

CONFIDENTIAL

CDP23/4.



Foreign and Commonwealth Office

London SW1A 2AH

Sir Patrick Wright KCMG  
Permanent Under-Secretary of State

19 September 1988

Sir Robin Butler KCB CVO  
Cabinet Office

cc- M. Powell (No 10)  
m. Weston  
m. Lavelle

CABINET OFFICE	
A	9457
20 SEP 1988	
FILING INSTRUCTIONS	
FILE No.	.....

*My dear Robin,*

ANGLO-ITALIAN SUMMIT: 21 OCTOBER 1988

1. This letter sets the scene for the next Anglo-Italian Summit, due to be held at Lake Maggiore in Northern Italy on 21 October. The Summit was originally scheduled for 20 April, but had to be postponed because of the formation of a new Italian Government. The Prime Minister and Signor De Mita have since met at the Toronto Economic Summit and the Hanover European Council. Participation at the Summit is likely to include Foreign, Defence, Interior and Trade Ministers.

Objectives

2. Of our European partners, the Italians come close behind the French and Germans in their importance for UK interests. Italy, as a founder member of the European Community and NATO and as a modern, industrially advanced state with an economy roughly the same size as Britain's, is sensitive to any hint of exclusion from "top-table" gatherings. The Summit provides us with an opportunity to pursue some specific UK objectives and to demonstrate that we value Italy as a worthwhile partner and ally. Our objectives include:

- Influencing Italian views on current Community issues;
- Encouraging the Italians to maintain a realistic approach to East/West negotiations and to make a more effective contribution to NATO;
- Encouraging them to continue their naval presence in the Gulf in co-ordination with WEU partners;
- Encouraging them to continue a firm policy towards external terrorism and to stick to the agreed European approach to Libya;
- Encouraging increased industrial, scientific and technological collaboration;
- Accelerating progress on various bilateral agreements.

Internal

3. Ciriaco De Mita, the Christian Democrat Party Secretary, became Head of the Government in April 1988 with the same five-party coalition as his predecessor, Giovanni Goria. Because of

CONFIDENTIAL



his standing within the largest party in the coalition and his greater political experience, De Mita's appointment was generally viewed as promising firmer and more stable government. As well as tackling pressing economic and social problems, such as the budget deficit and labour unrest in the public sector, the coalition's aim is to achieve structural reforms in both political and economic life to prepare Italy for 1992. The challenge for De Mita is to show that he and his government can provide effective and stable leadership after Craxi's relatively successful performance as President of the Council in 1983-86 and Goria's poor showing. De Mita's performance during the summer has displayed considerable political agility. But the question remains whether he has the fibre to exercise sufficiently firm management of the coalition to bring about the painful changes which are necessary.

#### Economy

4. A medium-term budget consolidation programme was introduced this year, prompted by two fears: that the high and rising level of public debt (already 93% of GDP) would eventually lead investors to question the government's long-term solvency; and that EC capital market liberalisation (agreed in June) could lead to funding problems for the government, as it should make competition for domestic savings more intense and could increase upward pressure on interest rates. The programme aims to stabilise the public debt/GDP ratio at 106% in 1992, for which budget cuts of about 4% of GDP will be required compared with the policies De Mita inherited. Meanwhile, the real economy continues to perform well. Italy is in her fifth year of vigorous growth (expected to be over 3% in 1988), inflation remains close to 5% and the current account, though slipping deeper into deficit, remains manageable. But unemployment, at a national average around 12% (the worst in the G7), continues to cause problems, as does the worsening disparity between the economically successful North and the less prosperous South, where unemployment is now over 20%. The unusually long period of economic growth is now raising concerns about overheating.

#### European Community

5. The Summit will be an opportunity to discuss progress on the Single Market, and to try to influence Italian attitudes to the social dimension. We shall also want to explain our alternative approach to tax approximation, and to inject a note of realism into discussions on monetary co-operation.

6. On external EC issues, the Italians profess to be aware of the dangers of protectionism, but often - under pressure from interests like the Agnellis - find it difficult to live up to this on particular issues. We will wish to put across our strong views on the need for the Single Market to be outward looking and open (the Italians will have particular difficulty over removing quotas on Japanese vehicle imports, and perhaps over third



country access to financial service markets). We will also wish to stress the need for the Community to play a constructive role in the forthcoming Mid Term Meeting at the GATT Uruguay Round, not least on agriculture. It may also be appropriate to touch on the Community's other major preoccupation, the Lomé renegotiations which will just have started.

#### International Economic Issues

7. We may also want to raise other international economic issues following the Toronto Economic Summit and the IMF/IBRD meetings this month. Prospects for the world economy are now more encouraging than they appeared earlier in the year, and current attention is likely to focus on the risk of inflation and how to achieve the right mix of fiscal and monetary policies to combat it. The Italians continue to be concerned about intra-European imbalances (particularly Germany's trade surplus), which work against them and the French. If problems over the Toronto agreement on debt have not been resolved, we may need to raise this at the Summit.

#### Arms Control/Defence

8. Another major area for discussion will be the nexus of East/West and defence issues. De Mita, who is enjoying his first real exposure to international political life, is to visit Moscow on 14/15 October. Italians generally tend to be too ready to take an optimistic view of the changes taking place in the Soviet Union. This will be an opportunity to inject our own assessments of Gorbachev and to hear De Mita's impressions. We shall also wish to discuss the Alliance's arms control priorities. Depending on progress at the CSCE conference in Vienna, conventional arms control is likely to be particularly topical.

9. De Mita himself has publicly voiced some unrealistic thoughts about European defence co-operation, and it would be useful to go over this ground with him. The Italians are firm supporters of NATO and of the US contribution to Europe's defence. They earn high marks in Washington for their constructive approach to US forces in Italy. Their own defence spending is, however, low (the generally accepted, though possibly generous, figure is 2.1 per cent of GDP). Earlier this year, the Defence Minister, Zanone, announced plans to increase by 30 billion Lire over 10 years the funds devoted to long overdue equipment modernisation, but he will have great difficulties in getting approval for increased expenditure on this scale, given the present budgetary difficulties. One major procurement plan concerns fixed-wing aircraft for the navy: Sea Harrier is a serious contender. The Italians have agreed to take the American F16s from Spain and instal them in a base in Calabria, the move being financed by NATO's infrastructure budget. They recently resisted Gorbachev's suggestion that removal of the F16's be traded against increased Warsaw Pact reductions in aircraft.



Gulf/WEU

10. Italy's naval force in the Gulf was despatched only after considerable debate by a divided cabinet, and with instructions to distance itself from close European naval co-operation. The force has emerged unscathed from the conflict; and, following the cease-fire, De Mita committed his Government to close consultation with allies on the force's future moves. However, the Italians are proving reluctant to go along with our proposal to carry out one final route-survey of the main international shipping lanes. Andreotti is keen to keep on good terms with both parties to the conflict, and Italy has provided a contingent for the United Nations Iran/Iraq Monitoring Group; but it is serving only in Iran, apparently because Iraq refused to have the Italians on its territory.

Terrorism

11. In the 1970s and early 1980s Italy suffered badly from domestic terrorism. Incidents still occur, such as the murder of De Mita's adviser, Senator Ruffilli, by a faction of the Red Brigades. There have been a number of recent terrorist attacks in the Alto Adige/South Tyrol. But domestic terrorism has largely been brought under control as a result of a firm political line, and of successful actions by the security authorities, who carried off a major success in early September with the arrest of 21 Red Brigade suspects, including at least two of their leading members. Partly because of its geographical position, Italy remains vulnerable to the activities of Middle Eastern terrorist groups. Internal controls have improved, however, and there have been no incidents by Middle Eastern groups against Western targets since 1985. Two incidents in 1987 and 1988 against UK and US targets bear the hallmark of the Japanese Red Army. Bilateral co-operation against terrorism is good. Senior officials met most recently in April, and a bilateral visit by the Home Secretary to Rome is planned for January 1989.

12. The Italian government attaches considerable importance to its relations with its North African neighbours and to maintaining links with Libya. The Libyans have recently been working hard to improve bilateral relations. The Libyan Foreign Minister is due to visit Rome in October: and Andreotti may visit Tripoli soon after the Summit to take part in the first meeting for some years of the Italy/Libya Joint Economic Commission.

Bilateral Projects

13. A number of bilateral agreements are currently under negotiation. We hope to be able to sign a new Double Taxation Agreement during the Summit. We hope too to be able to announce the ratification of a new Extradition Agreement, agreement on minor amendments to the Consular Convention, and the start of talks on an agreement on sequestration of drug-related assets.

CONFIDENTIAL



15. An area where there are opportunities to do more with the Italians is the whole field of industrial, scientific and technological co-operation - to build on Italy's industrial success and fears of French/German domination of European markets. Our share of the Italian market has been rising, but we are still well behind France and the FRG. Major current projects include Tornado, the European Fighter Aircraft, the EH101 and A129 helicopters, and NFR90. Rolls Royce is providing Spey engines for the large AMX Fighter Programme. Although it will be up to industry to make the running, the Summit may help focus attention on the possibilities.

Other Issues

16. The Summit will provide an opportunity to review the position on AIDS nationally and internationally. The Karin B incident recently brought environmental issues into prominence, and these too may merit discussion.

Public Handling

17. We propose to agree with the Italians on announcement of the Summit on 11 October. We shall arrange pre-Summit briefing of London correspondents. The Summit will conclude with a press conference, at which we hope to highlight aspects of Anglo-Italian collaboration. I should welcome from other Departments any suggestions of "good news" items to which the Prime Minister could refer at the press conference.

Briefing

18. Briefing for the Prime Minister will consist of a Steering Brief which will be cleared through the Cabinet Office (MISC 76). I should be grateful to know of any subjects which Departments think the Steering Brief should cover in addition to those listed in this letter and annex, or on which separate briefs may be required. I shall myself have an opportunity to review preparations for the Summit when I see my Italian counterpart on 3 October.

/ 19. I am sending copies of this letter to colleagues on the attached list.

*Ms. A.*

*Patrick Wright*

Patrick Wright

CONFIDENTIAL



List of Topics for Briefing

1. EC Issues
2. - East/West relations including developments in Soviet Union and Eastern Europe
  - Arms Control
  - Defence topics including European co-operation
3. International economic issues
4. Regional issues:
  - a) Middle East
  - b) South Africa
  - c) Afghanistan
5. Terrorism
6. Bilateral
  - a) Double Taxation
  - b) Industrial, scientific and technological collaboration
  - c) Bilateral Agreement on Sequestration of Drug-Related Assets
  - d) Extradition Agreement
  - e) UK/Italy Consular Convention
  - f) Air Traffic Control
  - g) State Visit (defensive)
7. Other Topics
  - a) AIDS
  - b) Environment

CONFIDENTIAL



cc:

Sir Peter Middleton KCB, HM Treasury

Sir Clive Whitmore GCB CVO, Home Office

Sir Michael Quinlan KCB, MOD

Geoffrey Holland Esq CB, Department of Employment

Sir Terence Heiser KCB, Department of the Environment

Sir Brian Hayes GCB, Department of Trade & Industry

Christopher France Esq CB, Department of Health

Derek Andrews Esq CB CBE, MAFF

Sir Alan Bailey KCB, Department of Transport

Richard Francis Esq, British Council

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

Sir Patrick Wright KCMG  
Permanent Under-Secretary of State

6 April 1988

Sir Robin Butler, KCB CVO  
Cabinet Office

cc ✓ Mr. Powell (No 10)  
Mr. Weston  
Mr. Lavelle

CABINET OFFICE	
A	3693 .....
7 APR 1988	
FILING INSTRUCTIONS	
FILE No. ....	

*My dear Robin,*

ANGLO-ITALIAN SUMMIT: 20 APRIL 1988

1. This letter sets the scene for the next Anglo-Italian summit, due to be held at Lake Maggiore in Northern Italy on 20 April. Although the summit may yet fall victim to the political uncertainties in Rome, we see little choice but to continue to plan on the assumption that it will go ahead. This in turn is based on the assumption that by 20 April a new Italian Government will be formed - something on which no-one is currently rushing to offer a prediction.

#### Objectives

2. The general objective of a Summit would be to demonstrate early to the new Italian government that we value Italy as a worthwhile partner and ally and give due weight to Italian views.

3. Specific objectives would include:

- Seeking Italian support in the run-up to Hanover for our objectives on Single Market issues;
- Encouraging the Italians to take a firm line in discussions of arms control and to make an effective contribution to NATO;
- Encouraging them to continue their naval presence in the Gulf and to coordinate more closely with Western partners there and in the Security Council;
- Concerting our approaches to the Toronto Economic Summit, and other international economic meetings;
- Encouraging the Italians to continue a robust anti-terrorism policy.

#### Internal

4. The appointment of Giovanni Goria as Prime Minister in June last year brought to an end one of Italy's worst political crises since the war, but still represented only a temporary solution, as was widely recognised at the time. It did not resolve the deep tensions between Socialists and Christian Democrats, and within the Christian Democrat party itself. Goria resigned twice - in November (leading to the





cancellation of President Cossiga's State Visit) and in February - but was persuaded to continue until passage of the Finance Bill and 1988 Budget. That achieved, he resigned again on 11 March, and President Cossiga asked Ciriaco de Mita (Christian Democrat Party Secretary) to try to form a Government. De Mita is now engaged in difficult negotiations with the Socialists led by Craxi about forming a new coalition.

#### Economy

5. The Italians claimed last year to have overtaken the UK and even France as fifth or fourth world industrial power: the "sorpasso". While there is some doubt about the statistics which justified these claims, it is clear Italy's economy is prosperous and performing well. In 1987 GDP growth was 3% for the fourth successive year; inflationary pressures have abated, from 20% in 1980 to 5% in 1987; and the current account of the balance of payments looks to have been in equilibrium in 1987 after a small surplus in 1986. The labour market remains a weak spot, however. Unemployment continues to rise, from 11.1% in 1986 to 12% in 1987; and the Government is currently assailed by a rash of public sector wildcat strikes - particularly affecting air and rail transport - for inflationary improvements in pay and conditions. So far, both the Government and the national trades union confederations have proved powerless to control them. In the longer term, Italy's inability to reduce significantly her budget deficits - now some 11-12% of GDP - casts a shadow over her financial prospects: central government debt is already equivalent to 90% of GDP and is growing apace. The adverse consequences of this are at present mitigated by the high savings ratio. However, prospects for sustaining the improvement in Italy's real economy depend on an improvement in financial policies. EC capital market liberalisation in the run-up to 1992 probably means that the Bank of Italy's firm monetary policy will ultimately be unable to offset the consequence of weak fiscal policy.

#### External

6. Italy is conscious of her position as a major European country and co-founder of the Community and NATO. She is sensitive to any hint of exclusion from "top-table" meetings. Her growing self-confidence has encouraged a more active rôle in international affairs, especially in the Middle East and Mediterranean, but the complexities of domestic politics can often obtrude. The sending of a naval force to the Gulf, for example, was an unusual departure for Italy and the subject of considerable political nervousness



fought shy of close European naval coordination. In the Security Council (of which Italy is a member in 1987/88), Andreotti has at times seemed to be too anxious to be evenhanded between Iran and Iraq, but has never pushed this so far as to challenge a consensus among the five Permanent Members. Italy has long had close links with Argentina. Although Italian Ministers have privately shown understanding over Fire Focus, they have been under much pressure from the Argentinians and have felt it necessary in the UN to take a neutral line on the issue. Before this, they had given an assurance, for which we had pressed for three years, not to supply advanced torpedoes to Argentina so long as their commercial rivals do likewise.

#### EC

7. In the future financing negotiations Italy took a fairly helpful line on the UK abatement and CAP reform, while largely securing her own objectives for her budget contribution. The Italians are nominally supporters of a single European market, but have argued the need for cohesion to compensate for the alleged disadvantages it will bring to the poorer regions of the Community. However, following the generous settlement on structural funds at the Brussels Summit it will be possible to argue for a more positive attitude on their part. We need to discourage Italy from forming a blocking Mediterranean minority with Spain and Greece. Under the pretext of progress towards greater monetary co-operation, the Italians are starting to argue for let-outs on liberalisation of capital movements. We shall need to look at the small print of anything they propose in this sector.

8. On external EC issues, we may wish to remind the Italians of the need to discourage Maltese ambitions for membership of the EC. Italy professes to realise that Maltese membership is in no-one's interest, but because of its strong links to Malta takes rather too positive a line with the Maltese themselves. An exchange of views on the progress of the EC/GCC agreement (where our views are generally close) would also be useful.

#### Defence/Arms Control

9. The Italians are staunch supporters of NATO and of the US contribution to Europe's defence. Italian defence spending is, however, low (2.1% of GDP). Although the Defence Minister, Zanone, has just announced plans for a long-term effort to increase considerably the funds devoted to long overdue equipment modernisation, it is difficult to be optimistic that this will get very far given the present political and economic uncertainties. One major procurement



plan concerns fixed-wing aircraft for the Navy: Harrier is a serious contender. The Italians appear willing that the American F16s which have to leave Spain should be based in Southern Italy, provided that NATO requests this and Allies share the transfer costs. In arms control, Italy as a basing country warmly welcomed the INF agreement. The Italians are not always robust about Western requirements for further disarmament agreements (eg CW verification) or about the dangers of a non-nuclear world. They are sometimes inclined to take off-beam initiatives (for example on CW and arms exports). They have expressed reservations about Franco-German defence co-operation, partly from fears of being left out, partly because they see potential consequences for US and NATO defence arrangements for the Southern Flank. These issues merit discussion at the Summit.

#### Terrorism

10. In the 1970s and early 1980s Italy suffered badly from domestic terrorism. Despite minor and sporadic incidents it has now been defeated: largely as a result of a firm political line, effective legislation, and successful action by the security authorities. Partly because of its geographical position Italy remains vulnerable to the activities of Middle Eastern terrorist groups. Internal controls have improved, however, and there have been no incidents against Western targets since 1985. Bilateral co-operation against terrorism is good, and senior officials from the FCO, Home Office and Security Service are to meet their opposite numbers in Rome on 11 April.

#### International Economic

11. Although growth has held up better than some predicted after the stock market collapse last October, the main problem besetting the world economy is still that of persistently large trade and financial imbalances; the process of adjustment needs to be continued and intensified. The Italians are increasingly concerned about intra-European imbalances, which work against them and the French. Attention has indeed shifted to continental Europe and the need for growth there, especially in Germany. But there is little freedom for manoeuvre on macroeconomic policy co-ordination: constraints include the US (and French) elections, and the unlikelihood of a recovery in German domestic demand growth on the scale already seen in Japan. A more promising approach may be the contribution that microeconomic policy changes (structural reform) could make in the medium term.



12. Other issues on the broad international economic agenda include protectionism, agricultural reform and debt. These will, no doubt, all feature in the forthcoming high level meetings this spring and summer: of the Fund and Bank in April (the week before the Anglo-Italian Summit), the OECD Ministerial in May and the Toronto Economic Summit in June. We shall continue to push for the Chancellor's initiative on sub-Saharan debt in these fora. While it will be useful to sound out the Italians on the themes they see as likely to come up at Toronto, it is too early to identify subjects in any detail. The Italians are alert to the dangers of protectionism and the need for satisfactory progress in the Uruguay Round negotiations. The EC must continue to play an active and constructive role in Geneva, and in particular should use the CAP reforms agreed in Brussels to further the negotiations on agriculture (resisting the temptation to sit back and wait for others to move). The Italians realise this, as was shown by their joining the UK and the Netherlands in a declaration at the European Council that they would not be bound by protectionist interpretations of the Council declarations on trade implications of the discussion on CAP reform.

#### Bilateral Relations

13. Much of the business done between the two Governments relates to multilateral discussions such as those mentioned above. Our pattern of bilateral meetings is fairly intense, though not as intense as our contacts with France or the FRG. Italy's industrial success offers good opportunities for bilateral and multilateral cooperation. Major projects include Tornado, EFA, and the EH101 and Al29 helicopters. Our share of the Italian market has been rising, but we are still well behind France and the FRG. We hope to be able to sign a new Double Taxation Agreement during the Summit.

#### Participation

14. We have been thinking in terms of participation by Foreign, Defence, Interior, and Trade Ministers, with the possible addition of Agriculture Ministers.

#### Public Handling

15. Subject always to the Italian political situation, we propose to agree with the Italians on announcement of the Summit on 11 April. We shall arrange pre-summit briefing of London correspondents by senior FCO officials. The Summit will conclude with a press conference at which we hope to highlight aspects of Anglo-Italian collaboration. I should welcome any 'good news' items to which the Prime Minister could refer at the press conference.



Briefing

16. Briefing for the Prime Minister will consist of a Steering Brief which will be cleared through the Cabinet Office (MISC 76). I should be grateful to know of any subjects which Departments think the Steering Brief should cover in addition to those listed in this letter, or on which separate briefs may be required.

17. I am sending copies of this letter to colleagues on the attached list.

*Ans to.*  
*Patrick*

Patrick Wright



cc:

Sir Peter Middleton KCB  
HM Treasury

Sir Clive Whitmore KCB CVO  
Home Office

Sir Michael Quinlan KCB  
MOD

Sir Terence Heiser KCB  
Department of the Environment

Sir Brian Hayes GCB  
Department of Trade and Industry

D H Andrews Esq CB CBE  
MAFF

Sir Alan Bailey KCB  
Department of Transport

Richard Francis Esq  
British Council



Lists of Topics for Briefing

1. EC Issues
2. East/West relations,  
Arms control and  
Defence topics
3. International economic issues
4. Regional issues:
  - a) Middle East
  - b) South Africa
  - c) Falklands
  - d) Afghanistan
5. Terrorism
6. Bilateral
  - a) Double Taxation
  - b) Industrial collaboration
  - c) State Visit (defensive)