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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

28 April 1989

Dear Stephen,

PRIME MINISTER'S MEETING WITH THE  
ITALIAN PRIME MINISTER

The Prime Minister had a talk this morning with the Italian Prime Minister. Signor de Mita was accompanied by the Italian Ambassador and Signor Vattani (Diplomatic Adviser). H.M. Ambassador Rome was also present. By far the greater part of the discussion dealt with SNF and economic and monetary union, and was shall we say vigorous (Force 8) rising to indignant (Force 10) at times. It was not always easy to follow de Mita's thought processes which tend to be obscure. A fair amount of what is recorded in this letter is my interpretation of what he meant. I understand that H.M. Ambassador Rome will be letting you have some general reflections on the meeting.

East/West relations

After a brief discussion of reforms in the Italian health service, the Prime Minister asked Signor de Mita about Lech Walesa's recent visit to Rome. Signor de Mita said that Walesa had made some rather unrealistic requests for help in changing Poland's political system. He appeared surprisingly confident about the prospects for a multi-party system. The changes in both Poland and Hungary were very significant. The Prime Minister had, of course, seen Mr. Gorbachev recently. Did he represent real change? Or was it all a sham?

The Prime Minister said that Mr. Gorbachev had done more than she had expected in terms of political reform. But the result was to confront him with a series of new problems, in particular with the nationalities. The real difficulty, as in Poland and Hungary, was that the economy was actually getting worse. There seemed no easy way out of this. It was important that he should begin to show some results from his reforms. Her view was that we should support Mr. Gorbachev in what he was doing in the Soviet Union, while making clear that we would keep our defences

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strong and not respond to bullying or blandishments.

Signor de Mita said that he agreed with the Prime Minister in her positive assessment of Gorbachev and what he was doing, and also that the main difficulties confronting him were economic. This led him to the conclusion that the West must find ways to help Gorbachev. There should be an overall western policy of increasing investment in, and joint ventures with, the Soviet Union in order to help create a genuine market economy there. At the same time we should take Gorbachev at his word when he spoke of his wish to reduce arms. That meant pressing ahead with arms control negotiations. The Russians would need to reach judgments quite soon on the resources they would have to devote to defence over the next five years and we should try to influence that judgement. There were many inconsistencies in Gorbachev's policies, for instance his attempt to introduce democratic principles by dictatorial methods. On balance, he was inclined to think Gorbachev was more likely to fail than succeed. That would certainly happen if the West did not act together to help him. The European Community needed to think more clearly. It was also rather surprising that the United States' Administration gave such an impression of uncertainty and lack of initiative. The Prime Minister commented that the new Administration had indeed taken a measured approach. But they were now coming forward with their policies.

#### SNF

The Prime Minister set out our views on SNF. NATO had guaranteed Europe's freedom for forty years and had never yielded to Soviet pressure. Our most important task was to maintain its strength and unity, giving it the weapons needed to implement the strategy of flexible response to which we were all committed. At the same time NATO had a clear arms control policy involving negotiations for 50 per cent reductions in strategic nuclear weapons, conventional force negotiations and the elimination of chemical weapons. The Soviet aim was to get rid of nuclear weapons from Europe and divide Europe from the United States. This must be resisted. Soviet policy was cynical: they had modernised all their nuclear weapons, including their SNF and were now attempting to prevent NATO from doing the same for its much smaller number of SNF. Unfortunately their efforts in this direction seemed to be succeeding in some NATO countries.

The Prime Minister continued that SNF were vital to the strategy of flexible response. Neither Britain nor the United States could agree to negotiations on them, because such negotiations would lead inexorably to a third zero which would not be in NATO's interests. The right course was to challenge the Soviet Union to reduce its vastly superior numbers of SNF to NATO's levels. We also needed to keep NATO's SNF up to date. She recognised that Chancellor Kohl's political difficulties made it impossible for him to agree at the forthcoming Summit to deploy a successor to LANCE. But the Summit must confirm the requirement for SNF, renew the commitment in the Communiqué of the 1988 Summit to



keep them up to date, and express support for the American development programme. That was the minimum we could do if we were to be in a position to deploy a successor to LANCE in the mid-1990s. She had talked very recently to President Bush and knew that he was very firmly opposed to SNF negotiations. He had our full support on this.

Signor de Mita suggested that we were making the mistake of confusing the basic goals of NATO with the temporary political difficulties of the German Government. The Prime Minister said that this sounded as though Signor de Mita was prepared to sacrifice the needs of defence for political expediency. Signor de Mita protested that this was not what he had in mind. But he did not see why we were making such a fuss about SNF. It did not have to be dealt with in a matter of days. Decisions could be taken in a few months time. After all LANCE was to remain in service until 1995. There was no rush. His main worry was about the position in Germany. We could not ignore the difficulties which the German Government faced, and any alternative to them would be worse. All they wanted was a commitment to open negotiations on SNF once the conventional force negotiations had achieved some concrete results. They were firmly opposed to a third zero. The most important task was to keep Germany in the Alliance and look for a solution on SNF which would achieve this.

The Prime Minister said that she simply could not follow Signor de Mita's reasoning. The German position as set out by Chancellor Kohl in the Bundestag was not as he described it. The Germans said that they remained committed to flexible response. But they seemed unwilling to take the steps necessary to preserve it. Indeed there was little apparent distinction between the policy of the German Government and of the SPD. The centre-right in Germany would not be saved by adopting socialist policies. We were not making unreasonable demands on the Germans. We recognised that they could not at the moment contemplate a decision to deploy a successor to LANCE. But equally we could not accept negotiations which would lead to elimination of SNF and be a victory for Gorbachev beyond his wildest dreams. The issue went to the very heart of NATO and its willingness to defend liberty. For the first time she was beginning to have doubts about Germany's reliability as an ally, although in the last resort she did not think that Chancellor Kohl would want to see Germany separated from the United States. Signor de Mita said that it was precisely this problem he was trying to solve. At all costs he wanted to avoid a division between Germany and the United States at the NATO Summit. That was why there had to be a compromise. The Prime Minister said that Britain and the United States had already compromised by agreeing not to press the issue of deployment. But we could not allow Germany to play with the defence of the West in order to deal with an electoral problem. The position which she had set out was the only one compatible with NATO's security needs. She hoped very much that Signor de Mita would reflect and realise that the right course for Italy was to stand firmly with Britain and the United States against SNF



negotiations. Nothing in Signor de Mita's demeanour suggested that he would reach this conclusion.

#### Economic and Monetary Union

Signor de Mita asked what view the Prime Minister took of the Delors Report. He thought it was rather good. The Prime Minister said that if he accepted the report, it meant that he accepted that the Italian Government and Parliament would have no control in future over Italy's economic, fiscal and monetary policy. It would surrender its sovereignty to faceless men and it would have to pay for the privilege by massive resource transfers to the poorer states. This was the clear implication of the report and in particular paragraph 39, which spelt out that agreement to embark on the process involved a commitment to full economic and monetary union.

Signor de Mita said that he did not see it quite like this. Italy was in favour of a European Central Bank, but only at the end of a long process. Because they believed in political integration, they did not see it as handing over power to some competing authority, but to a body which acted on behalf of Italy as of other European countries. Italy believed in political integration. But in the short term it was more a question of coordinating monetary policy. The Prime Minister said that this did not need any new institutions. It was a question of will. Such coordination was already practised in the G7.

The Prime Minister continued that she could not believe that Signor de Mita was really prepared to leave Italy without the right to determine its own economic and fiscal policies. There was no way she could go to the British Parliament and tell them to surrender their powers in this field. Signor de Mita said that the European Parliament would provide the necessary democratic control. National Parliaments would become like city councils. It was not a question of delegating power, simply of organising it in a different way. Of course the process of integration might take many decades. But if one treated the Delors Report as a vision of the future, then he believed the Community should accept it and begin to move towards the final goal. Otherwise, what had been the point of setting up the Committee. His point of view had wide support in Europe, which might create problems for Britain.

The Prime Minister said that she could not accept this approach. She believed that in practice countries would insist on keeping their sovereignty, just as France did over defence by refusing to integrate its forces into NATO. The right way forward was for sovereign states to cooperate and work together on sound economic and fiscal policies. She did not believe in taking power away from national Governments and Parliaments and handing it over to Central Bank Governors and an unrepresentative European Parliament.



Signor de Mita asked about the Prime Minister's attitude to Treaty amendment. The Prime Minister said that she would not be able to get it through the United Kingdom Parliament. Signor de Mita asked whether the Prime Minister would go along with an Intergovernmental Conference. The Prime Minister said that it required only a simple majority to convene such a conference. But it would be a waste of time since Treaty amendment needed unanimity.

Signor de Mita asked if this meant that the United Kingdom was prepared to stand aside from progress towards economic and monetary union. The Prime Minister said that was not the point. Governments which so blithely accepted the Delors Report were in fact running away from the real issues, such as free movement of capital, and taking refuge in institution-building. The United Kingdom had in reality done much more than its partners. There were plenty of practical steps which could be taken to improve economic and monetary cooperation without amending the Treaty or creating new institutions. Signor de Mita pleaded that economic and monetary union would be a gradual process. No-one was proposing that it be adopted here and now. The Prime Minister disagreed: the Delors Report suggested just this, particularly in paragraph 39. Far from favouring a step by step approach, it required commitment to the transfer of control over economic, monetary and fiscal policy to central institutions. Signor de Mita said there had to be a goal, even if it took a long time to reach it. There would be no compulsion. It sounded as though the Madrid European Council was going to be a lively occasion. Nonetheless he believed that there would be agreement at Madrid. Only if you all agree with me, retorted the Prime Minister. Signor de Mita said he had no objection to the Prime Minister saying that everyone had agreed with her so long as there was agreement.

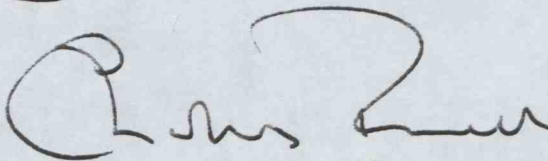
#### Middle East

Signor de Mita gave an account of his visit to Israel and suggested that the European Community could have a useful role in helping Israel to develop its proposal for elections on the West Bank. He hoped there could be a discussion of this at the Madrid European Council. The Prime Minister recounted her discussions with Mr. Gorbachev on the Middle East. She thought that the American approach of drawing out the Israelis and trying to build on their proposals was a sound one. President Bush was determined to make progress and would be ready to press Israel quite hard. Signor de Mita lamented the failure of Europe to develop a common foreign policy. The absence of it was particularly felt in the Middle East. The Prime Minister said that the Venice Declaration of 1981 formed the basis for the Twelve's Middle Eastern policy.

At the end of lunch, the Prime Minister said it was time for Signor de Mita to go back to his politics. Thank goodness they were his and not Europe's. Signor de Mita said that he would much rather they were Europe's than his.



I am copying this letter to Alex Allan (H.M. Treasury), Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office). It should be given a restricted distribution only to those with a need to know.

yours sincerely,  


(CHARLES POWELL)

J.S. Wall, Esq.,  
Foreign and Commonwealth Office.



Meeting Record.

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Subject filed on Italy  
visits of the Italian Prime



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10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

28 April 1989

PRIME MINISTER'S MEETING WITH THE ITALIAN PRIME MINISTER

At the end of the Prime Minister's lunch for the Italian Prime Minister today, De Mita raised the 1992 Genoa Exposition. The United Kingdom was the only European country who had not yet decided whether to attend. He hoped very much that we would do so.

The Prime Minister said that we had been invited to the exposition rather late in the day. We had already made a major commitment to Expo in Seville. De Mita said that the Genoa exhibition would be a more modest affair with a maritime slant. The Italian Government would be providing pavilions free of charge. He did not think that any great expense would be involved. The Prime Minister said that she would look into the possibility of our participation, provided it was clear that we would not be able to make a major financial commitment. At the same time, she would only want us to be present if we could put on a good show. She hoped that, if we did come, the Italians would let us have a decent site. De Mita said that he would do his best to ensure this.

I am copying this letter to Neil Thornton (Department of Trade and Industry) and Carys Evans (Chief Secretary's Office).

C. D. POWELL

Stephen Wall, Esq.,  
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MEETING WITH ITALIAN PRIME MINISTER

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