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RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF ITALY AT 0930 HOURS ON FRIDAY, 16 SEPTEMBER AT No. 10 DOWNING STREET

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Present

Prime Minister

Signor Craxi

Mr. Coles

Mr. Badini

Interpreter

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The Prime Minister said that she was very pleased that Signor Craxi had been able to visit London. She was sorry that it had not been possible to set aside more time for the meeting. Signor Craxi thanked the Prime Minister for her kind welcome. He hoped that it would be possible to arrange a summit in Italy before the end of the year. The Prime Minister explained the difficulties which made it unlikely that she could visit Rome before the end of December but said she would seek to do so early in the New Year, perhaps in January. Signor Craxi said that Italy was even more beautiful in the Spring.

The Prime Minister observed that she would be meeting Signor Craxi again at Athens in December. That session of the European Council could be very difficult. Matters were not made easier by the performance of the Greek Presidency whose views on foreign affairs seemed very different from those of the other nine member states. The case of the Korean airliner had demonstrated this vividly. Signor Craxi said he found the Greek attitude incomprehensible.

The Prime Minister commented that Signor Craxi doubtless knew Mr. Papandreou very well. She was sure that it would be helpful if he were able to discuss the difficulties with the Greek Prime Minister. Signor Craxi said that he had of course been in touch with Mr. Papandreou and, for example, had discussed the problem of INF deployment with him. It was important to remember Papandreou's background. He had been a marine in the US Navy and was married to an American. But he now felt a strong

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hostility towards the United States because, in his view, his family had been persecuted by those whom the US had protected in Greece.

The Prime Minister said that Greece was formally a member of the European Community but psychologically did not behave as one. Signor Craxi commented that departure from the Community was not an option for Greece. The Prime Minister agreed. That option had been the subject of argument in Britain but the argument was now over. In today's dangerous world the European states had to work together. And in today's world economic situation it was best that they were able to negotiate as one.

At the Prime Minister's invitation, Signor Craxi described the current economic situation in Italy. It was difficult to comprehend the realities of the Italian situation. Statistics did not tell the truth. The statistics on production underestimated the true figure by 25%, because of the black economy. The unemployment statistics, which gave a total of 2½ million unemployed, could not be believed either. Italy had always been an exporter of labour. In addition, there were between half a million and one million foreign workers in the country. Italians were not prepared to accept certain types of jobs. It was a fact that if the construction industry began to revive, labour would have to be imported. The only reliable statistic was that relating to the national debt. The budget deficit was too large and was increasing quickly. This was the critical problem and it was difficult to solve. But the economic situation was less critical than appeared and he intended to get that message through to the Italian people.

The government had a framework agreement with the trade unions under which the unions would respect a programme for reducing inflation to 13% this year and 10% next. Most of the wage agreements in this wage round had already been signed.

The Prime Minister asked whether the unions had agreed to keep wage increases below the rate of inflation, for this was the crucial point. Signor Craxi replied that their agreement

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was to respect the target of 13% inflation this year.

The Prime Minister observed that we had just set a target of 3% for public sector wage increases for the coming year. But Germany and Japan had been even more successful than we had.

Signor Craxi said that the real problem was that the modernisation of industry created unemployment. The Prime Minister agreed that this was true in the early stages of modernisation but later on the new technologies created new products. Signor Craxi said that the Italian economy had weathered recent years as well as it had because of the role of small and medium sized businesses. Similarly, exports had held up well and the country had a positive balance of payments at present, despite the fact that it imported large quantities of oil and food. Italy exported robots, for example to the United States. All in all, he was rather optimistic about the economic future. He was very willing to develop co-operation with other European countries. Italy's exports to the Arab countries were strong though they had decreased a little because of the Iraq/Iran conflict. There was substantial trade with the strange Colonel Qadhafi. An important gas supply contract had been signed with Algeria. He believed that Italy could do a great deal of business with North Africa.

There were problems in trade with the Communist countries. The Russians continued to press Italy hard on the gas pipeline. Italy needed gas but he had no liking for the Soviet Union. Trade with China was just beginning.

The Prime Minister asked Signor Craxi for his fundamental views on the Soviet Union. As she saw it, the Soviet desire to spread Communism the world over by one means or another was still strong. There had been an enormous military build-up, far greater than was needed for defensive needs. Other features were internal oppression and the isolation of Soviet leaders. If they had not been so isolated they would never have acted as they had to the Korean airliner disaster. They had made a terrible mistake. They should have admitted it straightaway and paid compensation. But because of their isolation,

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they had not been able to act in this way. The incident had also shown the alarming nature of the command structure of the Soviet armed forces and of the rules of engagement under which they worked. In that the decision seemed to have been taken without reference to the political leaders, the shooting down of a military aircraft would have been almost as bad. It worried her that Andropov had never set foot in a free country.

Signor Craxi said that Andropov had nevertheless sent his agents, perhaps even his killers, to free countries. In his view, Communism was a modern form of oriental despotism. In the Soviet Union there was a strong nationalist element as well. He did not believe that the Soviet population were oppressed for they accepted the system. But the other peoples of the empire were being oppressed. This was the greatest problem of our time. As to isolation, this was what the Soviet leaders preferred. Italy had shown great friendship towards the Soviet Union which still owed Italy \$5 billion which had been lent at very low interest rates in the past. But this did not affect the basic Soviet attitude towards Italy. He had found their behaviour over the Korean airliner terrifying. Stalin had used to tell his generals not to worry about Europe which would tolerate anything. And indeed, perhaps in a few weeks time Europe would have digested the incident.

The Prime Minister said that she believed that people now understood more accurately the nature of the Soviet system. As to Signor Craxi's remarks about the oppression of the Soviet people, it was a fact that they had no opportunity to change the system. She did not expect to see fundamental change in her time but the Russian people would continue to be dissatisfied with the ideology and with the poverty which was found outside the cities. Modern technology now allowed a tyrant to maintain a monolithic system with greater ease. But, in the light of the incidents which occurred from time to time - in East Germany, Hungary, Czechoslovakia, Afghanistan - what should our attitude be? Signor Craxi said that he wondered which country was next on the list. There were areas of tension now, for example in Africa, in which we might see further Soviet

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expansion. The West must not consent to any more expansion. It should divide up tasks among individual Western countries to prevent this. It was not just a military question but one of economics and politics. We needed a sound strategy for the next 15 years, during which time the Soviet Union would try to encircle Europe by cutting off its sources of supply.

The Prime Minister then raised the question of the INF negotiations. Despite Soviet propaganda, the West had remained firm. We would deploy the INF missiles on time. Signor Craxi asked what, in our view, the Russians now expected to get out of Geneva since they knew that the West would not change its views. The Prime Minister replied that she thought they still hoped, by propaganda, to delay deployment. Signor Craxi said that there was no question of Italy changing its mind but the Russians knew this. He believed that they were trying to exploit pacifist feelings. They were organising some parts of the Peace Movement. The Prime Minister commented that they were also active in the World Council of Churches. Their main effort was to try to present the Western position as being unreasonable. This created a need for us to present the issues regularly to public opinion.

Signor Craxi said that the question of the French and British deterrents appeared to be a strong point for the Soviet Union. He had discussed this matter on the previous day with President Mitterrand. The latter had said that he did not use the hypocritical Gaullist argument that the French strategic force was aimed in all directions. He preferred to admit that it was concerned with the threat from the East but it was a strategic force, based mainly on submarines (there were only 18 strategic missiles on French territory). Therefore, if negotiations began on strategic weapons and included not only French but American and Russian submarines and missiles, France could participate. But these weapons, which at any given time could be as far away as the Pacific, could not be included in the INF talks. What was the Prime Minister's view?

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The Prime Minister said that President Mitterrand was correct to argue that strategic weapons could not be included in the Geneva negotiations. They were last resort weapons with a strategic purpose. It would be ridiculous to include them in the INF negotiations when some 2,000 Soviet strategic missiles were excluded.

But President Mitterrand's apparent willingness to participate in negotiations about strategic weapons raised the question of what he would actually do when such negotiations occurred. It was very unlikely that the United States Congress or the American people would ever be prepared to have fewer strategic weapons than the Soviet Union. But if the French and British deterrents were counted in, the Americans would end up with less than the Russians. She would have to discuss this matter with the French President.

Signor Craxi said that he would be more precise about President Mitterrand's position. Mitterrand would not ask for negotiations. But if they were proposed he did not exclude the idea of participation. But he would then say that the French deterrent was of minimum irreducible size and that others must consequently make reductions before France did. The Prime Minister agreed that the French and British deterrents were the irreducible minimum. But to include them in negotiations raised the difficulties which she had already described. It had to be borne in mind that the Soviet Union might try to pick off Western countries individually. That meant that we must have our own deterrent. We did not intend to become involved in negotiations without having thought through all the implications very carefully. Our position was that if the number of strategic weapons was enormously reduced, and we saw no possibility of that at the moment, then a new situation would have been created. Meanwhile, our deterrent was the irreducible minimum. She was sure that President Mitterrand agreed with this analysis but she would discuss the matter with him.

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The Prime Minister then expressed the hope that the development of the EH101 helicopter could proceed quickly. Signor Craxi said that at the first meeting of his Council of Ministers a week ago, the necessary Bill had again been approved. It would now have to go through a difficult Parliament. The Italian Government would exercise as much pressure as it could but it was difficult to forecast how things would go.

At 1040 Foreign Ministers and officials joined the discussion.

A. J. C.

16 September 1983

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