

DD 1985/64

FOREIGN AND COMMONWEALTH OFFICE

DESPATCH

Western European Department

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WRJ 014/2

Italy

10 January 1985

ANNUAL REVIEW: ITALY FOR 1984

*Her Majesty's Ambassador at Rome to the
Secretary of State for Foreign and Commonwealth Affairs*

SUMMARY

A successful year for most Italians. The economy improved, inflation reduced to single figures, and useful tax reforms set in train. This economic record a positive achievement for Craxi's coalition government (paragraphs 1-3).

2. But political costs for both the Socialists and Christian Democrats. Latter overtaken for first time by PCI in European elections. The local elections in May 1985 will be an important test (paragraphs 4-5).

3. No major international problems but not a good year for Italy in the EC. European Union will loom large during the Italian Presidency (paragraphs 6-8).

4. Bilateral relations good and exports to Italy improving (paragraphs 9-10).

5. A better year for the authorities in their campaign against terrorism and organized crime (paragraph 11).

*Rome
10 January 1985*

Sir

Introduction

Italy had a successful year in 1984. Craxi's five-party coalition remained in office throughout and he has grown in stature. The domestic position of Foreign Minister Andreotti weakened but there were no unmanageable problems on external relations. Further progress was made in dealing with the intractable questions of internal security. Our bilateral relations were good. I comment on these issues below, but deal first with the economic state of the country: this matters most to Italians and was given most emphasis by Craxi in his own press conference reviewing the events of the year.

Economic Reform

2. Craxi points proudly to his success in reducing inflation to single figures, and in holding the budget deficit close to target. Critics say that the annual inflation rate will turn out to be 11% in the end, that holding down the budget deficit owes more to luck and the prudent monetary policy of the Bank of Italy than to Craxi, and that the size of the budget deficit and the burden of financing it are still alarming. There is substance to these criticisms. Nevertheless things have gone reasonably well for Italy under Craxi, in economic terms. This was a year of recovery. Unemployment at 2.3 million is a dark spot, but the social effects are much less pervasive than in Northern Europe, and there are many visible signs of prosperity. Craxi's approach has been calm and methodical, and he is entitled to claim credit for a good deal of the success. Nobody would call him an inspiring or charismatic leader: it was a surprise to see his PSI (Socialist) party's European election poster portraying a smiling Craxi: not a face we often see. He is steady, intelligent, hardworking, but neither charms nor dominates. Yet he has kept his nerve, and after 18 months in office, now looks a Prime Minister. And a Socialist Prime Minister who is both effective, and respectable in American eyes, is of course a serious worry to the Christian Democrats (DC).

3. There have however been some troubles along the way, partly caused by Craxi's deliberate selection of some of the more difficult choices. A notable example was the decision in February to cut wage indexation in the first half of the year by decree, to bring pay rises into line with inflation. This unprecedented step created an open clash with the Communists (PCI) in Parliament (see below) but after countless divisions and filibusters the decree was eventually confirmed. A major gain in labour productivity, perhaps as much as 6 to 8%, also helped to trim the rise in labour costs in 1984. There were more serious problems in November and December, when following much discussion and open dissension, the coalition partners agreed to back the measures proposed by the (Republican) Finance Minister Visentini to tackle tax evasion. The economic and political consequences remain to be seen, for this decree has yet to be approved by Parliament. But Craxi is surely right in thinking that the self-employed and shopkeepers cannot be allowed a tax status more generous than that permitted to wage and salary earners. If the measure succeeds, enlargement of the tax base to cover more of the real economy will be of lasting benefit to the country. Distrust of established authority is so deeply entrenched that success cannot be taken for granted.

Domestic Politics

4. These courageous policies have incurred political costs, for both Craxi and his political allies. The major disappointment for the PSI came in the elections for the European Parliament in June, when the party only succeeded in fractionally edging up their share of the vote from the 1983 general election figure of 11.2% to 11.4%, a rise widely held to be a significant loss of opportunity by Craxi to extend his party's position in the centre of the spectrum. For the DC these elections were a severe disappointment, since their share of the votes cast was just overtaken by the Communists for the first time. The party now more than ever sense their vulnerability, and DC anxiety mounted during the debates on Visentini's tax package at the year's end. Many in the party felt that their supporters would suffer most from such measures and would punish them at the important local elections in May. But few wished to offer open opposition to the propositions of fiscal equity on offer in the original bill. The DC were also afflicted by the usual crop of scandals relating to the years of their dominance in the 1970s, and by a quite fresh source of revelation (from *mafiosi* who for the first time gave evidence of wrong doing in high places) regarding DC involvement in corruption in Sicily. Many of the most important recent scandals have affected Andreotti's reputation. These events have depressed the party's morale even further. The DC regard the next important electoral test, the local elections in May, with some trepidation. The crucial question is as before how the DC and PCI votes compare.

5. Curiously the view of this all-important matter in the PCI headquarters on the Botteghe Oscure may not be much different. The party lost its respected Secretary of twelve years' standing when Enrico Berlinguer died suddenly in June. I suspect that his colleagues only realised the extent of Berlinguer's achievement and of their political loss on seeing the size of the vast crowd (over a million) which attended his funeral in the Piazza San Giovanni. His successor Alessandro Natta has intensified the tough line which the PCI was following at Berlinguer's death (against the pay decree) and seems to have been moving steadily towards a policy of firm opposition, to keep up the PCI vote in May: shake the tree and see what fruit falls. Natta has not shown himself so skilful as Berlinguer in winning public respect. The performance of the PCI next May will also be critically important for him.

International

6. The preoccupations of foreign policy did not demand quite so much Government time or attention. The main East/West issues, disarmament and the installation of cruise missiles in Sicily, were well handled on the whole, although Craxi stumbled once. At any rate they did not present a serious problem, mainly because the PCI does not regard foreign policy as a current votewinner for them: an interesting, perhaps surprising, view. The general Italian line remains steady support for the Alliance and particularly for close friendship with the United States. An unexpected row burst over the head of the Foreign Minister for his incautious remarks on German unity at a PCI festival in September, which led to some frosty public exchanges between Bonn and Rome. While I do not expect lasting effects on relations with the Federal Republic, Andreotti's domestic political position has certainly been damaged. There has been much perplexity in Rome about this episode, and a characteristic reluctance to believe the most likely explanation (that he was tired and made a mistake) because it is too simple. Andreotti may have been a victim of excessive travel. The Secretary-General of the Foreign Ministry told me gloomily that he would not have believed it possible for a Minister to travel more than Colombo, but Andreotti had done it.

7. Both Craxi and Andreotti travelled extensively in the Middle East, maintaining the higher profile adopted by Colombo when Foreign Minister. These diplomatic activities have replaced earlier Italian enthusiasm for peacekeeping operations: their contingent returned from Lebanon in February after the abrupt US withdrawal in 1983, and it was with reluctance that Italy took part in mine-clearing operations in the Red Sea in the summer. Craxi has to tread carefully here: the coalition parties do not have the same views on the Middle East, and the PCI are always ready to stir up a row in Parliament on incautious Government intervention abroad. The support by the Minister of Defence Spadolini in December for an Italian presence in Unifil along the Israel/Lebanon border does not represent a considered Government position.

European Community

8. The further development of the Community readily engages the attention of Italians who favour ambitious schemes like the Spinelli draft treaty (acclaimed three times by the Italian Parliament in 1984) and the ideas on European union now before the Dooge Committee. We shall hear a great deal more on these lines during the Italian Presidency. Italian experience of EC affairs during the year was not favourable, since the Government was obliged to give way on a number of important issues. Prominent here were the decisions to impose milk quotas and restrictions on wine. In the all-important debates on budget discipline and the British refund, the Italian Government were generally unhelpful. This was understandable in that any improvement in the position of the second largest contributor was bound to be at the expense of the largest beneficiary. Nor do Italians like the concept of budgetary discipline for broader, loftier reasons. But as forecast the Italians accepted the outcome in the end, and this particular source of contention between London and Rome should be less troublesome in the immediate future at least. There remain Community issues

on which Italy may adopt positions inconvenient to us, for example over Mediterranean agriculture (the integrated programmes), the link between these and enlargement, relations between the Council and Parliament, and development aid.

Bilateral

9. The bilateral relationship has been more active and encouraging. During the year there were numerous and helpful meetings between British and Italian Ministers, and the meeting between the Prime Minister and Craxi in London in October was judged particularly successful here. The Italian decision to abstain in the UN General Assembly vote on the Falklands was a token of the good relationship between the two Governments. Italy also responded quickly to our request to look after our interests in Libya. On the less official level, attempts to create a better understanding of modern Italy in Britain bore fruit in the shape of the first meeting of the Anglo-Italian Round Table, and the BBC television series Italians. There were two very successful royal visits, by the Queen Mother to Venice and the Prince of Wales to Duino College near Trieste.

10. There were also tangible signs that the British willingness to look again at the possibilities of doing more business in Italy are beginning to produce results. Our exports to Italy rose by 19.5% in sterling terms in the first nine months of 1984: excluding oil, the increase was 26%, ten points above exports to the EC as a whole. Some of this increase must be attributed to rising Italian imports generally, but Italian import statistics suggest that we have managed to increase our market share. Other indications of the more positive view of British industry were the purchases by Plessey of 35% of Elettronica, by Beecham of 90% of Zamberletti (pharmaceuticals) for £45 million, and by IDV of 25% of Cinzano. Welcome visits by Mr Tebbit, Lord Jellicoe and Mr Channon supported much hard work by our commercial staff. It was also encouraging that Departments in Whitehall were able to respond to the request from Ambassador Ruggiero, Director-General for Economic Affairs in the Foreign Ministry, to the first of a series of reviews of bilateral economic cooperation. The Italian motive is fear of being left out and behind by the engine of exclusive Franco-German collaboration: the intention to maximise Italian bilateral economic cooperation with her main industrial partners. There are some excellent opportunities for us here. In aviation we can build on the existing foundation, the Agusta/Westland helicopter, on which the Italian bill providing defence funds finally passed Parliament in August. There are some large possibilities in the telecommunications field (using the advanced Plessey switching system). There are other military projects but our reluctance to reach an overall understanding on defence industry collaboration remains a barrier.

Terrorism and Crime

11. One Italian achievement which stands out is the progress made against left-wing terrorism and organized crime. There are some encouraging signs that the authorities are now obtaining confessions by accused persons which produce really worthwhile results in Sicily. For the first time the obligations of omerta (silence and non-cooperation with the authorities) are being set aside. The new Italian/American extradition treaty is a powerful weapon in the struggle against organized crime generally. Of course there have been false dawns before, and it would be wrong to be complacent about continuing terrorist activity, witness the murder of the American diplomat Leamon Hunt in Rome in February and the train explosion between Florence and Bologna in December. But I agree with the Minister of the Interior, that the Red Brigades are less of a threat than they were, and that the main danger comes from the Middle Eastern foreign groups still active here: the latter, unlike the Red Brigades, attack foreign targets on Italian soil and not the structure of the State. I look forward to the Home Secretary's visit in February when there will be an opportunity to examine these matters further with Italian Ministers, with whom we share important common interests in the struggle against terrorism and organized crime. It is encouraging to note the progress being made here; if continued this will be of incalculable benefit to Italy.

Italy in 1985

12. 1985 will be important for Italy for predictable reasons: Presidency of the EC, local elections in May, and elections to the Presidency of the Republic in June. And we may see a new Prime Minister: assuming Craxi lasts out until the end of June (there can be no general elections in the last six months of the President's term) he would then have had 23 months in office, and be the third longest Prime Minister in the history of the Republic. I make no prediction about the duration of the Craxi administration, but report the general expectation that he has a good chance of survival until July. Thereafter there will be much pressure for a change, but it is possible that Craxi might carry on after a government reshuffle. The political test of the local elections in May will provide a more definite indication of the relative strength of the parties.

13. 1985 will also be an important year for British interests in this country. We have to sustain our improved trading performance (there is much ground to recover and fresh to win). We have rivals for political influence here in European affairs (France and Germany in particular) and we have to fight hard for our corner. We need to promote our national image in the large and complex world of the Italian media. Not least there are the thousands of our own citizens who come here in increasing numbers and want help when they get into difficulty. All this requires resources and I trust these will not be further reduced.

14. I am sending copies of this despatch (without the attached Calendar of Events) to HM Ambassadors in other EC capitals, in Ankara, Belgrade, Lisbon, Madrid, Moscow and Washington, to the Holy See, UKDel NATO, UKRep Brussels, and to the Executive Director of the Bank of England.

I am, Sir,
Yours faithfully,

BRIDGES



ITALY IN 1984

Summary

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BRITISH EMBASSY,
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10 January 1985

The Rt Hon Sir Geoffrey Howe QC MP
LONDON

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yours faithfully,

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CALENDAR OF EVENTS IN ITALY, 1984

JANUARY

- 11-13 Official visit by the Italian Foreign Minister to Washington
- 14 Public denunciation by a Vice President of the Chamber of Deputies of alleged links between the Mafia and Sicilian politicians.
- 17 Theft of valuable paintings and tapestries from the Soviet Ambassador's Residence in Rome.
- 18 Parliament waives the immunity of two MSI deputies, Abbatangelo and Almirante, facing legal charges of involvement in terrorism.
- 18-22 Visit by Deputy Foreign Minister of the German Democratic Republic to Rome.
- 21 Libyan Ambassador in Rome shot outside his residence (he died on 10 February).
- 24 Call by the Foreign Minister of Argentina on the Italian Prime Minister in Rome.
- 25 Visit by Mr Lamont, Minister of State for Trade and Industry to Rome.
- 26-27 Anglo-Italian Summit in Rome.
- 30-31 Visit to Rome by Foreign Minister of Lebanon.
- 30-31 Visit by the Secretary General of the Italian Communist Party to Athens.

FEBRUARY

- 4-5 Visit by Italian Foreign Minister to Libya.
- 6-7 Visit by Italian Foreign Minister to Yugoslavia.
- 13-14 Visit by Deputy Prime Minister of Iraq to Rome.
- 14 Promulgation of a decree by the Government reducing statutory wage indexation.
- 15 Director General of the Sinai Multinational Force and Observers, Mr Leamon Hunt, assassinated in Rome.
- 15-16 Visit by the Italian Prime Minister and Foreign Minister to Austria.

FEBRUARY

- 17 New Concordat between the Holy See and the Italian State formally signed by Cardinal Casaroli and Prime Minister Craxi in Rome.
- 20 Italian contingent in the Multinational Force withdrawn from Beirut.
- 22-24 Official visit by President Pertini to London for "Genius of Venice" Exhibition at the Royal Academy.
- 29 Arrest of 13 suspected Red Brigades terrorists in Rome.
- 29 On. De Mita re-elected Secretary of the Christian Democrat party at the 16th DC party congress in Rome.

MARCH

- 2 On. Almirante, Secretary of the neo-fascist MSI, received by the President of the Republic at the Quirinale.
- 6-9 Visit by Italian Foreign Minister to Egypt and Sudan.
- 14-15 Visit by Mr Rifkind, Minister of State at the FCO, to Rome for bilateral talks.
- 24 A massive national demonstration against the Government's pay policy is organised in Rome by the Communist Party and associated Trades Unions.
- 26 On. Zamberletti appointed Minister for Civil Protection to replace On. Scotti following the latter's appointment as Vice-Secretary of the DC party.

APRIL

- 1 Public controversy follows criticisms by the Radical Party of the inadequacies of the Italian Aid programme.
- 2 On. Zanone re-elected Secretary of the Italian Liberal Party at the party's 18th congress in Turin.
- 2 On. Magri re-elected Secretary of the Democratic Party of Proletarian Unity (Pdup) at the party's 4th congress in Milan.

APRIL

- 3-4 Visit by Mr Pattie, Minister of State for Defence Procurement, to Rome.
- 4 The Government wins parliamentary approval for its policy of installing Cruise Missiles in accordance with NATO policy.
- 10 The Italian Government introduces new measures to combat the increasing problem of traffic in drugs.
- 11-13 Visit by the Italian Prime Minister and Foreign Minister to Hungary.
- 19 A right-wing terrorist, Luciano Petrone, is extradited from Britain to Italy.
- 23-24 Visit by the Italian Foreign Minister to the Soviet Union.
- 30 Sen. Spadolini re-elected Secretary of the Italian Republican Party at the party's 35th congress in Milan.

MAY

- 2-4 During a visit to Lisbon, Craxi makes controversial remarks about Soviet proposals in INF negotiations. He subsequently corrected them.
- 5 The Italian press express satisfaction at exchange of friendly letters between British and Italian Foreign Secretaries over Italian decision to assume responsibility for the protection of British interests in Libya.
- 7 Violent earthquake in Central Italy leaves 14,000 people homeless.
- 7 On. Longo re-elected Secretary of the Italian Social Democratic Party at the party's 20th congress in Rome.
- 9 Preliminary leak of findings of parliamentary commission of enquiry into P2 masonic lodge affair.
- 14 On. Craxi re-elected (by acclamation) Secretary of the Italian Socialist Party at the party's 43rd congress in Verona.
- 19 Opening of exhibition of drawings of horses by Leonardo da Vinci (from The Queen's collection) in Florence.

MAY

- 23 US/Italian extradition treaty ratified by the Italian Senate.
- 24-26 Visit by the Lord Mayor of London to Rome. [1984 WRJ 027/3]
- 25-26 First Meeting of Anglo-Italian Round Table in Rome, opened by Lady Young.

JUNE

- 4-8 Visit by Lord Jellicoe, Chairman of the BOTB, to Italy.
- 7-8 Italian Prime Minister attends London Economic Summit.
- 11 On. Berlinguer, Secretary General of the Italian Communist Party, dies from a brain haemorrhage, while campaigning for European elections.
- 11 Visit to Rome by Lord Carrington as Secretary-General designate of NATO.
- 12 Prof. Negri, still in hiding in France, sentenced to 30 years' imprisonment in absentia for involvement in left-wing terrorism.
- 13 Huge crowds of mourners, including senior foreign dignitaries, attend funeral of On. Berlinguer in Rome.
- 13-16 Visit by Chinese Prime Minister to Rome.
- 18 In the European Elections the PCI receive more popular votes than the DC for the first time in the history of the Republic.
- 21-27 Visit to Rome by Foreign Minister of Pakistan.
- 25 Results of regional elections in Sardinia show slight recovery by DC and sizeable advance by local autonomous party.
- 26 On. Natta elected Secretary-General of the PCI.
- 27-28 Visit to Rome by King Juan Carlos of Spain.

JULY

- 3-5 Visit to Rome by Foreign Minister of Turkey.
- 9-10 Visit by Italian Prime Minister and Foreign Minister to East Germany.
- 10 Opening of the exhibition of San Marco treasures from Venice at the British Museum.
- 12 On. Longo resigns as Minister for the Budget following speculation that his alleged involvement in the P2 masonic lodge would be confirmed by the report of the Parliamentary Commission of Enquiry.
- 17-19 Visit by Italian Chief of Staff of Armed Forces to Libya.
- 30-31 Visit by Italian Foreign Minister to Libya.

AUGUST

- 3 The Cassa per il Mezzogiorno is dissolved; its successor's future is still uncertain.
- 4 Surrender of terrorists at Rome Airport who had hijacked an Iranian aircraft on an internal flight.
- 6 Decree passed funding naval version of Anglo-Italian EH101 helicopter project.
- 13 Italian Foreign Minister conveys placatory message from Col. Qadhafi during meeting with President Reagan in Los Angeles.
- 20 Italy agrees after parliamentary debate to send mine-clearing vessels to the Red Sea.
- 27 Berlusconi takes over 50% of the ownership of the private TV channel "Retequattro" giving him the preponderant commercial TV network in Italy.

SEPTEMBER

- 3-5 The Italian Ministers of Defence, Industry and State Participations attend Farnborough Air Show.
- 3-12 Private visit to Italy by HRH Princess Margaret.
- 4 Press leaks of a report by a British vulcanologist on the risks of a natural disaster at Pozzuoli create alarm in the Naples district.

SEPTEMBER

- 9 Anti-Italian demonstrations staged by separatists from the Region of Alto-Adige in Innsbruck.
- 12 Visit to Rome by the Foreign Minister of Egypt.
- 13 Remarks by Andreotti on "pan-Germanism" at the PCI's "Festa dell'Unità" in Rome provoke criticism in Bonn and elsewhere.
- 15-16 Visit by Italian Foreign Minister to Saudi Arabia.
- 20-23 Visit to Italy by the Prime Minister of Denmark.
- 22 The government announces that the rate of inflation has fallen below 10%.
- 29 Former Mafioso Tommaso Buscetta, extradited from Brazil, breaks the traditional vow of silence and reveals details of Mafia activities in Sicily to police. As a result 366 arrest warrants are issued.

OCTOBER

- 1-2 Visit to Rome by Mr Tebbit, Secretary of State for Trade and Industry.
- 4 Motion calling for resignation of Italian Foreign Minister over conduct of Sindona affair is defeated in parliament thanks to abstention of PCI deputies.
- 5 PCI reverses its stance and calls on Andreotti to resign.
- 8 Italian Minister of Culture unveils a monument in London to commemorate Leonardo da Vinci.
- 10 Visit by delegation led by Sir C Tickell (DUS, FCO) to Rome for bilateral economic talks.
- 15-26 CSCE Seminar in Venice on Security and Cooperation in the Mediterranean.
- 18-20 Anglo-Italian Summit in London.
- 19 Beginning of BBC 2 series of 10 TV programmes on "Italians"
- 23 Visit to Rome by President of Lebanon.
- 24-26 Visit to Rome by President of Argentina.

OCTOBER

- 24-28 Visit by HM the Queen Mother to Venice.
- 26-27. Meeting of WEU Foreign and Defence Ministers in Rome.
- 28-2 Nov Visit to Trieste by HRH the Prince of Wales.

NOVEMBER

- 4 Negri elected Secretary of the Italian Radical Party at the party's congress in Rome.
- 6-8 Visits to Rome by Ministers from Department of the Environment (Mr Baker and Mr Waldegrave) for Council of Europe Meeting of Ministers responsible for local government.
- 8 Opening of National Trust/Fondo per l'Ambiente Italiano exhibition in Rome.
- 9-10 Italo-French Summit in Paris.
- 14 Italo-German Summit in Stresa.
- 17-21 Visits by Italian Prime Minister and Foreign Minister to Egypt and Saudi Arabia.
- 23 In joint vote by both Houses of Parliament, Andreotti survives attempt to impeach him for alleged improper conduct over the appointment of Gen. Guidice during his Prime Ministership.
- 25 The Democratic Party of Proletarian Unity (Pdup) formally dissolves itself and rejoins PCI.
- 26-27 Visit to Rome by Mr Ridley, Secretary of State for Transport.
- 27-29 Visit to Rome by Mr Channon, Minister for Trade.
- 27 Plot by Lebanese Shi'ite Terrorists to attack US Embassy in Rome revealed by police.
- 28-29 Visit by Italian Prime Minister and Foreign Minister to Algeria.

DECEMBER

- 3-4 Visit by Mr Channon, Minister for Trade, to Milan.
- 6-7 Visit by Italian Prime Minister and Foreign Minister to Tunisia, where Craxi holds informal meeting with Arafat.
- 14 Ecologists formally establish a "Green" party.
- 16-19 Visit by On. De Mita, Secretary of the Christian Democrat party, to the USA.
- 18 Visit by the Libyan Prime Minister to Rome.
- 20-23 Visit by Italian Foreign Minister to Poland.
- 23 Bomb explosion on a Naples-Milan express train near Bologna leaves 15 dead and more than 100 injured.
- 31 President Pertini, in his annual broadcast to the nation, strongly condemns the terrorist attack on the Naples-Milan train.

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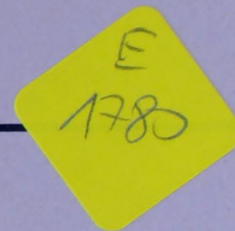
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The Lord Bridges KCMG
HM Ambassador
ROME

25 March 1985

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Dear Tom,

ANNUAL REVIEW 1984

LASL paper

1. I should have written earlier to thank you for your excellent Annual Review, which was printed and distributed in Whitehall as a diplomatic document. A copy was advanced to the Prime Minister to read before Craxi's visit and also to the Secretary of State before he went to Milan.
2. I think that Craxi can look back on 1984 with a certain amount of satisfaction, not least at his own durability. The year was also a satisfactory one for our bilateral relations, and we have all been grateful for the efforts you and your staff have made to put more content into these - for example through the setting up of the Anglo-Italian Round Table, where Giles Fitzherbert played a special role, and through the Embassy's successful cultivation of prominent Italians for the sponsored visits scheme. Incidentally we attach considerable importance to this, and will always do our best to lay on appropriate Ministerial calls. We are now looking forward to La Malfa, and only wish that de Mita could have come. Perhaps he still will.
3. The Italian Presidency, the Royal Visit, and the inspection clearly makes 1985 an exceptional year for the Embassy. The objectives and reporting aims set out by Tom Richardson for 1985 in his letter of 9 January were set against the background of these three events, which we too will bear in mind in considering what burdens to put on you! I agree with the objectives Tom sets out. The visits programme got off to a good start with Mr Brittan's visit. The Secretary of State attaches some importance to rearranging the postponed visit of Andreotti; we are working on this. Tom Richardson refers to using Lady Young's visit to develop party contacts. I think this will be welcome to her when the time comes. You will have seen from the record of Forlani's call on the Secretary of State that the question of improved EDG/DC contacts came up. I should be grateful for your views on whether there may be a good moment later in the year for the Secretary of State to address a DC platform on improving party relations. I imagine that this would not be easy during the election period.

See.

WRS 400/1
fhis (2)



4. I agree with Tom Richardson that a paper on the Italian judicial system will be valuable at a time when judicial enquiries into various scandals have acquired a particular political importance. Katherine Colvin will start work on this soon. I have just read her paper on historical links between Italy and Britain, which I hope you will find serves as a valuable quarry for anecdotes and quotations. We will do what we can to help in staving off Round Robin exercises from Whitehall which appear unnecessary: but we are by no means always consulted in advance.

5. Apart from the obvious major events such as Anglo-Italian summits and Ministerial visits, quite a lot of our time on Anglo-Italian relations in WED is spent working in two areas: Anglo-Italian economic relations and the Anglo-Italian Round Table. We do not begrudge the time at all, since I regard both of these areas as of great importance to our relations, with much potential spin-off. But I am not wholly sure that we have got the formula for either precisely right. We are working on both and shall be in touch about them. As to the economic talks, though WED is cast as coordinator, I doubt if this role is sustainable in any very substantive sense in the detailed areas of industrial collaboration: we cannot do much more than act as a stimulator of coordination between the lead departments, DTI and MOD. And, in practical terms, we can only do this in relation to a particular set of talks. Keeping track of the issues day by day is virtually impossible and beyond our resources. As to the Round Table, I think we should regard this year's return round as a further experimental one after which we should take stock and assess whether changes in the formula are needed for future years.

*Yours ever,
Michael*

M J Llewellyn Smith
Western European Department

E/LG
⑥

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FROM: M J Llewellyn Smith
Western European Department

DATE: 14 February 1985

Mr Jenkins

cc: Mr Derek Thomas
Mr Renwick
Planning Staff
Research Dept
ECD(I)

ITALY: 1984 ANNUAL REVIEW

② - A
1. I submit Lord Bridges' excellent despatch which will be printed as a Diplomatic Document. We forwarded a copy to No 10 with the briefing for Signor Craxi's visit on 14 February.

The Review

2. 1984 was the year of Craxi, Berlinguer and Andreotti. Craxi can look back with some satisfaction. His administration has proved to be unusually durable, not so much because of its popularity but rather because the weakened Christian Democrats have been unable to present a feasible alternative. Only five other post-war governments have lasted longer (4 by the time the acknowledgement is sent). Craxi has won admiration for his firm style but this has also led to strains within his coalition. The outlook for 1985 is uncertain. Craxi's survival until the summer's Presidential elections is more or less guaranteed under the constitution. The regional elections in May will be the first real test of electoral popularity since 1983 and will provide some indication of whether he can expect to last out the year.

3. On the economic front (his main priority) Craxi faced a test, with some success. Inflation is now in single figures, its lowest level for 10 years. The control of wage indexation undoubtedly contributed towards this. (It remains to be seen whether there will be a backlash if the PCI referendum on wage indexation takes place in June. If lost indexation points are restored by the referendum it is estimated that 1% would be added to annual inflation as a result.) The economy is emerging

from/

from the recession: growth in 1984 was 2.8%. But the budget deficit is still alarmingly high.

4. The death of Berlinguer in June left an important gap in Italian politics, which his successor Natta does not look like filling. Andreotti's reputation on the other hand suffered. On the international stage his controversial remarks on the two Germanies caused a furore. Although he survived accusations about his personal integrity, he lost the support of the PCI (vital to any bid for the Presidency) and seems unlikely to recover lost ground.

5. The Ambassador refers to the successes in the fight against left wing terrorism and organised crime as evidence of a significant change in the political and social climate. I agree with this. But the bombing of the Naples-Milan express shows that the Italians cannot afford to relax their guard; and the recent development of an international anti-NATO aspect to terrorism is unlikely to leave Italy untouched. (The 1982 kidnapping of General Dozier was directed against a NATO target.) The Italians are quick to see the terrorism which affects them as originating outside their country. Spadolini has recently criticised France for providing a safe haven for Italian terrorists. Mr Brittan's visit to Rome from 18-19 February will be a useful opportunity to exchange views on terrorism, drug trafficking and organised crime, as well as to resume discussions to revise the inadequate 1873 Extradition Treaty.

British objectives and Prospects for 1985

B 6. The objectives defined in the CAP were revised for the
 C current inspection of our Embassy. WED consulted the Post in
 advance on objectives and reporting for the year ahead (see
 Mr Richardson's letter of 9 January).

Political Objectives

7. The most important areas in which we must seek Italian support for our policies are the Community, and the Falklands/Argentina.

(i) Community: we rarely see eye to eye with the Italians over Community issues. Their main concern is to maintain their position as the largest net recipient from the Community budget. They have reluctantly acquiesced in reforms of the Common Agricultural Policy but have so far been the only Member State to take no action to implement the milk superlevy. They have no interest in budget discipline and can be expected, at this year's price fixing, to press for increased support prices for Mediterranean products regardless of the impact on the financial guideline for agriculture.

In discussions on the future of Europe, the Italians have been heavily influenced by the Spinelli draft Treaty. They will want to see decisions arising out of the Dooge Committee report taken during their Presidency and can be expected to press for early agreement to an inter-governmental conference.

There are two areas where we can work with the Italians. They are disposed to make progress towards completion of the internal market during their Presidency. They have also been helpful in seeking an early resolution of the difficulties over the adoption of the New Own Resources Decision. In the latter case, however, their interest is not in seeing the Fontainebleau mechanism implemented as far as the UK is concerned, but in securing new own resources. They would be very likely to urge us to adopt a solution which differed from Fontainebleau (eg a further intergovernmental agreement or expenditure side refunds) if they thought other Member States would agree and that this would unblock the discussions.

The fact that the Italians hold the Presidency may be a useful inhibition on them eg over Integrated Mediterranean Programmes. The Italians may be willing to see a start made for Greece alone in 1985 but they will expect to be major net beneficiaries from IMPs themselves in due course.

(ii)/

- (ii) Falklands/Argentina: the Italian abstention in the UN General Assembly was a significant achievement, given the importance to Italy of her relations with Argentina. It will be increasingly difficult to maintain Italian solidarity. We are already concerned over a possible resumption of sensitive arms sales, and shall be taking this up at Ministerial level.

Trade Objectives

8. We need to improve our share of the market. In 1984 (January-September) the Italian exports to the UK were worth £2752 million; while they imported from us £1948 million of goods (in 1983 the figures were £3197 and £2079 million respectively). As Lord Bridges says there is much ground to recover and fresh to win.

Defence Objectives

9. We attach importance to maintaining the close military relationship which has developed from collaborative projects, joint exercises and regular visits in both directions. There are no grounds for concern in this area.

Visits: Royal, Ministerial and others

10. The post will be busy with a visit from the Prince and Princess of Wales in April/May. I am submitting separately recommending a visit by Lady Young later in the year (subject to Italian domestic political crises). We see sponsored visits as playing a part in the process of improving relations between British and Italian political parties, which, given the role of the parties in the Italian political system, is an important objective. There are proposed visits by politicians - De Mita, La Malfa, Forlani; but as ever with Italian visitors there is a high risk of cancellation. The post are active in cultivating contacts with the major coalition parties and the PCI. The latter not only play an important part in opposition but are also members of the governing administrations of a number of important cities and regions. We have recently advised the post that we shall have to consider visits by Communist politicians on a case by case basis (except when they come as members of delegations or in their municipal capacity).

11. Bilateral relations are in good shape. The last Summit meeting was successful. 1984 saw two novelties: the institution of the Anglo-Italian Round Table in Rome (the next meeting will be held at Chatham House this spring) and the institution of Anglo-Italian Economic Talks, concentrating on Industrial Collaboration. Both show promise but neither has fully proved itself in the present format. The main motive for the Economic Talks was Italian fear of the growth of an exclusive Franco-German axis. It was satisfactory that we were able to meet the Italians on this while at the same time developing a more satisfactory relationship within the Community with both France and Germany, and avoiding provoking Italian fears of an inner 'Directorate' such as were aroused in previous years by trilateral meetings of Defence Ministers.

M. J. Llewellyn Smith

M J Llewellyn Smith

incorporated)

Reference..... (5)

Mr Murray

Do you still have my draft submission?
I should like to add this to it before
it goes to Mr Llewellyn Smith

Mr J 012/12	13
11/2	13
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828 13/2	

Mr Spiceley
WED

2
3

ITALY : 1985 ANNUAL REVIEW

1. I would suggest the following redraft to paragraph 8 (1) of your submission:

AI "Community: We rarely see eye to eye with the Italians over Community issues. Their main concern is to maintain their position as the largest net recipient from the Community budget. They have reluctantly acquiesced in reforms of the Common Agricultural Policy but have so far been the only Member State to take no action to implement the milk superlevy. They have no interest in budget discipline and can be expected, at this year's price fixing, to press for increased support prices for Mediterranean products regardless of the impact on the financial guideline for agriculture.

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]B.

J S Wall
European Community Department (Internal)
E 110 233 5629

11 February 1985

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FROM: K Colvin (Mrs)
Atlantic Region
Research Department

DATE: 5 February 1985

Mr Spiceley
WED

ANNUAL REVIEW: ITALY

1. The year 1984 was the year of Craxi, Berlinguer and Andreotti. As the Ambassador says in his annual review Craxi has done remarkably well, not least in surviving as long as he has done. Only five other post-war governments have lasted longer: De Gasperi, twice, in 1948-50 and 1951-53; Segni, 1955-57; Fanfani, 1960-62 and Moro, 1966-68. In a week's time Craxi will also have out-lived the Fanfani government. He has out-done his rival, Spadolini, in governmental longevity. As one would expect in Italy, Craxi stays on not because all the parties are particularly happy with his premiership, but because at present there is no feasible alternative. This is a measure of the weakness of the DC.

2. Craxi lost the leader of the PSDI from his government in July because of the continuing rumblings of P2, but the Party stayed in the coalition, and the PRI Secretary, Spadolini, remains as Defence Minister. Craxi survived the break with the tradition of consensus over the wage indexation issue, though it remains to be seen what effect the PCI inspired referendum on the subject will have on policy. It would be interesting to know if there are any indications of how the vote would go if the referendum takes place. Craxi may prefer to avoid defeat in the referendum by dealing with the problem as government business. On the other side of the coin the DC are understandably nervous about Visentini's tax proposals and their effects on the DC's already depleted vote, but they have not so far risked a government crisis on the question.

3. One of the major events of 1984, as far as the history books are concerned, may turn out to be the death of Berlinguer. Although the Party has not been in government since 1947 Berlinguer had been a constant in Italian politics for a decade and his departure left a real gap, possibly greater, as the Ambassador says, than the Party, or anyone else, realised. The nature of the Party under Berlinguer was known and familiar. Although the PCI is not expected to change as a result of his death, the PCI botteghe may be marginally more obscure until Berlinguer's successor is better known.

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4. For Andreotti 1984 was the year in which the Presidency receded from his grasp. On the international stage he cut an individual figure, and on one occasion spoke undiplomatically. From a personal point of view he seemed to be the man untouched by scandal and it was difficult to believe it could last. When the moment for accusations arrived he survived the parliamentary votes on his past actions and associations, but it cost him the support of the PCI. It is difficult to envisage his obtaining sufficient backing for his presidential aspirations, although in Italy the unexpected should, of course, always be expected.

5. The Ambassador points to the success in the fight against left-wing terrorism and organised crime. As far as the latter is concerned there seems to be a real sea-change in attitudes in Sicily, with the arrest of political associates of the Mafia. As for terrorism the bombing outrage on the Naples-Milan express, which bears the mark of right-wing terrorism, although the responsibility has not been established, shows that the Italians cannot yet relax. The new development of an international, anti-NATO, aspect to terrorism in France, Germany, Portugal and Greece is unlikely to leave Italy untouched. It should be remembered that an anti-NATO attack has already taken place in Italy with the kidnapping of General Dozier in 1982. The Italians are always ready to see the source of the terrorism affecting them as originating outside their country, viz President Pertini's pronouncements and Spadolini's recent salvo against the French.

K. Colvin

K Colvin (Mrs)

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ANNUAL REVIEW ITALY : 1985

- ② - 1. I attach an advance copy of Lord Bridges despatch. I should be grateful for any comments you may have by Tuesday 5 February.

[Signature]
 P J Spiceley
 Western European Dept

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1881-1884

1885-1888

1889-1892

1893-1896

1897-1900

1901-1904

1905-1908

1909-1912

1913-1916

1917-1920

1921-1924

1925-1928

1929-1932

1933-1936

1937-1940

1941-1944

1945-1948

1949-1952

1953-1956

1957-1960

1961-1964

1965-1968

1969-1972

1973-1976

1977-1980

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Corrections made _____

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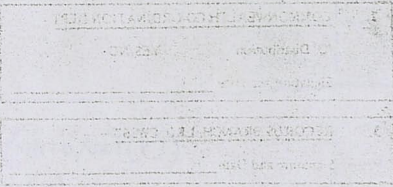
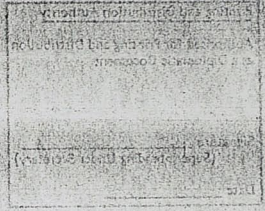
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