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SUMMARY OF ROME DESPATCH DATED 22 JUNE 1981

THE FORLANI GOVERNMENT: OCTOBER 1980 TO MAY 1981

1. The fall of Signor Forlani's government, after seven months in office, over the scandal of the secret masonic lodge "P2". (Paragraphs 1 - 2).
2. Forlani started with some advantages: tactical skill, a good team of key ministers and the backing of President Pertini, but this government was dogged by bad luck from the outset. (Paragraphs 3 - 5).
3. His record in office was mixed: there was no coherent economic policy; but there were some successes in the battle against terrorism and competent continuity in foreign policy. (Paragraphs 6 - 7).
4. The "P2" scandal broke on 21 May. Forlani's first instinct was to ride it out but this proved impossible and he resigned on 26 May. (Paragraphs 8 - 10).
5. President Pertini's first move was to ask Forlani to form a new government; when he failed the mandate was given to the Republican Spadolini. Forlani remains on the political scene; his departure is not as important, internationally, as that of Cossiga. (Paragraphs 11 - 12).

BRITISH EMBASSY,
ROME.

22 June 1981

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
LONDON SW1

My Lord,

THE FORLANI GOVERNMENT: OCTOBER 1980 TO MAY 1981

1. In my Despatch of 28 October 1980, I reported the formation of the new Government of Signor Arnaldo Forlani. The Government fell after seven months in office as a consequence of a scandal - pervasive, complex and disturbing, even by Italian standards - over the implication of politicians, journalists, officials and members of the armed and secret services, in a secret masonic lodge "P2".
2. Signor Forlani came to office when his predecessor, Signor Cossiga, ran out of steam and the principal opposition party, the Communists (PCI), were determined on a change. The formation of Forlani's Cabinet took 21 days, rather less than the normal period of political crisis between Governments in Italy. At seven months, its duration has also proved to be rather on the short side; its fall, provoked, finally, by the Socialist (PSI) leader, Craxi, came at a time which was not of the choosing of the PCI and and which was unwelcome to all the members of the coalition save the PSI. Throughout its period in office, the government was preoccupied with surviving more or less accidental disasters rather than making policy.
3. Signor Forlani was a reluctant Prime Minister; he would have preferred to remain a party manager and he has run very true to type - or perhaps to the stereotype - of an Italian politician. He is by nature and habit a short-term tactician, skilled in party in-fighting and content to leave the wider issues to others, such as his Foreign Minister, Colombo, or Defence Minister, Lagorio. Tactical sense and economy of effort are no mean assets in an Italian Prime Minister. At the outset Forlani had other strengths, including the willingness of the PCI to give him a chance and an Administration based on a wider parliamentary coalition, including



the PSDI (Social Democrats) than had the Cossiga Government. He also enjoyed the important backing of the President of the Republic, Sandro Pertini, who, at 84, plays an increasingly important rôle, not only through his ability to understand and articulate the real concerns of the Italian man-in-the-street, but also through the moral ascendancy which he appears to have established and to exercise over the Italian political class as a whole. Pertini told me that despite all the difficulties that have arisen he continued to value Forlani as an honest leader whom he would have liked to succeed in forming another administration.

4. The Forlani Government was from the start a wide but incoherent coalition, cobbled together from disparate elements, which was destined to have grave difficulty in agreeing on policy. The Socialists (PSI) were evidently waiting for a chance to bid for the Prime Minister's office. Portfolios had been distributed to give balance between the coalition partners. Nevertheless, by retaining Colombo at the Ministry of Foreign Affairs and Lagorio at Defence, Forlani ensured continuity and competence in Italy's policies in NATO and the European Community; and he had a fairly strong economic team - Andreatta, La Malfa and Reviglio (responsible respectively for the Treasury, Economic Planning and for Revenue), with Pandolfi at Industry, following the resignation of Bisaglia.

5. As it turned out Forlani and his not bad team had a very unfortunate run of bad luck. From the outset, things outside the government's control began to go wrong. There was a major scandal over the evasion of duty payable on petroleum products, leading eventually to the resignation on 11 December of the Minister of Industry, Bisaglia. There was the grave earthquake in the south on 23 November (on the evening of the Prime Minister's visit for the Anglo/Italian Summit), which made plain the deficiencies of the Italian capacity to organise relief. On 12 December a senior magistrate, D'Urso, was kidnapped by the Red Brigades in Rome in a way which illustrated once again the ability of terrorists to operate with impunity in the capital and elsewhere. D'Urso was released, happily unharmed, on 15 January after 33 days of heated dispute on the principle of negotiating with terrorists, the rôle of the government, and the security services, etc, etc. Scarcely had this episode begun to drop from the front pages of the press

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than President Pertini caused a diplomatic and more seriously, an internal political row by accusing, if not in so many words, the Soviet Union of sponsoring terrorism in Italy and in Turkey.

6. This series of misadventures gave the impression about the turn of the year that Forlani could not last. And yet, showing more coolness than his predecessor, he managed to cope in spite of the occasional defeat in Parliament. True, there was no sign of a coherent economic policy (except an embryo three year plan, much disputed and with a poor life expectancy) in the face of worsening recession, high inflation, large trade deficits and declining reserves. Attempts to reach an agreement with the unions on reduction of labour costs through modification of the wage-indexing system came to nothing. The Bank of Italy had to take the lead with specific actions - an adjustment of the lira within the EMS on 22 March, and a series of increasingly tight monetary measures in the form of restrictions on credit.

7. Other Italian governments have found it equally difficult to manage the economy. On the positive side, Signor Forlani had a number of successes in other fields, including the struggle against terrorism where the D'Urso case, despite the strains it imposed, did at least reach a conclusion less tragic than that in the Moro case of 1978. The government reacted well to a terrorist take-over of the top security prison at Trani, resisted any blackmail attempt and authorised an efficient military operation which succeeded in re-establishing control there. Arrests of prominent terrorists on the left and right followed with gratifying frequency. In wider political fields, the Italian Government addressed itself to the common problems of the West and to events in Poland and to the new US Administration with admirable steadfastness. Although the government continued to duck a public announcement on the siting of the American missiles, to whose installation in Italy the first Cossiga Government had given its consent, the planning and preliminary work continued. At the beginning of May it was Italy's turn to play host to the spring meeting of the North Atlantic Council; it was a source of satisfaction to the Italian Government that this passed off well and that the communiqué reaffirmed the double nature of NATO's 1979 decision on theatre nuclear forces (TNF).



8. By April, it was possible to take a more sanguine view of Forlani's prospects. None of the parties inside or outside the coalition wanted an early change. In the medium term the ambitions of the Socialist leader, Bettino Craxi, would cause difficulty, but the Socialists seemed in no hurry. Yet the ill luck that so persistently dogged Forlani's Government finally brought about its fall. On 20 May, Roberto Calvi, the President of the Banco Ambrosiano, and six other financial figures, were arrested under the charge of the illegal export of capital. The following day there were published in the press the names of 953 people allegedly belonging to a secret masonic lodge, P2, including key figures in many important areas of Italian life. Forlani, wrongly in the opinion of most of those wise after the event, including President Pertini, had done nothing to make public or act upon this list, though it had been in his possession for two months previously, until the Milan magistracy forced his hand. Pertini told me that Forlani should have immediately sacked the Ministers involved and taken the sting out of the affair.

9. I have reported separately on the P2 case as it has developed. Its significance arises only partly because of the prominence of those allegedly involved. They include the Chief of the Defence Staff, three Ministers in Forlani's Government (1 Christian Democrat and 2 Socialists), the Secretary-General of the Foreign Ministry, the Secretary-General of the PSDI and the Heads of the two Intelligence Services. The scope of the affair was also wide and seemed to cover most of the major scandals of the last decade. It had moreover a nasty appearance in that the organiser of P2, Gelli, had a Fascist past allegedly associated with right-wing terrorism, and has fled to Latin America. Among the political parties only the PCI and the small left-wing groups did not figure in the list, though Andreotti and his faction of the DC were also conspicuously absent. What was P2 for? Some suggest it was intended to serve as a parallel organisation to the State to counter a leftward turn in Italian politics. Others say that the scandal has been engineered by the left to discredit the right. And there are the usual allegations of outside interference by the CIA or the KGB. No-one yet knows.



10. As the storm over P2 developed, the first instinct of Forlani's Christian Democrat Party was to find ways to ride out the difficulty, adjusting the composition of the government slightly, without a radical change and declaring "business as usual". This was too blatant for the Socialists, themselves implicated with members of P2 in their ranks but fresh from a successful party congress in Palermo and looking to improve their relative position at the administrative elections in late June. Largely to distinguish themselves from the Christian Democrats in trouble, the PSI said that a radical renewal was necessary. The longer the scandal went on, the less it seemed possible for the government to hold together and on 26 May, only a few days before he was due to visit London for the next round of Anglo-Italian discussions, Forlani resigned following the PSI's refusal to attend a meeting of the coalition party leaders aimed at patching up the government's difficulties. Two days later, a severe foreign exchange deposit scheme was introduced to protect the lira and mop up internal liquidity in the face of a run-away public sector deficit, and economic hatches were battened down for the period of the government "crisis".

11. President Pertini, who wanted to avoid either a long power-vacuum or anticipated elections, thought Forlani could form a new government and invited him to do so. On 11 June, under pressure from Pertini, Forlani reported that he could not fulfil this mandate and Pertini turned instead to Spadolini, the leader of the tiny Republican Party. On 18 June Spadolini told President Pertini that he thought he could do the job; if he succeeds in putting together a durable government, it will reflect the importance of the P2 scandal and the degree to which it is recognised that fundamental political change in Italy is necessary: the Christian Democrats have provided every Prime Minister in Italy since 1945. If Spadolini fails or if he forms a government that lasts only a couple of summer months, Forlani may be among those whom Pertini considers, though he is heartily relieved at the prospect of leaving a premiership he has not enjoyed and did not want. In a sense, therefore, it is too early to write an epitaph. But of his Administration, from October 1980 to May this year, it could fairly be said that he coped well with a series of domestic crises

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that might have destroyed a Prime Minister less capable of dispassionate manoeuvring. His cool, some say cold, detachment was quite different from Cossiga's warmth - and human weaknesses. But manoeuvring should not be an end in itself. A 19th century Secretary of State compared British foreign policy with the art of floating downstream on a raft, fending off obstacles with a boathook. Signor Forlani practises domestic politics in a similar manner. But Italy's economic, political and social problems require a skipper with a more seaworthy craft equipped with a rudder and engine, and with a clearer idea of his intended destination.

12. On the stage internationally, I have not seen Forlani perform as I saw his predecessor, Cossiga. But I have little doubt that he was not in the same class as a contributor to EC and other international affairs. Indeed he preferred to leave things much more to Colombo. Thus his loss would not be a blow to us, as was Cossiga's.

13. I am sending copies of this despatch to Her Majesty's Representatives in Washington, Paris, Bonn, UKREP Brussels, Brussels, Copenhagen, Dublin, Luxembourg, The Hague, Athens, UKDEL NATO, and the Holy See.

I have the honour to be

Your Lordship's obedient Servant,

Michael Simpson

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