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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND SIGNOR
CRAXI IN THE PITTI PALACE IN FLORENCE ON WEDNESDAY, 12
MARCH 1986 AT 1115 HOURS

PRESENT

The Prime Minister
Mr. Charles Powell

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Terrorism

Signor Craxi referred to recent terrorist attacks which had taken place in Florence and Rome. The Prime Minister expressed sympathy for these as well as for the Rome Airport attack in December. Extreme Arab groups, in particular Abu Nidal, showed no sign of diminishing their terrorist activities. They were difficult to penetrate and intelligence on their plans was in consequence hard to come by. Signor Craxi said that Libya claimed not to be behind recent attacks by Arab terrorist groups. The Italian authorities thought that this was probably right. Those involved in the Rome Airport attack appeared to have come from Syria. The Prime Minister said that she had recently tackled the Syrian Foreign Minister on Syrian support for terrorism without much effect.

Signor Craxi said that Italy had received intelligence in mid-January of impending terrorist attacks in Northern Europe. This made him wonder whether there could be any Middle Eastern involvement in Mr. Palme's assassination. The Prime Minister said that she was not aware of any evidence for a Middle Eastern connection. The assassination appeared to be a mystery.

Iran/Iraq

In reply to a question from Signor Craxi, the Prime Minister said that the United Kingdom did not supply arms to

Iran. Indeed, probably the only way to bring the war to an end was to ensure that Iran was starved of arms, although it was clear that quite a lot were still getting through. The Iraqis seemed to be finding it difficult to recapture Faw. We were worried about the increased risk to Kuwait following recent Iranian statements.

Arab/Israel

The Prime Minister expressed concern about the wider Middle East situation and enquired whether Signor Craxi had any information on the PLO's intentions following the breakdown of King Hussein's initiative. The peace process was in disarray. It was clear that King Hussein could not enter direct negotiations with Israel without some wider international framework. She was in not in favour of the European Community rushing in with an initiative.

Signor Craxi agreed that the prospects were bleak but that there was no immediate role for the European Community. He ascribed the breakdown of King Hussein's initiative to internal divisions within the PLO. The Prime Minister observed that the PLO found it very difficult to take decisions. She saw little likelihood of their being able to take the plunge of accepting UNSCRs 242 and 338 or recognising Israel's right to exist. But there would be no negotiations until they took this step. Signor Craxi said that Arafat was well aware of this. But he faced serious obstacles within the PLO, both from pro-Syrian groups as well as within Fatah. His own view was that the Soviet Union had been exploiting these divisions to obstruct King Hussein's initiative. But the fact remained that Arafat was a symbol for the Palestinians. The Prime Minister doubted whether Arafat seriously wanted negotiations: indeed, his own position was more secure without them. His first priority was to keep the PLO united. Signor Craxi disputed this. Arafat had wanted negotiations last summer and would not give up.

The Prime Minister concluded that she could not for the present see a way forward. The United States was unlikely to take any new initiative. The Administration was already pre-occupied with preparations for the next US/Soviet Summit. The date for rotation between Peres and Shamir was fast approaching. And the Gulf countries were more concerned with the Iran/Iraq war than with Arab/Israel problems.

Arms Control

Signor Craxi invited the Prime Minister to give her assessment of the prospects for the arms control negotiations.

The Prime Minister said that she had set out her thinking at some length in a recent message to President Reagan. She had also replied to Mr. Gorbachev's proposals of 15 January. Her assessment was that Gorbachev was not seeking or expecting early progress on the main issues in arms control negotiations with the possible exception of INF. This was the only conclusion one could draw from the Soviet Union's continued linking of reductions in strategic weapons to United States' renunciation of the SDI.

The Soviet proposals on INF had included restrictions on the modernisation of United Kingdom and French nuclear weapons. But our nuclear weapons were wholly different in kind, a strategic deterrent of last resort, and had no part in the INF negotiations. British and French nuclear weapons amounted to only some three per cent of Soviet strategic nuclear forces and were the minimum that we needed in order to be able to deter an attack. We had to be free to modernise these weapons. A deterrent would not deter if it was antiquated and unable to penetrate Soviet defences, which were currently being up-dated. She noted, however, that the Soviet Union had dropped its earlier insistence on compensation for British and French nuclear weapons. This justified the expectation that, if the Alliance remained firm, the Russians would in time come to accept that the British and French

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deterrents could not be drawn into the INF negotiations.

The Prime Minister continued that Gorbachev's recent proposal on INF had not been a genuine zero-zero option since it was restricted to Europe and left out of account Soviet SS20s in Asia. The zero-zero option was acceptable only on a global basis and would need to be achieved by stages, starting with interim reductions. It was for this reason that the United Kingdom had supported President Reagan's recent proposals for achieving a genuine global zero-zero solution over a period of years.

The Prime Minister added that she had stressed to Mr. Gorbachev that a world without nuclear weapons was not a credible negotiating target. If arms control negotiations were to be serious, they needed to get down to practical discussion of balanced and verifiable reductions in nuclear weapons. It was also important to work for reductions in conventional arms, particularly in the field of chemical weapons and MBFR. She was not over-optimistic about the prospects for progress. Gorbachev evidently saw scope for playing on Western public opinion by linking progress on arms control with United States' renunciation of the SDI. There was other evidence, for instance in Afghanistan, of his willingness to take a very tough line on matters affecting the Soviet Union's security. The only real hope was that both sides would feel under some pressure to meet the expectations created by the United States/Soviet Summit in Geneva and be prepared to work for limited agreement this summer. INF seemed to offer the best chance.

Signor Craxi said that arms control negotiations were bound to be long drawn out. He agreed that the Soviet Union would have to "digest" the SDI and come to terms with it. It was not realistic to make progress in all other arms control negotiations depend upon the United States giving up the SDI. He did not think that the United Kingdom and French deterrents would play a decisive role in negotiations. The first step was to deal with the United States and Soviet arsenals. Only

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when substantial reductions had been agreed in them would United Kingdom and French nuclear weapons become relevant. If negotiations reached that point, he did not believe that Britain or France would prove to be a sticking point.

East/West Relations

Signor Craxi said that the recent CPSU Congress had exposed many of the failings of the Soviet system. Gorbachev gave the impression of being a man who wanted to do something to correct these failings but his freedom of manoeuvre was very limited without calling into question the nature of the Communist system. He might be described as the best available operator of a bad system. The Prime Minister observed that the only measure of Gorbachev's which seemed to have achieved results so far was the campaign against alcoholism. Signor Craxi suggested that it would be better to have more drunks and more liberty. The Prime Minister thought that people took refuge in alcohol when they despaired of obtaining liberty.

The Prime Minister agreed with Signor Craxi that the Soviet system was under considerable pressure, not least because of continuing high rates of defence expenditure and, more recently, the decline in oil prices which would affect the Soviet Union's hard currency earnings. There was no doubt that the Soviet Union faced much greater problems than the West. But Gorbachev would never allow himself to appear weak before his own people. She enquired whether Signor Craxi expected Gorbachev to visit Italy. Signor Craxi said that an invitation had been issued but there had been no reply. He added that the Soviet Union faced growing pressures in Eastern Europe which it would find increasingly difficult to control.

Oil Prices

Signor Craxi asked whether the recent fall in oil prices

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created serious problems for the United Kingdom. The Prime Minister said that the fall certainly created problems, notably by cutting the Government's revenue by some £5 billion a year. But we were able to take this because of the very prudent financial policies pursued by the Government and the very low deficit. At the same time, oil represented only some six per cent of GDP; and for most industries, falling oil prices were a plus. They should also considerably benefit world trade generally, though some Middle Eastern markets would become more difficult. Signor Craxi said that Italy was already experiencing considerable problems in these markets and mentioned in particular Libya. The Prime Minister said that although her assessment of the effect was basically favourable, she hoped the fall would not go too far because it would only be followed by a steep rise.

Bilateral Issues

The Prime Minister gave a summary of various bilateral issues on which progress could be recorded at the current meeting. The new Extradition Treaty was beneficial for both countries as was the Confidential Memorandum of Understanding on Air Services. She understood that scientific collaboration was going well. A Memorandum of Understanding on Italian Participation in the Spallation Neutron Source was to be signed and there appeared to be agreement on regular meetings between Ministers responsible for science and research. Britain and Italy were involved in at least three joint projects under EUREKA though in general she was disappointed with the fruits of EUREKA. The recent sale of Tornado to Saudi Arabia was good news for both countries. Co-operation between Westland and Augusta on the EH101 helicopter project continued and the United Kingdom was interested in taking part in work on the Al29 Mark II light attack helicopter. Co-operation against terrorism was good. On the cultural side, there was to be a further Anglo/Italian round table conference in April.

Signor Craxi registered polite interest with the air of

some-one hearing all this for the first time.

Group of Five

The Prime Minister recalled that she had written to Signor Craxi in January on the subject of the Group of Five. She stood by what she had said then. Signor Craxi said that he thought it was now the Group of Seven rather than the Group of Five. The Prime Minister said that there would, on occasion, no doubt be a Group of Seven. But it must be clear that the Commission of the European Communities would not be invited to participate at such meetings. Signor Craxi said that Italy had no time for the Commission's attempts to insert itself.

European Community

Signor Craxi invited the Prime Minister to give an account of the United Kingdom's objectives during its forthcoming Presidency of the Community.

The Prime Minister said that our Presidency would be a period of consolidation in the Community's affairs. We would aim to take further practical steps towards opening up the Community market and reducing the burdens on business. We should also want to see the Community tackle the problem of surpluses under the CAP. It would be necessary to be very firm with the Federal Republic of Germany. The measures which needed to be taken would cause difficulty for farmers in all Community countries. Our own farmers in the United Kingdom had suffered a 43 per cent drop in income last year. Signor Craxi agreed that the Community could not go on producing and storing surpluses as at present. The Prime Minister noted that Chancellor Kohl had referred recently to the possibility of national aids if sufficient funds for agriculture were not forthcoming through the CAP. She thought that it might be necessary to resort to this, although to do so would not necessarily reduce costs. She was also concerned by the prospect of an export subsidy war between the Community and

the United States. She had no doubt the United States would win a competitive subsidy battle.

Spain and NATO

The Prime Minister asked whether Signor Craxi thought that the referendum on Spain's membership of NATO could be won. Signor Craxi thought that there would be a last-minute swing in favour of continued membership though this might just be wishful thinking on his part. The Prime Minister commented that the position of the Alianza Popular had been ridiculous. It had been a great mistake on their part to play party politics with defence.

Elections in France

Signor Craxi said that he thought that the Socialist Party would do well in the forthcoming elections but that the Centre Right would inevitably win a majority. Mitterrand had seemed curiously detached about this. The Prime Minister said that it would be interesting to see what would happen at the Economic Summit if the Centre Right were to win the elections. Would President Mitterrand have to bring a Centre Right Prime Minister? Signor Craxi agreed that this was an interesting point.

Tokyo Economic Summit

The Prime Minister said that it would be important not to let Japan off the hook at the forthcoming Economic Summit. Although there had been a significant strengthening of the yen, Japan's market-opening measures had been pitiful and Japan continued to use unfair measures in the export field.

At this point Foreign Ministers joined the meeting.

Signor Andreotti referred to the statement issued by the European Community on 11 March on Japan. This had been satisfactorily firm. The Prime Minister said that there had

been many such statements in the past, but they never led to any significant action. She saw two problems. When European countries tried to sell major items such as aircraft to Japan, the United States promptly put pressure on Japan to direct the business to them. Secondly when the Japanese were competing for major projects in third world markets, they made their aid conditional upon the award of contracts to them. The Prime Minister recalled that she had taken a firm line with Mr. Nakasone at the Bonn Economic Summit but had not received a great deal of support. Sir Geoffrey Howe added that it would be important for the Sherpas to press the Japanese Government for action so that there could be some response at the Summit itself. It might be easier for the Japanese to appear to take some voluntary action at the Summit rather than be put under siege by their partners on their home ground.

Common Agricultural Policy

The Prime Minister noted that she and Signor Craxi had agreed on the need for action to tackle agricultural surpluses in the European Community. Signor Andreotti confirmed this. Surpluses had reached an unsupportable level. Moreover, much of agricultural spending in the European Community did not help farmers but enriched traders. The costs of agricultural policy appeared to be on auto-pilot and increased without any decisions being needed. The result was to put at risk other Community expenditure, particularly in the social field. The Community was accumulating debts to some of its own Member States in these fields at an alarming rate, a matter which he had recently raised at the Foreign Affairs Council. He wondered whether the answer was to nominate Three Wise Men with instructions to make proposals within four months for a realistic reform of the CAP. Another alternative would be to put an arbitrary limit on Community support at, say, 110 per cent of consumption in each sector. The Prime Minister said that if Governments could not agree a solution, she doubted whether Wise Men would be able to impose one. Sir Geoffrey Howe commented that there were effective measures for restraining production and reducing prices such as guaranteed

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thresholds. Sadly, the Commission had backed away from these. The Prime Minister said that we needed a system which stopped surpluses from being grown.

The meeting ended at 1245 hours.

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12 March 1986.

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10 DOWNING STREET

From the Private Secretary

12 March 1986

Dear Len,

ANGLO/ITALIAN SUMMIT

I enclose a record of the meeting between the Prime Minister and Signor Craxi at the Anglo/Italian Summit in Florence on 12 March. I also enclose the text of the speaking note which the Prime Minister used at the subsequent Press Conference.

I am copying this letter, and enclosures, to Rachel Lomax (H.M. Treasury), Stephen Boys Smith (Home Office), John Mogg (Department of Trade and Industry), Richard Mottram (Ministry of Defence), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Tim Abraham (Mr. Geoffrey Pattie's Office, DTI) and Michael Stark (Cabinet Office).

Yours sincerely,

CHARLES POWELL

Len Appleyard, Esq., C.M.G.,
Foreign and Commonwealth office.

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