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BRIEF FOR THE ITALIAN AMBASSADOR'S CALL ON THE PUS, 1 FEBRUARY
GREY AREAS AND THEATRE NUCLEAR FORCE (TNF) MODERNIZATION

Line to Take

1. Good progress is being made in the High Level Group (HLG) set up to consider options for TNF modernization. Defence Ministers in the Nuclear Planning Group (NPG) will consider the Group's recommendations in April, and the matter will probably come to the NATO Ministerial Council in May.
2. We shall need to keep in mind both the military factors and the implications for arms control, including for any negotiation on the grey area. *Remains under way to be on this day.*
3. We gave our preliminary view on the grey area in NATO on 20 November. You have also been briefed by Sir John Hunt on the discussions at Guadeloupe. We have reached no firm conclusions. There will have to be further detailed consultation in the Alliance before any decisions are taken. This will need to include discussion among the European members, both bilaterally and for instance in the Petri gnani Group. But the full Council must remain the main forum for consultation on SALT III and the grey area.

Background

4. The HLG was established under NATO's Long Term Defence Programme to study TNF Modernization. The first phase of its work produced a consensus in favour of modernization, and of some strengthening of NATO's longer-range theatre capability.
5. The HLG is now working on options for how this might be achieved. Candidate systems include aircraft, ground, sea and air-launched cruise missiles, an extended-range version of the Pershing Ballistic missile, and a new medium-range Ballistic missile.
6. There is wide agreement that besides purely military/technical considerations, key factors to be considered in reaching decisions must include:
 - (a) the need for careful public presentation, so that modernization is seen as a necessary development of the existing force structure rather than as a gratuitous further step in the "arms race";

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- (b) the need to keep costs down so as to give priority to conventional force improvements;
- (c) the need for the widest possible participation throughout the Alliance, whether by way of system ownership, basing, cost-sharing or political support;
- (d) the role which arms control might play.

7. In parallel to the work of the HLG, Alliance discussion on "Grey Areas" was initiated by the Americans on 20 November 1978. [Mr Moberly] said that the UK's preliminary view was that the balance of advantage might be against the inclusion of grey area systems in SALT III, or some other negotiation. The Italian representative stressed the need to consider arms control and force improvement issues together.

8. Grey areas were discussed at Guadeloupe. The Italian Ambassador called on Mr Judd last week to express disquiet about Guadeloupe, but paid tribute to the briefing he had been given by Sir John Hunt on the meeting.

9. The Italians have argued that the European members of the Alliance should hammer out among themselves a "European view" on SALT III issues, including the grey area, before the Alliance as a whole seeks to reach decisions. They see the "Petrignani Group", which exists for entirely informal consultation on SALT among the European allies, as the vehicle for this. We have repeatedly made clear our view that, while informal consultation on SALT among the European allies is useful, the Americans must be fully associated with all decisions, and that the Council must therefore remain the forum for formal consultation.

DEFENCE DEPARTMENT
FOREIGN & COMMONWEALTH OFFICE
31 JANUARY 1979

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PUS' MEETING WITH THE ITALIAN AMBASSADOR:
1 FEBRUARY 1979: MALTA

Line to take

1. I have been glad to hear that Italy and France have been exchanging views with Libya about the three countries' political and economic relationship with Malta following the British Military withdrawal. The information given to Sir Reginald Hibbert by Sr. Gardini on 16 January was most interesting. It seems that even the Libyans find Mr Mintoff's demands excessive. Meanwhile I am sure that the economic and political studies being produced by the Mediterranean Working Group of the Nine will prove very useful in deciding on future policy towards the islands.

2. It is certainly reasonable that Malta should seek both a statement on neutrality and an assurance of continuing economic cooperation. But, from the sidelines into which Britain is now moving, Mr Mintoff seems to be asking too high a price from all concerned, given the healthy state of Malta's economy. However, it is very difficult to assess the price at which he might eventually settle, or how much various unfriendly powers might be prepared to pay with the aim of increasing their influence in Malta.

Defensive

3. (If Sr. Ducci stresses the need for rapid completion of the paper on the political importance of Malta). As far as the UK is concerned, there should be no great difficulty in doing this. However, since the paper will be a definitive exposition of the Nine's collective view, it is important that it should be made as good, and particularly as dispassionate, as possible. But this is not incompatible with its rapid completion.



Background

1. Since 1977, the Malta Government has been holding intermittent negotiations with, most notably, Italy, France and Libya with a view to ensuring Maltese neutrality and economic viability after 1979. Talks with France and Italy early in 1978 produced agreed draft declarations in which Malta would state inter alia that it would exclude from its facilities the armed forces of the great military alliances (ie NATO and the Warsaw Pact). But these political documents were never formally agreed because France and Italy could not accept the Maltese demand that they should be conditional on their providing budgetary support for Malta. (Mr Mintoff is seeking £28m (roughly £38m) a year for five years in direct budgetary support on the grounds that this is the amount of income which Malta will lose as a result of the British Military withdrawal). On reaching this impasse in July 1978, Mr Mintoff said that Malta might be obliged to make an exclusive politico/economic deal with the Libyans. Following strong pressure from Mr Mintoff, the Libyan General People's Congress announced last December that Libya would give an unspecified amount of aid to Malta. But there is no indication that any bilateral political agreement has been reached between Malta and Libya. Indeed the Libyan Government has said that it would prefer a "Euro-Arab" rather than a purely Arab Solution. Talks have recently been taking place between Italy, France and Libya aimed at coordinating future aid to Malta, and possibly linking it to a Maltese statement about neutrality. (The latest meeting was in Rome on 18 January).
2. The French and Italians (and Germans) have told the Maltese that they would be willing on principle to provide technical assistance, development loans etc. Until recently these countries refused to discuss budgetary support. Nevertheless, Italy is very concerned at the possibility that Malta may move closer to Libya, or even the Soviet Union, and has come to the conclusion that it may be necessary to go some way to meeting Mr Mintoff's demands for grant aid. The Italians envisage offering US\$4.2 million a year, the same amount that they at present contribute to the rent for the British base. They hope that France will also make at least a symbolic contribution.
3. On 16 January Sr. Gardini, the Italian Political Director, gave Sir R Hibbert an account of Italy's views on Malta and of its recent contacts with Libya

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(Paras 20 and 22 of the attached record) Sr. Gardini did not press for a British Contribution to future aid for Malta. But he did press for the Political Committee to put to Ministers before 31 March, the date of the final British departure, an agreed assessment of Malta's political importance. A paper on this subject is being prepared by the Mediterranean Working Group of the Nine. The first draft by the French presidency was slanted towards the conclusion that if the EEC did not provide aid, Malta would be very likely to sell her facilities to unfriendly countries. The UK has pressed for the paper to be made more dispassionate and severely analytical, and has proposed a number of amendments to this end. (The Maltese economy is in fact generally very healthy, with large and growing foreign currency resources).

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RECORD OF DISCUSSION AT THE FOREIGN AND COMMONWEALTH OFFICE BETWEEN SIR REGINALD HIBBERT, DEPUTY UNDER SECRETARY OF STATE, AND SIGNOR WALTER GARDINI, POLITICAL DIRECTOR OF THE ITALIAN FOREIGN MINISTRY: 16 JANUARY 1979

Present: Sir R A Hibbert
Mr D S Broucher EESD
Mr Coltman SED
Mrs S Wiseman UND
Miss C E C Sinclair EID(E)
Miss P M Kenwick WED

Signor W Gardini
Signor C Civiletti, Press Counsellor,
Italian Embassy

CSCE

1. Signor Gardini said that Ministers must have something definite to discuss at the Madrid meeting. He thought that it would be foolish to have a too broad agenda with items on which no agreement would be possible. The Eastern European countries would present a tough front. They were likely to produce negative elements. If any success was to be achieved the West would have to try to concentrate on discussing manageable topics. Sir R Hibbert said that the follow-up meeting at Valletta on Mediterranean issues was unlikely to produce progress useful in the main CSCE process, but the UK was determined to contribute to making it as successful as possible. The essential British preoccupation was, however, with preparation for the Madrid meeting in 1980. Subject to a satisfactory degree of restraint in the exchange of mutual criticism, the success of that meeting would probably depend on the effectiveness of the handling at it of proposals for better implementation of the Final Act of Helsinki. The failure at Belgrade had been over discussion of so-called "new" proposals. There had been far too many, 80-90 in all, and all had been lost. If the Madrid meeting was to be a success it was essential to organise the "new proposal" sector more effectively. The ideal might be to select 10-12 proposals and concentrate on them. In preparation for this, and following the discussions which had taken place among the Nine, the UK was embarking on consultations with Eastern European countries beginning in late January. He himself would be having discussions in London with Mr Nagy from Hungary and would visit Rumania and Bulgaria. There was still an outside chance that Mr Zernskov, the Soviet Deputy Foreign Minister would visit London in February. If this did not come off Mr Bullard would receive him later and probably the Czechoslovak, Polish and GDR Deputy Ministers also. The Nine should now begin to concentrate seriously on preparing for the Madrid meeting. He himself was disturbed that the CSCE Working Group's latest paper did not grapple with this problem adequately and he would raise the matter in the Political Co-operation Committee in the week of 22 January. Signor Gardini said that it was necessary to avoid subordinating the Madrid meeting to general preconditions, eg on the subject of human rights. A second factor was that the Soviet Union seemed likely to use the Madrid meeting to table a number of proposals on disarmament. There would be problems of co-ordination and a danger of overlapping with other disarmament negotiations. There was also the problem that disarmament was not a subject for the Nine but for NATO. Sir R Hibbert said that the West should try to identify a selection or range of confidence-building

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measures which the West could put forward in CSCE in order to provide something on the disarmament side to which the Soviet Union claimed to attach importance. Although this was a matter primarily for NATO there was no reason why the Nine should not initiate proposals which could then be put to NATO. It was of course important to keep human rights issues under control so that they did not drag the Madrid meeting right off course. There was a need for discussions with the United States on this, but it did not help matters that the French were refusing to develop a common position with the rest of the Nine. When other members tried to establish a common position which could be communicated to the Americans, the French rejected this as being "normative", and yet at the same time they protested about any tendency to follow a US line. There would have to be patient argument with the French. There was also a certain amount of difficulty with the Dutch, who were constantly reminding the Nine of their duties with regard to the ideological attitude to be adopted towards the USSR. Signor Gardini said that the Nine should profit from the French Presidency to press the French to adopt a common position. Sir R Hibbert said that he would seek to have a fuller discussion at the next Political Committee meeting in hope of bringing the matter more into the open.

EAST/WEST RELATIONS AND DÉTENTE

2. Signor Gardini commented that the two superpowers had been at odds during 1978. The problems relating to Iran, China and Cambodia had made, and would continue to make, the dialogue more difficult, but he considered that the general concept of détente was not in danger. The first priority was to conclude the SALT II agreement. Mr Brezhnev would want to go to the USA as soon as possible to sign it. However, it must be remembered that East/West relations did not rest simply with the superpowers. He asked whether the Guadeloupe summit discussions had covered these questions. Sir R Hibbert explained that the impulse for the Guadeloupe meeting in the first place had come from President Carter, who wanted to be sure that the final stage of SALT II and the transition to SALT III were broadly supported by the European nuclear powers. (The FRG was not of course a nuclear power, but was clearly the primary target and primary theatre launching pad for nuclear weapons). The three Western powers had endorsed President Carter's position. There was also discussion in broad global terms of the attitudes to be adopted towards the USSR and China and a review such as always occurred when any heads of governments met, of immediately current flash points. On relations with the Soviet Union there was agreement on the need to ensure that the Soviet leaders were confident of Western interest in détente in the run up to the succession to Brezhnev. This point needed to be borne in mind in relations with China. The few heads of governments had agreed that relationships with China could not be dictated by the Soviet Union.

3. Sir R Hibbert also said that one helpful outcome from Guadeloupe was that the FRG would take the lead in trying to organise a group to assist Turkey, the USA being inhibited by various considerations from taking the lead.

4. Turning to the general East-West balance, Sir R Hibbert said that the problems which had bedevilled East-West relations during 1978, human rights and Soviet interference in Africa, had become less acute, but the Vietnamese invasion of Cambodia had again pointed to the Soviet capacity for interfering in the third world, and presenting the West with dangerous faits accomplis. It was possible to expect better relations in Europe, but events elsewhere threatened to upset the balance. The UK did not intend to be shaken by the situation in Cambodia; it was far from clear that the Soviet Union had gained a lasting advantage. The UK line would still be that détente should continue, and this would be pursued through bilateral contracts with the eastern European countries. The UK wanted satisfactory relations with China; it would develop trade with China and would not deny the Chinese defensive weapons but would proceed very prudently in this field.

5. Signor Gardini welcomed the proposal for assistance to Turkey, although he commented that there was unlikely to be much Italian money available for this. On China he confirmed that Prime Minister Andreotti had received two letters from President Brezhnev; as far as Signor Gardini knew he had not yet replied. The subject was bound to come up during Mr Gromyko's visit to Rome. It was not clear whether a reply would be sent before the visit. The letters from Mr Brezhnev were rather strange in view of previous Soviet policy on arms sales and the reply would have to be "nuancé". It was clear that the Chinese were trying to create a "political atmosphere" in their relations with Western Europe in order to cause difficulties for the Soviet Union. He asked when the Prime Minister would reply to the letters which he had received from President Brezhnev.

6. Sir R Hibbert said that the UK saw advantage in an early reply, which

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would say that if the international community wanted China to be constructive, it would have to take account of China's interests. The Soviet case had become harder to argue as a result of the Vietnamese invasion of Cambodia; it was not after all the Chinese who had invaded another country.

7. Sir R Hibbert said that the UK was always prepared to talk to East European countries, but there was a lack of content in the discussions. Signor Gardini said there was no special significance in the date of Mr Gromyko's forthcoming visit to Rome. He was supposed to come at the end of 1977 but had been ill. The Soviet Ambassador in Rome had rather curiously asked for an assurance that there would be no political crisis during the period of Mr Gromyko's visit. He had wanted to stop a meeting organised by the Communist Mayor of Florence on behalf of Shcharansky, but the Italians had rejected this.

8. Sir R Hibbert said that Dr Owen was keen to have some political input into MBFR. He felt that MBFR was languishing. He also wanted to see what aspects of the French proposal for an EDC might be pursued. The Soviet Union would not buy some aspects of the proposal, but others might be worth exploring. Signor Gardini agreed that the MBFR machinery was inefficient and long-winded. On the French EDC proposal, the Russians had said neither yes nor no. Recent Franco-Soviet bilateral talks had apparently brought no progress. Sir R Hibbert said that the FRG was going very slowly on MBFR and Ministerial talks would help to clarify its attitude. Signor Gardini agreed. He said that MBFR should not be left entirely to officials. Ministers need to take the necessary decisions.

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MEDITERRANEAN QUESTIONS

Cyprus, Sir R Hibbert said that the UK had been disturbed by Dr Waldheim's willingness to make changes to the US/UK framework paper in order to please the Government of Cyprus. Having done this it would be difficult for Dr Waldheim to refuse to make further changes in response to Turkish views. However, Mr Denktash had agreed to the resumption of talks and it appeared that the reservations which he had expressed about Dr Waldheim's paper were not put forward as preconditions. In any event the Turks seemed more anxious to please at present than they usually were. The UK continued to believe, however, that pressure from the friends of Greece, Cyprus and Turkey might be needed if talks were to make progress. The US/UK paper contained proposals of substance which would encourage the parties to concentrate on realities rather than on posturing. If necessary the UK would be ready to revive the proposals and try to put them back on the table. If there was no need for this, so much the better. It was a pity that the Nine had not been associated with the earlier efforts to bring about a resumption of talks. This was because France and Germany had not been prepared to acknowledge the existence of the US/UK proposals.

10. With regard to Greece's introduction to political cooperation among the Nine, Sir R Hibbert said that at his meeting with the Greek Political Director on 4 January, he had been impressed by the real effort which Mr Tzounis was clearly making to speak as someone concerned not only with Eastern Mediterranean problems but also with wider issues. The attitude of Turkey over political contacts with the Nine was by contrast negative. It was perhaps not surprising that the Turkish Government was pre-occupied with Turkey's economic and political crisis and could not concentrate on the ideas which had been put to them by the Nine. It would be necessary to wait until the Turks showed a more serious interest.

11. Sr Gardini questioned Sir R Hibbert's comment that Mr Denktash's reservations about Dr Waldheim's agenda for resumed intercommunal talks in Cyprus did not amount to preconditions. Sir R Hibbert confirmed that this was the UK's understanding. Some of Mr Denktash's points, such as his call for an end to propaganda campaigns and economic harassment should have a chance of acceptance; others would probably be resisted. The UK thought that the reference in Dr Waldheim's paper to the US/UK proposals should be retained as a point of reference.

12. Sr Gardini said that when his deputy was in Paris in October for a meeting on Malta he had been given to understand that when France assumed the Presidency of the Nine it would put forward some new proposals on Cyprus. Perhaps France had

been upset that its own plans had been overtaken by the US/UK initiative.

Sir R Hibbert said that France knew of the UK's ideas in July and had not been taken by surprise. The UK had contacted France and Germany as a preliminary step before involving the Nine, but had received no indication of support.

Sr Gardini said that it was a bad state of affairs if the Nine, and in due course, the Ten, Eleven and Twelve, could not address themselves effectively to problems in areas not far from their own frontiers such as the East Mediterranean and the Middle East, let alone to problems in areas further afield such as the Far East or South America.

13. Sr Gardini said that the attitude of Nicosia was irresponsible. They were continually appealing to the non-aligned and even to the Soviet Union, instead of trying to gain credibility with the Europeans. In the United Nations, for example, Cyprus had promoted resolutions of a sort on which the Nine could only abstain. Italy, for its part, was ready to act in any way which would be helpful.

14. Sir R Hibbert said that it was desirable to have a clear framework for inter-communal talks, both to keep the Cyprus Government (which was susceptible to domestic pressures) on a straight path, and to encourage the Turkish side to focus on the real issues. Effective action could not be taken without American involvement since only the United States could exert real pressure on Turkey. It was unreal to suppose that Dr Waldheim could achieve anything on his own. There was an ironical element in the French proposal for a demarche by the Nine in support of Dr Waldheim's initiative, because it ignored the fact that it was only the efforts of the UK and US which had brought about movement. The Greek Government for its part had expressed satisfaction with the US/UK framework paper - Mr Tzounis had confirmed this to him on 4 January - while the UK's partners in the Nine refused to recognise the value of what had been done. The UK would agree to the proposal for a demarche in support of Dr Waldheim. But it required patience on the part of the UK to go along with such proposals in view of the ungenerous attitude of some member countries to the efforts which the UK had made.

15. Sr Gardini said that there appeared to be no problems over Greece's approach to political cooperation. The Turkish attitude to the offer which had been made was unjustified: they did not seem to understand that the political relationship between Turkey and the Nine would have to develop step by step. Portugal was trying to bring its foreign policy positions more into line with the Nine in the United Nations and elsewhere. There were greater difficulties with Spain. For example, Spain had not made a move to establish relations with Israel and claimed that it was prevented from doing so by an agreement with Iraq, by the implications

for the Canary Islands and for other reasons.

16. Sir R Hibbert said that the UK had told Greece that its performance at the next session of the UN General Assembly would be important. The Greek Government appeared to be looking at ways of establishing relations with Israel. The UK had had no bilateral contact with the Portuguese Political Director, except when the latter accompanied President Eanes on his State Visit. He agreed that there would be more difficulty in bringing Spain's positions closer to those of the Nine. But Spain was still a long way from membership. The UK could not exert much influence in this respect, since Gibraltar loomed large in Spanish eyes. It would not be easy, for example, for the Spanish Political Director to come to London for a day of talks without discussing Gibraltar, although the UK would welcome this. It might be for other members of the Nine to take the lead in bringing Spain closer to Political Cooperation.

17. Reverting to Cyprus, Sir R Hibbert said that the present course of events was not too bad. It had not been possible to concert the initiative with the Nine, but it was in the interests of the Nine that the initiative had been taken. The UK would continue to try to involve the Nine.

18. In answer to a question about the Cyprus v Turkey case in the Council of Europe, Sir R Hibbert said that the text produced by the Mediterranean Working Group on 15 January looked satisfactory, but it would have to be put to FCO Ministers.

19. Sr Gardini said he thought that the economic and political studies on Malta being produced by the Mediterranean Working Group were a useful exercise. It would be desirable for the studies to be finalised in time for them to be brought to the attention of Ministers before 31 March. If Italy, France, Libya and Algeria reached agreement before 31 March on their political and economic relationship with Malta, that would be very satisfactory. But if agreement was not reached it was possible that Malta might enter into pacts with, or make gestures towards, Libya or even the Soviet Union. If on 1 April Malta announced an alliance with Libya it would not help to inform Ministers that the Nine had for some time been studying Malta's future and the options open to it.

20. Sr Gardini added that at a meeting in Rome Mr Treiki had given the Italians some indication of Libyan views on Malta. He had indicated that for Libya it would be easier to give financial assistance as a gift than as a loan. But

Libya could not accept all Malta's demands or all Malta's arithmetic. Libya considered moreover that if it was the only country providing budgetary support, Malta would not be truly neutral. Mr Treiki had been invited to comment on the texts regarding Malta's neutrality which had been agreed last year between Italy, France and Malta. It had been agreed that on the occasion of a meeting in Rome on 18 January of the Italy/Libya Mixed Commission, a meeting of Italian, French and Libyan officials would be held to discuss Malta. Sr Gardini did not know if it would be possible to reach an agreement with Libya on the terms of Malta's neutrality. But it was encouraging that for the first time the three countries would be meeting round a table to discuss the problem.

21. Sir R Hibbert said that as far as the UK was concerned there should be no difficulty in producing a paper on Malta's political importance. The draft circulated by the Presidency had been slanted; but it should be possible to improve it. Mr Coltman said that following discussion in the Mediterranean Working Group on 15 January the Presidency would circulate a revised draft, but the UK might wish to propose some further amendments. Sir R Hibbert said that it was reasonable that Malta should want a statement on neutrality with which countries could associate themselves and an assurance of continuing economic cooperation. The problem was the price. Mr Mintoff wanted cash for everything and was continually over-bidding in his dealings, not only with European countries, but also with Libya, Algeria and others, including even the Soviet Union. The state of the Maltese economy was generally good. There would be no pressing economic difficulties after 31 March. Sir R Hibbert doubted whether anyone anywhere would accept the prices demanded by Mr Mintoff for what he had to offer. It was difficult to know at what price he would settle or to guess how far various unfriendly powers might in the end be prepared to go in paying. This was the essence of the problem - a sort of bazaar calculation. It would be possible to prepare a study on Malta but not to assess its importance in terms of a cash price.

22. Sr Gardini said that the UK was not directly involved in the problem. No-one was asking the UK to become involved. Apart from Germany, which had given some moral support, the problem of financial support for Malta concerned only Italy, France, Libya and Algeria. Indeed the Libyans said that only three countries were involved, since Algeria, while prepared to go along with an agreement on neutrality, was not willing to provide cash. The Libyans had told Italy that Mr Mintoff had said that Malta needed annual budgetary support to offset the loss of the £M14m rent for the British base and an additional £M14m brought in indirectly by the British military presence. The Libyans had pointed out to the

Maltese that the latter sum of money would be lost to the Maltese economy but not to the Maltese budget. The Libyans accepted a figure of £M16m as a reasonable estimate of the loss to the Maltese budget caused by the British withdrawal. They proposed that Libya, Italy and France should put together a package of financial assistance in the form of both gifts and loans. This would prevent Malta from playing off one side against the other. Sr Gardini commented that he did not know if the Libyan approach was serious or merely words. The Libyan General Peoples' Congress had agreed to the provision of financial support for Malta but had not fixed a figure. The Libyans might provide some £M11m. If Italy continued the payments it had been making towards the rent for the British base this would be a further US\$4.2m. France was opposed in principle to cash gifts but a symbolic payment of perhaps US \$2 or 3m could be possible. It might therefore be possible to approach a total figure of US\$44m (ie the equivalent of £M16m).

23. Sir R Hibbert thanked Sr Gardini for his interesting account. The UK would follow the situation with sympathy and would cooperate in trying to ensure that the paper being prepared by the Mediterranean Working Group was finalised soon.

COOPERATION BETWEEN THE NINE AT THE UNITED NATIONS

24. Sir R Hibbert said that cooperation among the Nine in New York was well conducted. The UK felt however that perhaps cooperation could be developed more broadly so that a more effective strategy for dealing with Soviet and East European initiatives could be developed. It was important to ensure that the Nine worked closely together in the specialised Agencies. He wondered whether they might be able to work out a better strategy before the next General Assembly.

25. Signor Gardini said that despite the general goodwill which existed between the Nine there would always be some fundamental areas of national policies which individual member states would not abandon, such as France's Arab relationships. He agreed however about coordinating a strategy for combatting Soviet initiatives. Italy had found that the three last General Assemblies had concentrated so much activity between September and November that it was difficult to bring matters to the attention of Ministers; the Polish initiative and the Nine's resolution on peacekeeping were cases in point. He felt it would be necessary to examine closely the various areas to see where the main problems arose and seek Ministers' views. One of the dangers was that the rest of the world did not take the Nine seriously. There was a semblance of unity among the Nine, but they lacked credibility as yet.

26. Sir R Hibbert said that the report assessing the 33rd Assembly was due soon from New York. What was also needed was an analysis of current themes and European interests and aims and a forward-looking assessment of what was likely to happen in the UN and the generalised agencies in the course of 1979. Signor Gardini was somewhat pessimistic about the capacity to predict events but Sir R Hibbert replied that this was an art which the Nine must try to develop.

27. Signor Gardini then brought up the question of candidatures for the Security Council. There was already a problem which would become aggravated with enlargement. A system of rotation within WEOG was necessary, by which 1 of the 2 non-permanent WEOG seats would go to an EEC country. This would also help the credibility of the EEC. Italy was not seeking any form of semi-permanent membership - this was not justified, especially when one other EEC country was on the Council in addition to UK and France. When FRG had been on the Council, they had kept Italy so closely informed that the Italians might almost have been on the Council. There was no urgency about the matter, which could be examined before or after enlargement. Sir R Hibbert undertook to have the question looked into.

28. Sir R Hibbert thanked Signor Gardini for coming to London for a very useful, if abbreviated, bilateral discussions. Signor Gardini agreed and invited Sir R Hibbert's successor to Rome for further talks in due course.

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Sir R Hibbert

Mr Fergusson



THE ALBANIAN GOLD

1. Until 1939, when on the Italian annexation of Albania a common gold reserve for both countries was established, the Albanian currency was covered by the gold reserves of the National Bank of Albania. The National Bank of Albania was established in Rome in 1925 with predominantly Italian capital and shareholders and although independent of the Albanian Government formed an integral part of the Albanian economy.
2. During the War this "Rome" Gold (2,338.7565 kilograms) was removed to Germany as was 116.1180 kilograms of gold coin from the Bank's office in Tirana. At the end of the War a "Tripartite Commission for the Restitution of Monetary Gold" was set up to distribute monetary gold recovered by the Allies. The members are France, the United Kingdom and the USA. The only cases outstanding are Czechoslovakia and Albania.
3. In 1948 the Commission provisionally awarded all the Albanian Gold to Albania but this adjudication was rescinded when the Italians put forward a claim to it based on the confiscation without compensation by the Albanian Government of the assets of the National Bank of Albania. This claim has never been established in law.
4. In 1949 the International Court of Justice awarded the UK damages of £843,947 against Albania in respect of their responsibility for the mining of British war ships in the Corfu channel in 1946. The Albanians however have always refused to pay and their offer of £40,000 in 1951 was rejected. In 1961 the UK proposed that half of the "Rome gold" and all the "Tirana gold" should be delivered to the British Government in partial satisfaction of the ICJ's judgement, while the other half of the "Rome gold" would be delivered to Italy

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in partial satisfaction of their claim. But the French and Americans argued that as the Italian claim had no legal standing, all gold should go to the UK against indemnities to the French and American Governments. The UK could then re-distribute the gold on its own responsibility. As neither the proposed indemnities nor the proposed circumstances of the transfer of the gold to the Italians were felt to be defensible before Parliament, the UK could not accept such a solution.

5. A quadripartite conference held in London in 1965 between the Commission members and Italy failed to agree to a French proposal for a three-way UK/Italy/Albania split. (Treasury lawyers at that time felt that the Italian claim would have a 60/40% chance of failing if they took their case to the ICJ.) When in 1966 the UK again considered a three-way split they discovered the Americans now proposed a four-way division including a US share in the gold for partial settlement of their "unadjudicated" claims of \$37 million against Albania for expropriation of American assets there. Since no agreement seemed possible it was decided by the British Government in August 1967 that the whole question should be put in cold storage.

6. Enver Hoxha, Albania's leader, has stated on a number of occasions that there can be no further discussions either about compensation for the Corfu Channel Incident or on the re-establishment of diplomatic relations with the UK, until all the gold "stolen" from Albania is returned with interest. The value of the gold has increased over the years and now stands at over \$16.5 million.

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31 January 1979



ITALIAN INTERNAL POLITICAL AND ECONOMIC SCENE

1. Signor Andreotti's Christian Democrat minority government faces a crisis provoked on 26 January by the Communists' (PCI)'s withdrawal of support for the Government's economic policy and specifically for their 3 year plan which provides for cutting public expenditure and containing labour costs. The crisis has, however, so far been played in low key and given little prominence in the Italian press which is headlining recent terrorist attacks. A parliamentary debate begun yesterday (Tuesday 30) continues today. The PCI have confirmed in that debate that they cannot continue to support the Government. Signor Andreotti is expected to hand in his resignation to President Pertini at the close of the debate today. After a day or two of consultations, the President is expected to ask Signor Andreotti to try to form another government.
2. The Andreotti government has, since March 1978 depended on the support given it by a 5-party parliamentary majority consisting of Christian Democrats, Communists, Socialists, Social Democrats and Republicans who together make up nearly 90% of the total parliamentary strength. The Christian Democrats (who obtained 38% of the vote at the 1976 elections) had previously depended on the abstention of the Communists (34%) and other small parties. In practice this has meant that the Communists and other parties have been consulted about all important legislation before it has been presented to Parliament. But the Communist Party has shown increasing signs of internal strain at its leadership's acceptance of an 'establishment' role without any real increase in power. The PCI/^{was}also opposed to joining the EMS at its inception.
3. The Communists may call for greater recognition of their parliamentary strength through partnership in the ruling coalition. Up to now Signor Andreotti has made it clear that there is no question of the Communists entering government and it seems doubtful that he will be able to reach agreement on a viable coalition without recourse to a general election. However none of the parties wants an early election.
4. In terms of Parliamentary arithmetic it might theoretically be possible, after a further election, to construct an alternative government involving a return to a

/centre-left



centre-left coalition between the Christian Democrats and the Socialists and excluding the Communists. The Socialists, under Signor Craxi, have been energetically cultivating an image distinct from that of the Communists which (as local elections in May 1978 showed) has caused them to pick up votes on the left. They also scored a significant success with the election of the Socialist Alessandro Pertini to the Presidency of the Republic in July 1978 following the resignation of President Leone.

5. The Italian economy continues to perform very well externally, but shows little sign of improvement internally. The balance of payments is expected to have been in surplus of at least 6 billion lire in 1978. The reserves have improved steadily, and the lira remains very stable. But the real growth rate of the economy is very slow (below 3% in 1978). Unemployment is about 7.5% of the labour force and inflation about 12%.

UK/ITALIAN RELATIONS

6. As fellow members of the Community, with, in many ways, similar economic and agricultural problems to contend with, the UK and Italy have a traditionally close and warm relationship, which has been strengthened by the assistance we have been able to give Italy in dealing with terrorism. The Italians recently however registered a formal complaint with the UK, France, FRG and USA over their exclusion from the Guadeloupe Summit and other similar meetings.

7. Signor Pandolfi, Minister of the Treasury, paid a one-day visit on Mr Healey in July 1978. Signor Ruffini, the Defence Minister, visited the UK on 7 November 1978. Signor Andreotti, accompanied by Signor Pandolfi, visited the UK at the Prime Minister's invitation on 20 November to discuss Community questions, and in particular EMS. Signor Gardini, the Italian Political Director paid a one day visit on Sir R Hibbert on 16 January. The Lord Chancellor has extended an invitation to Signor Fanfani, President of the Italian Senate, for 26-27 February, though this is now likely to be postponed. Mr Mulley is due to visit the Italian Defence Minister on 26-27 February.



CALL BY ITALIAN AMBASSADOR ON PUS: 1 FEBRUARY
COMMUNITY QUESTIONS

LINE TO TAKE

1. Welcome close co-operation with the Italian Government in many areas of Community activity, particularly at present on the CAP/MCA problem and economic convergence.
2. Hope in particular that the Italians will stand firm with us throughout the CAP price fixing negotiations in our attempts to secure a price freeze.

BACKGROUND

A 3. There has been close contact between the two Governments in recent months. Most recently Signor Marcora, the Italian Minister of Agriculture, had talks with Mr Silkin on 16 January (record attached); and Signor Ruggiero with FCO and other officials on B 19 January (record attached). Mr Hayes and another senior MAFF official will be meeting Italian officials in Rome on 1 February.

C 4. The PUS is familiar with the general background (see also FCO telno. 37 to Paris on EMS and MCA's). When Signor Marcora met Mr Silkin he offered to support our aim of a price freeze for products in surplus in return for UK backing for the Italian desire to have a degree of flexibility over the timing and size of green lira devaluations within any agreed timetable for phasing out MCAs. Ministers have agreed that it is in our interests to make D an alliance with the Italians and offer our support in return for theirs on our objective of a price freeze. CQM 30 January minutes to be attached when received later today.

EUROPEAN INTEGRATION DEPARTMENT (INTERNAL)

31 January, 1979