF 8 FEBRUARY. THE INCLUSION OF AMMASSARI IN THE PARTY SUGGESTS THAT PANDOLFI WILL REINFORCE ROMITA'S PROPOSALS FOR COLLABORATION IN THE NUCLEAR FIELD (PARA 4(1) OF MY TUR), A SUBJEC WHICH IS DEAR TO HIS HEART. IT IS HE, AS MINISTER RESPONSIBLE, WHO HAS PUT THE STEAM BEHIND DECISIONS ON SITING OF NUCLEAR POWER STATIONS.

**EH101**

PANDOLFI'S OFFICIALS TOLD US TODAY THAT, WHILST FANFANI HAD BEEN BRIEFED TO BE POSITIVE ON THE PROJECT AND TO ASSURE THE PRIME MINISTER OF THE ITALIAN GOVERNMENT'S INTENTIONS TO GO AHEAD WITH IT, IT WOULD ASSIST FANFANI TO TAKE A FIRM LINE IN PARLIAMENT IF MRS THATCHER WERE TO EMPHASISE TO HIM THE IMPORTANCE WE ATTACH TO EARLY PROGRESS. HE MIGHT USEFULLY BE PRESSED TO DO ALL HE CAN TO STEER THROUGH PARLIAMENT THE DEFENCE BILL ON MODERNISATION EXPENDITURE (DDL) TO WHICH ITALIAN FUNDING OF THE MILITARY VERSION OF EH101 IS TIED. ONLY FANFANI, WITH HIS RECENT EXPERIENCE AS PRESIDENT OF THE SENATE, COULD GUARANTEE THE SAFE DELIVERY OF THE DDL.

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2. AN IMPORTANT ASPECT OF EH101 WHICH IS CAUSING THE ITALIANS MUCH DIFFICULTY IS THE CHOICE OF ENGINE. ONE CAMP (MAINLY MILITARY) FAVOURS THE ADOPTION OF AN EXISTING US ENGINE (G.E'S T700), WHILST ANOTHER (INDUSTRY) FAVOURS THE DEVELOPMENT OF THE ROLLS ROYCE-LED RTM322. ONLY FANFANI HIMSELF WOULD BE ABLE TO RESOLVE THIS CONFLICT OF INTERESTS IN ITALY AND HE MIGHT THEREFORE SEEK OUR VIEWS ON WHERE WE STAND ON AN ENGINE. THE MINISTRY OF INDUSTRY WOULD BE CONTENT TO SEE BOTH OPTIONS AVAILABLE.

3. MINISTRY OF INDUSTRY SHOWED COMMERCIAL SECRETARY, IN STRICT CONFIDENCE, A DRAFT AGREEMENT BETWEEN THE ITALIAN AND FRENCH MINISTERS FOR DEFENCE WHICH, IF IT IS SIGNED, WILL PROVIDE FOR JOINT COLLABORATION IN A NUMBER OF AREAS, INCLUDING HELICOPTER AIRFRAMES AND ENGINES. THE MINISTRY OF INDUSTRY ARE OPPOSING THIS, SINCE THEY SEE IT AS A THREAT TO THE EH101. THE FRENCH WERE CLEARLY WAITING FOR EH101 TO FALTER AND TO TAKE ADVANTAGE OF ANY OPENING IN THIS FIELD. IT WOULD BE IMPORTANT, IN THE COMMUNIQUE FOLLOWING THE SUMMIT, TO MAKE VERY FIRM REFERENCES TO THE PROJECT AND TO EARLY AND POSITIVE STEPS BEING TAKEN TO PUT IT INTO OPERATION.

#### AIRBUS

4. MINISTRY OF INDUSTRY OFFICIALS SAID THAT THE ITALIAN PRESS HAD BEEN OVER ENTHUSIASTIC ABOUT THE INDUSTRIAL ASPECTS OF THE FRANCO/ITALIAN SUMMIT. ON A300, THE ITALIANS WERE COMMITTED TO NO MORE THAN 3 A300 -B4S. THEY MIGHT END UP TAKING 5, BUT THIS WAS STILL FAR FROM DEFINITE.

5. AS REGARDS A320, ITALY WAS NOT INTERESTED. AS FAR AS THEY WERE CONCERNED THE A320 WAS DEAD, FOLLOWING THE ADVENT OF THE DC9 SUPER 83. ALITALIA WOULD HAVE NO INTEREST IN THE A320, SINCE MACDONNELL DOUGLAS WERE NOW OFFERING TO PROVIDE IMPROVED ENGINES AT NO EXTRA COST FOR THE 30 DC9-80S ALREADY ORDERED. IN EFFECT, THE EXISTING PRATT AND WHITNEY JT8D-217A ENGINES WOULD BECOME JT8D-219S FOLLOWING MODIFICATION, AS AND WHEN THE AIRLINE WANTED THEM, THUS CONVERTING THE DC9-80 INTO THE DC9 SUPER 83. ON CAPITAL COSTS ALONE, THE A320 WOULD BE RULED OUT AT 24 MILLION DOLLARS PER UNIT (1982 PRICES), COMPARED WITH 12 MILLION FOR THE DC980 83. MOREOVER, THE AMERICANS WERE OFFERING 6 MILLION DOLLARS FOR EACH OF ALITALIA'S EXISTING DC9-30S, COMPARED WITH 4 MILLION DOLLARS PER UNIT OFFERED BY AIRBUS INDUSTRIE IN RELATION TO PURCHASES OF A320.

6. THE ITALIAN GOVERNMENT, HOWEVER, WERE INTERESTED IN COLLABORATION WITHIN THE AIRBUS CONSORTIUM, BUT ON A DIFFERENT AIRCRAFT. THEY AND ALITALIA HAD IDENTIFIED A MARKET NEED FOR

THE TA11. THEY HAD BEEN IN TOUCH WITH THE GERMANS, WHO WERE FAVOURABLE, AND LUFTHANSA WERE APPARENTLY PREPARED TO BUY TA11 IF IT BECAME AVAILABLE. THE FRENCH POSITION WAS UNCLEAR BUT THE ITALIANS WERE ANXIOUS TO KNOW WHAT OUR VIEW WOULD BE. THEY SUGGESTED A UK/ITALIAN/ GERMAN STUDY GROUP ON TA11, WHICH THE FRENCH COULD JOIN LATER ONCE THEY HAD GOT OVER THEIR FASCINATION WITH THE A320. THEY WERE LOOKING FOR A LAUNCH IN 1990 WITH THE POSSIBILITY OF ROLLS ROYCE ENGINES (THE 524 OR THE 535) OR THE PRATT AND WHITNEY 4,000 SERIES. PANDOLFI MIGHT RAISE THIS WITH MR JENKIN.

7. AS REGARDS THE POINTS FOR CLARIFICATION ON AIRBUS (YOUR TELEGRAM NUMBER 53), THE MINISTRY OF INDUSTRY WERE SOMEWHAT DISMISSIVE OF THE 'POLITICAL EVALUATION' OF A320 AND DESCRIBED THIS AS TYPICAL OF THE FARNESINA'S LOVE OF EUROPEAN PROJECTS FOR WHICH THEY DID NOT HAVE TO PAY. JOINT CONSULTATIONS HAD ONLY SO FAR TAKEN PLACE BETWEEN ITALY AND FRANCE, IE BETWEEN AIRBUS INDUSTRIE ON THE ONE HAND AND ALITALIA AND AERITALIA RESPECTIVELY AS POTENTIAL OPERATORS AND POTENTIAL INDUSTRIAL PARTICIPANTS. HOWEVER, THEY WOULD EVENTUALLY INVOLVE ALL THREE A.I. PARTNERS IF FANFANI CONTINUED TO GO THROUGH THE NOTIONS OF EXAMINING A320 IN DEPTH.

9. MORRICE TOOK THE OPPORTUNITY OF REITERATING OUR OWN POSITION ON A320. THE ITALIANS WERE RELIEVED AND LOOKED FORWARD TO OUR REACTIONS TO THEIR QUESTIONS ON TA11 (MY TELEGRAM NUMBER INDUS 5).

#### ANGLO/ITALIAN CONSULTATION IN THE AIRCRAFT SECTOR

10 THERE IS CLEARLY STILL INTEREST IN ROME IN SUCH A STRUCTURE TO MATCH FRENCH AND AMERICAN ARRANGEMENTS WITH THE ITALIANS. THE MINISTRY OF INDUSTRY SUGGESTED AN ANGLO/ITALIAN WORKING GROUP TO MEET AT OFFICIAL LEVEL AS AND WHEN NECESSARY. PANDOLFI WOULD AGREE TO THIS IF WE CHOSE TO RAISE IT WITH HIM. A REFERENCE TO IT IN THE SUMMIT COMMUNIQUE MIGHT HAVE PRESENTATIONAL ADVANTAGES VIS A'VIS THE FRENCH.

#### TELETEXT

11. MR JENKIN MAY WISH TO REITERATE TO PANDOLFI OUR HOPE THAT THE ITALIANS WILL ADOPT THE UK SYSTEM. THE LEAD ITALIAN MINISTER IS GASPARI (POSTS AND TELECOMMUNICATIONS), WHO INDICATED TO SIR R ARCULUS RECENTLY THAT THE DECISION WAS GOING OUR WAY. PANDOLFI ALSO HAS AN INTEREST: EVERY OPPORTUNITY OF FIRING UP THE ITALIANS SHOULD BE TAKEN IN THE FACE OF CONTINUING FRENCH PRESSURE IN THIS AREA.

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PANDOLFI THE MAN

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12. PANDOLFI IS WELL SUMMED UP IN THE LPR (PAGE 80). HE HAS BUILT HIS CAREER MORE ON HIS FINANCIAL AND ECONOMIC EXPERTISE THAN ON HIS POLITICAL CONNEXIONS. HE HAS BEEN ACTIVE SINCE HIS RETURN TO THE INDUSTRY MINISTRY LAST DECEMBER, PRESSING FOR PROGRESS IN TACKLING ITALY'S ENERGY PROBLEMS AND IN COLLABORATIVE PROJECTS. HE APPEARS TO CARRY SOME WEIGHT IN THE PRESENT CABINET. HE LIKES BRITAIN AND WILL APPRECIATE A CLOSELY ARGUED PRESENTATION OF OUR CASE ON EG EH101, BACKED UP WITH FACTS.

FCO PLEASE ADVANCE TO PS/JENKIN, PS/MR HESELTINE

FCO PLEASE ALSO PASS TO SAVING ADDRESSEES

SIMPSON-ORLEBAR

ADVANCED AS REQUESTED

REPEATED AS REQUESTED

LIMITED

ESTSD

MAED

WED

TRED

NAD

ECD (I)

ECD (E)

PS/MR RIFKIND

SIR J BULLARD

MR EVANS

MR ADAMS

MR HANNAY

MR GOODISON

MR THOMAS

MR URE

COPIES TO

MR MOGG DOI

PS/MR JENKIN

PS/MR HESELTINE

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