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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND SIGNOR
CRAXI, PRIME MINISTER OF ITALY, AT 10 DOWNING STREET ON FRIDAY
19 OCTOBER 1984 AT 1000 HOURS

Present:

Prime Minister
Mr. C.D. Powell

Signor Craxi
Signor Badini

The Prime Minister said that she wanted to convey a strong impression from the summit of successful Anglo-Italian cooperation. She would put the accent on this at the press conference later in the day. Signor Craxi endorsed this aim.

Libya

The Prime Minister referred to the discussion which she and Signor Craxi had held the previous evening. Overnight there had been a message from Morocco to the effect that King Hassan had sent an emissary to Libya to explore the possibilities of securing the release of the four British detainees. The reply had come back from the Libyans that this could be achieved if Britain released Libyans held in prison in the United Kingdom. There could be no question of this since the Libyans concerned were charged with or convicted of serious crimes. She would have to ask King Hassan to make this clear to the Libyans. She had been very grateful for Signor Craxi's offer of help the previous evening. Signor Craxi said that the matter should be pursued further when Signor Andreotti joined the talks.

Falklands at the United Nations

The Prime Minister said that the vote on the Falklands Resolution at the United Nations would be very important again

this year. She recalled that last year Signor Craxi had commented how open the wounds between Britain and Argentina still were. This unfortunately remained the case. It was important the Community should not be seen to vote differently this year from last. Italy's vote would have particular importance given that Italy was about to assume the Presidency of the European Community. She therefore hoped that Italy would again abstain. It would look bad if the Community vote was split or if the Community voted differently from last time. Signor Craxi said that he would be seeing President Alfonsin next week in Rome. Alfonsin would presumably press him hard in the opposite sense. The Prime Minister said that the facts were inescapable. Argentina had invaded the Falklands and denied the inhabitants the right to self-determination. Signor Craxi said that it was clear that there was no possible solution to the problems between Britain and Argentina at the moment. It would be better not to make the UN vote into a drama. He agreed that it would be preferable if the Community voted together. He confirmed that Italy would vote as last year. But he would be in serious trouble if the French were to split ranks and vote for an Argentine Resolution. He would not then be able to control the situation given Italy's links with Argentina. He would be seeing President Mitterrand shortly and would seek a firm commitment to a Community abstention. Did the Prime Minister have any evidence of French intentions? The Prime Minister said that President Mitterrand would be here next week on a full State Visit. It would be thought very strange if, shortly after such a visit, France were to change its vote upon an issue of such importance to the United Kingdom. Signor Craxi agreed. It would be logical to stick to a common abstention. The Prime Minister said that it would also be good for the Community.

European Community

The Prime Minister asked how Signor Craxi saw the prospects for the Italian Presidency. What would be his priorities? Signor Craxi said that he had just started work

on this. His first priority was to create conditions for improving industrial, technological and scientific cooperation in the Community. A framework of rules which favoured industrial collaboration and development was a pressing need. The Community could not simply go on giving all its attention to agricultural questions. The Prime Minister warmly welcomed this. She thought Signor Craxi's determination to make progress on non-agricultural matters highly significant. It would be important to complete the Common Market in goods and services. The United Kingdom was also taking a number of initiatives on standards in the Community. The accent should be not so much on common standards but on mutual acceptance of national standards, though there would need to be unified standards for new products in the high technology field. Without this there was a risk that the Community would lose out in the race towards the electronic future. It would be important to get alongside the new Commission and impress on them the need for practical progress towards a real common market in insurance and banking. It was also important to liberalise air fares.

Signor Craxi said that he also saw scope for progress in cultural cooperation. The Prime Minister said she was not sure what progress the two Ad Hoc Committees established at Fontainebleau would make. In her view the priority was to make the existing Treaty work better rather than seek changes in it. Signor Craxi said that there was a faction in the Community which wanted institutional change leading to full integration. This was strongly represented in Italy. But he personally was convinced that the real weak point in Europe lay in failure to exploit the potential of industrial, technological and scientific cooperation.

Signor Craxi continued that the Italian Presidency would also wish to see progress in the Community's relations with third countries, particularly Eastern Europe. The Community had to make up its mind whether it wanted to exercise real political influence outside its own borders, to speak on its own account. It would also be necessary to deal with

monetary problems and particularly reinforcement of the role of the ecu.

Signor Craxi said that he wished to mention one matter very frankly. It was important to prevent Franco-German bilateralism from dominating the Community. It was not good enough that they should agree matters between themselves and then seek to impose the result on other members of the Community. The Prime Minister agreed that this was non-communautaire. There was nothing objectionable about bilateral contacts but it was wrong for two large members of the Community to fix matters between themselves and insist that others accept the result. This is what had happened over the Presidency of the Commission. Signor Craxi said the problem could become acute in the trade field if agreement was reached between France and Germany on standards which favoured trade between them over trade with other member states.

CERN

Signor Craxi said that he wished to raise a particular problem about CERN. The term of office of the present Director, who was German, was due to end fairly soon. It had originally been accepted that this post would be held by different member states in rotation. There was an outstanding Italian candidate for it, Professor Rubia, who had recently won a Nobel Prize. But it seemed that the French had given the Germans to understand that they would support extending the term of office of the German Director. This was not right: indeed it was an example of Franco-German cooperation at the expense of others to which he objected. The Prime Minister said that she would look into the matter.

International Financial Issues

Signor Craxi said that he was extremely irritated by the IMF which had published damaging analyses of the Italian economy, forecasting a higher rate of inflation than the Government predicted. This was very damaging to his

Government's policies. He would be writing to Heads of Government about it. He thought it was probably the fault of Italian officials in the IMF who were hostile to his Government.

The Prime Minister said that it was difficult to predict what would happen to the dollar. It had strengthened again the day before against all European currencies including the deutschmark. Everyone forecast that the dollar's inexorable rise would end but it was difficult to say when it would do so. The rise reflected the underlying strength of the American economy and the United States' political stability, which made it a haven for foreign funds. This was an additional argument for working within the Community to make Europe economically strong and politically stable. Signor Craxi said that he was interested by the idea that large-scale raw material contracts between primary producers and firms in European countries should be denominated in ecu. The Prime Minister questioned whether the primary producers would accept ecu. Signor Craxi said that they were able to purchase virtually all their needs in Europe. The Prime Minister said that she attached greater importance to lower US interest rates and a lower US dollar.

Signor Craxi said that he worried about how long the United States could sustain the loss of its markets as a result of the strong dollar. He feared the consequence would be the raising of protectionist barriers. The Prime Minister said that President Reagan had resisted this hitherto because he had been able to rely on strong domestic growth. But as growth slackened demands for protection from US industry would increase. There were more unknowns in the world economic situation than for some time because of the strength of the dollar.

East/West Relations

The Prime Minister said that she and Signor Craxi agreed on the need to develop contacts with Eastern Europe. She had

been disappointed that Herr Honecker had postponed his visit to the FRG. Signor Craxi said that he had met Herr Honecker in East Berlin before the cancellation of his visit. He had clearly wanted very much to go. It was apparent that East Germany wanted to have a role of its own in relations with Western Europe, and not just be treated as a province of the Soviet Union. The cancellation of Honecker's visit had been a humiliation for East Germany. The Prime Minister asked whether the Russians could ever really count in a crisis on the loyalty of East Germany. Signor Craxi said that he was sure they could not count on the other East Europeans with the exception of the Bulgarians. But he was not sure about East Germany.

The Prime Minister said that she hoped that, after the US elections, the Soviet Union would show some willingness to return to negotiations on nuclear arms control. They were clearly very worried about the development of a new generation of weapons in outer space. This seemed more likely to bring them to the negotiating table than anything else. They would be very concerned by the additional strain on their resources of competition with the United States in this field, although they would do everything necessary to keep up. Signor Craxi agreed.

The Prime Minister said that she wanted to tell Signor Craxi in the strictest confidence that Mr. Gorbachev had accepted an invitation to visit the UK in December. She saw this as a useful opportunity to develop contact with a new generation of Soviet leaders. It was very important that no public reference should yet be made to this visit.

Signor Craxi said that he had been impressed by the changes going on in China. When Zhao Ziyang had visited Rome, his delegation were dressed in western suits and looked like bankers.

Signor Craxi repeated that his priority lay in developing relations with East Europe, particularly in the

economic field. The Prime Minister said that this could only be achieved by some opening of the Community market. A lot of East European demands were unrealistic: for instance Hungary wanted the removal of all quotas. Signor Craxi said that some way must be found to help the East Europeans in this area.

Middle East

Signor Craxi said that he knew Peres well but had not had any direct contact with him since he had become Prime Minister. He was pessimistic about the prospects of progress towards a Middle East settlement. He regarded the rapprochement between Egypt and Jordan as very significant. He was glad that Britain and Italy had been able to respond positively to Egypt's request to send mine sweepers to the Red Sea. The Prime Minister said that Peres had apparently made a very successful visit to the United States. There would be a pressing need for a US initiative on the Middle East after the Presidential elections. The first step was to secure Israel's withdrawal from Lebanon. Signor Craxi said that he had always believed that Israel should return the West Bank to Jordan and leave it to Jordan to solve the Palestinian problem. The Prime Minister said that she was pessimistic about the prospects of progress on the West Bank and saw little likelihood that Israel would make significant concessions.

The discussion ended at 1100 hours.

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C.D. POWELL

20 October 1984

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