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cc: Mr Williamson
Mr. Renswick

10 DOWNING STREET

CE Master

From the Private Secretary

28 June 1985

Dear Len,

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF ITALY AT THE
HOTEL PRINCIPE DI SAVOIA IN MILAN ON 28 JUNE 1985

The Prime Minister met Signor Craxi this morning shortly before the opening of the European Council.

EC/US Relations

Signor Craxi said he had recently seen Vice President Bush and told him of Europe's concern about growing protectionist pressures in the United States. His own view was that some sort of trade negotiation between the European Community and the United States was needed ahead of the GATT round. He thought this was the only way to contain protectionist pressures. The Prime Minister said that she hoped that trade issues would be discussed at the European Council, particularly in the context of Japan. It was very important that the European Community and the United States should co-operate in maintaining pressure upon Japan to revalue the yen and further open its markets. The Japanese would never deal with the problem if left to their own devices. Only if they believed that Europe and the United States would act in concert would they take any significant action.

The Prime Minister continued that the Community should soon settle down to a serious discussion of how to deal with the problem of agricultural surpluses. The opportunities for disposing of surpluses were fast shrinking. She thought that Mr. Gorbachev would succeed in reforming Soviet agriculture and eventually in achieving self sufficiency. Signor Craxi agreed that it was necessary to correct overproduction in the European Community. He also agreed with the Prime Minister on the importance of keeping the Atlantic dimension in mind in dealing with European problems.

/ Future

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Future of the European Community

Signor Craxi said that his aim at the European Council would be to clarify the issues, particularly decision-taking, political co-operation, the role of the European Parliament and the extension of co-operation into new sectors. There were many proposals on the table and it was for Heads of Government to decide how they should be translated into decisions. He had been informed of the Foreign Secretary's proposal that the European Council should be transformed into an inter-Governmental conference for the purpose of taking decisions. He found this a neat solution. Time was needed to allow negotiations to take place between Governments at the level of Foreign Ministers and find reasonable and balanced solutions. A European Council, convened as an inter-Governmental conference, could then put its stamp on the agreements reached. Personally he did not think it should be difficult to arrive at decisions; the scale of the differences between Member States had been exaggerated. So the procedure which he envisaged was a general exchange of ideas at this European Council followed by the launching of a negotiation with decisions reached at a future European Council. Everything would of course be decided by unanimity.

The Prime Minister said that she was rather disappointed by Signor Craxi's approach. She had come to Milan ready to take decisions. She saw no reason why decisions should not be reached at this meeting, at least on some of the subjects. It was necessary to define clearly what could not be done. For instance she saw no possibility of amending the Treaty, particularly while much of the existing Treaty remained to be put into effect. The United Kingdom had circulated a draft formal agreement on political co-operation. The text circulated yesterday by France and Germany bore an astonishing similarity to ours, although it was rather weaker on some points. So her view was that the European Council should take some decisions and prepare the ground for others at the next European Council.

Signor Craxi said that he had not invented the idea of an inter-Governmental conference. But the proposal had been launched and expectations created. The Prime Minister said that if the present Council were able to reach some decisions there would be much less need for any follow-up conference. Signor Craxi repeated that he feared that there were too many different proposals on the table to allow decisions at this stage. The Prime Minister said that it was important to do as much as possible on the first day, particularly on the future of the Community and technological co-operation.

/ Terrorism

Terrorism and Hijacking

The Prime Minister said that she would wish to raise this issue and have a proper discussion. Signor Craxi said he envisaged a discussion over dinner. The issue had been very much at the top of the agenda for his meeting with Vice President Bush who was clearly looking to the European Community for ideas and support.

Internal Market

Signor Craxi said that M. Delors had told him that completion of the internal market as envisaged by the Commission would require literally hundreds of new directives. The Prime Minister disputed this. There were far too many unnecessary directives already. And in their proposal to the European Council, the Commission had muddled up several unnecessary and irrelevant issues, such as tax approximation, with those which genuinely related to completion of the internal market. Signor Craxi asked what practical results the Prime Minister envisaged from the European Council on the internal market. The Prime Minister said that it was essential to concentrate on free movement of goods and services, on rights of establishment and liberalisation of transport by land, air and sea. Movement of people was a different and secondary issue and nothing should be done to undermine our defences against terrorism and drugs. She also thought that it was important to agree that a progress report on completion of the internal market should be made to each succeeding European Council, together with similar reports on deregulation and Japan. Signor Craxi said that the Prime Minister seemed to have in mind essentially a procedural decision with progressive verification of the steps taken.

Technological Co-operation

Signor Craxi said that it was important to give substance to the various ideas which had been floated. The Prime Minister said the essential need was to translate research into concrete projects. A decision should be taken to set up a group of senior officials to monitor progress. Co-operation in this area should not be limited to the Community. Signor Craxi agreed.

Football Disaster

The Prime Minister said that all in the United Kingdom were grief-stricken about what had happened at the Liverpool/Juventus match. Arrangements had been made to pay some compensation to the families of the victims, although she realised this could be no more than a token. The Government were taking

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action to avoid similar problems in future and had already introduced a Bill to prevent the sale of alcohol at football grounds. Signor Craxi said that he had been very grateful for the attitude taken by the Prime Minister from the earliest moment. This had avoided any ugly consequences. He was also grateful for the Government's generosity towards the victims.

I am sending copies of this letter to John Mogg (Department of Trade and Industry), Rachel Lomax (H.M. Treasury), Phil Dykins (Office of the Minister for Sport) and Richard Hatfield (Cabinet Office).

yes Sirrah.
Charles Powell

Charles Powell

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

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