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Mr. Powell. You may like this copy with your papers for the Anglo-Italian summit. The telecommunication is

NOTE OF A MEETING BETWEEN MR D F WILLIAMSON AND SIGNOR R RUGGIERO
10.30 AM ON MONDAY 10 MARCH IN THE CABINET OFFICE

referred to in the supplementary brief on bilateral issues, page 4

Present:

Mr D F Williamson) Cabinet
) Office
Mr M H Jay)

Signor R Ruggiero) Italian 11/3/86.
) Ministry
Signor di Roberto) of Foreign
Affairs

Signor Vattani Italian
Embassy,
London

The following issues were discussed during Signor Ruggiero's call on Mr Williamson this morning.

Economic Summit Preparations

SIGNOR RUGGIERO said that the Japanese Presidency had been weak so far. As for substance, the fall in the oil prices would help the world economy. A major problem, however, was the growth in Japanese and German trade imbalances.

Follow up to the Inter-Governmental Conference

SIGNOR RUGGIERO said he appreciated our attitude in the negotiations which followed the Milan European Council. He doubted if the Germans or Italians, let alone the French, would have played such a constructive part in a conference which they had voted against. The main difficulty with implementation would be whether the institutional framework was adequate to realise the objective of free movement of goods, services, capital and persons. There would be particular problems over the role of the European Parliament. The Italians were also concerned that some Ministries in national administrations who had not been closely concerned with

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the negotiations might resist implementation: proper coordinating machinery would be needed. Signor Ruggiero asked what we thought about advance implementation of the Agreement. MR WILLIAMSON said that we regarded the outcome of the IGC as positive, though not startling. We must now make the most of it. It should be ratified by the end of this year. We had argued from the beginning for quick changes in the decision making process. In the period before ratification, it would be important to take account of the concerns of national parliaments. But we thought that some progress could be made on a best endeavours basis. Our approach did not seem all that different from the Italians.

United Kingdom Presidency of the EC

MR WILLIAMSON said that we had distinguished in the preparations for our Presidency between our own priorities and our obligations, which would include budgetary and perhaps some environmental issues. Our two main priorities related to employment and progress on the internal market. We believed that there was scope for improving job prospects through more flexibility in the labour market, and that we should look into this. Public opinion would be intolerant of a Community that did not give sufficient attention to the problem of unemployment. We also needed to take stock of progress on the internal market and ensure that the momentum generated by the Cockfield White Paper and the rolling Presidency programmes were maintained. It would also be important to make clear that the Community had a major role to play in a new GATT round. As for agriculture, we thought that some current issues might be covered at the June European Council. We wanted to maintain progress towards reform, but were inclined not to take too high a profile during our Presidency unless forced to do so by events.

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SIGNOR RUGGIERO said that higher growth in 1986 and 1987 should make it easier to remove labour market rigidities. There was, indeed, a unique opportunity to make progress. It would be necessary to influence trade unions as well as politicians on the issue: a meeting in Brussels during our Presidency with politicians and unions present with the aim of convincing unions that labour market flexibility could help employment would be useful. On the internal market, deregulation was important. But implementing the internal market programme was another area in which disagreements within national governments could make implementation difficult. The programme for completing the internal market would need to have clear objectives, a clear timetable and a proper measure of its economic effect, taking account of the different interests of member states. These interests would need to be properly balanced.

SIGNOR RUGGIERO added that he was worried about the prospects for a new GATT round. The issues this time were qualitative rather than quantitative. It was important to eliminate non-tariff barriers, to enlarge the scope of GATT to include, for example, services and intellectual property, and to extend OECD rules to the newly industrialised countries. This last point was important but difficult, and would require the developed countries to open their own markets to the developing world. A new GATT round would also provide an opportunity to tackle trade in agriculture, to deal not just with problems facing the Community but also other countries including the United States. As far as the Community was concerned the real problem lay with restitution payments to exporters. It was consistent with the Community's stated wish of helping developing countries that the Community should seek to maintain self-sufficiency for its own consumers but not that it should harm production in developing countries by subsidized exports.

MR WILLIAMSON said that it ought to be possible to bring some greater order into agricultural export markets and thus to curb

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subsidies and costs - not just in respect of the Community but also of US exports. It would only require small reductions in Community production of certain commodities to reduce quite substantially surplus storage and disposal costs.

SIGNOR RUGGIERO said that he hoped that there would not be a substantial discussion of agriculture matters at the European Council in The Hague. If there were, it would need proper preparation, so that it would not only be Mrs Thatcher who understood the issues. But what really mattered was the medium term objectives for the CAP, and these could not be satisfactorily discussed against the background of the horse trading that inevitably surrounded discussions of the annual price fixing.

Supplementary Budget

MR WILLIAMSON said that we would much prefer there not to be a supplementary budget this year, but the Commission was certain to propose one, and we would respond appropriately in our Presidency. Signor Ruggiero noted that the fall in the dollar meant that the Commission's preliminary figure had already been exceeded, and would be close to the 1.4% VAT ceiling.

Electronic Switchboards

SIGNOR RUGGIERO said he wished to stress the importance of current negotiations on electronic switchboards taking place between Italian (Italtel), French (Alcatel) and British (GEC and Plessey) interests. This was an important European collaborative programme, but would not succeed unless there was political will behind it on the part of governments. It would, in particular, be necessary to make sure that there was a willingness on the part of the large buyers in the three countries to purchase the equipment. The matter was urgent because Siemens were trying to reach agreement with different (non-British) partners to produce such equipment.

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Signor Ruggiero handed over an aide-memoire (copies already sent to the FCO and DTI) which he said he had also given to M Attali who had promised a quick reply.

MR WILLIAMSON said we would look at the problem and reply as soon as we could. The fact that British Telecom had been privatised could, however, be relevant.

Group of 5

SIGNOR RUGGIERO said that the Italians appreciated the open position which the United Kingdom had taken on this question. They had not thought it necessary to approach us, as they had the French and Germans, with a second round of correspondence. But they did need our backing now. A solution which led to the formation of a group of seven, but with a group of five continuing in existence, would not be satisfactory, nor what President Reagan or President Mitterrand in their correspondence, nor Chancellor Kohl in his public statement, had envisaged. A second question concerned the participation of the Commission. This might be raised at today's Foreign Affairs Council. The Italians had never objected to the participation of the Commission in international fora when they had a clear interest in being, or obligation to be, present. But this did not apply in monetary matters as clearly, for example, as in trade. The Italians had asked M Delors why the Commission had not reacted to their exclusion immediately after the meeting held on 27 September, 1985, doing so only after the Italians had raised the point. This suggested that they were not primarily motivated by questions of Community competence. The Italians had also asked M Delors whether, if the group of five did continue to exist, the Commission would try to join and to help excluded Community countries to join. Signor Craxi would wish to raise the question of the group of five with the Prime Minister.

MR WILLIAMSON said he suspected the Commission were motivated more

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by a sense of exclusion than by concerns over competence. Mrs Thatcher would be briefed on the subject for the Anglo-Italian Summit.

Press Conference after the Anglo-Italian Summit

MR WILLIAMSON asked what issues the Italians would want to see raised in public after the summit. Signor Ruggiero said that Signor Craxi played his cards close to his chest. The two Prime Ministers would need to discuss this at the end of the summit and before the press conference.

Franco-German Relations

SIGNOR RUGGIERO said that the recent Franco-German accord on defence issues and on military cooperation strengthened his view that the construction of Europe would increasingly be based not just on the Community but on other European groupings too, and that the Franco-German axis would be increasingly important. Against this background the United Kingdom and Italy shared an interest in maintaining close contacts on a wide range of issues. Mr Williamson agreed that the United Kingdom and Italy must maintain close contacts on a range of issues.

Cabinet Office

10 March 1986

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Mr Twyman		D/Emp
Mr Andrews		MAFF
Head of Chancery		British Embassy Rome (with Italian aide-memoire)

cc Mr C Munn WED, FCO to arrange urgent trans p1
Mr R Acland TP, DTI to consider briefing
requirements for Anglo Italian Summit

PROPOSTA DI COOPERAZIONE TRA FRANCIA, INGHILTERRA E ITALIA NEL
SETTORE DELLA COMMUTAZIONE DIGITALE

1. Da circa un anno la STET ha avviato approfonditi contatti con gruppi industriali operanti nel settore delle telecomunicazioni in G.B. (Plessey e GEC) e Francia (Alcatel), allo scopo di sondare le concrete possibilità per la realizzazione di un'intesa industriale nel settore. Dovendo tener conto delle diverse realtà storiche e degli investimenti già effettuati sui prodotti in campo, si è valutato l'interesse di dare inizio a questa collaborazione incentrandola sullo sviluppo congiunto di una centrale di commutazione di grande capacità, che oggi non viene prodotta da nessuna delle industrie indicate. Gradualmente nel tempo la tecnologia adottata per le nuove centrali dovrebbe essere estesa anche a quelle medio-piccole, dando in tal modo vita ad un sistema comune, adottato dai rispettivi organismi di esercizio di telecomunicazioni.

L'ipotesi qui formulata tende a recuperare per l'Europa Comunitaria un ruolo strategico che, al momento, soltanto la Germania con la SIEMENS può ritenere di avere.

Ogni altra intesa diversa da quella esposta, data la forza dei possibili partners alternativi, risulterebbe comunque molto sbilanciata per ciascuna industria dei tre paesi indicati.

2. La collaborazione industriale ipotizzata richiede il pieno avallo dei Governi dei tre Paesi, data l'importanza del settore ed il grande peso politico ad esso associato. Si richiede anche il coinvolgimento e la collaborazione attiva dei rispettivi organismi di gestione dei servizi di telecomunicazione (British Telecom, DGT e SIP), che

costituiscono il mercato di sbocco naturale dei prodotti oggetto dell'intesa.

In questo momento le elezioni politiche in Francia e l'offerta di acquisto da parte GEC della Plessey in Inghilterra, hanno comportato una pausa di riflessione su questo tema. Peraltro si ha notizia che Plessey e GEC avrebbero raggiunto un accordo tecnologico e commerciale nella commutazione che dovrebbe diventare operativo nelle prossime settimane, prima che spiri il termine di 6 mesi imposto dalle Autorità inglesi a Plessey e GEC per la definizione dell'operazione di acquisto citata. Di conseguenza potrebbero esserci le condizioni per una tempestiva decisione in proposito da parte delle società inglesi.

3. Il progetto di collaborazione sul quale si sta lavorando parte dalla costituzione di una società congiunta di progettazione e sviluppo, avente una ripartizione azionaria paritetica fra i tre Paesi. Nei passi successivi sono previste azioni di razionalizzazione nel settore produttivo ed un accordo commerciale per le esportazioni all'esterno dei tre Paesi.

Dal punto di vista della gestione di questa società dovranno essere effettuate chiare e precise scelte manageriali per garantire una conduzione improntata al massimo d'efficienza.

L'Italia dà il massimo di priorità a questa proposta di collaborazione, sottolineando però che l'urgenza del problema richiede soluzioni in tempi brevi.