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TO IMMEDIATE FCO
TELNO 465

OF 051400Z JUL 84

INFO SAVING OTHER EC POSTS, WASHINGTON, CONSULAR POSTS IN ITALY.

MY TEL NOS 438 AND 446: ITALY INTERNAL.

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SUMMARY.

1. THE LONGO AFFAIR IS A SERIOUS EMBARRASSMENT TO THE CRAXI GOVERNMENT, BUT THERE IS STILL TIME TO FIND A WAY OUT AT LONGO'S EXPENSE.

DETAIL.

2. THE POLITICAL SITUATION IS CONFUSED, CHANGES DAILY, AND APPROACHES A CLIMAX BEFORE THE SUMMER BREAK. THE GOVERNMENT HAS TWO IMMEDIATE HURDLES TO CLEAR: THE VOTE THIS WEEK ON THE REPORT OF THE PARLIAMENTARY COMMITTEE OF ENQUIRY INTO THE DEATH OF ALDO MORO IN 1978; AND THE APPROVAL OF THE REPORT BY SIGNORA ANSELMI'S COMMITTEE OF ENQUIRY INTO P2, IN A VOTE DUE ON 15 JULY. THE FIRST ISSUE DIVIDES THE DC AND SOCIALISTS WITHIN THE COALITION AND IN PARTICULAR CRAXI RND ANDREOTTI, WHO AS PRIME MINISTER AT THE TIME REFUSED TO ACCEPT SOCIALIST ARGUMENTS FOR NEGOTIATION WITH THE RED BRIGADES TO RELEASE MORO. IT SEEMS LIKELY, HOWEVER, THAT THE COALITION WILL UNITE IN RESISTING PCI ATTEMPTS TO REOPEN THE ENQUIRY.

3. THE SECOND VOTE REPRESENTS A SERIOUS THREAT TO CRAXI'S GOVERNMENT BECAUSE LONGO, THE PSDI BUDGET MINISTER (MY TELNO QEEY OF 12 MAY REFERS), HAS SO FAR REFUSED TO RESIGN ALTHOUGH THE ANSELMI REPORT STATES, WITH ONLY THE BAREST OF QUALIFICATIONS, THAT THE PUBLISHED LIST OF P2 MEMBERS, WHICH INCLUDED LONGO'S NAME, IS SUBSTANTIALLY CORRECT. LONGO HAS THREATENED TO BRING THE HOUSE DOWN AROUND HIM. BUT HIS THREATS VARY FROM DAY TO DAY: AT TIMES HE HAS SAID HE WILL NOT RESIGN, AT OTHERS THAT HE WILL AWAIT THE VOTE ON 15 JULY, OR THAT IT IS ALL A SINISTER DC/PRI PLOT TO FORCE NOT ONLY HIM BUT CRAXI OUT OF OFFICE. THERE IS LITTLE DOUBT THAT LONGO LOOKS FOR CRAXI'S SUPPORT. CRAXI REJECTED THE PSDI MINISTERS' COLLECTIVE OFFER OF RESIGNATION IN MAY, BUT WOULD BE RASH TO PROTECT LONGO AGAIN. THE DC FOR THEIR PART WOULD BE EQUALLY FOOLISH TO DISOWN THE REPORT OF THEIR OWN TINA ANSELMI, WHO REPRESENTS IN THE PUBLIC EYE THE FRESH CLEAN IMAGE FOR THE PARTY THAT THEY WANT TO PROMOTE.

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4. THE SIMPLEST SOLUTION WOULD BE TO DISCARD LONGO, AND EFFORTS ARE NO DOUBT BEING MADE TO FIND A FORMULA WHICH WILL ALLOW HIM TO WITHDRAW GRACEFULLY WITHOUT THE PSDI LEAVING THE GOVERNMENT. MUCH DEPENDS ON LONGO'S WILLINGNESS TO DO THIS, WHILE PRESUMABLY REMAINING PARTY SECRETARY. CRAXI'S OFFICE HAVE DENIED RUMOURS THAT HE MIGHT HIMSELF TENDER THE GOVERNMENT'S RESIGNATION: AND IT IS HARDLY HIS STYLE. TO ALLOW MORE TIME FOR A SOLUTION, THE COALITION PARTY DISCUSSIONS OR (NEXT WORD UNDERLINED) VERIFICA THAT WERE TO TAKE PLACE AFTER THE EUROPEAN ELECTIONS HAVE BEEN ALLOWED TO SLIP FURTHER UNTIL CRAXI AND ANDREOTTI RETURN FROM AN OFFICIAL VISIT TO EAST GERMANY ON 8-9 JULY.

5. IF HE SURVIVES CRAXI'S AUTHORITY WITHIN THE GOVERNMENT WILL NEVERTHELESS BE WEAKENED BY THIS AFFAIR. HE COULD GENERALLY COUNT ON LONGO'S SUPPORT, AND MAY IN FUTURE FEEL ISOLATED VIS-VIS THE REPUBLICANS AND A MORE AGGRESSIVE DC.

HE HIMSELF, AND HIS PARTY, HAVE BEEN ACCUSED OF FINANCIAL INVOLVEMENT IN ARMS DEALS WITH ARGENTINA, SOMALIA AND OTHER COUNTRIES, ON WHICH A SEPARATE REPORT FOLLOWS. WHILE THE PSI REMAINS GENERALLY LOYAL TO CRAXI SOME RUMBLINGS OF DISSENT ARE STARTING TO EMERGE. MEANWHILE, ECONOMIC POLICY DRIFTS, AND IT SEEMS UNLIKELY THAT ANY MAJOR DECISIONS CAN BE TAKEN BEFORE THE AUTUMN, WHEN THE ANNUAL CYCLE RECOMMENCES WITH THE PREPARATION OF THE 1985 BUDGET.

6. SINCE THIS WAS DRAFTED HEAD OF CHANCERY HAS SPOKEN TO A SENIOR PSDI OFFICIAL WHO BELIEVES THAT LONGO WILL RESIGN BUT ALLOW PSDI MINISTERS TO REMAIN IN A CRAXI GOVERNMENT WHICH SHE RECOGNISED HAD BEEN WEAKENED BOTH BY THE EUROPEAN ELECTION RESULT AND BY THE LONGO AFFAIR.

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