

PRIME MINISTER

ANGLO-ITALIAN SUMMIT

You may like to look at the brief for the Anglo-Italian Summit next Friday. Actually there is not much in it and the Summit is largely a formality.

The particular points you will want to cover with De Mita are:

- He will just have returned from Moscow where he will have seen Gorbachev and Ryzkhov. You will want to ask about his impressions.

- You will want to urge him to agree to stiff pre-conditions - release of all political prisoners and prisoners of conscience, genuine freedom of emigration - before the West agrees to a human rights conference in Moscow. Otherwise, we shall be letting down people who have struggled valiantly for years to win human rights in the Soviet Union.

- You will also want to press the Italians hard to join Operation Cleansweep in the Gulf. They will be odd man out if they refuse to join in. It is a chance for Europe to make a direct and practical contribution in the area.

- They really must complete their procedures soon on credit for Tornado for Jordan. You spoke to De Mita about this in Toronto in June.

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- You will need to go over European Community issues - the Single Market, the social dimension, monetary co-operation - and try to inject some realism into Italian thinking.

- Finally, we need to start bearing down heavily on the protectionist Europeans like the Italians for progress on agriculture in the GATT, so that the Mid Term Meeting in Montreal is a success. The United States has started to moderate its hitherto unreasonable position. The European Community cannot just sit put on last February's reforms.

C.D.P.

C. D. POWELL
14 October 1988

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Foreign and Commonwealth Office

London SW1A 2AH

14 October 1988

Dear Charles,

CDP
14/x.

Anglo-Italian Summit: 21 October 1988

The main brief for the Anglo-Italian Summit has been passed to the Cabinet Office for circulation.

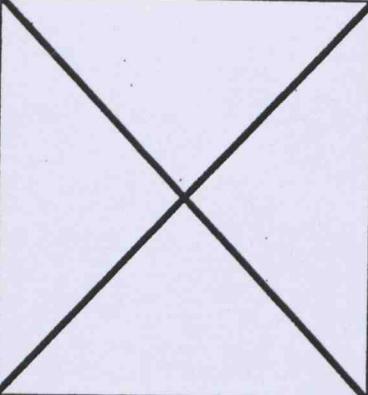
The Prime Minister should also have the attached Annex classified Secret.

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

A The National Archives

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Foreign and Commonwealth Office

London SW1A 2AH

12 October 1988

Dear Charles,

Anglo-Italian Summit, 21 October

We do not yet have the Italian proposals for participation at the meetings between Prime Ministers nor the Plenary meeting. As it is unlikely that we shall have these in the near future, it is as well for us to make our own proposals. For the meeting between Prime Ministers one Private Secretary and an interpreter normally attend from each side. When Foreign Ministers join them, no extra officials are involved. For the Plenary session past form has been for each Minister to be accompanied by one senior official. In addition, the Ambassador normally attends, and the record is taken by a member of the Embassy. I expect that the Prime Minister's wish will be to maintain these limits on attendance. Subject to your views, therefore, we propose to urge the Italians to keep numbers to a minimum.

I am copying this letter to Philip Mawer (Home Office), Brian Hawtin (MOD) and Marjorie Davies (DTI).

Lowes
L. Parker

(L Parker)
Private Secretary

C D Powell ESq
10 Downing Street

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ANGLO-ITALIAN SUMMIT: 21 OCTOBER 1988

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STEERING BRIEF

Brief by the Foreign and Commonwealth Office

OUR OBJECTIVES

General

- To convince the Italians that we value them as important partners and allies.

A EC Issues

- To maintain momentum on the Hanover priorities for the Single Market and to play down the "social dimension" and any visionary Italian ideas on monetary cooperation.
- To persuade the Italians that movement by the Community on agriculture is necessary for a successful Mid Term Meeting (MTM) in Montreal.

B Regional Issues

- On Iran/Iraq, to underline the continuing need to support the UN Secretary General in settlement talks.
- To persuade the Italians to join Operation Cleansweep in the Gulf.
- On Libya, to thank the Italians for representing UK interests, but dissuade them from improving bilateral relations with Qadhafi and forestall a major Italian arms sale.
- To inform Italians that we have signed the International Maritime Organisation maritime terrorism pact.
- On Tornado for Jordan to urge the Italians to finalise their share of credit package.

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OUR OBJECTIVES

- On Arab/Israel to keep Italians firm on policy toward PLO and dampen enthusiasm for pro-Arab EC initiatives.
- On Southern Africa, to challenge view that further EC restrictive measures may be required and to emphasise that new US sanctions would be damaging to the region.

C International Economic Issues

- To seek Italian views on prospects for world economy.
- To avoid substantive discussion on debt, especially schemes for middle-income debtors.

D East/West Relations

- To enquire about De Mita's Visit to Moscow.
- To encourage a realistic analysis of Soviet changes and prospects for East/West relations.
- On CSCE, to urge that proposed follow-up events be reduced.

E Arms Control and Defence Issues

- To stress that NATO's security depends for foreseeable future on deterrence based upon an appropriate mix of conventional and nuclear weapons.
- To explain why we do not agree that political will is only necessary catalyst for early conclusion of effective CW Convention.
- To rehearse the need for all Europeans to be seen to make equitable contribution to NATO's defence burden.
- To express hope of completing WEU enlargement soon.

F Industrial, Scientific and Technological Collaboration

- To endorse the importance of scientific, technological and industrial collaboration with Italy.
- To welcome the imminent signing of a bilateral agreement on Italian participation in ISIS (spallation neutron source at Rutherford Appleton Laboratory).
- To deflect detailed discussion of any points raised by the Italians to forthcoming meeting of Ministers responsible for science and technology.

OUR OBJECTIVES

G Bilateral

- Signature by Foreign Ministers of Double Taxation Convention.
- To move towards reciprocal agreements to trace, freeze and confiscate the assets of drug traffickers.
- To urge rapid approval by Italian Parliament of the new Extradition Agreement.
- On air traffic control, to persuade Italians to join Eurocontrol as a full member, and to support moves towards greater co-ordination.

ITALIAN OBJECTIVESGeneral

- To demonstrate Italy's standing as a major power enjoying prosperity and stability.

A EC Issues

- To appear liberal in principle on external implications of the Single Market (and the Uruguay Round), but in practice to retain protectionist options such as reciprocity powers and VRAS restricting access to EC markets.

- To resist the Community committing itself to further agricultural reform without action from others.

- Possibly to argue that progress on the Single Market should be accompanied by social measures regulating workers' rights; and by increased monetary co-operation.

- To press Italian proposals that Community nationals living in other Member States should have the right to vote in European Parliament elections in their country of residence.

No

B Regional Issues

- On Iran/Iraq to reaffirm support for UN Secretary General as shown by Italian contribution to UN monitoring forces in Iran.

- To enquire about restoration of British diplomatic relations with Iran.

- Perhaps to equivocate (Andreotti particularly) over participation in Cleansweep.

- On Libya, to convince us that Qadhafi has turned over a new leaf (as justification for improving relations in advance of possible arms deal).

- To claim our commercial presence in Libya shows we are allowing our own relations to improve, and to ask for proof that Qadhafi is still supporting terrorism.

- On Tornado, to assure us that necessary formalities going forward swiftly.

- On Arab/Israel, to seek support for pro-Arab EC initiatives (eg dialogue with PLO), ostensibly designed to carry peace process forward.

ITALIAN OBJECTIVES

- On South Africa, to argue that the international community should consider sanctions.
- To ask about Angola/Namibia.

C International Economic Issues

- To express concern about intra-European imbalances and possibly seek UK support in pressing Germany to reduce its surplus.
- To express concern about rising interest rates, which affect Italy's debt servicing obligations.
- To probe our position on middle-income debt schemes.

D East/West Relations

- To argue that Gorbachev represents a historic opportunity for East-West peace, which the West should seize.
- To report impressions of De Mita's visit to Moscow.
- To seek support for Italian proposal for CSCE Scientific Forum.

E Arms Control and Defence Issues

- Possibly to argue that implementation of nuclear modernisation decision not yet necessary.
- To accuse UK of aiming to slow pace of CW negotiations.
- To deflect any pressure for substantial increases in Italian defence budget.
- To voice caution about bilateral defence arrangements which exclude Italy and concentrate on the Central Region.
- To secure UK support for early WEU enlargement.

F Industrial, Scientific and Technological Collaboration

- To demonstrate Italy's attractiveness as a partner in collaboration and to seek the Prime Minister's commitment to the UK's continued participation in major multilateral collaborative projects, particularly CERN.
- To intensify Anglo-Italian collaboration as a counterbalance to the Franco-German technological axis, including by establishing a bilateral mixed commission.

ITALIAN OBJECTIVES

- High definition television: to secure support for Italy's inclusion in the Intergovernmental Board.
- Space Science: to secure lifting of UK blockage of increased ESA core budget funding.

G Bilateral

- Signature by Foreign Ministers of Double Taxation Convention.
- Possibly to express preference for multilateral agreements on sequestration of drug-related assets.
- To assure us that action on ratification of Extradition Agreement is well in hand.
- To persuade us they have a serious interest in Eurocontrol, but that terms need to be negotiated.
- To enquire about reinstatement of State Visit.
- Possibly to complain at UK press reporting of Karin B incident.

ARGUMENTS FOR USEA. EC Issues

- German Presidency did well on Single Market. We must now keep up progress on four Hanover Priorities: public purchasing, banking and financial services, standards and intellectual property. We also want progress on further transport liberalisation, telecommunications and food law.
- Key-note of Single Market must be liberalisation and competitiveness, not harmonisation for its own sake.
- Single Market must also contribute to global liberalisation. Uruguay Round offers a mechanism to claim credit where appropriate for external liberalisation brought about by creation of Single Market, and so encourage others similarly to open their markets.
- We agree on the need to make a success of the Uruguay Round. The MTM in December must push this - and take decisions where possible (eg on tropical products, dispute settlement).
- Community well placed for MTM on almost all issues but agriculture. This remains one of the key elements politically and economically.
- We are all agreed on the need to make agriculture more responsive to market forces. Islamabad meeting showed Cairns Group proposals likely to be basis for negotiation. February EC reforms a valuable first step but Community must be prepared to go further in context of Uruguay Round, both in terms of further short term measures, and a commitment to long term reform. US has started to move: Community will need to be ready to move too.

B. Regional Issues

- Iran/Iraq: ceasefire holding, but progress in settlement talks slow. Vital that Secretary-General has full backing of Security Council members if he is to bring parties to compromise.
- Gulf: Operation Cleansweep a valuable practical operation by WEU. Positive public impression - European pillar

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ARGUMENTS FOR USE

sharing burden out of area. Rest of WEU, Iran in favour, Secretary General sees merit: his Office has said so to your Representative in New York. No objection from Iraq.

- Libya still a dangerous supporter of international terrorism. Offers Abu Nidal a refuge and promotes friendly links with other terror groups.

- No case to relax EC measures especially ban on arms sales.

- British servicemen/civilians at daily risk from pre-Eksund shipments of explosives/weapons.

- PIRA attacks affect not only UK but other EC partners. Italy may not be immune.

- British public not understand how major EC partner could contemplate closer relations with Qadhafi on strength of a few theatrical gestures in Tripoli.

- Concerned at prospect of Libyan CW development. Wrong time to reward Qadhafi with signs of friendship.

- Terrorism: UK now signed International Maritime Organisation convention against maritime terrorism. Congratulate Italy on this initiative.

- Tornado for Jordan: MOU and Sales Agreement signed at Farnborough. Must finalise financial package before 90-day deadline (8 December).

- Grateful your assurance in August of support for sale. But your credit agency still not able to confirm credit terms for Italian share. Hope they can soon.

- Arab/Israel: encourage Palestinians to face key policy issues i.e. renounce violence, accept UNSCRs 242 and 338 and recognise Israel's right to secure existence.

- Palestinians' best response to Hussein's measures and to tactical gains of intifada is to form effective negotiating group, comprising representatives from inside and outside Occupied Territories. Gestures like proclaiming independence miss the point.

- Some encouraging signs in Arafat's Strasbourg speech. But ambiguous on key points. Can he deliver on moderate line? Some Palestinian factions still committed to violent means: eg, "Achille Lauro", Khartoum bombings.

ARGUMENTS FOR USE

- South Africa: further restrictive measures would hinder search for solution to region's problems.
- Some encouraging signs recently. Important to preserve US involvement and leverage.
- Extra-territorial scope of Dellums/Wolpe would damage international trading system, if enacted.

C. International Economic Issues

- Toronto Summit noted international economic co-ordination working effectively. Latest G7 communiqué reaffirmed commitments to non-inflationary growth, exchange rate stability, and structural reform.
- Growth in industrialised countries likely to be 4%, highest since 1984.
- Main risk, acknowledged at Berlin meetings, is inflation. Must continue to be vigilant: all major countries responded appropriately by raising interest rates since May.
- Current account imbalances of G3 still large. But have declined as percentage of GNP. Action on US fiscal deficit priority for new President.
- Welcome Berlin agreement on arrangements for sub-Saharan debt relief. Beats end year deadline set at Toronto.

D. East/West Relations

- Impressions from your visit to Moscow?
- Soviet leadership changes at end September showed Gorbachev's impatience and dominance.
- He is more than ever committed to rapid results but these still look distant, while nationality problems are accumulating and opposition (Ligachev) still there.
- Impact on KGB still unclear, but no reason to expect cut in subversive/overseas activities. No real effect on military. Continue to push for change.
- Western unity and firmness important. Encourage Gorbachev and draw benefit from movement over arms control, regional conflicts and human rights. But no unrequited concessions with illusion of "helping him".
- Signs Russians taking EC more seriously. Ensure mutual

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ARGUMENTS FOR USE

benefit in any agreements.

- Afghanistan: expose any Soviet attempt to argue withdrawal should now halt, to claim credit for withdrawing, or to pretend Kabul regime is "neutral".
- Draft UNGA resolution agreed by Pakistan and USSR preserves all essential principles. Hope for consensus.
- CSCE: early end to Vienna desirable, but not at cost of lower human rights objectives. Continuing Western unity crucial to extract Eastern concessions.
- Remain opposed to Moscow Humanitarian Conference. Soviet human rights performance has not improved enough. None of recent changes irreversible. No guarantee that conditions accepted now would be fulfilled in 1991.

E. Arms Control and Defence Issues

- Keep nuclear deterrent up to date. Obsolete weapons do not deter. Must not over-relax post-INF.
- Deterrent must be flexible and effective. Redeployment of DCAs and SLCMs to SACEUR important.
- Also keep SNF up to date, even if public opinion difficulties.
- NATO should agree orderly undramatic approach to modernisation decisions. Can start process in 1989.
- Conventional talks could start this year. Need agreed Western proposal. Or risk negotiating on Warsaw Pact terms.
- UK/Italy co-operating well. Hope for Allied consensus on basis of recent UK proposal.
- Chemical: some encouraging progress but much detailed work remaining. Convention must be effective and enhance security. Effective verification important.
- Welcome agreement on action against CW use and proliferation, particularly UNSCRs 612 and 620. Welcome Reagan initiative for Conference on 1925 Geneva Protocol.
- "Burden-sharing" will remain important. Europeans together will have to take on more; and be seen to do so by new Administration.
- Italy's acceptance of F16s from Spain valuable.

ARGUMENTS FOR USE

- For each nation to examine what it can do: some in US will concentrate on those who spend lower GDP proportion on defence.
- Important also to improve value for money: competition in procurement; collaboration where it makes financial and operational sense.
- Bilateral defence contacts should strengthen, not detract from, commitment to Alliance. Maximise contributions of France and Spain to common defence.
- WEU useful in support of Alliance's European pillar.
- Negotiations with Spain/Portugal going well. Hope to sign Protocol of Accession at 14 November Ministerial, provided outstanding issues can be resolved.

F. Industrial, Scientific and Technological Collaboration

- Welcome continuing and effective collaboration in many areas of science, technology and industry. Much mutual benefit. Pleased that signature of ISIS agreement will soon be possible. Professor Ruberti's reinstated visit will enable detailed discussion of all these issues.
- Wish Italians well in their forthcoming EUREKA presidency. UK strongly committed to EUREKA and its industry-led market-driven philosophy.

G. Bilateral

- Double Taxation: welcome agreement.
- Sequestration of Drug-Related Assets: international action needed to fight drug trafficking.
- Officials' discussions of arrangements for judicial co-operation should be pursued quickly.
- UK Drug Trafficking Offences Act created effective powers to trace, freeze and confiscate assets. Reciprocal agreements make these available to foreign governments.
- Agreements already with USA, Bahamas, Canada and Australia. Others expected.
- Please do what you can to speed up Parliamentary approval of Extradition Treaty.
- European Air Traffic Control: co-ordination has to be on

ARGUMENTS FOR USE

- widest basis to be effective; Eurocontrol best prospect.
- Establishment of a single supranational ATC organisation impractical. Current UK initiative in Eurocontrol for a Central Flow Management Unit (CFMU) more effective: monitor airspace demand/performance of individual air traffic zones, minimize bottlenecks, even out delays.
 - Participation by Italy would benefit your tourist industry. No effective voice in control/administration of CFMU without full membership.

OUR RESPONSE TO THEIR ARGUMENTSA. EC Issues

- Raising external barriers inconsistent with purpose of Single Market - to stimulate competition and efficiency.
- Difficult to see how national measures could survive post 1992. Each sector will need scrutinising (eg VRAs) rigorously.
- "Reciprocity" needs careful handling. Speculation has alarmed trading partners; can too easily lead to raising of barriers. Must make full use of opportunities offered by Uruguay Round to secure equivalent liberalisation from trading partners.
- Now that the US have moved in the GATT agricultural negotiations on short term measures and on the longer term objective, the Community simply cannot sit tight. This would risk isolation, and failure of the negotiations: not in EC interest. Community must play a constructive role.
- On "social dimension" must avoid excess regulation, increasing costs (and so killing jobs). Need instead to build on 1986 Employment Growth Resolution (which you co-sponsored with us), to help business, and provide more training.
- We favour more monetary co-operation. But let's be practical; implement capital liberalisation; develop ecu; increase cross-holdings of national currencies in reserves.
- Little prospect of agreement at Community level on right to vote for non-nationals. But open to Italians to resubmit their proposal.

B. Regional Issues

- UK/Iran: have agreed to restore full diplomatic representation. Response to signs of positive changes in Iran which we hope to reinforce.
- Gulf: Italians alone if hold back from Cleansweep.
- UN Secretary General unsighted when first spoke to Andreotti. Now confirmed he sees merit in proposal.
- Merchant shipping organisations also in favour.

OUR RESPONSES TO THEIR ARGUMENTS

- Libya: we would welcome a reformed Qadhafi. He is courting the West. But internal changes either limited or cosmetic, and all EC partners agree no evidence of change in foreign policy or on terrorism. Too many people being killed/wounded by weapons he supplied to give him benefit of doubt.
- Must continue to isolate him and do all we can to cut off supplies of arms/CW precursors.
- Our views on economic sanctions well known. We maintain the arms embargo. We do not encourage businessmen to go to Libya but cannot prevent them. Number of British in Libya about half that before break in relations. UK market share less than Italy and FRG.
- Arab/Israel: Twelve should be realistic. US engagement in peace process crucial if Israelis are to move: any action by Twelve should be complementary.
- Agree Palestinians must be involved. But we must stand firm on conditions for PLO to become negotiating partner.
- Twelve already play valuable role: representations to Israelis on practices in Occupied Territories, EC trade access agreement for produce from Occupied Territories.
- South Africa: punitive sanctions would stiffen resistance to change, hurt black South Africans and South Africa's neighbours. Foreign Secretary found increasing acceptance of our position during recent visit to Africa.
- Angola/Namibia: encouraging progress, but difficult obstacles remain: eg timetable for Cuban troop withdrawal. Steps needed towards internal reconciliation in Angola. Europe should encourage US to remain engaged.

C. International Economic Issues

- Agree prospects for reductions in FRG surplus not encouraging. Best to emphasise need for structural reforms. But problem of imbalances should be kept in proportion as Chancellor pointed out in IMF Berlin speech.
- If interest rates had not risen now to choke inflation, could have been worse trouble later.
- On debt, continue to believe in case-by-case voluntary

OUR RESPONSES TO THEIR ARGUMENTS

approach. Welcome Berlin agreement that risk should not be shifted from banks to public sector. Encouraging recent developments on "menu approach". Await further details of French and Japanese initiatives.

D. East/West Relations

- CSCE: too many proposals for follow up. Too costly. 6/7 meetings enough. Our priorities: Conventional Stability/Confidence Building talks; 3 stage Conference on the Human Dimension (CHD); London Information Forum. Most other proposals, if not withdrawn, should be referred to next Follow-up Meeting.
- British Scientists unenthusiastic about 1980 Hamburg CSCE Scientific Forum. No interest in another such meeting, at least now.

E. Arms Control and Defence Issues

- NATO should take modernisation decisions as necessary, not wait on developments in East/West relations.
- CW: UK remains committed to global ban, active in negotiations.
- Italy's defence spending is 2.2% of GDP: half that of UK.
- Vital importance of Southern Region not forgotten, though most UK forces naturally concentrate on Central and Northern Region.
- WEU: attach importance to securing agreed conclusions of negotiations which can be used with Parliaments.

F. Industrial, Scientific and Technological Collaboration

- CERN: too soon after Council meeting for us to have been able to study implications in detail. [Outcome of Council on 14 October may enable Prime Minister to say more.]
- Mixed Commission: Professor Ruberti's visit an opportunity to discuss this suggestion. But primarily for industry to take decisions. No extra bureaucracy needed.
- HDTV: first step should be for Italian companies to apply to project directorate: Government has very limited influence on Board's composition.

OUR RESPONSES TO THEIR ARGUMENTS

- Space Science: we have no wish to prevent other Member States increasing their contributions if a way can be found to do this: we hope to put forward practical suggestions soon.

G. Bilateral Issues

- Drug-Related Assets: also strongly support multilateral agreements, but they can be slow to establish, are usually of a general nature and may not address specific differences between legal systems. Bilateral agreements more detailed, complement multilateral ones.

- Air Traffic Control: decision on membership needed soon or Italy could be too late to influence developments within Eurocontrol.

- State Visit: wish to reinstate but programme fixed long in advance, and cannot yet propose firm date.

- Sure you understand why we could not accept Karin B cargo. Needed proper description and details in advance.

- UK not set against import of difficult waste. Our regulations to implement EC directive on trans-frontier shipment of hazardous waste came into force from 14 October 1988.

BACKGROUNDA. EC IssuesSingle Market

- Fifty six measures agreed during the German Presidency including liberalisation of capital movements, mutual recognition of diplomas, opening up of public contracts, road haulage and non-life insurance. Nearly 200 measures agreed since 1985 Milan European Council.
- Italians may have difficulties on the Commission proposal to extend liberalisation of public purchasing to sectors hitherto excluded: water, energy, transport and telecommunications. Among our priorities, they are not keen to see further transport liberalisation, particularly on shipping cabotage. The Italians aim for harmonisation. They are reluctant to liberalise or deregulate. UK coastal waters are open to the merchant navies of other member states. Those of Italy are not.

External Aspects of Single Market

- The Hanover European Council Declaration in June stated "The internal market should not close in on itself. In conformity with the provisions of GATT, the Community should be open to third countries and must negotiate with those countries where necessary to ensure access to their markets for Community exports."
- Italian instincts remain relatively protectionist. They are likely to argue in favour of retaining some national or EC-wide trade restrictions. Their views on reciprocity and need to align EC policy on the Single Market with EC negotiating stance in Uruguay Round closer to our own in principle, but they may be less liberal on specific Single Market issues (eg Second Banking Directive).

Reciprocity in the Second Banking Directive

- Commission proposal: authorisation of a non-EC bank in London would be conditional on all EC banks having access to

BACKGROUND

the home market of the non-EC bank. We and others have made our opposition clear, although a majority of member states seem to want some kind of reciprocity. The Italians have not decided their line, but are wary of the Commission's proposals.

Social Dimension

- Social policy likely to receive greater prominence under Greek, Spanish and French Presidencies. But so far practical results have been few and have if anything reflected our priorities, eg at Hanover. Commission proposals in September were not as bad as we feared. But we could have difficulty on labour relations proposals.

- Results of Social Ministers Informal Council on 20 September encouraging. The main points of agreement were on vocational training, labour market flexibility, and respect for national differences. All three are central to our approach to social aspects of Single Market.

European Company Statute (ECS)

- The Commission are consulting on a proposal for a European Company Statute. We are consulting UK industry. Problem areas: worker participation; scale of work required; implications for taxation. Italians inclined to support the ECS, but their thinking is at an early stage.

GATT: Uruguay Round

- GATT Mid Term Ministerial Meeting (MTM) will take place on 5/8 December in Montreal. Lord Young will represent UK. The informal meeting of Trade Ministers in Islamabad on 1-3 October cleared much of the ground. General agreement on need for early decisions where possible (tropical products, functioning of GATT, including dispute settlement) and for detailed frameworks to guide negotiations in other areas. On agriculture US indicated willingness to look at short term measures within a framework which also addresses the long term (eg the Cairns Group proposals); and some flexibility on the long term goal of zero support by the

BACKGROUND

year 2000. The Community is in danger of becoming isolated, camping on initial short term proposals, and refusing to address the long term seriously. We need to generate support for a more constructive approach to counter-balance French views.

- On most MTM subjects, Italian objectives are broadly in line with ours, although they remain cautious on new issues. But on agriculture they are likely to resist further specific commitments by the Community at the MTM, arguing instead for agreement on a general framework for rest of Round.

Voting in EP elections

- Italian proposal: EC citizens resident in another Member State should have right to vote in country of residence. This either through bilateral agreements between Member States or multilaterally EC-wide. Little prospect of agreement EC-wide. UK has no interest in bilateral agreement.

VAT/Excise Duty Approximation

- Italians accept principle of tax approximation but have difficulty with substance of Commission proposals. Major problem is on wine, on which they currently have no excise duty and low rate of VAT. At ECOFIN Informal, Italians neither accepted nor dismissed Chancellor's market approach, but wanted more flexibility in Commission proposals. Suggested range of rates for excise duty as well as VAT, and time for gradual convergence of rates.

BACKGROUND

B. Regional Issues

- Iran/Iraq: Italians contribute 15 men to the UNIIMOG force in Iran, but their offer to provide men in Iraq was rejected. They have refused to supply the Iraqis with a frigate ordered a few years ago, despite the ceasefire. They have maintained close links including trade with Iran.
- Libya/Terrorism: Jalloud is to visit Italy 26 October. Andreotti was reported as planning to go to Tripoli but Italians have told us at official level that no visit is in prospect. Italians have recently agreed to supply turn-key hospital project to Libya as reparations for Mussolini's colonial government.
- Lord Glenarthur signed Intergovernmental Maritime Organisation Convention on Maritime Terrorism on 22 September. It is based on the "prosecute and extradite" principle of the anti-hijacking conventions. Joint initiative of Italy, Austria and Egypt.
- Tornado for Jordan: MOU and Sales Agreement for sale of 8 Tornado IDS aircraft signed at Farnborough on 9 September. Total contract value approx. £500 million (UK £338 million, FRG £116 million, Italy £46 million). Italian credit arrangements still bogged down in bureaucracy.
- Arab/Israel: several Italian politicians are keen on European initiative. In Tunis in August, Craxi encouraged Arafat to declare an independent Palestinian State and government. The Italians have insisted that their policy remains based on agreed position of the Twelve. But Andreotti told the Foreign Secretary at UNGA that he thought Arafat's Strasbourg address went as far as he might before the Israeli elections: and that more pressure should now be put on the Israelis.
- South Africa: in recent letter to the Foreign Secretary, Andreotti stated that sanctions are an "integral part of a politically systematic strategy" towards South Africa. Italians favour an EC ban on coal imports but oppose action on airlinks (Alitalia fly to South Africa and are currently trying to capture a larger share of South African Transatlantic traffic). On 8 March, Italy voted for a UN Security Council Resolution calling for selective mandatory sanctions.

BACKGROUND

C. International Economic Issues

- The latest G7 communiqué was issued on 24 September in Berlin; Finance Ministers met in the margins of the IMF/IBRD meetings.
- IMF forecasts for 1989 suggest that G7 growth will moderate to 3% and inflation increase slightly to 3.5%. IMF estimate that Japanese surplus will have declined between 1986 and 1988 from 4.5% of GNP to 2.75% and German surplus from 4.5% to 3.75%; the US deficit should decrease from a peak of 3.5% in 1987 to 2.5% in 1988. The imbalances are forecast to continue to decline, but more slowly in 1989.

- G7 positions on the Toronto debt concessions are:

interest rate reductions	- UK, Italy, Canada and (probably) FRG
principal reduction	- France
extended repayment	- US

- Japan has accepted comparability arrangements but not declared preferred option.
- Japan and France have both proposed outline schemes for middle-income debtors. We are concerned that holding out hopes of a global solution could undermine progress on the current case-by-case approach. The Japanese scheme, first floated in Toronto, involves debtors contributing reserves into escrow accounts at the IMF as collateral for securitised debt (bond issues) for which banks might exchange their existing debt. The weak reserve position of many debtors could lead to pressure for a creditor government contribution to such a scheme. The French proposal involves developed countries contributing their share of an SDR allocation (which we oppose on other grounds). The Japanese also offered to provide substantial untied concessional finance from their Export-Import Bank for middle-income debtors in parallel with IMF programmes. Camdessus suggested that other countries, "particularly surplus countries", should follow the Japanese examples. Because of close links with many Latin American countries, Italians may be tempted to follow either Japan or France; in any case they favour a new SDR allocation.

BACKGROUND

D. East/West Relations

- De Mita is visiting Moscow 14-16 October, primarily to inaugurate the Italia-2000 Exhibition on 15 October but also to meet Gorbachev and Ryzkhov. Italian industry successful in winning major Soviet contracts.
- Some progress recently at Vienna CSCE Meeting on human rights but some key issues unresolved (autonomy of Conventional Stability Talks; Helsinki Monitors; freedom of Movement; jamming of radio broadcasts; follow-up activities). Meeting now likely to end in November.
- Russians renewing campaign for Moscow Humanitarian Conference. Signs of possible US change of position in the light of human rights improvements in USSR and hope of squeezing out more. (This could leave UK and Portugal isolated in opposition. France has now shifted ground.) Italy in favour of Moscow in return for Soviet fulfilment of minimal conditions. Alternative venues for 3rd CDH meeting are Geneva and Valletta.
- Many in West agree on need to restrict number of follow-up activities but no-one prepared to take the lead or to drop pet projects. We are arguing against less well supported proposals including the Italian sponsored Scientific Forum. Our scientists see little point in it and there are doubts about the Italian "World Laboratory" and its director who is behind it.

BACKGROUND

E. Arms Control and Defence Issues

- Comprehensive Concept exercise designed to help (especially) FRG politicians to maintain public support for SNF modernisation. We are prepared to see internal Alliance "examination" of the possibilities for SNF arms control, but do not want to see NATO's SNF capability, and the HLG/SHAPE analysis of SNF requirements after INF agreement, held hostage to an arms control negotiation.
- Discussions continue in Brussels about Alliance proposals at the coming conventional stability negotiations. Italians participate in the "Quint" (with FRG, France, US and UK), but contribute little.
- UK compromise proposal does not yet command the support of Norway, Denmark or Turkey, or of some sections of the US Administration.
- US Deputy Defence Secretary Taft is to report on burden-sharing by December. He appears to have accepted that the issue must be approached within the Alliance, rather than between the US and individual Allies; and to recognise the value of eg an increased Spanish contribution and successful relocation of 401st Tactical Fighter Wing. NATO preparing a report on areas in which Europeans could do more.
- WEU: Spain has indicated her support of nuclear deterrence and plans for creating Rapid Deployment Force. Prospects for agreement of Spain/NATO Guidelines improved. If agreed in time, could sign Protocol of Accession at 14 November WEU Ministerial.

BACKGROUND

F. Industrial, Scientific and Technological Collaboration

- Industrial Collaboration: Italy one of DTI's priority European countries for promotion of bilateral industrial collaboration. UK investment in Italy (1986) more than French, less than Germans. Work underway on setting up initial contact points for companies seeking collaborative partners as suggested at Inter-regional Co-operation Conference in Italy by Mr Maude (PUSS, DTI). Examples of current major collaborative projects include GEC/ANSALDO Trasporti (railway development) and ICI/ENICHEM (PVC production: 25% of European market). Italians have just cancelled 25 October officials' Round Table on aspects of industrial collaboration.

- Mr Jackson (PUSS, DES) called on Italian Science Minister Professor Ruberti in Rome on 8 October, to seek Italian agreement at 14 October CERN Council to introduction of revised contribution system in 1989: significantly to UK's advantage and Italians' disadvantage (other members have agreed, but unanimity is required). Italians refused, but hint of compromise. Revised contribution already agreed from 1990.

- Professor Ruberti accepted in principle Mr Jackson's invitation to reinstate cancelled 27-29 September visit, when he would have called on DES, DTI and FCO Ministers.

- ISIS Intergovernmental Agreement: nearly ready for signature; should lead to Italian financial contribution (Italian scientists use 10% of ISIS research time).

- EUREKA: Italians take over presidency from Austria for 1 year from June 1989.

- Mixed Commission: Italy has recently set up bilateral mixed commissions on scientific co-operation with France and Germany, and seeks equivalent with UK, in particular, to develop new materials, micro-electronics and biology collaboration.

- High Definition Television: UK involved in industry-led EUREKA project developing European standard, in competition with Japanese. Project developing well. Italians putting much effort into the work but not yet ready to be

BACKGROUND

represented on project directorate.

- Space Science: 5-year 5% pa cumulative increase in ESA core budget (Horizon 2000) requires unanimous agreement of Member States: only UK against. UK was asked to reconsider when admitted to Columbus Space Station programme in June.
- EC R&D: UK made a significant contribution in Research Council to the decision in June this year, which set a more satisfactory course for EC's Joint Research Council. The largest JRC laboratory is at ISPRA in North Italy.
- Scientific Collaboration: good links based on UK Research Council (specifically SERC) with Italian participation in major UK facilities, joint projects eg space science, and informal collaboration. Exchange supported by long-standing programme between British Council and Italian National Research Council (CNR). Royal Society wishes to expand bilateral schemes; currently awaiting Italian agreement.

BACKGROUND

G. Bilateral

- The Prime Minister and De Mita last met at Hanover Summit in June 1988, and had their first bilateral in the margins of Toronto Economic Summit.
- Double Taxation: see Annex D.
- Extradition: see Annex E.
- Sequestration of Drug-Related Assets: Officials met in Rome earlier this month to discuss compatibility of UK and Italian law. Italians are strengthening legislation on confiscation and mutual assistance.
- Draft UN Convention Against Illicit Trafficking due for adoption in Nov/Dec. Italians lead on European Convention on Confiscation, but some years from completion.
- European Air Traffic Control: Single supranational air traffic control system for Europe is unrealistic - disadvantages include bureaucratic control, implications for military use of air space susceptibility to industrial action. In September we launched an initiative in Eurocontrol to establish Central Flow Management Unit (CFMU). The CFMU would monitor air space demand across Europe, monitor the performance of individual air traffic zones, and take appropriate action to minimise bottlenecks and even out delays. It could come under ICAO auspices so that any state (even non members of Eurocontrol) could take advantage of it on a repayment basis.
- State Visit: the State Visit planned for 17-20 November 1987, cancelled at the last moment when Prime Minister Gorla resigned. No date has yet been set for reinstatement.
- Environment: in August UK authorities turned away West German ship Karin B, chartered by Italian Government, carrying toxic waste back from Nigeria, where it had been dumped illegally.
- Styles of Address: Worth noting that eminent Italians hardly ever address each other as just "Signor". De Mita is called "Signor Presidente", and other Ministers "Signor Ministro" or "Ministro so and so".

ANGLO-ITALIAN SUMMIT : VILLA TARANTO 21 OCTOBER

Programme

0940 Foreign Secretary arrives Milan.

0955 Prime Minister's party arrives Milan by RAF VC10. Met by De Mita, Sir Derek Thomas and HM Consul-General, Milan.

1040 Arrive Villa.

1100-c.1230 Ministerial bilaterals

1200 Prime Ministers joined by Foreign Ministers.

1230-1300 Plenary Session.

1315-1415 Lunch.

1415-1430 Available for private briefing for press conference.

1435-1515 Press Conference.

1515-1545 Tree planting (with De Mita).
(approx)

1515 Depart Villa Taranto.

1715 (approx) Arrive Milan Airport. Return to London.

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PERSONALITY NOTES

Onorevole Luigi Ciriaco De Mita

Onorevole Giulio Andreotti

Onorevole Antonio Gava

Onorevole Valerio Zanone

Ministro Renato Ruggiero

Professor Antonio La Pergola

HE Ambassador Boris Biancheri

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DE MITA, ONOREVOLE LUIGI CIRIACO

President of the Council of Ministers (Christian Democrat/DC).

Born the son of a tailor near Avellino in 1928. Deputy for Avellino since 1963.

Graduated in Law from the Catholic University of Milan.

Under-Secretary in the Ministry of the Interior during the third Rumor government, April-August 1970. Minister of Industry, July 1973-November 1974. Minister for Foreign Trade, November 1974-August 1976 when he was appointed Minister for the South, which he remained in Andreotti's Fourth Government (March 1978-January 1979).

De Mita came to the top in 1969 when, working together with Forlani, he succeeded in temporarily wresting control of the party Secretariat from the older generation. De Mita himself became a Vice Secretary of the DC at this time. As one of the leaders of the leftish "Base" faction, he openly attacked the second (centre-right) Andreotti Government (1972-73), while retaining his post in the Secretariat until early 1973. He remained very active in party politics, generally opposing and in the end helping to unseat Fanfani as Party Secretary. His position improved after 1976, when Andreotti began to pursue his policy of collaboration with the PCI. In March 1979, he again became Vice Secretary of the DC and, although he lost the position after the party congress in early 1980 decided on an anti-PCI line, he was reappointed Vice Secretary in December 1980. During the DC Congress in May 1982, he was directly elected Secretary to the Party, in succession to Piccoli: this was a new procedure for the DC. Member of the Chamber Foreign Affairs Commission. President of the Council of Ministers April 1988 in succession to Giovanni Goria.

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Independent and ambitious, De Mita did something to restore DC self-confidence in 1982, not least by taking a firm line with Craxi during the V Fanfani Government. He has surrounded himself at DC Headquarters with cronies. There has been no sign of any move back to his earlier policy of greater openness to the PCI. Indeed he has denounced the line taken by the PCI under Natta in very strong and forthright terms. He paid well-publicised visits to the United States in January 1983, December 1984 and January 1986. He remains popular in his home area and speaks a fairly thick dialect (a gift to political cartoonists) which he is trying to eliminate. As Party Secretary, he kept to his political circles and avoided meeting Ambassadors. An advocate of more rigorous economic policies before the elections in June 1983; he was blamed by many in the party for the DC's poor performance at the polls, but successfully survived the party Congress held in February 1984. Despite his efforts, he is not very popular with the DC in North Italy. He made strenuous efforts to clean up the image of the scandal-ridden regional section of the DC in Sicily. He visited several Latin American states in January 1986 and attaches importance to links with DC parties in that continent.

Alleged to have been a somewhat reluctant candidate for the Presidency of the Council, but seems, despite his inexperience, to be making a good showing. Likely to remain DC Party Secretary until DC Congress in January.

Married with three daughters (one of whom comes to UK to study English) and one son.

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ANDREOTTI, ONOREVOLE GIULIO

Minister for Foreign Affairs.

Born Rome 1919. Graduated in law. Served in the army for 12 months 1940-41, but released for health reasons. Member of the Constituent Assembly 1946-48 and a Christian Democrat (DC) Deputy for Rome since 1948. Under-Secretary (Junior Minister) in the Prime Minister's office 1947-54; Minister of the Interior 1954; Finance 1955-57; Treasury 1958; Defence 1959-66; Industry 1966-68. DC group leader in the Chamber 1966-72. Prime Minister February to July 1973. Minister of Defence March to November 1974; Minister for the Budget, Economic Planning and Mezzogiorno (the South) November 1974 to August 1976. In January 1979, Andreotti headed a caretaker government (his fifth) to prepare for elections. President of the Chamber's Foreign Affairs Commission 1979-1983. Foreign Minister in the first Craxi Government in 1983 and subsequently.

A supreme political tactician, unsurpassed in experience by other Italian politicians. A reputation as the most adroit and least scrupulous of DC leaders. Close links to Vatican. Hard worker, and pushes staff hard. Has brought greater confidence to conduct of Italian foreign policy. An operator and manipulator, he works a large and efficient patronage system. Keeps a detailed diary, which is feared by his enemies and friends alike. Reputation suffered in 1984 from alleged connections with organised crime in Sicily.

A witty and effective speaker, appearing regularly on television. Sometimes initially chilly, improves on acquaintance and is generally very courteous. A devout Catholic. A prolific author. Writes a weekly magazine column. Keenly interested in football and horse racing.

Married (Livia) with two daughters and a son. No English but good French.

GAVA, ONOREVOLE ANTONIO

Minister of Interior (Christian Democrat).

Born at Castellamare (near Naples) in 1930, one of eight sons of Silvio Gava, who was a DC Minister in many post-war Governments. Lives in Naples where his brand of patronage politics goes down well. A graduate in law, he became President of the Provincial administration of Naples in 1961, DC Provincial Secretary for Campania in 1969, and President of the first Regional Assembly of Campania in 1970. He has been a Deputy for Naples/Caserta since 1972. He survived fierce accusations of mismanagement and corruption during the Naples cholera outbreak in 1973. He is a member of the DC Directorate. His Ministerial appointment for Relations with Parliament in Forlani's Government (October 1980 - May 1981) was his first and he made little impression on what was essentially a non-job. But his weight within the party is such that he was likely to receive another Ministerial post, especially given his support for De Mita at the 1982 DC Congress. He was rewarded with the Ministry of Post and Telecommunications in Craxi's First Government in 1983 and with the Finance Ministry in Gorla's government (July 1987). Minister of Interior, April 1988 under De Mita.

In party terms he is effectively the leader of the "Doroteo" (left-centre) faction. He has also been head of the political secretariat of Piccoli. He is the worst kind of DC Southern boss, but the party needs him to gather Neapolitan votes at election time. His critics persistently accuse him of links with organised crime in Naples (the Camorra). Most recently, he was accused of involvement with the Mafia, but De Mita personally defended him and refused his resignation.

He is married with three sons. Astute but not intelligent. No foreign languages.

ZANONE, ONOREVOLE VALERIO

Minister of Defence (Liberal).

Born Turin 1936.

Degree in literature. Journalist. Member of PLI National Council since 1969. Member of Piedmont Regional Council 1970-76. Member of PLI Directorate since 1971. Elected Party Secretary in February 1976. Deputy for Turin since June 1976, but lives in Rome. Member of Chamber Foreign Affairs Commission.

Zanone was elected PLI Secretary in a generational change after the removal of Malagodi, following the party's severe defeat in the general election of June 1976, in which it was reduced from 20 to 5 seats in the Chamber of Deputies. Malagodi was thought to have taken the party too far to the right, identifying it with middle-class and business interests, and Zanone tried to give it a more reformist image. At the party's 1981 Congress Zanone led it still further in the direction of an Italian-style "Lib-Lab" alliance, isolating the small group of right wingers who still opposed him. But he is rather grey, and the Liberals did not do as well as they had hoped in the 1983 elections. Re-elected Secretary at the 1984 Congress. In August 1985 he became Minister for the Environment. Minister of Defence under De Mita (April 1988).

Zanone is well disposed towards Britain, where his daughter was for a short time at school, and spent his summer holidays there in 1983. He has sought increased contact between the PLI and the British Liberal Party. One of the few leading politicians who goes out and about in Rome. Friendly and sociable, but inclined to pomposity. His wife is rather shy, but can speak English. He speaks French but not English.

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RUGGIERO, RENATO

Minister for Foreign Trade (Socialist).

Born in Naples in 1930. He graduated in law from Naples University in 1953, and joined the Foreign Service in 1955. Served in San Paolo 1956-58, Moscow 1959-60, Washington 1962-64. After a spell in Rome, Counsellor Belgrade 1966-68. Head of the Under-Secretary's Private Office in 1968. Counsellor to the Italian Mission to the EC in 1969. In 1970 chef de cabinet of the President of the Commission and in 1973 Director General responsible for Regional Policy. In 1977 Spokesman and Director General of Information in the Commission. Returning to the Ministry in 1978, he worked on economic affairs until seconded as Diplomatic Counsellor to the Prime Minister in April 1979. Private Secretary to the Foreign Minister in August 1979, then Permanent Representative to the EC in mid-1980. He returned to Rome in January 1984 to become Director General of Economic Affairs at the MFA. In January 1985 he became Secretary General (PUS equivalent). In August 1987 appointed to present portfolio in Gorla government. Retained it under De Mita (April 1988).

In the Commission he co-operated very closely with British colleagues in attempting to develop the Regional Fund as an effective instrument to benefit disadvantaged areas, notably in the UK and Italy. In 1979/80 and in 1983 he had the principal say in determining Italian policy on Community issues, hogging the subject and making it his own. Deeply committed to the European Community, he had a fund of constructive ideas, many of them sound, and was very helpful to the UK over the budget problem in 1980. Can intrigue and conspire effectively which makes him an awkward opponent if Italian interests conflict with ours. Awarded the KCMG during the 1980 State Visit.

Speaks good English and French. Ebullient, oversize and still very Neapolitan. Married. His attractive wife is of partly English descent.

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LA PERGOLA, ANTONIO

Minister for EC policy.

Born at Catania in 1931. Graduated in Law from Catania University. Post-graduate studies at Edinburgh (on a British Council fellowship), The Hague, Salzburg, Oxford and Harvard Universities. Author of numerous publications and constitutional law in Italian, English and Spanish. An authority on legal aspects of the relationship between central government and local authorities and that between national and European Community institutions.

President of the Constitutional Court, June 1986 to August 1987. Hosted a visit to Rome by Lord Hailsham, as Lord Chancellor in January 1987. Appointed Minister Without Portfolio by Gorla (August 1987), after nomination by the PSDI.

Married. Quiet. Intelligent. Very good English. Friendly towards UK.

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BIANCHERI-CHIAPPORI, BORIS

Italian Ambassador, London.

Born in Rome in 1930. Degree in Law from Rome University, 1953. Entered Italian Diplomatic Service in 1956. Second Secretary in Athens from 1959-62; Vice-Consul in Toulon from 1962-64; Economic Affairs Directorate, MFA from 1964-68; Office of Special Commission for EXPO 70, 1968-70; Cultural Relations Directorate MFA from 1971-72; London from 1972-75; Secretary-General's office MFA from 1975-78; Private Secretary to Foreign Minister from 1978-80; Ambassador to Tokyo from 1980-84; Director-General for Personnel and Administration from 1984-85. Political Director MFA 1985-87.

Speaks good English and French. Married (Flavia); two children. Engaging and amusing, he is said to be well regarded by Andreotti. Interests: gardening, sailing, swimming, riding horses.

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ANGLO-ITALIAN SUMMIT: 21 OCTOBERInternal SituationPolitical

- De Mita became President of the Council of Ministers in May 1988 following the resignation of Goria. His authority has grown in office. But he faces difficulties: key decisions are required on parliamentary procedures, finances, organised crime and pollution. He has to contend with continued sniping from Craxi, the PSI leader and former Prime Minister (1983-1987) whose ambitions to resume the leadership are undimmed.

- On 13 October De Mita secured the necessary majority to limit the secret vote (which hinders financial discipline; its use brought down the Goria government). Failure to do so would have precipitated a government crisis as Craxi would have withdrawn his party from the coalition. A good beginning.

Bilateral Trade

- Italy was the UK's fifth largest export market in 1987. UK visible exports to Italy £4.1 billion in 1987, 20% up on 1986 giving us a 5.3% share of Italian imports (FRG 21%; France 14%). Results to July 1988 disappointing - £2.3 billion compared with £2.5 billion for January-July 1987.

- UK enjoys good trade relations with Italy although there are some minor irritants arising from Italian protectionist measures. These are being pursued at official level.

Economy

- Italy's fiscal deficit is likely to overshoot the planned L 115 trillion (10.8% of GDP) level in 1988; present trends suggest that if additional restrictive measures are not taken, the deficit could increase to L 140 trillion (13.1% of GDP). The public debt/GDP ratio would consequently rise

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from 93% of GDP at end 1987 to 98% at end 1988, the third highest level in the EC (behind Ireland and Belgium). In accordance with De Mita's medium-term fiscal programme - which aims to stabilise the debt ratio at 106% of GDP in 1992 - the 1989 draft budget, yet to be passed by Parliament, incorporates a reduction in the budget deficit to L 117 trillion (10% of GDP). Expenditure restraint is expected to leave scope for cuts in direct taxes and the deficit; but the debt ratio would continue to rise, to about 101%. The economy nonetheless continues to perform well. Italy is in her fifth year of vigorous growth (expected to be about 3½% in 1988), inflation remains close to 5% and the current account, though slipping deeper into deficit, remains easily manageable. Unemployment, at around 12% (the worst in the G7), continues to cause problems. The unusually lengthy period of economic growth is now raising concerns about overheating, as capacity utilisation has reached high levels and inflation is edging up.

ITALY: Basic Statistics

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		Italy	U.K.
Population (m)	1987	57.3	56.9
GDP (\$bn)	1987	758.1	669.6
GDP per capita			
Market rate (\$)	1987	13,224	11,767
Purchasing power parity (UK=100)	1987	98.0	100.0
<u>Policy targets</u>			
Real GDP growth (%)	1987	3.1	4.6
Inflation (%)	1987	4.7	4.2
	July 1988	4.9	4.8
Unemployed (OECD standardised rate %)	1987	12.2e	10.3
Current account balance (\$bn)	1987	-1.0	-4.1
Volume growth			
Exports (%)	1987	3.1	5.7
Imports (%)	1987	10.6	7.4
<u>Policy variables</u>			
General govt. deficit (% GDP)	1987	-10.5	-1.4
Growth of broad money supply (%)	1987	6.7	21.0
3-month interest rate (%)	1987	11.7	8.2
	August 1988	11.1	12.1
Real effective exchange rate (% change)	1987	1.9	-0.4
	Q2 1988	-3.0	6.7
<hr/>			
Bilateral trade	1986	1987	1988 H1 (1987 H1)
UK exports to Italy (£bn)	3.5	4.1	2.0 (2.2)
UK imports from Italy (£bn)	4.7	5.2	2.7 (2.5)
Trade balance	-1.2	-1.1	-0.8 (-0.3)

Economic Advisers FCO
29.09.88

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UK/ITALY DOUBLE TAXATION CONVENTION

1. The existing UK/Italy double taxation convention dates from 1962, with a protocol in 1973. Talks on a replacement convention originally took place as far back as 1977 but, although a text was initialled that year, no further progress was possible. Negotiations were resumed in 1987. Two rounds of talks followed - in Rome last September and in London in February this year - and a text was initialled at the end of the second round.

Main features of the convention

2. The main features of the proposed convention are as follows.

3. Dividends Companies controlling 10% or more of the voting power in the company paying a dividend to individual investors and other companies, will be entitled to the half and full tax credit given by the other country respectively. This is subject to tax of 5% and 15% of the gross dividend being withheld in each case. This arrangement is reciprocal.

4. Interest Most interest will be subject to withholding tax at 10% in the state in which it arises, although a nil rate will apply in certain cases (such as in connection with the sale on credit of certain industrial, commercial or scientific equipment).

5. Royalties These will be subject to withholding at 8% (again in the state in which they arise).

6. Oil Special rules are included to cover the taxation of offshore activities.

7. Italian local income tax This tax will be covered by the Convention for the first time.

8. General In other respects the convention has been considerably modernised and generally follows the form of our agreements with other developed countries. Certain trading profits not arising through a permanent establishment, profits from shipping, inland waterways and air transport, pensions and the earnings of temporary business visitors and teachers are (subject to certain conditions) to be taxed only in

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the country of the taxpayer's residence. Government salaries and pensions are normally to be taxed only by the paying government. Certain payments to visiting students and business apprentices are to be exempt from tax in the country visited.

9. Income from immovable property and capital gains arising from the disposal of such property may be taxed in the country in which the property is situated as well as in the recipient's country of residence. Capital gains from the disposal of moveable property are to be taxed only in the country of residence of the person making the disposal unless they arise on assets of a permanent establishment or fixed base in the other country.

10. Where income continues to be taxable in both countries, relief from double taxation is to be given by the country of the taxpayer's residence. There are the usual provisions for safeguarding the nationals and residents of one country against discriminatory taxation in the other country and for the exchange of information and consultation between the taxation authorities of the two countries.

Double taxation conventions generally

11. The UK has some 80 double taxation conventions throughout the world. The purpose of the conventions is the elimination or reduction of double taxation and the prevention of fiscal evasion. The structure of the convention with Italy is typical of the UK's conventions generally.

INLAND REVENUE
October 1988

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CONFIDENTIAL**ANGLO-ITALIAN SUMMIT: 21 OCTOBER 1988****BACKGROUND BRIEF FOR PRIME MINISTER
EXTRADITION TREATY****Background**

1. Extradition with foreign states is currently governed by the Extradition Act 1870 which enables extradition arrangements made under bilateral treaties to be embodied in Orders in Council under the Act. The present UK/Italian Extradition Treaty dates from 1873. It has never been amended and for many years it has been recognised that the Treaty has defects. In particular, it does not allow for extradition for offences involving drugs, firearms or explosives. A new draft treaty was initialled in 1970 but the Italians (in whose court the ball lay), failed to take action for many years. They subsequently produced a revised draft in 1983 based mainly on the European Convention on Extradition (ECE), to which the UK cannot accede under the 1870 Act because of the prima facie requirement in the legislation.

2. In 1985, discussions took place on a new Treaty based on the 1970 draft. Agreement was reached and the Treaty was signed by the Foreign Secretary and the Home Secretary at the Anglo-Italian Summit in 1986. The text of the new Treaty was laid before Parliament on 12 June 1986.

Provisions of the new Treaty

3. The main changes between the 1873 Treaty and the new Treaty are as follows:-

- it adds drugs, firearms and explosive offences to the list of crimes for which extradition should be granted;
- it reflects current evidential requirements as clarified in recent judgements of the English courts;
- it provides, in accordance with the wish of the Italians, that the Director of Public Prosecutions may represent the Italian authorities in extradition proceedings in the UK;
- it imports into the text several of the provisions of the European Convention on Extradition and in places is modelled fairly closely on the 1985 Treaty with Spain.

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Present position

4. Although the UK has been ready since 1986 to exchange instruments of ratification, the Italians have taken rather longer to secure the approval of their Parliament. It is understood that their Foreign Affairs Committee have submitted a favourable report on the Treaty and it only remains for it to be considered by the full House but this will not happen before the Summit.

5. Since the new Treaty was signed, the UK has enacted new extradition legislation, in Part I of the Criminal Justice Act 1988, which enables us to enter into extradition arrangements which do not include a requirement for prima facie evidence. When these provisions are brought into force, it will be possible for the UK to ratify the ECE. The Convention can then be embodied in an Order in Council under the 1988 Act and, if there are no Parliamentary objections, this would form the basis of our future extradition arrangements with other countries who are parties to the Convention.

6. The Italians have acceded to the ECE and would obviously prefer this to be the vehicle for extradition with the UK. But the timing of implementation of Part I of the 1988 Act is not yet certain (because of an exercise to consolidate extradition legislation) and it is not clear when we shall be in a position to ratify the Convention. When the Italians have completed their formalities on the Treaty, we shall need to consider with them whether it is worth proceeding with ratification in the light of the likely timing of our accession to the European Convention.

October 1988

C5 Division
Home Office
50 Queen Anne's Gate

LJR:DISK4

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ce D/k
BT

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20/x

Charles Powell Esq
10 Downing Street
LONDON
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19 October 1988

Dear Charles

ANGLO-ITALIAN SUMMIT: 21 OCTOBER (SCIENCE)

As foreshadowed in the main brief provided for Friday's discussion, I attach further background material about the UK's position on CERN prepared in the light of discussions at last week's Committee of Council meeting in Geneva.

We see this as essentially defensive material and do not propose that these questions should be raised from the UK side at this Summit.

I am sending copies of this letter to the Private Secretaries to the Foreign Secretary, the Home Secretary, the Secretary of State for Defence, and the Minister of Trade and to John Fairclough and Mr Manning at the Cabinet Office.

Yours ever,

Tom.

T B JEFFERY
Private Secretary

REVISED SECTION TO THE ANGLO-ITALIAN SUMMIT BRIEF FOR PRIME
MINISTER Scientific, Technological and Industrial

CERN

LINE TO TAKE (Defensive)

New Method of calculating Contributions to CERN

Disappointed that it has not yet proved possible for Italy to agree a fair compromise over the implementation date for the new method of calculating member states' contributions. But understand their budgetary constraints which we also face. Hopeful that there will be a favourable decision very soon (by end October). Important for UK that Italian view is known within next three weeks.

UK'S Membership of CERN

Taking stock of CERN's response to the Abragam report. Some encouraging signs; decision by end December.

Longer term attitude to CERN if UK remains a Member

UK will want to work with new Italian Director General (Prof. Rubbia) to:-

- promote and maintain high quality scientific achievement;
- improve and sustain effective management;
- widen the base of CERN's income to reduce the cost burden on member states.

BACKGROUND

CERN CONTRIBUTION RATES

1. The present method of calculating Member States' subscriptions to CERN fixes the relative proportion of the budget to be met by each Member State for three years, based on the relative (averaged) size of the latest available three year run of NNI figures. Thus, in the last of these three years (e.g. in 1989) the rate is based on NNI figures of 4, 5 and 6 years previously (each of which, importantly, is converted into a common currency for comparison through use of exchange rates prevailing at the time). In the early 1980s the pound was stronger than at present, and hence in pounds sterling the UK is now paying more than its fair share of the budget.

2. The new method of calculating the contribution rate is a rolling one. Each December the relative proportion of the Budget to be paid by each Member State is calculated using the most recent three sets of NNI data, which are compared using a single average exchange rate for the previous July to October. In the short term this will have the effect of reducing the UK's subscription by £8M per annum and will thereafter reduce considerably the volatile effect of exchange rate variations.

IMPLEMENTATION OF NEW SYSTEM

3. Since the contribution rate is constitutionally fixed for 1989, the new method can only be introduced in that year by unanimous agreement of the CERN Council. The only members affected significantly by the change are the UK, who would save £8M (£6M in FY 1989/90), and Italy, who would have to find an additional £10M or so. Hence the Italians have so far vetoed implementation before 1990, pleading budgetary constraints.

4. At the last CERN Committee of Council meeting on 14th October all other Member States agreed that 1989 should be a "transitional year" incorporating a fair compromise (e.g. starting the new system half-way through the year on 1st July 1989). It was left to the President of Council to agree this between Italy and the UK. The only compromise at which the Italians have so far hinted would disadvantage other Member States and be unacceptable to them.

5. Italy are known to be considering their position further in the light of UK assurances about its longer term approach to CERN (if it remains a Member). These were put to the Italian Science Minister, Professor Ruberti, by Mr. Jackson in Rome on October 8th, and in a subsequent letter. We are optimistic Italy will agree to the compromise given adequate co-ordination between the three Ministers involved (Science, Finance, Foreign Affairs).

6. CURRENT AND FUTURE UK CONTRIBUTION COST

1987/88	£56M
1988/89	£54M
1989/90	£47M (estimated - assuming Italian agreement to compromise)
1990/91	£45M (estimated)

CERN - CHANGES ACHIEVED BY UK FOLLOWING ABRAGAM RECOMMENDATIONS

MAIN ACTION AREAS

CHANGES AT CERN

1. Review method of calculating CERN contributions to achieve greater fairness to Member States.

New method favoured by UK approved for 1990. Implementation in 1989 under discussion (see background brief). Saving by UK in 1990 £8M pa compared with 1988. Future payments less affected by exchange rate variations.

2. Introduce Programme of Staff reductions

Staff to be cut by 500 starting 1989 (procedures already under way). Re-structuring to be achieved at no additional cost.

3. Management improvements:

(i) Long term financial plan

4 year rolling budget to be supplemented by forward look covering longer term scientific options and financial profile of future CERN income (from all sources).

(ii) Budget arrangements

New budgetary lay-out to be introduced on lines recommended by UK which will bring out projects costs clearly.

(iii) Project control

New procedures proposed by UK to be adopted covering project appraisal/approval; progress monitoring; and evaluation.

(vi) Personnel Management

New personnel policy under development by CERN Management. Moratorium on indefinite contract awards pending DG's coherent overall policy. UK pressing for clearer cost-efficiency.

(v) New top management

New DG's structure will create clear focus for administrative control. Final version expected at December Council. UK proposals for strengthening Finance/Personnel director welcomed by new DG.

3. Wider membership

Working Group created at UK's request under Spanish Chairmanship. UK proposals among options for future progress. Report back to Council in 1989.

4. Host Country Premiums

FRG President of CERN Council (Dr. Rembser) in the lead with Swiss and French. Informal indication of co-operation from Swiss. UK has informally targeted areas for greater host country assistance.