

CAB 133/507.

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PMVD (80) Series

(63)

CONFIDENTIAL**CABINET**

ANGLO-ITALIAN CONSULTATIONS 23-24 NOVEMBER 1980

MEMORANDA

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ANGLO - ITALIAN CONSULTATIONS
23-24 NOVEMBER 1980

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Cabinet Office

13 November 1980

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14 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

STEERING BRIEF

Brief by Foreign and Commonwealth Office

INTRODUCTION

1. Mrs Thatcher is to visit Rome for official talks at former Prime Minister Cossiga's invitation on 23-24 November. The talks have been timed to take place shortly before the European Council meeting on 1-2 December. It was agreed last October that Anglo-Italian bilateral talks should be held twice a year. The last in this series was held in London on 29-30 January, though Signor Cossiga also visited London on Community business in April. This will be Mrs Thatcher's first meeting with the new Prime Minister whose four party coalition was speedily put together last month. Signor Forlani's government has a comfortable majority on paper but internal differences are already apparent. Because of this and through natural inclination, Signor Forlani who is an adroit politician, may be

preoccupied with the management of internal affairs rather than external policy. He may therefore lean on the capable Signor Colombo.

UNITED KINGDOM OBJECTIVES

2. (a) Following the success of the State Visit, to establish good working relations between the Prime Minister and the Italian Prime Minister, in particular by showing that we take seriously Italian views on major current international issues.
- (b) To discuss Community issues in preparation for the next European Council meeting (on 1-2 December); and to exchange views on restructuring the Community budget within the 1% ceiling, including the reform of the CAP.
- (c) To discuss the implications of the results of the United States elections for Transatlantic and East-West relations.

PROBABLE ITALIAN OBJECTIVES

3. (a) To consolidate the institution of regular bi-annual Anglo-Italian Summit meetings and to establish a good working relationship with the Prime Minister.
- (b) To try to ensure that Italy is no longer excluded from any consultations on matters of international importance between the major Western Powers, particularly if they are public knowledge.

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(c) To compare notes on the probable policies and attitudes of the new United States Administration.

(d) To concert policy on current world political issues and in particular to review British and Italian views on the Middle East in the light of the Iran/Iraqi war, and on East-West relations in the light of developments in Afghanistan and Poland.

(e) To elicit British thinking on European Community enlargement and restructuring.

(f) To exchange views on world economic issues and in particular Western policy towards the developing world.

STRATEGY AND TACTICS

4. Signor Forlani's English is not good enough to allow him to forego interpretation. This will restrict the amount of business which can be done in the time available. At the tête-à-tête, the Prime Minister may wish to begin by referring to the great success of The Queen's State Visit to Italy in October, and proceed to emphasise the importance we attach to Italian views on the international scene by seeking Signor Forlani's views on the results of the American election. This could lead on to discussion of the situation in Poland, but this part of the discussion will need to be kept short if adequate time is to be left for discussion of the European Community matters which are of importance to us. Under this heading the Prime Minister

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will wish to initiate the Anglo-Italian dialogue on restructuring. For tactical reasons this subject can best be placed in the context of the resolution of the budget problem for which the Italian Presidency bore much responsibility. She could also mention to Signor Forlani the points she will wish to discuss at the European Council on 1-2 December.

5. The Italians are anxious to be seen to play a significant role in international affairs, and will probably raise the question of consultations which exclude them (Brief No 11. Signor Colombo expressed his concern to Lord Carrington during the State Visit). In particular they may raise again, following the Giscard/Schmidt talks, their fears over the development as they see it of a Franco-German Axis. (President Giscard is to visit Italy on 27 November.) The Italians argue that we share with them an interest in ensuring that European decisions are taken by the Community as a whole, or failing that, by a group including Italy and the UK. This is for them a matter of cardinal importance.

6. The Foreign and Commonwealth Secretary will be having a simultaneous discussion tête-à-tête with the Italian Foreign Minister, Signor Colombo, at which we have proposed to the Italians that the Middle East and Regional Questions should be covered, together with Signor Colombo's recent visit to Moscow. Discussion of international issues (including the EC) and of the remaining agenda items can continue at the Plenary Session.

PROGRAMME

7. The Prime Minister is due to arrive in Rome at 1830 on Sunday 23 November in time for a tête-à-tête discussion with Signor Forlani. Lord Carrington is expected to have a separate tête-à-tête with Signor Colombo, after which the two Foreign Ministers may join the Prime Minister. The Embassy in Rome have not been able to extract a firm programme from the Italians, but it is expected that these meetings will be followed by an informal dinner, probably given by Signor Forlani to include the two Prime Ministers and the two Foreign Ministers. On the following morning there is likely to be a Plenary Session which will probably be attended on the Italian side by Signor Forlani, Signor Colombo (Foreign Minister) and by senior officials. The Prime Minister will be supported by Lord Carrington, Sir Michael Palliser, Sir Ronald Arculus, Mr Franklin, and Private Secretaries. Signor Forlani will probably give a working lunch for the two delegations. There will probably be a joint press conference just before lunch. The Prime Minister is to pay a private call on the Pope at 5 pm (a separate brief will be provided for this) and will depart for London at about 1800. The Secretary of State will leave immediately after lunch for the Foreign Affairs Council in Brussels.

8. Personality Notes on Signor Forlani and his more prominent advisers are at Annex A. Interpreters will be provided on both sides. The Italians do not usually prepare a formal agenda, but a list of subjects has been

discussed with them and is at Annex B. A list of briefs is at Annex C and some facts and figures on Italy are at Annex D.

RESUMÉ OF BRIEFS

BRIEF NO 2: United States Policies following the Presidential Election

9. Difficult to predict President-elect Reagan's policies before we know who will be appointed to the Cabinet and the White House staff. Mr Reagan's comments on foreign policy issues during his campaign appear to presage a much firmer US stance on East-West relations, but his policies have not been spelt out in detail and their implementation may be moderated if such figures as Dr Kissinger and Senator Henry Jackson play a rôle in the Administration.

BRIEF NO 3: Middle East

10. (a) Iran/Iraq and the Gulf

The state of play and implications of the Gulf are for shipping, oil supplies, Western interests. Question of Europe's rôle. Considerations to be taken into account if the hostages are released, including possible resumption of arms supplies.

(b) Arab/Israel

The European Council on 1 December will need to decide on future activity by the Nine in the light of the detailed papers prepared at official level. Likely to be a period of uncertainty in the aftermath of the US election during which a major new European initiative would not be helpful. Important for the Nine to continue to be active.

BRIEF NO 4: European Community Questions

11. The Prime Minister may wish to have a first discussion on restructuring and the reform of the CAP with a view to identifying common ground. This can usefully be placed within the context of the Italian Presidency's help in achieving the 30 May Budget settlement. Useful to have a first exchange on 1981 CAP prices. Also to mention the points she will wish to discuss at the European Council.

BRIEF NO 5: East-West Relations (including Poland, China and CSCE)

12. The Russians seem to have assessed before the Presidential election that a more difficult period in US-Soviet relations had begun, but they will be cautious about concluding that Mr Reagan's victory will necessarily lead to a worsening of bilateral relations indeed they may hope that US policies will become more predictable. The Prime Minister may wish to give our impression of the Polish situation and to seek details of any Polish approach to the Italians for economic assistance,

and the Italian Government's reaction. Recent internal developments indicate that China continues to follow pragmatic policies and that the prospects appear to be for political stability and economic growth.

BRIEF NO 6: Afghanistan/Pakistan

13. It is necessary to maintain international pressure on the Russians. Support for Pakistan remains crucial. They want more economic assistance.

BRIEF NO 7: Defence and Disarmament Questions (including CDE)

14. The implications for the Alliance of the growing strategic importance of the Gulf area and the need for NATO to make more effective use of its resources. Depending on the reaction of Chancellor Schmidt to our proposals for a review of NATO, the Prime Minister may wish to describe them to Signor Forlani. Brief also covers the modernisation of NATO's TNF and the future of SALT and other arms control negotiations, particularly in the light of Governor Reagan's victory.

BRIEF NO 8: International Economic and Financial Questions

15. Italians generally seek to appear as forthcoming as possible towards developing countries' demands. Our concern that Global Negotiations Procedures should not compromise autonomy of IMF not shared by Italy. Italy is anxious for an invitation to the 1981 limited North/South Summit: we feel such a Summit would be useful if well prepared and have indicated that we would accept an invitation. Others, such as French and Germans favour a very informal and

unstructured meeting. HMG remains committed to an open world trading system. We go along with Community policy towards Japan, but need to make sure that UK interests in certain sensitive sectors are preserved.

BRIEF NO 9: International Energy Questions

16. We must keep in close touch with the Italians over the impact of Iran/Iraqi war. The Italians may point out that there has been some nervousness reflected recently in the rise in spot-market prices. We agree that further action may be needed in the IEA. Consideration of energy issues in other international contexts is proceeding smoothly.

BRIEF NO 10: Regional Questions (including Italy/Malta and Italy/North Africa)

17. If the matter is raised, the Prime Minister may wish to congratulate the Italians on their recent conclusion of a Neutrality Agreement with Malta; but to express the hope that the associated aid will not help Mr Mintoff to win the next election.

18. We have taken a firm line on Libyan terrorism. We would like the Italians to take a similar line.

BRIEF NO 11: Bilateral Questions

19. (a) Anglo-Italian Trade

This has shown a steady increase in both directions for several years. Until last year Italian exports to the UK increased at a greater rate than British exports to

Italy. This year the trend has been reversed: the value of British exports increased by 33% whereas Italian exports only rose by 6%.

(b) Cooperation on combatting terrorism

HMG values cooperation with the Italians on terrorism: the SAS have already supplied assistance and would be happy to provide further advice. We currently await Italian views on Italy's proposed amendments to the Anglo-Italian Extradition Treaty. A suspected Italian terrorist, Mario Ferrandi, was arrested in London on 29 October. We await a formal application for his extradition.

(c) Consultations

A Defensive Brief has been submitted separately.

BRIEF NO 12: Italian Political and Economic Scene
20. Signor Forlani's newly formed government has a comfortable majority on paper but internal differences are apparent. Italy is suffering from the effects of the world economic recession.

BRIEF NO 13: Security Council Enlargement

21. The Prime Minister may wish to take this opportunity to emphasise our views on this subject.

Foreign and Commonwealth Office

14 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

PERSONALITY NOTES

1. Signor Arnaldo Forlani
2. Signor Emilio Colombo
3. Signor Francesco Malfatti
4. Signor Sergio Berlinguer
5. Signor Andrea Cagiati

Arnaldo FORLANI

Prime Minister since 18 October 1980. (Christian Democrat)

Born at Pesaro in the Marche Region in 1925. A Christian Democrat (DC). Secretary of Provincial DC in Pesaro 1948-57; Provincial and Municipal Councillor 1951-56. Member of DC National Council since 1952 and of Party Executive since 1954. Directed DC publicity and press section 1955-57. Member of Parliament (Deputy) for Ancona since 1958. Party Vice-Secretary 1968-69. Minister for State Holdings 1968-69; Minister for United Nations, August to November 1969. Party Secretary, November 1969 to June 1973. Minister of Defence under Moro, November 1974 to August 1976. Minister of Foreign Affairs under Andreotti from August 1976 to March

1979. He refused a mandate to form a government after the 1979 General Elections. In March 1980 he was elected Chairman of the DC (a less important post than Party Secretary). On 2 October 1980 he accepted President Pertini's mandate to form a government.

Forlani has spent most of his political career helping Fanfani, one of the most senior DC figures and now President of the Senate. As Party Secretary in the early seventies, he tried to hold the balance between the left and right wings of the party. He gave wholehearted support to Andreotti's centre government in 1972-73. He refused posts in the ensuing centre-left governments under Rumor but returned in November 1974 as Minister of Defence in Moro's two-party Christian Democrat/Republican government. In that job he avoided controversy, and got bills through Parliament for a large expenditure programme for re-equipment of the Navy, and for reducing the periods of National Service. He stood as the candidate of the DC right against Zaccagnini for the post of Party Secretary in March 1976, but narrowly lost. His election as DC Chairman earlier this year reflects the present ascendancy of the centre-right of the party over the groups associated with Zaccagnini and Andreotti.

Forlani is married with two children. He has visited Britain on multilateral business, notably during his period as Foreign Minister, and has evinced considerable good will towards the United Kingdom. He was formerly very keen on and good at football, and still attends matches. He also

sails and skis. Neither his English nor his French is fluent. He looks fit and young for his age.

Emilio COLOMBO

Minister of Foreign Affairs.

Emilio Colombo was born in 1920 in Potenza, in the Southern Region of Basilicata, which he has represented in Parliament as a Christian Democrat since 1946. He is a doctor of law. He has a long and distinguished political career becoming a junior minister at 28 and gaining full Ministerial rank subsequently at Agriculture, Foreign Trade, Industry and the Treasury. Whilst Minister of Industry, he was concurrently in charge of relations with the European Community and led the Italian delegation in the first British entry negotiations.

He subsequently became Prime Minister of a centre-left government from August 1970 to February 1972. Internal party squabbles, aggravated by his own efforts to put through needed reforms, made his task difficult and he was obliged to resign. He spent the period between February to June 1972 back at the Treasury but subsequently occupied the comparatively unimportant post of Minister without Portfolio for relations with the United Nations. In July 1973, he became Minister of Finance and in March 1974, once more took over the Treasury. He declined an offer by

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Mr Roy Jenkins to join the Commission of the European Community but accepted election as President of the European Parliament in March 1977, a post he held until that body was elected in 1979. He became Minister of Foreign Affairs half way through the Italian Presidency of the European Community in the first half of this year and proved his considerable ability by quickly getting to grips with both the new Ministry and the major Community negotiations already in progress. He played a considerable part in resolving Britain's Community Budgetary problems.

Emilio Colombo is a devout Catholic. He is unmarried. He has been a good friend of Britain: a country which he has often visited. He speaks good French but scarcely any English. He likes music and his interests include collecting old silver and wine. A very amiable and civilised man.

Ambassador Francesco MALFATTI

Secretary-General, Ministry of Foreign Affairs.

Born Vienna 1920. Before entering the Diplomatic Service had an early career as a Home Civil Servant during the course of which he was Labour Attaché to the Italian Embassy in London from 1944 to 1946. Entered the Diplomatic Service in 1947. In his early career served in Geneva, Munich and Paris (where he was nominated Counsellor in 1957). He also served as Italian representative to numerous negotiating

missions, some of them to London. Head of the cabinet of the Foreign Minister (Saragat) in 1963. Followed Saragat to the Quirinale when the latter became President in 1964. Ambassador in Paris from 1969 until his nomination as Secretary-General in September 1977.

Malfatti owed his entry into the Diplomatic Service to the patronage of the veteran socialist leader, Nenni, who arranged for him to be appointed 'by decree'. He has always professed socialist sympathies and the political character of his career was underlined by the patronage of Saragat.

Claims to be (and probably is) anglophile.

Sergio BERLINGUER

Diplomatic Adviser to Prime Minister.

Age 45. He was formerly the MFA's supervising Under-Secretary for Press and Information Matters. A cousin of former Prime Minister Cossiga and Italian Communist Party Secretary General, Enrico Berlinguer. He served continuously in London in various capacities between 1962 and 1972, where he married an English girl.

Speaks excellent English.

Andrea CAGIATI

Italian Ambassador at London.

Born Rome 1922. Obtained a degree in law from the University of Siena in June 1944. Entered the Diplomatic Service 1948. Private Office of a Junior Minister 1948-50. Vice Consul Paris 1950-51. Head of the Private Office of a Junior Minister 1951-53. Consular Attaché New York 1953-55. Head of the Private Office of a Junior Minister 1955. Appointed Third Secretary in the Political Affairs Directorate 1955. Promoted Second Secretary 1956. First Secretary Athens 1957. Promoted Counsellor 1959. Counsellor Mexico City 1960. Chargé d'Affaires Mexico City 1960-62. Delegate to the Committee for Disarmament Geneva, March-December 1962. United Nations New York 1962. Head of the NATO Department in the Political Affairs Directorate 1962-66. Minister Counsellor Madrid 1966-68. Ambassador Bogota 1968. Promoted Minister First Class (DUS) 1969. On detachment 1969-71. Diplomatic Institute 1971-72. Diplomatic Counsellor to the President of the Council of Ministers 1972-73. Ambassador at Vienna from August 1973 with concurrent accreditation to the Atomic Energy Authority.

Ambassador Cagiati is the holder of the Order of Merit of the Italian Republic Second Class.

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

LIST OF SUBJECTS FOR DISCUSSION

(FM indicates subjects for discussion by Foreign Ministers)

- A. Outcome of the United States Presidential Election, and its implications
- B. East-West Relations
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- D. Middle East (including Iran/Iraq) FM
- E. European Community Questions
- F. Defence and Disarmament Questions
- G. The International Economic Scene
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- I. Bilateral Questions (including cooperation in combatting terrorism)
- J. Regional Questions (including Italy/Malta and Italy/North Africa) FM
- K. UN Security Council Enlargement

LIST OF BRIEFS FOR ANGLO-ITALIAN CONSULTATIONS23-24 NOVEMBER 1980SUBJECT

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3. Middle East:
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 - (b) Arab-Israel
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 - (b) Relations with developing countries
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9. International Energy Questions
10. Regional Questions (including Italy-Malta and Italy-North Africa)

11. Bilateral Questions:
- Anglo-Italian Trade
 - Co-operation in combating terrorism
 - Consultations
12. Italian Political and Economic Scene
13. UN Security Council Enlargement

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

ITALY - BASIC STATISTICS

		ITALY	UK
Population (millions)	1978	56.7	55.9
	1979	56.9	55.9
Labour Force (millions)	1978	21.9	26.4
	1979	22.0	26.4
Unemployed (per cent of civilian Labour Force)	1978	7.1	5.7
	1979	7.5	5.3
	Sept 1980	7.8	7.5
Gross Domestic Product (billion European Units of Account)	1978	204.4	242.9
	1979	236.2	286.7
Gross Domestic Product per head (EUA)	1978	3604	4345
	1979	4151	5129
Annual Rate of Growth of Volume of GDP (per cent)	1978	+2.6	+3.1
	1979	+5.0	+0.6
Annual Rate of Growth of Industrial Production (per cent)	1978	+2.1	+3.0
	1979	+6.6	+3.8
	August 1980	-11.5	-7.9
Consumer Prices (changes over year earlier - per cent)	1978	+12.2	+8.3
	1979	+14.8	+13.4
	Sept 1980	+21.4	+15.9
Balance of Payments on Current Account (million EUA)	1978	+4955	+618
	1979	+3811	-3768
<u>Defence</u>			
Spending (per cent of GNP)	1979	2.4	4.9
Total Armed Forces	1980	366,000 (231,500 conscripts)	329,204

Trade		
United Kingdom Exports to Italy	1978	£1123.2 million
	1979	£1469.0 million
United Kingdom Imports from Italy	1978	£1930.7 million
	1979	£2491.0 million

Sources: Commission of the European Communities
 European Economy July 1980
 " " Supplement Series A 24 Oct 1980
 IISS The Military Balance (1980-1981)
 HMSO Overseas Trade Statistics of the United Kingdom 1978 and December 1979

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ANGLO ITALIAN CONSULTATIONS
 23-24 NOVEMBER 1980

STEERING BRIEF

Brief by Foreign and Commonwealth Office

BRIEF NO 8: International Economic and Financial Questions

15. Italians generally seek to appear as forthcoming as possibly towards developing countries' demands. Our concern that Global Negotiations Procedures should not compromise autonomy of IMF not shared by Italy.

15a We go along with Community policy towards Japan, but need to make sure that UK interests in certain sensitive sectors are preserved.

Foreign and Commonwealth Office
 20 November 1980

14 November 1980

ANGLO-ITALIAN CONSULTATIONS

23 - 24 NOVEMBER 1980

US POLICIES FOLLOWING THE PRESIDENTIAL ELECTIONS

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE

1. Difficult to make accurate predictions about President-elect Reagan's policies. Republican Party Platform contains fairly detailed exposition of Republican foreign policies, but is by no means infallible guide.
2. Great deal will depend on what appointments President-elect Reagan makes. No definite word yet on who will be appointed to Cabinet or White House staff. Formal announcements may not be made until end of month. George Schultz, former Treasury Secretary, widely tipped as Secretary of State, Senator Henry Jackson also mentioned. Possible that Dr Kissinger will have a role (roving Ambassador/trouble shooter (Arab-Israel negotiator?)).
3. Appointments to White House will be important. Hope that some experienced Washington insiders will be appointed to White House.
4. Now that Senate has Republican majority relations between White House and Congress may improve. Senate Committees dealing with foreign affairs will all have Republican chairmen. But no reason to suppose that Congress will be willing to relinquish its powers and rubber stamp presidential proposals.
5. Relationship with Soviet Union will probably be central pre-occupation of US foreign policy. Commitment to regain military superiority is important but impossible to say how it will be pursued in practice.
6. Republicans may have exaggerated expectations of what Alliance can achieve, especially outside NATO area. This and areas where there are differences of interest between Europe and US (eg Middle East) could cause difficulty.

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BACKGROUND

1. The only firm prediction which can be made about President-elect Reagan's foreign policy is that it will be more hawkish in tone than that of his predecessors. How much more will depend largely on whom Mr Reagan appoints to his Cabinet and to the White House.
2. The former Treasury Secretary, Mr George Schultz, and Senator Henry Jackson have been tipped as possible Secretaries of State. General Alexander Haig seems likely to get some position; as do Dr Kissinger, his former deputy Mr Brent Scocroft, and the former Secretary of Defence, Donald Rumsfeld. Mr Richard Allen is still tipped to succeed Dr Brzezinski. Definite announcements may not come until the end of November or even later.
3. Mr Reagan may also have a 'kitchen Cabinet' in the shape of the strongly business orientated Southern Californian friends who have been his main confidants since he entered politics.
4. Mr Reagan will wish at the outset to strike a distinctive note in his conduct of relations with the Soviet Union, while professing belief in bipartisanship. Firmness and consistency of approach will be the aim. The super-power relationship will be restored as the central preoccupation of US foreign policy. Wider global perspectives will be viewed through the lens of the East/West confrontation. The commitment to regain military superiority is an important feature of the Republican Party Platform. But it is impossible to say how it will be pursued in practice.
5. In principle the Reagan administration will continue to find a place for SALT in relation with the Soviet Union. How much this counts for in practice will depend on the balance of internal debate in the USA, Soviet behaviour globally (linkage), and the degree of flexibility shown by Moscow on arms control.
6. The administration will seek to tighten and widen controls on civil technologies with a military application. Election pledges to lift the grain embargo may be qualified in practice, but for sales of all other US agricultural products the free market may prevail. A review of other fields of co-operation is on the cards, to ensure strict reciprocity.

7. There is impatience with the Allies in the Republican camp. This could cause difficulty if the Administration is misled into believing that Alliance problems are only a relic of uncertain Carter leadership and can be expected to vanish once the firm smack of the new administration makes itself felt. Republicans may nourish exaggerated expectations of what can be achieved in the name of Alliance solidarity, particularly in regard to problems outside the NATO area and where there are differences of interest. Equitable burden-sharing of NATO's defence effort and a wish to see Europe take up more of the slack as America moves to protect interests in S W Asia will continue to be high on the agenda.

Foreign and Commonwealth Office

14 November 1980

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ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

MIDDLE EAST : IRAN-IRAQ AND THE GULF

Brief by Foreign and Commonwealth Office

POINTS TO MAKE :

Mediation/Peace Initiatives

1. We welcome the appointment of Olaf Palme as UN Secretary-General's Special Representative, but we are not optimistic that mediation will bring about an early end to the Iran/Iraq conflict. There seems little scope for attempting a European peace initiative, but the Nine might have a role to play at the appropriate moment.

Position of UK Vis à Vis Iraq and Iran

2. The UK is not taking sides in the Gulf war. But our interests in relations with the Arab states are stronger than with Iran. We do not wish to antagonise the Arab world. A slight tilt in favour of Iraq might help to reduce the risks of an Iraqi rapprochement with the Soviet Union following any limited resumption of US arms supplies to Iran following release of the hostages.

Arms Supplies to Iran and Iraq

3. Requests for supplies are considered on case-by-case basis in light of circumstances at the time. Do not rule out supply of some 'defensive' equipment to Iraq. If US hostages released, embargo on Iran would be lifted but same ground rules would apply as for Iraq. How do Italians, who we understand face similar problems, see this issue?

US Hostages

4. US delegation in Algiers has explained US difficulties in meeting all conditions set by Iranian Parliament. Algerian Government (acting as intermediaries) is to transmit US response. Immediate release of hostages unlikely given US difficulties.

British Subjects Detained in Iran

5. Our relations with Iran could not return to normal even after release of the hostages and the dropping of sanctions, until the four British subjects are released. There remain three Iranian students of those arrested in August not yet sent back to Iran.

ESSENTIAL FACTS :

Situation on the Ground

1. Developing into a war of attrition. Iraqi ability to increase pressure depends upon halting oil supplies to Isfahan, Shiraz and Tehran refineries. Other states in the area show no sign of becoming involved at present.

Peace-Making

2. The UK is President of the UN Security Council for the month of November, and is, therefore, responsible for coordinating peace-making efforts. The UN Secretary-General has appointed Olaf Palme as his Special Representative and both sides have agreed to receive him next week. Non-Aligned and Islamic Conference efforts to organise peace missions have made little progress to date. The Islamic Conference is planning a Heads of Government meeting in Saudi Arabia later this month.

Shipping

3. The ICRC are attempting to arrange release of the shipping trapped in the Shatt-al-Arab under assurances of safe passage, but it is questionable whether the Shatt is still navigable.

4. Shipping in the Straits of Hormuz remains normal. We are looking at contingency plans for war insurance in the event of a threat to shipping in the Lower Gulf, but in a low-key so as not to alarm industry.

Oil Supplies (see also Brief 9)

5. Situation remains manageable, but continuation of the conflict with no immediate prospect of a ceasefire is beginning to affect both spot prices and term prices. At the next IEA Ministerial meeting scheduled for 9 December, it may be necessary to give serious consideration to measures such as sharing, limiting consumption and bringing further pressure to bear to hold down prices.

Security in the Gulf

6. We are maintaining a naval patrol outside the Gulf of Oman, while hostilities continue. Navy-to-navy talks between ourselves and allies with ships in the area are in train (for details see Brief No 7).

7. We have informed the President of the UAE, Shaikh Zaid, that in the spirit of our Friendship Treaty, we are ready to consider giving what military help we can.

Arms Supplies for Iran

8. The Italians face similar problems to ourselves. They have told us that if the hostages are released their aim will be to maintain impartiality. They would regard themselves obligated to provide items already paid for eg helicopter spares, and would probably agree to fulfil existing commitments, but, in practice, delay deliveries. They feel that a balancing gesture towards Iraq might be necessary.

US Hostages

9. The Iranian Parliament announced its conditions for release of the hostages on 2 November :

- (i) US pledge of non-interference;
- (ii) transfer of Shah's wealth to Iran;
- (iii) release of blocked Iranian assets in US;
- (iv) dropping of US claims against Iran.

10. US Government have welcomed this as positive step. But conditions (ii) - (iv) present difficulties for the US.

UK/Iran

11. Future UK policy to Iran and level and nature of representation in Tehran if hostages released, would need to take into account complicating bilateral factors, including detention in Iran since August of four British subjects, (three members of the Anglican Church and a businessman), and withdrawal of our Embassy in Tehran on 9 September.

Foreign and Commonwealth Office

14 November 1980

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PMVD (80) 3 (a) Addendum

C/L
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21 November 1980

ANGLO-ITALIAN CONSULTATIONS
23-24 NOVEMBER 1980

MIDDLE EAST : IRAN-IRAQ AND THE GULF

Brief by Foreign and Commonwealth Office

ESSENTIAL FACTS :

Situation on the Ground

1. The Iraqi attack on Susangerd seems unlikely to have much impact upon the overall situation. The Iraqis may have hoped for an easy success or to divert possible reinforcements from Abadan which they are still trying to capture. The winter rains should soon begin to affect hostilities which are likely to be long drawn-out. Iranian planes have apparently attacked a Kuwaiti border post. This may have been intended as a warning to Kuwait and other Gulf states who are supporting Iraq. However, Iran has said that it does not wish to see the war spread to involve other countries.

Shipping

2. ICRC efforts to arrange the safe exit of ships trapped in the Shatt and of the Altanin continue. Iraq is insisting

that there must be a truce to permit dredging and the removal of explosives from the channel. Baghdad Embassy have notified Iraqi authorities that shipping line will evacuate Altanin on 22 November unless permission is given to leave before then.

US Hostages

3. The Algerians appear to have handed over the detailed American reply which is still being studied in Tehran. No official Iranian comment so far.

FOREIGN AND COMMONWEALTH OFFICE

21 November 1980

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12 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

ARAB/ISRAEL

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. European Council should decide on future activity by the Nine. Use of detailed papers prepared at official level needs to be determined.
2. Period of uncertainty in the aftermath of the US election. US policy not yet clear. Reagan probably less committed to Camp David, but unlikely to reject it.
3. Major new European initiative not helpful now. But important for Nine to demonstrate continuing activity and maintain momentum of contacts. Important for Europe to keep talking to all concerned, particularly anti-Camp David Arabs.

BACKGROUND

US Policies

1. Mr Reagan has traditionally adopted a strong pro-Israeli stance, based on his view of Israel as a strategic asset to, and reliable ally of, the US and the West in the area. But his views on ways to tackle the Middle East conflict remain unclear. He has not attacked Camp David but equally has not made a strong commitment to its continuation. He has expressed interest in a leading role for Jordan. He is, nevertheless, unlikely to look for a fresh start immediately. The plans of the present administration point to a trilateral summit in January to overcome the present impasse. Delay is likely until Mr Reagan has had a chance both to assess his own policies and to meet Sadat and Begin bilaterally. Begin will be in Washington in mid-November, but it now seems unlikely that he will meet Reagan.

Action in the Nine

2. Following M. Thorn's visits, it was decided that work was needed on the practical application of the Venice principles to provide a basis for further consideration by the Nine. Considerable work has now gone in to producing detailed papers on Israeli withdrawal, Palestinian self-determination, security and guarantees, and Jerusalem (the Italian contribution). These papers are expected to be ready for the European Council on 1/2 December.

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3. It is generally agreed that the Nine should continue their efforts and maintain their links with all the parties, but there is no consensus on what the Nine should now aim to achieve. Some of the Nine, notably the French, appear to be thinking in terms of publication of the Nine's practical ideas. We have opposed this in present circumstances and argued for a period of further contact with the parties, attempting to draw them out and pin them down on the practical problems likely to be posed by a settlement.

Foreign and Commonwealth Office

12 November 1980

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ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

STEERING BRIEF ON EUROPEAN COMMUNITY QUESTIONS

Brief by the Foreign and Commonwealth Office

1. This will be an occasion to get across to the Italians, in the aftermath of the 30 May Budget settlement, HMG's commitment to the Community and its determination to play a positive rôle in the Community's development. The Prime Minister will want to express her appreciation for the helpful rôle played by the Italian Government in the budget negotiations, without which agreement would have been impossible. She will also want to emphasise the importance we attach to the restructuring exercise now that the immediate problem has been resolved.
2. The meeting provides an opportunity for a first exploration of the common ground between us and the Italians on restructuring and CAP reform (Brief 4b). As less prosperous members of the Community, they, like we, have an interest in policies designed to promote convergence. Unlike us, they are net beneficiaries from the Community's budget; but like us, they are net importers of food and incur large non-budgetary costs as a result of high CAP prices. The extent of the Italian Government's commitment to CAP reform is not yet clear. In principle they accept the need to control structural surpluses of northern products, but as substantial producers of these products themselves, may argue that the burden of reform should not fall on poorer countries and regions. On Mediterranean products their interests and our
/own

own diverge. The Prime Minister may wish to explore their attitudes on these questions and to seek their reactions to the idea of setting a medium term target for limiting the CAP's share of the budget. She will also wish to explain our commitment to achieving reform within the 1% ceiling, which the Italians have hitherto wanted to raise.

3. The Prime Minister will also wish to have a preliminary exchange of views with the Italians about the 1981 CAP prices (Brief 4b). Given their very high inflation rate, the Italians are likely to favour higher increases than we want and the Prime Minister will want to emphasise the importance of severe price restraint, well within the Community rate of inflation and bearing particularly on products in structural surplus, if we are not to make the task of restructuring more difficult.

4. One area of current interest where we traditionally concert our views with the Italians is the dialogue between the Council and the Parliament on the budget (Brief 4c). However, the Budget Council will be meeting on 24 November to discuss the 1981 budget and it would be better to avoid substantive discussion in Rome. The Prime Minister may wish to describe her thinking on the European Council. Other current Community issues which the Italians are likely to raise are the portfolios for the new Commissioners and enlargement. These and the question of the seat of the Institutions are also covered in Brief 4c.

5. On political cooperation (Brief 4d) our objective will be to persuade the Italians to join us in working for improvements in machinery including a permanent support staff for the Presidency. The Italians are perennially edgy about foreign policy consultation which excludes them and may raise the issue of restricted meetings. Our efforts to improve Political Cooperation are the best answer we can give.

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ANGLO-ITALIAN CONSULTATIONS
23-24 NOVEMBER 1980

RESTRUCTURING THE COMMUNITY BUDGET AND THE 1981 CAP PRICES
Brief by Foreign and Commonwealth Office

Objectives

- (i) To have preliminary exchange of views with Signor Forlani on Budget Restructuring with a view to establishing how much common ground we share with the Italians.
- (ii) To sound out Italian views on the 1981/82 price fixing.

Points to make

1. 30 May commitment to review major turning point in Community development. Valuable opportunity to set house in order. Make full use.
2. Cannot be shirked. Triple challenge of:
 - (a) 1% VAT ceiling;
 - (b) enlargement;
 - (c) commitment to avoid unacceptable situation.
3. UK preliminary thought. Approach open minded. Exploratory stage.
4. Must keep to timetable ie. Commission paper by June; aim at solution by end 1981. Otherwise likely dislocation of Community business. (Commission proposals needed in good time).
5. UK committed to finding Community solutions to Community problem.
6. Fundamental problem: rapid growth - dominance of CAP; stunted growth of other policies. Former must be controlled to make room for latter.
7. Must find solution within 1% ceiling. Raising unacceptable to us, Germans and French. Would only make problems worse. If raised, no effective pressure to bring about reform of CAP we both want; cost of enlargement. UK net contribution larger.

8. Do not question principles and objectives of CAP but must reduce surpluses and cut the cost. Surpluses and their costs undermine Community finances and political support for Community. Must move towards more market-orientated CAP, with prices which do not encourage production of surpluses.

- 9. Broad objectives of reform should be:
 - (a) elimination of structural surpluses, especially milk;
 - (b) reduction of CAP's share of Budget;
 - (c) progress towards prices which will not generate structural surpluses;
 - (d) preservation of healthy agricultural industry.

10. Believe central element must be policy of severe price restraint. Prepared to consider combining it with direct income aids to help those hardest hit. These should be unrelated to production.

11. Recognise price restraint by itself unlikely to be sufficient in short term. Will need to be supplemented. Already Council commitment in principle to super levy for milk of a kind which is a disincentive to extra production. For cereals price support could be related to volume of production. For beef intervention should be reduced. For Mediterranean products, quantitative limitations on Community responsibility appropriate.

12. Opposed to across-the-board extension of basic co-responsibility levy principle. Does not tackle essential problem. Simply means of producing more funds (ie way round 1%) tends to generate demands for larger price increase to offset the impact of the levy so consumer bears real burden. It adds to resource costs of the CAP from which Italy and UK both suffer without tackling surpluses.

13. Strongly support idea of setting medium term objective for reduction of CAP's share of Budget. To work, that will need strict limitation year by year of the cost of agriculture to be borne by the Budget.

1981 Price Fixing

14. Must not prejudice restructuring. Need for policy of severe price restraint. Important that Commission does not come forward with proposal in double figures. Must keep increases well below Community rate of inflation. Surplus products should be treated particularly severely.

Non-Agricultural Spending

15. Provided CAP can be cut, scope for expansion of non-agricultural expenditure, eg social and regional funds and possibly new Community policies (coal, structural measures for transport and fisheries, energy, urban/industrial decay). UK approach positive. But non-agricultural expenditure by itself cannot solve restructuring problem. If it is to play any rôle, new expenditure will have to provide disproportionate net financial benefit to UK (or other Member State in unacceptable situation).

Community Revenue

16. Revenue side: may not be possible to avoid recurrence of unacceptable situation by action on expenditure alone. May then be necessary to look at revenue side as well.

French/German idea on ceiling on net benefits/contributions

17. No firm UK positions on French/German idea of ceiling on net benefits/contribution. Commission should consider this among other ideas.

BACKGROUND

1. Ministers agreed our general preliminary strategy for restructuring in OD on 13 October and decided in their meeting on 3 November how the 1981 CAP price fixing negotiations might be played in relation to our long term objectives on restructuring.
2. It is clear that if an unacceptable situation is to be avoided, a combination of measures will be needed. Important at this stage not to rule out possibilities.
3. The present Commission is working on a line by line examination of the budget, and on papers on CAP and on other major spending policies. It will be for the new Commission to put forward proposals.
4. Timetable: present deadline set in para 7 of 30 May Council Agreement (ie Council will attempt to solve problem by structural changes but if this is not possible proposals along lines of 1980/81 solution will be put forward to cover 1982). So far only Germans have public position: that review must be complete by end 1981, though Schmidt earlier indicated privately that he thought early 1982 more realistic. Our interests best served by sticking to letter of 30 May Agreement (ie initially in favour of end 1981 deadline).
5. 1% VAT Ceiling. French and Germans support UK view on need to maintain ceiling. Raising would make problems more difficult by opening way for more agricultural spending. Italians do not share this view. Forlani in Italian Parliament on 22 October said Community would have to find new own resources particularly with prospect of enlargement.
6. CAP Reform and 1981 price fixing : it will be for the new Commission to present the 1981 price proposals to the Council. The present Agricultural Commissioner is, however, keen to outline a number of proposals for changes in CAP régimes soon. They have not yet been agreed by the whole Commission and it is not year clear whether the existing or new Commission will espouse and put them forward formally. However, they could well form part of the Commission's 1981 prices package. Their broad
/ aim

aim is to consolidate Mr Gundelach's view that producers should bear a greater financial responsibility in disposing of CAP surpluses. Some of the proposals he has in mind may well be broadly consistent with the aims agreed by Ministers, but we shall need to negotiate very carefully on their details. As a whole, his package is unlikely to go far enough towards solving the major problems faced by CAP. For some commodities eg. milk, Gundelach seems to be moving in a direction contrary to our interests.

7. At an informal meeting of Agricultural Ministers on 13-14 October most Ministers seemed to be advocating price increases in range 10-12%. Former Italian Agricultural Ministers appeared to favour highest increase (the rate of inflation in Italy is about 20%). Mr Roy Jenkins told the Prime Minister on 3 November that the Commission would propose moderate price rises just in double figures. The Prime Minister told M Thorn on 27 October, in response to his suggestion that there might be increases as high as 17% that even half of that figure would be too high. It was agreed in OD on 3 November that we should emphasise the need for policy of severe price restraint with lower increases for products in structural surplus.

8. Like UK, Italy is a net importer of agricultural products and suffers to an even greater degree from the trade effects of CAP. Although well known as a producer of Mediterranean commodities, nearly 70% of her agriculture is devoted to northern-type produce. Like the UK, she is seeking to expand her self-sufficiency in such products. At the same time, she has over the years successfully exploited her semi-unique position in the Community as a producer of Mediterranean goods to obtain receipts through the budget which partly offset what she loses through CAP's trade effects.

9. Policy of new Italian Government on CAP not yet clear, but unlikely to differ significantly from predecessors. For political reasons, any Italian Government must preserve and keep in balance the returns of both agricultural sectors. Forlani has already stated CAP fails to take account of disparities in wealth between regions and should be linked with objective of convergence.

Like HMG, Forlani sees need to control production of commodities in structural surplus, ie. mainly northern products, but methods used should be selective and not penalise areas not responsible for present anomalies.

10. Unclear how far serious analytical work on reform has got in Italy. But, in general, aim underlying their point of view will be to increase (or at least maintain after enlargement) Italian level of receipts. They will use arguments in previous paragraph to protect themselves against cutbacks in Community expenditure on northern products. However, they will be aware that once Spain, Portugal and Greece join, benefits from Mediterranean policies which at present flow mostly to Italy, will be more thinly spread even if enhanced by savings in northern regimes unless there is massive rise in size of budget; hence their readiness to see 1% ceiling raised.

11. Non-Agricultural: various proposals in existence. UK proposals for Community policy to encourage indigenous production of coal - others have blocked because benefits UK disproportionately but this is precisely kind of policy we must have if unacceptable situation to be avoided. Moreover, their argument is based on 'justeretur' for each Community policy - contrary to their position in the budget negotiation. Other proposals on the table: structural measures in fisheries/transport infrastructure. Neither would bring significant benefit to UK in present form but both offer potential. New policy areas: urban/industrial decay, energy. Considerable potential.

12. Italians share our view that Community should develop non-agricultural side of budget. They would like to see increased spending on regional and social sectors as well as common policies in the energy and industrial fields.

13. Enlargement: likely to bring further problems in that acceding States will have significant call on funds which at present benefit UK (RDF/Social Fund). If Commission follow line taken over Greece's share of RDF, UK could become net contributor to both these.

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14. Revenue side : possibility of change should not be ruled out. Likely to prove difficult to avoid unacceptable situation without some means of bringing level of gross contributions into line with GNP share.

15. Ceiling on net benefits: French/German idea has not been filled out yet. The clearest statement on this idea on record is the June 4 statement of the German Cabinet.

' The Federal Republic believes that these measures (ie. restructuring) should bring about a sharing of the burdens in the Community in such a way that burdens are not put unilaterally upon a few members, while at the same time States in just as good an economic position receive net contributions from the Community. In this connection the question must be put and discussed, whether a maximum limit should be arranged for the net contribution of any individual Member State, and whether a similar principle should be applied to Member States that are net beneficiaries'.

This could be important as negotiation develops because promising area for UK if idea of a direct adjustment mechanism gained ground. However, we must be careful not to get into lead in proposing this: will be seen clearly as dictated by self-interest with risk of isolating us in negotiations.

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ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

1981 BUDGET AND OTHER CURRENT QUESTIONS

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE

1981 Budget

1. Budget Council is taking place today, 24 November. No doubt our delegations concerting tactics sur place.
2. Recognise number of areas of common interest with Italians in budget.
3. In interests of all Member States to ensure acceptable agreement reached with Parliament and 1981 Budget adopted in time.

European Council Agenda

4. Not too many points for decision this time. Good opportunity for wide-ranging discussion on the lines which M Werner has suggested. Should cover economic as well as political questions including problems of trade and industry. Useful for outgoing President of Commission, Mr Jenkins, to be invited to give a report on his presidency. This will provide an opportunity for discussing broad perspectives for Community's development.

Commission Portfolios

5. Since Tugendhat is staying on we expect him to keep his budgetary responsibilities

responsibilities. Richard would be well qualified for several portfolios, eg Development or Industrial Affairs, but much will depend on final composition.

6. (If Italians suggest a deal involving enlargement of their own Commissioners' responsibilities). Interesting suggestion which we shall bear in mind; again, much will depend on eventual members of the Commission.

Seat of European Parliament

7. Anxious to cut down present waste of time, money and energy; clearly right should be a single site. But must also recognise strong interests involved and need for decision to be taken by unanimity.

Enlargement

8. In favour of Spanish and Portuguese membership. But will protect our interests in negotiations.

9. Enlargement could be expensive unless some present policies suitably adopted first. Hence the need to make progress on restructuring and agree changes to the Mediterranean agricultural arrangements. Political case for pushing ahead with the enlargement negotiations in parallel remains strong and we support it.

10. Applicants seem to have accepted that their accession timetables have slipped. They will want to be kept informed about changes in CAP and Budget. This reasonable, but we cannot promise to consult.

1981 Budget

1. Likely that Italians will want us to support Parliament's modification to agricultural expenditure. Parliament's reaffirmation of intention not to allow any supplementary budget in 1981 for additional FEOGA expenditure useful constraint on price fixing.

2. By time of Anglo/Italian consultation, it will be too late to come to any agreement with Italians on line to take at Budget Council but will also be premature to decide what line we might take in December when draft Budget returned to Parliament. Likely that as last year there will be negotiations between Council and Parliament in mid-December to bargain over increases in non-obligatory expenditure. The Prime Minister might wish to indicate that we would wish to discuss possible consultation in tactics in early December (depending on outcome of Budget Council).

European Council Agenda

3. M Werner has sent a message to all Heads of State/Government, with suggestions for subjects to be discussed at the European Council on 1/2 December. This covers all our points.

Commission Portfolios

4. The Presidency expect all Member States to put forward their nominations at or before the 1-2 December European Council at which there will no doubt also be some informal discussion of portfolios.

5. Mr Tugendhat is staying on; he will be the UK vice-President and aim to retain his budgetary responsibilities (further strengthened). It is in the UK interest he should do so. We should like to see Mr Richard get Development, hitherto a French fief, but much will depend on whether M Cheysson stays. (The French might well re-nominate him in order to keep the portfolio in French hands). Mr Richard himself would prefer Development or Industrial Affairs, but not Competition.

6. There is a possibility Signor Forlani may suggest we should help the Italians add responsibility for the southern Mediterranean to the enlargement portfolio which they expect to keep, in return

for which they would help us push for Development. In view of the uncertainties, we should not commit ourselves at this stage.

Seat of the European Parliament

7. At present the location of all Community institutions is provisional; a final decision can be taken only by the Member States acting unanimously. The Parliament's Secretariat is in Luxembourg, its committees meet in Brussels and its plenary sessions are held in Luxembourg or Strasbourg which, apart from the waste of time and energy, adds over 10% to its budget.

8. In the face of increasing pressure from MEPs for a single seat France proposed there should be a conference of member states to discuss the seat of the institutions; at its first meeting the French made clear their aim was to see Strasbourg, Luxembourg and Brussels as, respectively, the Parliamentary, financial/judicial and executive capitals of the Community. Our aim is to play this issue long and we have no interest in discussing it with the Italians at this stage.

Enlargement

9. Following doubts about the timing of enlargement voiced by President Giscard in June, when he made clear that the Community must sort out its internal problems before it tackled its further enlargement, Chancellor Schmidt said on 9 June that "without the indispensable adjustments to its agricultural policy and without a more balanced distribution of its burdens, the Community cannot finance the tasks which face it in its expansion southwards".

10. Spaniards and Portuguese (less clearly) now seem to have accepted delay. New Spanish Minister for Community Affairs, Punset, said on 8 October, following visit to Paris, that grounds for delay were real and that Community had genuine internal problems. Accession would not be before 1984. But in negotiations Spaniards will want to press ahead in areas not affected by restructuring.

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ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

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FISHERIES

Brief by the Ministry of Agriculture, Fisheries and Food
POINTS TO MAKE (If raised)

1. The United Kingdom continues to seek a fair settlement on fisheries by the agreed deadline of 31 December 1980. Fisheries Ministers have made steady progress to date and attention is now focussing on the most difficult issues of quotas and access.
2. The United Kingdom and Italy have a common interest in securing adequate access arrangements as part of the CFP settlement. We welcomed your country's support at the July Fisheries Council for an essentially exclusive 12 mile zone which the United Kingdom also seeks, together with preference beyond.
3. We recognise your interest in restructuring measures and new or extended fisheries agreements with third countries. We accept that progress needs to be made on these issues in the context of the fisheries discussions but we must ensure that the policies adopted give the best value for the limited Community money available.

1.

BACKGROUND

4. Recent Fisheries Councils have made steady progress. On 29 September agreement was reached on a comprehensive conservation regulation which removed from the Council's agenda several contentious issues. On 28 October, agreement was reached in principle on a control and enforcement regulation. Quota allocations and access arrangements are the main items left to settle before the end year deadline set by the European Council Declaration of 30 May. Other CFP issues include structures and marketing, and certain member states are also concerned to secure further fishing opportunities in third country waters as part of the settlement. Relations between the United Kingdom and Italy on fisheries matters are particularly good and Italy's helpful approach during their Presidency of the Council of Ministers in the first half of this year undoubtedly helped progress.

5. There has been no substantive discussion of access in the Council since 1978. However, Mr Signorello, the then Italian Fisheries Minister, supported the United Kingdom's demand at the 21 July Council for new Commission proposals on access and made it clear Italy sought a 12-mile exclusive zone (to protect Italian coastal fishermen from the large Spanish Mediterranean fleet after Spanish accession). Italian waters beyond 12 miles are relatively poor in fish and Italy does not therefore seek preference beyond 12 miles.

6. Italy is not directly involved in the negotiations on internal quotas since these concern stocks in the North East Atlantic in which Italy has very limited historic interest. However, Italian agreement to a quota settlement is likely to be linked tactically to securing Italian objectives on structural measures and third country issues.

7. On structures, Italy seeks Community finance for the establishment of joint ventures; the creation of artificial fishing grounds (reefs); and the promotion of certain types of fisheries research. Whilst these are elements of the Commission's proposed structural measures, the United Kingdom's principal objective is to concentrate the limited Community financial provision for the structures package on proposals to adjust fishing capacity to current fishing circumstances, thus providing some compensation for our industry.

8. Italy has traditionally fished in the Mediterranean, in the waters off West Africa and off North America. She has been pressing the Commission to negotiate agreements with the appropriate coastal states to allow these fisheries to continue. We have been reluctant to agree to mandates for such negotiations since the Community has tended to pay too much money for fishing rights negotiated under agreements

already reached, as with Senegal, because of the Commission's tendency to see an aid element in these deals. Nevertheless in order to avoid Italian demands for quotas in the North Sea and other areas where we seek United Kingdom quotas, we have accepted the principle of agreements with African countries but insisted that in future they must demonstrably provide value for money and at most maintain traditional fishing patterns.

9. Meetings of the Fisheries Council are scheduled for 17-18 November and 15-16 December. It may not be possible to settle all the issues (e.g. structures and third country matters) at these two meetings but it is almost traditional for major new Community policies to involve a last minute rush.

Ministry of Agriculture, Fisheries and Food

12 November 1980

13 November 1980

ANGLO-ITALIAN CONSULTATIONS
23-24 NOVEMBER 1980

POLITICAL COOPERATION

Brief by Foreign and Commonwealth Office

Points to Make

1. Strong European foreign policy role will be important in 1980s. Many areas where European scope for action goes beyond that of US, eg in Middle East.
2. Need for:
 - a. A stronger political commitment to consultation and joint action.
 - b. A more solid organisation.
3. If Europe was called to play a serious long-term role in eg Iran/Iraq or Arab/Israel, could not do it with present improvised structures.
4. What are Italian views?

Background

1. The Secretary of State raised the question of improvements in Political Cooperation at the Foreign Ministers' weekend meeting on 25 and 26 October. On 4 November Foreign Ministers agreed that Political Directors should prepare a List of options for strengthening Political Cooperation. UK suggestions include:

- a. A more effective emergency procedure.
- b. A strengthened political commitment to Political Cooperation.
- c. Some form of permanent secretariat; possibly in Brussels under the wing of the Council Secretariat.
- d. Better cooperation abroad: The Nine should look at ways of sharing the work and support facilities in third countries, particularly in small posts.
- e. A Vice-Presidency? To assist the Presidency and take some of the burden of contacts with third countries.

2. The Italians are likely to share our views on this subject.

Foreign and Commonwealth Office
13 November 1980

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13 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 November 1980

EAST-WEST RELATIONS (INCLUDING POLAND, CHINA AND CSCE)

Brief by Foreign & Commonwealth Office

POINTS TO MAKE

1. Russians sought well before the US Presidential Election to blame the United States for difficulties in US-Soviet relations, focussing on non-ratification of SALT, TNF and US policy in the Middle East. Likely to adopt a wait and see approach to Reagan, though obviously anxious.
2. Russians still interested in detente as they define it because of its economic and political benefits (trade, credits, arms control agreements), but will not let this stand in way of more important national interests (eg Poland). Harder Soviet East-West line is reaction to continuing criticism over Afghanistan and anxiety about Eastern Europe. What were Signor Colombo's impressions during his recent visit to Moscow?
3. We shall maintain distinction between our relations with Soviet Union before and after Afghanistan. East European countries not to blame. British Ministers will have visited all of them during 1980.
4. Lord Carrington impressed by Kania and Pinkowski. They made no attempt to disguise seriousness of economic problems but expressed confidence that they would solve the political ones. Court decision on 10 November on registration of 'Solidarity' trades union should reduce tension in short term,

but continuing risk of conflict between Party and independent unions.

5. Russians appear content for time being to leave it to Polish authorities themselves to try to resolve problems. They must be aware of costs of armed intervention (we have made clear that intervention would mean an end to detente), but that would not deter them if Polish authorities unable to control what Russians saw as fundamental challenge to Communist system in Eastern Europe.

6. We are considering carefully requests received from Poles in October for economic assistance. How do you intend to respond to requests put to you? Hope we can keep in touch on this.

7. Importance of a stable and outward looking China. We want China's present pragmatic economic policies to succeed.

8. Given their continuing hostility to the Soviet Union, the Chinese will want to maintain the momentum of Sino-US relations but will be unwilling to give way on matter of principle over Taiwan.

9. CSCE: see separate addendum.

[All can be freely used]

1. Warsaw Pact Foreign Ministers Communique of 20 October included hard line passage blaming West for increase in international tension, echoing sharply anti-American and anti-Western remarks of Soviet leaders in recent speeches. But it reiterated a commitment to principles of detente as expressed in Helsinki Final Act and supported Romanian request that next CSCE meeting after Madrid should be in Bucharest. This implied a belief that the CSCE process would continue but Soviet performance at Madrid preparatory meeting confirms the message that this aspect of detente, like others, will not be paramount for Russians. (See CSCE addendum.)

2. Lord Carrington visited Poland 29-31 October. He met Mr Kania (Party First Secretary), Mr Pinkowski (PEEN-KOV-SKI; Prime Minister). Told Poles we would give sympathetic consideration to requests for economic assistance, but made no commitment on details. Requests to United Kingdom include postponement of repayment of ECGD guaranteed debt in 1981 and 1982, further ECGD credits on easier terms, liberalisation of import quotas and support for more favourable treatment in GATT. Similar approaches made to a number of Western countries including US, France, FRG, Italy, Belgium, Sweden, Norway and Austria. The French have proposed an informal, confidential meeting of major creditors, including the Italians, in Paris on 18 November to compare notes.

3. Lord Carrington warned the Soviet Ambassador on 10 November that internationalisation of the Polish crisis would spell the end of detente.

4. The Italian Foreign Minister, Signor Colombo, arrived in Moscow on 9 November for talks with Gromyko.

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5. The Chinese National People's Congress in September consolidated the power of Vice Chairman Deng Xiaoping at the expense of Chairman Hua and set China on a course of pragmatic economic policies. Older men have made way for younger figures such as the new premier Zhao Ziyang. The Chinese leadership hopes to stimulate production by devolving greater economic autonomy to the regions and to individual enterprises and by replacing excessive centralised control with a degree of free competition and market economics. Prospects are for political stability and, with luck, slow but steady economic growth.

6. Relations between China and Italy are good. Bilateral trade is of about the same order as Sino-British trade (total \$781.5m in 1979). Chairman Hua visited Italy in 1979 and President Pertini visited China last month. The visit to China this year by the Italian Communist Party Leader, Berlinguer, marked an improvement in inter-party relations after a long period of coolness.

7. Sino-US relations have continued to develop in all areas since normalisation of relations between the two countries at the end of 1978. Trade has now reached the \$3.4 billion level and a major grain deal signed last month should ensure continued growth. But in recent months strains have appeared over the decision by the Americans to give diplomatic status to Taiwan representatives in the US; and the Chinese expressed displeasure at Mr Reagan's campaign statements on Taiwan. The Chinese are concerned about the future of Sino-US relations, in particular how President-elect Reagan will handle the Taiwan issue. Following Reagan's election victory the Chinese spokesman said China regarded the establishment of friendly relations between the US and China as important for world peace. He expressed the hope

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and expectation that the new Administration would adhere to the principles set forth in the Shanghai Communiqué, and the Communiqué on the establishment of diplomatic relations, so that relations 'might continue to make progress and grow stronger'.

Foreign and Commonwealth Office

13 November 1980

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PMVD(80) 5: ADDENDUM

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17 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

CSCE MADRID CONFERENCE

Brief by Foreign and Commonwealth Office

Points To Make

1. Glad that procedural problems have now been resolved in Madrid but regret that it took so long to reach agreement.
2. Now look forward to a constructive meeting.

Background (can be freely drawn on)

1. Agreement was reached on Friday, 14 November on the agenda and procedures for the Madrid main meeting. The preparatory meeting, which had gone on for almost ten weeks, had failed to reach agreement on these points in the face of Warsaw Pact opposition to adopting the structure which had been employed at the Belgrade review meeting.

/2.

2. The compromise text adopted, while not ideal, effectively preserves the West's interests. It permits the review of implementation to continue until the Christmas break without attention being distracted by discussion of new proposals until the final pre-Christmas week. The East have also agreed, in principle, to another follow-up conference after Madrid.

Foreign and Commonwealth Office

17 November 1980

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6 November 1980

ANGLO-ITALIAN CONSULTATIONS
23-24 NOVEMBER 1980

AFGHANISTAN/PAKISTAN

Brief by Foreign and Commonwealth Office

Points to Make

1. Need to (a) maintain international pressure on Russians
(b) encourage resistance effort. Next few months important.
Allies must continue to make it clear to Russians that there
is no question of status quo in Afghanistan being accepted and
that we have the will to hold out for as long as it takes to
get an acceptable political solution.
2. Allies should consider during winter how Resistance can be
encouraged so that they are able to resume their efforts when
military activity increases again in the Spring. Earliest
possible indications of Reagan's attitude to Afghanistan will
be important.
3. Support for Pakistan remains crucial. They want more economic
assistance from Islamic and Western friends. Soviet raids into
Pakistan are worrying. So far the West has made little comment on
these. Russians may be tempted to think they can go further.
May be necessary to consult with Pakistan about a UN response,
if there is another raid.

/Background

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Background

4. Within Afghanistan the 85,000 Soviet troops have so far failed to break the will of the resistance to continue the war. Soviet helicopter gunships have played an effective but not decisive role. On the ground reprisals against villages have not halted supplies to the insurgents. The training and equipment of Soviet forces for mountain warfare is now better than earlier this year. But, despite the continuing failure of exiled resistance leaders to form a United Front, the resistance groups are also better equipped and more experienced. A long campaign lies ahead. The winter will bring problems for both sides. The Russians appear resigned to this, repeated their support for Babrak Karmal during his October visit to Moscow and despite continuing casualties, will take whatever action is necessary to avoid military defeat.

5. Our aid programme to Pakistan in the current financial year will amount to approximately £31.7 million. In addition we contributed £1.4 million as our share of the Community's response to the UNHCR appeal for the Afghan refugees in Pakistan and we have donated £500,000 as a separate bilateral contribution. The Commission is now considering the UNHCR's revised, second appeal.

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13 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

DEFENCE AND DISARMAMENT QUESTIONS
(INCLUDING CDE)

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

ATLANTIC RELATIONS

1. Increasing US preoccupation with Gulf area will lead to further demands on European allies to 'take up the slack' in Europe. New Congress likely to be dissatisfied with European allies' contribution to Western defence and bent on confrontation with them. Reagan Administration bound to reflect this mood. Difficult period ahead for Alliance: defence spending under pressure in many European countries, and few see new military demands of SW Asian situation in the same dramatic terms as US.
2. Giving thought to how these pressures can best be handled in NATO. Will have to be process of mutual education - we shall have to persuade US that head-on confrontation does not produce best response; and some European countries must become less inward looking.
3. [Depending on reaction of major allies, in particular Chancellor Schmidt at Anglo-German Consultations]. Have in mind an independent review of way NATO operates in light of changing circumstances, to make best use of resources available.

SALT

4. Have to accept that SALT II Treaty in present form will

/remain

remain unratified. But glad to see signs that Reagan wants to preserve something of SALT II and keep the SALT process going.

5. Reagan's handling of SALT (eg threat of all-out arms race) could affect transatlantic relations because nuclear issues so sensitive in European domestic politics. Any renegotiation of SALT II likely to touch European interests directly (eg Backfire and Protocol future). Reassured by early Reagan statement of willingness to consult allies on major decisions.

TNF

6. Delicate NATO compromise on TNF package will need to be handled with care by Reagan Administration. We want to see both modernisation and arms control continue. Important to maintain link between TNF negotiations and wider SALT framework.

CSCE/CBMs/CDE

7. On assumption that Madrid does not break down, support French intention to table mandate at Madrid for first phase of a Conference on Disarmament in Europe (CDE). Major UK concern is to keep Alliance together at Madrid, particularly in light of US equivocation over commitment to conference on CBMs. Important while US policy evolving to make clear that European members of Alliance have no intention of compromising on principal elements of mandate, including application of CBMs to Soviet Europe.

MBFR

8. Little prospect of progress. No case for further major moves by West at present. Should continue with existing

/Western

Western line while awaiting outcome of Madrid CSCE meeting on French proposal for conference dealing with confidence building measures (CBMs).

DEFENCE EQUIPMENT COOPERATION

Trilateralism (if raised)

9. UK has many common equipment and project interests with France and Germany which are not shared by other countries. These need to be discussed from time to time by Defence Ministers. The outcome is always reported to the IEPG.

ASW Helicopter (if raised)

10. Would like to see a successful collaborative project established, but because of the very high cost of the programme we are bound to look at all possible options.

Anti-Tank Guided Weapons (if raised)

11. UK certainly does not rule out the possibility of Italian participation at some stage, but detailed discussions cannot usefully take place until the scope for the European programme becomes clear in Spring 1981.

Sales of TORNADO/RB199/FH70 (if raised)

12. Pleased that Italy shares our wish to promote appropriate sales of our joint ventures. Recognise the need to seek, both separately and in concert, changes in FRG attitudes.

BACKGROUND

ATLANTIC RELATIONS

1. At a DPC meeting on 12 November, US emissaries (Mr Newsom and Ambassador Komer) announced plans to increase the capability of the new US Rapid Deployment Joint Task Force by enabling it to deploy 6-7 divisions rapidly in a crisis to a

/threatened

threatened area (meaning SW Asia). Have made it clear that this would entail a diversion of resources from reinforcement of NATO which would mean that effectiveness of NATO's defences could only be maintained if the 3% defence spending target was regarded by all allies as a minimum. Have made it clear that European failure to respond to US appeals for better performance could have serious consequences for Alliance.

2. This is clearly foretaste of what can be expected at the December Ministerial meeting. Discontent with allied performance, focussed particularly on the FRG, was already apparent in the last Congress, and will have been intensified by the rightward shift in the elections. Since we have yet to secure French, German and American reactions to our proposals for a review of NATO, it may be premature to discuss them with the Italians now. But it will be at least worth encouraging them to focus on the difficulties ahead in NATO to make them as receptive as possible when we come to discuss our ideas with them.

3. The Italian Defence Minister told Mr Pym last month that Italian defence spending would rise next year by 12% in real terms. These figures are not credible; the figure the Italians have given NATO is 2.8%.

SALT

4. Governor Reagan is committed to withdrawing the SALT II Treaty from the Senate and negotiating afresh with the Russians. He has given virtually no details of how he intends to pursue this course; the scope for radical new departures may be limited.

/TNF

TNF

5. As part of the TNF modernisation programme, the Italians will have 112 US Ground Launched Cruise Missiles (GLCM) based in Italy. There are no indications of any wavering in this commitment. Italians are expected to announce location of their base at the NATO Ministerial Meetings in December.

6. TNF arms control discussions began in Geneva on 17 October for a round of a month. The Americans have set out their proposal for equal ceilings (numbers as yet unspecified) on US and Soviet land based long range missiles. The Russians have confined themselves to general statements of their position that negotiation on medium range systems should also include American forward based systems (US aircraft based in Europe).

7. Any attempts by the Reagan Administration to alter the current TNF arms control position could cause great difficulty for the Europeans and even jeopardise the TNF modernisation programme.

CSCE/CBMs/CDE

8. Broad agreement in Alliance on French draft mandate for CDE to discuss mandatory, militarily significant and verifiable CBMs applicable to whole of Europe up to Urals. However Americans remain equivocal about CDE, and election of Governor Reagan likely to lead to continued equivocation (State Department have told French they are having to hold a decision on CDE pending reference to Republicans).

MBFR

9. Neither East nor West are likely to make any significant

/moves

moves in Vienna until they know whether Madrid CSCE meeting has agreed to the holding of follow-up negotiations on confidence building measures.

10. The West's current proposals provide for Phase I reductions of 13,000 US and 30,000 Soviet troops and a package of Associated (verification and confidence-building) Measures.

DEFENCE EQUIPMENT COOPERATION

11. There have been several successful collaborative projects involving UK and Italy (TORNADO, FH70 AND SP70 Howitzers) and there are prospects for more. But some inhibiting factors. Collaboration with Italy must now be at expense of UK's cooperation with France and FRG. Moreover Italy too is greedy for foreign technology and seems as much interested in building up its national industrial capability for commercial and economic reasons as for military purposes.

12. Trilateralism Italy has suggested in the past that she should be included in the trilateral Defence Ministers meetings held annually since 1977 (but not 1980). This would preclude discussion of legitimate trilateral business, and would undermine UK's aim of fostering trilateral relations. The outcome of meetings is always reported to the Independent European Programme Group (IEPG).

13. ASW Helicopter In November 1979 UK and Italy signed a Memorandum of Understanding agreeing in principle to collaborate. A further MOU on joint definition and initial development has been agreed and Italy expects to sign in November. If any early start can be made to joint Definition it will provide a useful input to national decisions in the Spring. This UK

/review

review - of which Italy is aware - will examine alternative helicopter options and must be seen as casting some doubt on the future of this collaboration.

14. Italian Participation in Missile projects Italy is interested in joining the trilateral (UK, France, FRG) programme for new Anti-Tank Guided Weapon systems, and the quadripartite (US, UK, France, FRG) Multiple Launch Rocket System (MLRS) programme. A form of associate membership has been offered on MLRS. But Italy has accepted that substantive discussion on ATGW must await the outcome, in Spring 1981, of exchanges with the US on a possible 'package' (Europe and US developing complementary systems).

15. Export of Collaborative products UK and Italy are both concerned about restrictive German attitudes on exports of TORNADO aircraft and FH70 artillery. Individual cases (eg FH70 for Saudi Arabia, Morocco; RB199 for Yugoslavia, India; TORNADO for Greece) are being pursued with FRG on a case by case basis.

Foreign and Commonwealth Office
13 November 1980

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14 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

WORLD ECONOMY (BACKGROUND)

Brief by HM Treasury

Points to make

- (i) Inflation now slowing down in most of the major countries. Partly because it has been better contained than after the first oil shock, the present recession is likely to be less severe than in 1974-75.
- (ii) However, output is declining or at best stationary in all the main economies, the downturn has been more synchronised than once expected, and recovery could be slow.
- (iii) There has been no significant relaxation of policies. In many countries, fiscal policy could become tighter next year. No one is forcing the pace on interest rates.
- (iv) Helpful that industrial countries are where possible trying to finance their deficits rather than deflate them away. But LDCs have little alternative to adjustment.

Background

1. GNP growth in the main economies is expected to fall from $3\frac{1}{2}$ per cent in 1979 to around 1 per cent this year but may rise to around $1-1\frac{1}{2}$ per cent in 1981. The second oil price shock has drained as much purchasing power from the OECD economies as the first - the equivalent of around 2 per cent of GNP. The overall deflationary impact is likely to be less than in 1974-75 because households and companies are under less financial pressure. But the downturn has been more generalised than once thought likely. In the second quarter GNP in the 7 main economies fell at an annual rate of 4.9 per cent. Only in Japan did it rise. The initial phase of the US recession was exceptionally steep; GNP fell at an annual rate of 9.6 per cent in the second quarter. There are some signs that the worst may be over in the US but there are doubts about the robustness of the recovery.

3. Elsewhere, the size of the annualised fall in GNP in the second quarter ranged from 1.1 per cent in France to 6.1 per cent in the UK (where there was also a fall in the first quarter). In Italy there was a decline of 3.2 per cent; but this came after very fast growth in 1979 and exceptional buoyancy in the first quarter of this year.

4. Inflation in the main economies accelerated from about 8 per cent in 1978 to around 13 per cent in the second quarter of this year. Some upward pressure remains in the pipeline but in most countries the tide has now turned: and both sooner and with a lower crest than after the 1973-74 oil shock. In August, the average year-on-year rate was down to 11.7 per cent. Containment of inflation has limited the deterioration in companies'

financial positions and hence, potentially, the severity of the recession.

5. The US Administration has forecast an inflation rate in the fourth quarter of 12 per cent (year-on-year). Some of the recent fall in the US rate may have been only temporary; a sustained fall may be limited by poor labour productivity. In Germany inflation has slowed in recent months from a peak of around 6 per cent to 5.2 per cent in September. In Japan, inflation could subside quite quickly from its present level of 8.7 per cent. Wage indexation in Italy has made it especially difficult to control inflation and the rate remains over 20 per cent.

6. There has been no significant weakening of the policy stance in major countries. Governments have in general been unwilling to force the pace on interest rates. US rates have recently risen quite sharply again in response to the rapid growth of money supply in the third quarter. Elsewhere, apart from the US, money supply has been growing close to or below target ranges. In Germany, interest rates have remained high because of the potential instability of capital flows, but the effects of balance of payments outflows on monetary conditions have been partly offset by fine-tuning of bank liquidity. France by contrast has taken measures to slowdown inflows and restrict their monetary effects. The Italian discount rate was raised in September after the fall of Sig. Cossiga's government. Japan has reduced its discount rate twice since August.

7. Fiscal policy is likely to remain at least at restrictive in most countries next year. Recent budgets in the US, Japan and France all aim at lower public sector deficits in 1981 than in 1980. This was also the aim of the Italian Budget in July which lapsed when the Government fell. The new Government is expected to reinstate most of its provisions.

8. The OECD area is now expected to have a current account deficit of around \$80 billion in 1980. This could fall to around \$50 billion in 1981 mainly because of reduced demand for oil. Germany and Japan are expected to share a deficit of around \$30 billion this year, although Japan's position is improving rapidly. The US current account showed a surplus in the third quarter and is expected to be close to balance for 1980 as a whole. France and Italy, which each had surpluses in 1979, could both be heading for deficits of around \$7 billion this year. Some of the smaller OECD countries (eg Belgium and Denmark) have particularly severe current account problems and have encountered some financing difficulties.

9. The position of the LDCs is more fully discussed in brief 8(b). Even if they cut import growth quite sharply, their combined deficit could rise to around \$60 billion in 1980 and may not fall by much, if at all, in 1981. No single initiative can solve their problem: they will need to reduce their deficits to what can be financed and ensure that new borrowing is used to enhance their capacity to repay debt.

HM TREASURY
14 November 1980

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PMVD(80)8(b)(SECOND REVISION)

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18 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

INTERNATIONAL ECONOMIC AND FINANCIAL QUESTIONS:
RELATIONS WITH DEVELOPING COUNTRIES

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. HMG recognises seriousness of situation facing developing countries. We will maintain a substantial aid programme, and play a constructive role in North/South fora.
2. Autonomy of IMF and other Specialised Agencies must be protected: we remain anxious that Global Negotiations procedures should explicitly recognise this, and convinced that we took the right stand at the Special Session.
3. (If raised) We believe limited North/South Summit could be useful and would accept an invitation. We hope that it would not be linked directly to the Global Negotiations.

BACKGROUND

4. The Italians seek to appear as forthcoming as possible towards developing country demands. They undertake international commitments which they cannot realistically hope

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to achieve. They support, without reservation, the time-bound ODA target of 0.7% of GNP. In practice their performance dropped from 0.14 in 1978 to 0.08 in 1979.

5. Italians do not share our concern about protection of decision-making autonomy of Specialised Agencies (IMF etc.). They accepted without difficulty the Global Negotiations procedures text rejected by US, UK and Germany.

6. Italy anxious for an invitation to the 1981 limited North/South Summit. But at preliminary meeting of co-sponsors France and Germany argued without success for invitation for Italy. We will be invited, but as we are not co-sponsors we have no standing to press Italian case. Co-sponsors agreed to meet again next March to finalise agenda and participation for Summit in June '81. There was resistance to an unduly close link with the Global Negotiations

7. Discussion of arrangements for Global Negotiations is continuing in the margins of the General Assembly. An informal group under Von Wechmar (German President of the General Assembly) has now produced a procedures text which is some improvement. American Administration are divided but are expected to press for further improvements. Germans have not yet taken a view. We are saying informally that we can see difficulties but are not committing ourselves until we know the American decision.

14 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

TRADE QUESTIONS (INCLUDING THE THREAT OF JAPANESE COMPETITION)

Brief by the Department of Trade

POINTS TO MAKE

General

1 We do not believe general import controls would be the answer to our problems. They would slow the necessary moves by UK industry to adjust to change and increase efficiency, increase inflation and draw retaliation against our vital exports.

2 However, the Government must defend industry against sudden surges in imports which damage a particular sector. The UK action against certain synthetic textile products was taken on this basis. We were grateful for Italian support. We have not yet decided what to do about synthetic textile imports from the US in 1981. We are only too aware of the threat of US retaliation and this is a factor in our thinking.

3 The unfair advantage caused by the US domestic energy policy is a matter of deep concern to UK industry and we will continue to press the Commission to seek its early removal.

Japan

4 Must adopt stronger tactics using the strength of the Community as a whole to prevent the Japanese picking off Member States one by one. Must not let it appear to the Japanese that we are divided. Therefore right to give Commission fresh mandate, but they must get it across that unless Japanese adjust policies Community must be expected to defend itself more comprehensively than before. Member States or Presidency should join in Commission approach to Japanese.

Essential Commission consults Member States fully and frequently on progress.

5 On import problems must maintain existing bilateral safeguards until Japanese take effective action to remedy imbalance. Must also look ahead to provide for new as well as existing problem sectors. After we have positive proof of the effects of remedial Japanese action we should be prepared to examine measures for a more united approach to commercial policy towards Japan.

6 EC motor industries facing critical situation. UK Government will continue to support inter-industry talks between SMMT and JAMA. Anticipate action from Japanese industry which will demonstrate that prudent exporting will continue. Would Italian Government like to see cars the subject of Community negotiations with Japan?

7 (if raised) We are concerned about Japanese success in winning overseas capital contracts. Might be advantages in UK/Italian co-operation in some sectors but it is for the firms concerned to decide.

BACKGROUND

8 The meeting will provide an opportunity for the Prime Minister to reassure the Italian Government of her continued commitment to the open trading system.

US Synthetic Textiles

9 An exchange of views on imports of synthetic textiles from the US would be useful. The Italians were very concerned at the threatened level of these imports a few months ago and they pushed hard for consideration of the anti-dumping case on polyester filament yarn (where a provisional duty now applies). However, more recently

their concern seems to have shifted to fears about the loss of their important woollen textile exports to the US if quantitative limitation is continued by the Community. We have so far reached no decision on what to do next year; one outcome which might suit both the Italians and ourselves would involve high-level Commission discussions with the US in a further effort to secure earlier action on removal of their energy price differentials.

Intra Community Trade

10 The one market of the Community is still far from free. The Commission has currently some 200 breaches of the Treaty of Rome under investigation. It remains to be seen how the Commission will interpret in practice recent judgements of the European Court which have, at least in its view, established the principle that, subject to certain limited exceptions, any product lawfully produced and marketed in one Member State must be accepted by any other Member State even if it does not meet that country's own mandatory standards. This will almost certainly lead to less emphasis on the very slow process of harmonisation of laws under Article 100. Since the UK has fewer mandatory standards than most other Member States, this will probably work in our favour but may also result in some of our more vulnerable practices being challenged.

11 Complaints about "unfair" competition from Italian imports continue. A wide range of products are concerned, from washing machines to brass water fittings, and complaints have very largely centred on allegations of illegal state aids in Italy. But often the UK industries concerned have been unable to produce evidence to substantiate the claims. In a few instances where sufficient evidence has been available for a prima facie case to be put to the Commission, eg steel baths, subsequent investigations have not proved that state aids have distorted competition.

Japan

12 In response to the rapidly worsening trade imbalance between the Community and Japan, the Commission have proposed an overall Community strategy towards Japan, covering mainly trade, but also wider issues of political and technological co-operation, and proposing the abolition of national quantitative restrictions on imports from Japan (including, by implication, voluntary restraint agreements) in return for the removal of the remaining barriers to imports to Japan and export restraint by the Japanese in certain industrial sectors. There was a preliminary discussion at the July Foreign Affairs Council and the subject is expected to be on the agenda for the next FA Council on 24-25 November. France and Italy, which have the largest number of import quotas, have, so far at least, strongly opposed the Commission's proposals. The UK has no quotas, but benefits from voluntary restraint by the Japanese in exporting resulting from inter-industry talks, for example on cars and consumer electronics. Almost 40% of our imports from Japan are subject to some form of restraint. In the present economic climate we could not accept any reduction in the existing level of protection. The Commission originally concentrated on the concessions the EC might give Japan but now seem to be paying more attention to what the Japanese might be expected to offer in return in terms both of export restraint and of increased access to their market.

13 The biggest threat to the continued operation of the open trading system is in the motor car sector. Simultaneously with the recession in the world market the Japanese increased their penetration in the USA to over 20% and in Germany to over 10%. The European manufacturers' association (CCMC) is calling for formal import controls. The Italians have a long-standing import quota limiting

the Japanese penetration of their market to 2,200 cars a year. However, their car industry has been affected by Japanese inroads into other Community markets to which they export. A particular threat is diversion of trade to the EC if restrictions are imposed on access to the US market. President Carter has been under intense pressure to take action. President-elect Reagan has said he is opposed to formal restraints on Japanese car imports but at the same time believes their level should be reduced.

14 The Japanese continue to be highly successful competitors for overseas capital projects. They operate a systematic low price policy, at least 15-30% below UK or Italian prices, helped by strong vertical integration and financially powerful trading companies. Japanese Government financial support has not been proved. The Japanese, worried about criticism of trade imbalances, have proposed exploration of co-operation in third markets to EC trade associations. We have encouraged a favourable response from UK firms but are sceptical about long-term benefits. Closer UK/Italian links have not been proposed and would be for firms to decide upon on their merits. Recent Anglo-French studies of Japanese competition, launched at summit level, did not produce worthwhile results and now stand indefinitely suspended.

Department of Trade
14 November 1980

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ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

INTERNATIONAL ENERGY QUESTIONS

Brief by Department of Energy

LINE TO TAKE

Impact of Iran/Iraq Crisis

1. Action agreed by the IEA on 1 October - to urge companies to refrain from abnormal purchases and run down stocks - has so far proved sufficient to steady the market. But some Community countries more seriously affected than others and there are other problems inside and outside the IEA (eg Portugal, Turkey, India and Brazil). Must keep closely in touch to prevent temporary shortages setting off a price spiral. Further action may be needed in IEA and Community if the war goes on. Would like to keep in close touch with the Italian Government in the run up to the Community Energy Council on 27 November and the IEA Ministerial meeting on 9 December.

Follow-up to Venice Economic Summit

2. Outcome of Venice satisfactory. Clear signal of Summit leaders' determination to prevent energy supplies becoming long-term constraint on economic growth. But public opinion will expect it to be followed up by vigorous policy measures by Governments: this may require some hard political decisions (especially by US).

3. The first meeting of the High Level Monitoring Group has agreed that it would fulfil its remit by drawing on the work being done in the IEA and the Commission. This is a satisfactory outcome.

US Energy Prices

4. Low price for natural gas and for feedstocks in US is greatly damaging European textile and petrochemical industry. We want the Community to press the Americans on this. We also want the IEA to adopt pricing guidelines which match the EC commitment. But within the Community we have to be sure that our own actions on state aid to the petrochemical industry don't make us vulnerable to US countercharges.

Producer-Consumer Dialogue

5. The industrial countries should continue to signal their interest in discussions.

6. The Report of the OPEC Long-Term Strategy Committee suggested that the Strategy Committee regarded some sort of dialogue with the industrialised countries as inevitable. However, with OPEC currently in disarray, it is difficult to judge whether, and if so when and in what form, the Strategy might be adopted. It is unlikely that there will be much opportunity in the near future to make progress in dialogue with the producers.

BACKGROUND

Impact of Iran/Iraq Crisis

7. When the war started OPEC oil production was running 2mbd above demand. Loss of supplies from Iraq and Iran is some 4mbd offset by 1 to 1½ mbd extra OPEC production (mainly Saudi Arabia). Stocks in OECD countries on 30 September were at a record level of 460 million tonnes - about 110 days consumption. IEA on 1 October agreed on measures designed to meet the gap between supply and demand by using some of these stocks while retaining adequate strategic reserves and to discourage abnormal purchases on the spot market.

8. Prices for crude oil are now back to the record levels of late 1979; yet there is no scramble. There seems to be an unwillingness to destock and companies seem willing to take available oil just to protect their future positions.

9. On product prices the upward movement of the last two weeks continued strongly to Friday 14 November. This week there has been little further movement. Premium gasoline has now reached \$ 399/tonne, only some \$ 20 below the previous record. Fuel oil at \$ 250/tonne is well above the previous record.

10. The effect of Iran/Iraq oil interruptions on Italy to the end of 1980 is not likely to be serious. Latest IEA figures as shown below.

Final Quarter of 1980

Position in Italy

	IEA estimates pre-crisis	post crisis
	[all figures in million tonnes of crude oil equivalent]	
Stocks (end September)	27.5	27.5
Production	0.6	0.6
Consumption	28.23	28.23
Net Imports	26.89	23.63
Stocks (end December)	26.76	23.50

Over the three months a loss of 3.26 million tonnes for Italy compares with estimated losses of over 5 million tonnes for France, 1 million tonnes for Germany and 0.70 million tonnes for the UK.

Main Points of Venice Summit Communique

11. - Must break existing link between economic growth and consumption of oil - by continued emphasis on reduction of dependence on imported oil.

- Targets important. IEA member countries have agreed their collective 1985 net oil imports should be lower than existing 1985 group objective by, potentially, 4m barrels a day.

- No more oil-fired generating stations (except in exceptional circumstances), substitution in industry, conservation in other sectors.

- Doubling coal production by 1990.

- More nuclear power in medium term, and encouragement of improved political and social environment for nuclear.

- Renewables and synthetics for longer term.

- Set up a group of high level officials to monitor progress.

12. The first meeting of the High Level Monitoring Group took place on 23 July. It agreed that it should take para 16 of

the Venice Communique as its mandate and that no additional machinery needed to be set up to support it. It would rely heavily on work being done in EC and IEA. The IEA is currently conducting a review of the energy economies of the six IEA Summit countries as part of the annual Standing Group on Long-Term Cooperation review. France is also filling in the IEA questionnaire. Results of this exercise will be processed by the IEA - with Commission assistance as necessary - and will probably be available in December or January. Substantive discussions in the monitoring group should follow the receipt of this data. This outcome - accepted by France - is satisfactory from the UK point of view.

Producer-Consumer Dialogue

13. Not to be disclosed: Ministers have agreed that the UK should avoid taking the lead in seeking to arrange a dialogue with oil producing countries; but the idea of the Global Negotiations being used as a route towards such a dialogue should not be ruled out. In addition, we should make appropriate use of bilateral contacts.

14. The full text of the OPEC Long-Term Strategy Committee report has not been published. However, an authoritative summary by the Middle East Economic Survey included a section on relations with industrialised countries, which included the sentence, "the report recognised that some form of dialogue between OPEC and industrialised countries is inevitable". The report was due to be considered by the OPEC Summit in Baghdad in November, but this has now been postponed.

US Energy Prices

15. The Natural Gas Policy Act of 1978 provides continued controls on prices until January 1 1985, with the possibility of extension after a six month period until January 1987. But the controls allow for an increase in price on new gas (until 1981: rate of inflation plus 3.7% from April 1977 price of \$ 1.75 per thousand cubic feet; from 1981 to 1985: rate of inflation plus 4%).

16. Latest available prices (February 1980) show major pipeline companies buying old and new gas domestically at \$ 1.42 and from foreign sources at \$ 3.69; again the price is averaged and in February was \$ 1.65. Gas was being sold by pipeline companies to industrial users at \$ 2.38. There will have been some increase since February and further steady increases as the price and quantities of new and imported gas increase but no sharp increase until full decontrol in 1985 or 1987.

17. A recent mission to the US by the European Chemical Manufacturers Federation (CEFIC) reported that US manufacturers will resist European pressure for faster gas price deregulation (which President-elect Reagan might general be in favour of). They will probably argue that direct government aid for chemical manufacturers in places like the South of Italy would put the US at a disadvantage if their gas prices reached world levels.

Department of Energy

20 November 1980

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14 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 November 1980

REGIONAL QUESTIONS

Brief by Foreign and Commonwealth Office

Points to Make

Italy/Malta (only if raised)

1. Glad you take lead in Western dealings with Malta; Neutrality Agreement positive step. How long before aid is disbursed? No Western interest in helping Mintoff win election.

Italy/North Africa

2. We have taken a firm line on Libyan terrorism. Earlier this year we expelled four Libyan officials and have recently sentenced three Libyans to life imprisonment for murder. It is important to maintain a united front against State-sponsored terrorism.

Background

Italy/Malta

3. Malta/Italy Neutrality agreement concluded 15 September 1980 (not yet ratified) consists of separate Declarations on Maltese neutrality and joint financial protocol. Maltese Declaration says Malta 'is a neutral State . . . adhering to a policy of non-alignment'; prohibits foreign military presence; and allows only military vessels in 'non-combat' state to use dockyards. Italy agrees to respect neutrality and invites other states to do the same. In carefully defined /circumstances

circumstances, Italians would adopt measures 'not excluding military assistance' if they judged Malta to be threatened. Under financial protocol, Italy will give Malta US\$95m over 5 years, but likely administrative delay before disbursement. Since Maltese elections due by February 1982, timing of disbursement could be significantly unhelpful (Nationalist opposition, much more pro-Western than Mintoff, stand fair chance of winning).

4. Agreement follows intermittent negotiations since 1976; with British military withdrawal due in March 1979, Malta sought multilateral guarantees and aid from Italy, France, Libya and Algeria. Talks petered out and Mintoff intensified relations with Libya. But Maltese/Libyan relations declined this summer, particularly over Libyan military threat to Maltese oil exploration in disputed waters and Maltese turned to Italy. Most of the Nine welcomed Agreement; French remain critical on technical grounds and of Italy having conceded most Maltese demands. Nonetheless arguable that Italy's initiative decisive in preventing Mintoff from looking to Russians etc for support during dispute with Libya. Little immediate prospect of other Mediterranean Governments joining the Agreement

5. Maltese-Libyan relations remain fragile - military clash unlikely.

Italy/North Africa

6. The Italians depend heavily on Libya for oil, have large investments in Libya and a large (15,000) expatriate community there. It is consequently difficult to induce them to adopt as firm a line as ourselves vis à vis Libyan political murders.

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ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

BILATERAL QUESTIONS: ANGLO-ITALIAN TRADE
Brief by the Foreign and Commonwealth Office

BACKGROUND

1. In 1979 Italy was the UK's ninth largest export market and, in turn, the UK provided the third largest market for Italian goods. UK exports to Italy were valued at £1.5 billion in 1979 and £1.4 billion in the first 9 months of 1980. However, the UK had a trade deficit of £1030 million in 1979 and £337 million in the first 9 months of 1980. Our trade performance with Italy has deteriorated through the 1970s; exports covered 98% of imports in 1970 and only 59% in 1979. During the first 9 months of 1980 this coverage has improved to 81%, mainly as a result of improvements on the oil account. The main components in trade between the two countries are manufactured goods, machinery and transport equipment.

Foreign and Commonwealth Office

14 November 1980

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14 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

BILATERAL QUESTIONS: COOPERATION IN COMBATTING TERRORISM

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE

Practical cooperation against terrorism

1. Her Majesty's Government values the cooperation of the Italian Government in the fight against terrorism; is pleased that the SAS were able to advise the Italian Government earlier this year and would be happy to provide further assistance.
2. We wish to encourage Ministerial and Official contacts and exchanges of information on terrorism, particularly in the context of the European Communities (the regular Trevi

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meetings). We should welcome a visit by the Italian Minister of the Interior.

Terrorism in Italy

3. We deeply regret the tragic bomb explosion in August this year at Bologna railway station.

The British experience of terrorism

4. (The Italian Prime Minister may refer to the British success at the Iranian Embassy siege.) Much of this success can be put down to the clear and uncomplicated arrangements we have developed for dealing with counter-terrorist incidents.

Anglo-Italian Extradition Treaty

5. We await the response of the Italian Ministry of Justice to proposals we made to amend the Anglo-Italian Extradition Treaty. The Italian Prime Minister will know of the arrest in London on 29 October of Mario Ferrandi, wanted for terrorist offences in Italy. We await a formal application for his extradition.

Kidnap ransom insurance (Defensive)

6. We regard the types of policies offered by British insurance companies to be essentially a matter for the industry itself. Government intervention would be inappropriate. We consider insurers will insist on sensible precautions.

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BACKGROUND

Practical cooperation against terrorism

1. At the request of the Italian Government, the SAS have twice provided advice to the Italian counter-terrorist forces. The first occasion was in 1978 during the Moro kidnapping when the SAS helped to establish and train a force drawn from a naval group (known as Comsubin). The second was in July 1980 when a two-man team advised on the state of preparedness and operational efficiency of the same force.

2. The recent advisory team noted that the main shortcomings in the Italian approach were confused command and control arrangements, inadequate exercising of contingency plans and indecision about which agency should provide the assault capability in a terrorist incident (there are currently four different agencies with a counter-terrorist role). The Italians were not, however, weak in purely military areas and the team concluded that further SAS training would achieve relatively little, as the Italian problems were largely organisational and could only be solved by them.

3. The major Ministerial and official exchanges of information and cooperation on terrorism between the United Kingdom and Italy take place in the European Communities context, through the regular meetings within the Trevi framework. The first such meeting, following a UK initiative in December 1975, was in June 1976 in Luxembourg. The most recent Ministerial meeting was in Dublin in October 1979. Signor Rognoni, the Italian Minister of the

Interior was to visit the United Kingdom at the invitation of Mr Whitelaw in January 1980. The visit had to be cancelled at the last minute because of a political murder in Sicily.

4. The most recent meeting of officials was in Luxembourg on 24 October, at which there was discussion of right-wing terrorism in Europe.

Terrorism in Italy

5. The modern wave of terrorism in Italy began in 1969. The most recent major example was the bomb explosion in August this year at Bologna railway station, which killed 78. This incident, the worst of its kind ever in Italy, has been attributed to a neo-Fascist group. Such right-wing terrorists seek to create a climate of tension favourable to a coup. The left-wing groups, of whom the Brigadi Rossi (Red Brigade) are the most notable, have mainly attacked selected targets from among the Italian 'Establishment'. The view of the Italian security authorities is that the left-wing terrorist groups are better organised and in general pose more of a threat than those of the right. There are estimated to be about 2,000 active terrorists in the country, the majority based in the Northern provinces. The Italians have made some progress recently in dealing with Italian terrorism; recent relevant legal steps include a requirement to inform the authorities of the purchase and letting of premises and a reduction of sentences for terrorists who cooperate with the police. But terrorism is deeply rooted

in Italian society and the struggle is almost certain to continue.

The British experience of terrorism

6. Terrorism as experienced in the United Kingdom has been tackled in two main ways: legislatively and by devoting resources to counter-terrorism. The Prevention of Terrorism (Temporary Provisions) Acts 1974 and 1976 were designed mainly to prevent Northern Irish terrorism spreading to Great Britain, by empowering the Home Secretary to exclude people suspected of involvement in terrorism from the whole of the United Kingdom or, if they come from Northern Ireland, from Great Britain. The 1976 Act also empowers the police, subject to Ministerial approval, to hold suspects in custody for up to seven days before they have to be charged or released.

7. Resources have been applied in particular to the development of specialised equipment to be used, for instance, in bomb disposal or in situations where hostages have been taken and to contingency planning for terrorist incidents, especially those major incidents which are likely to involve the Government as well as the police.

Anglo-Italian Extradition Treaty: Mario Ferrandi

8. This draft extradition treaty has run into some difficulties and progress is slow. The main problem is Italian concern about the relationship between it and the European Convention on the Suppression of Terrorism (see below). We have proposed amendments to clarify the situation but the Italians have been slow to respond.

9. Mario Ferrandi was arrested on a provisional extradition warrant in London on 29 October. He is wanted for attempted murder in Milan and is involved with the left-wing terrorist group Prima Linea. The Italians will now have formally to request Ferrandi's extradition. If they do so, and the Home Secretary issues an Order to Proceed, the Bow Street Magistrates will hear the application. If he decides that the Italians have established a prima facie case, he will commit Ferrandi to prison pending surrender to the Italian authorities. Ferrandi may try to appeal by way of habeas corpus, or he may argue that he is wanted for a political crime and should not, therefore, be returned.

Kidnap ransom insurance

10. The Italian Government does not permit kidnap ransom insurance because it considers that such insurance increases the risk of the insured person being kidnapped. We believe that insurers will insist on sensible precautions and have, therefore, allowed British firms to offer kidnap ransom insurance. A number of Italians have taken out policies in London, apparently against Italian exchange control regulations.

11. Opinion about kidnap ransom insurance within the EC is divided. The Netherlands, Denmark and Luxembourg support our view; the other EC countries tend to support the Italian line. The subject was discussed inconclusively by

the Trevi Working Group in 1978 and by the EC Commission in 1979. These discussions showed clear and genuine differences between the police in EC countries about the effect of kidnap ransom insurance, properly conducted, on efforts to curb terrorist and criminal kidnappings.

Other European initiatives on the suppression of terrorism

12. The so-called 'Belgian Agreement' was signed by the nine Member States of the EEC at the Ministers of Justice meeting in Dublin on 4 December 1979. It concerns the application within Member States of the European Convention on the Suppression of Terrorism; the Agreement will come into force, however, only when ratified by all signatories. Discussions on a Community-wide extradition convention have recently failed, and the French, who have up to now insisted on there being a link between the Belgian Agreement and the extradition convention, are almost certain not to ratify the former. We have already ratified the European Convention on the Suppression of Terrorism and thus could ratify the Belgian Agreement without the need for further primary legislation. Italy has not ratified either, but may now be more inclined to ratify the Convention.

Foreign and Commonwealth Office
14 November 1980

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14 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

ITALIAN POLITICAL AND ECONOMIC SCENE

Brief by the Foreign and Commonwealth Office

1. Italy is a parliamentary democracy with a republican form of constitution. The Head of State is the President of the Republic. His role and functions are similar to those of a constitutional monarch in other Western European democracies. The Head of Government is the President (Prime Minister) of the Council of Ministers, which is equivalent to the British Cabinet. The Government is responsible to Parliament, which is a bicameral legislature consisting of a Chamber of Deputies and a Senate which is directly elected for five years by a system of proportional representation.

2. Elections rarely produce dramatic changes in Italy. The Christian Democrat Party has been the dominant power in successive governments since the war. The Communist Party, the largest in Western Europe, with 30% of the Italian vote, has for many years been the main party of opposition. The Christian Democrat Party has usually required support from

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other parties, and governments fall fairly frequently: the 'crisis' until the process of consultation produces a new majority may last months.

3. The current government is newly formed. After the fall of Signor Cossiga's second administration on 27 September, Signor Arnaldo Forlani succeeded on 18 October in forming a four-party Christian Democrat-led coalition, which includes the Socialists (PSI), the Social Democrats (PSDI) and the Republicans (PRI). Signor Forlani has a stronger Party following than his predecessor and his Parliamentary majority is bigger. But the difficulties of managing the coalition remain. In particular Signor Craxi the leader of the PSI (which has 12% of the vote) is ambitious, and many Christian Democrats see him and his party as posing the greatest threat to their position.

4. The Communists' (PCI) attitude to the new coalition will be important and will reflect the extent to which its programme meets their requirements in key areas of foreign affairs and economic strategy. Almost as important will be consultation on appointments and on industrial issues. Forlani has a limited mandate to pursue a less rigid line towards the PCI than his predecessor. But he is not likely to go too far.

5. Although weakened by internal splits and prone to periodic scandals, the Christian Democrats are, however,

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resilient and probably capable of cobbling together governments for some time to come. But it seems unlikely that they will introduce the necessary reforms to enable the country's social and political development to keep pace with its rapid economic advance. Urban terrorism perpetrated by both the extreme right and the extreme left represents a serious problem.

6. The weakness of frequently changing governments and the consequent impossibility of making any long term plans has had an adverse effect on the control of the economy. Italy's spectacular recovery since the war has been based on high growth rates. But, as an importer of almost all her raw materials, Italy is particularly subject to international pressures, and has been hard hit by the world oil price crisis. Since 1973 high growth levels have always been accompanied by high inflation and balance of payments difficulties. Nevertheless the economy has at times shown remarkable vigour, based largely on the relatively dynamic medium to small businesses. The latter owe some, though far from all, of their success to evasion of tax and employment legislation. The large nationalised sector is a dead weight.

7. Unions continue to act as the principal interlocutor with the government on social and economic issues, going beyond normal trade union demands. After the settlement of the recent very serious Fiat dispute, there are no immediate union problems ahead. But general discontent

with the widely expected recession will pose problems for Signor Forlani particularly in his attempts to reduce the inflation rate (now over 20%). The Socialists in the coalition are not wholly committed to this aim, at any rate if further unemployment is the price.

Foreign and Commonwealth Office

14 November 1980

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13 NOVEMBER 1980

ANGLO-ITALIAN CONSULTATIONS

23 - 24 NOVEMBER 1980

UNITED NATIONS SECURITY COUNCIL ENLARGEMENT

BRIEF BY FOREIGN AND COMMONWEALTH OFFICE

POINTS TO MAKE

1. General Assembly debate on proposals to enlarge the UN Security Council from 15 to 21 will start around 21 November.
2. Enlargement represents a threat to Western interests which should be taken seriously. UK remains very much opposed to enlargement and we consider it important that Western countries take a robust common stand against it.
3. Enlargement would tilt the balance of the Council further against Western interests. With the present required majority of 9, and with 5 Western members, there is a fair chance of preventing the adoption of resolutions inimical to Western interests without recourse to the veto. With a Council of 21, a required majority of 13 and with at best 6 Western members, Western positions would be increasingly hard to defend except by recourse to the veto.
4. At the same time, enlargement would make it possible for Non-Aligned/Third World members of the Council to change the Rules of Procedure against the wishes of the Western and Eastern members of the Council, with a consequent risk of imposition of restrictions on use of the veto through the Rules of Procedure.
5. Our extensive soundings of Third World countries have indicated that they are by no means united on the desirability of enlargement. The Third World sponsors of enlargement from 11 to 15 in 1963 stated then that future increases in UN
/membership

membership would not constitute grounds for any further enlargement of the Security Council.

BACKGROUND (can be used freely)

Past History

6. The Security Council was enlarged from 11 to 15 in 1963 (in force in 1965) through amendment of the Charter. (Amendment of the Charter requires agreement of a two-thirds of the membership including the five permanent members). The ten non-permanent seats are allocated among regional groups in accordance with a General Assembly resolution.

7. India and 12 co-sponsors tabled at the 1979 General Assembly a draft resolution to enlarge the Security Council from 15 to 19, with additional seats going to the African, Asian and Latin American groups. Ecuador, with 8 co-sponsors, tabled an amendment to enlarge the Council to 21; 5 of the extra seats would go to the African, Asian and Latin American regional groups and the sixth would alternate between the Eastern European and Western groups.

8. After strong lobbying by UK, US, France and USSR, with support from Western countries, and with little prospect of agreement on a formula for enlargement, the Indians agreed to defer the item until 1980.

Recent Developments

9. The item is on this year's General Assembly agenda. The Indian Foreign Secretary, Mr Sathe, told the PUS on 16 September /that

that India did not intend to pursue enlargement this year, but India and Ecuador have now agreed, with encouragement from Cuba and Japan, to pursue the Ecuadorean draft. Debate on the item is expected to start in the Assembly on 21 November. We have agreed with the US and France to make a further round of démarches in Third World capitals where there seems some prospect of persuading the host government not to give active support to enlargement, and in Western capitals.

10. In response to recent lobbying the Italian MFA said that Italy hoped there would be a common position of the Nine of opposition to enlargement. But they gave no indication of Italy's position if the Nine were split.

Policy Considerations

11. Efficiency apart, we oppose enlargement because:

- a) The relationship of the majority required for adoption of a resolution to the total membership of the Council would be such under the Ecuador formula that Western and Soviet bloc members of the Council would be unable jointly to block modification of the Rules of Procedure, (which could involve restrictions on use of the veto);
- b) Enlargement could force the permanent members into more frequent use of the veto, since they would be less able to muster sufficient negative or abstaining votes to prevent adoption of a resolution.

12. There is concern among FRG and other Western governments that opposition to enlargement might provoke retaliation in the form of a General Assembly resolution redistributing the existing non-permanent Council seats, which could involve the loss of at least one of the two Western non-permanent seats. This would not involve amendment of the Charter and could not be blocked by the permanent members. We have taken the line that this threat remains hypothetical and is less likely to be implemented if a significant proportion of the UN membership is seen to be opposed to the enlargement proposals.

Proposals to Enlarge the UN Economic and Social Council (ECOSOC)
[if raised]

13. A move by Jamaica and Argentina to enlarge ECOSOC membership from 54 to the whole UN membership has again failed to attract general G77 support; it will not be pursued further this session.

FOREIGN AND COMMONWEALTH OFFICE
13 November 1980

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13 November 1980

ANGLO-ITALIAN CONSULTATIONS

23-24 NOVEMBER 1980

UNITED NATIONS SECURITY COUNCIL ENLARGEMENT

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. (Replacing paragraph 1 of main brief)
General Assembly debate on Security Council enlargement is expected to start on 4 December.
2. (Replacing paragraph 5 of main brief)
Our extensive soundings of Third World countries have indicated that they are by no means united on the subject of enlargement. A fair number have reservations or oppose enlargement. Even among those who favour enlargement, there is disagreement over numbers. There remains a possibility that the sponsors will decide not to press the matter to a vote this year, particularly if faced with solid opposition from Western countries.
3. (New paragraph 6)
I intend to raise the question with other Foreign Ministers of the Nine in Brussels.

BACKGROUND

4. (Replacing paragraph 9 of main brief)
The item is on this year's General Assembly agenda. The Indian /Foreign

Foreign Secretary told the PUS on 16 September that India did not now intend to pursue enlargement this year. The Indians have nevertheless been active in promoting enlargement in New York, as have Ecuador, Cuba and Japan. There remains disagreement among the sponsors of enlargement as to whether the increase should be to 19 or 21. India would accept 21 in order to get the Latins on board; Japan is sticking on 19. There is thus no agreed draft resolution on enlargement. Debate on the items has again been put back, and is now provisionally fixed for 4 December. We, the French and Americans, have made a further round of démarches to Third World governments who are not active supporters of enlargement. We have also lobbied in all Western capitals. The prospects of obtaining a blocking third for a resolution on enlargement remain in the balance, but it now appears that no member of the Western European and Others Group (except Malta, and possibly New Zealand) will vote in favour of enlargement.

Foreign and Commonwealth Office

21 November 1980

BACKGROUND

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ANGLO - ITALIAN CONSULTATIONS
23-24 NOVEMBER 1980

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- 10. REGIONAL QUESTIONS
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- 11. BILATERAL QUESTIONS:
Briefs by Foreign and Commonwealth Office
 - a. ANGLO-ITALIAN TRADE
 - b. CO-OPERATION IN COMBATTING TERRORISM
 - c. CONSULTATIONS
- 12. ITALIAN POLITICAL AND ECONOMIC SCENE
Brief by Foreign and Commonwealth Office
- 13. UNITED NATIONS SECURITY COUNCIL ENLARGEMENT
Brief by Foreign and Commonwealth Office

Cabinet Office
17 November 1980