

cc. Sir C. Tickell 3

GRS 1200
CONFIDENTIAL
FM ROME
TO IMMEDIATE FCO
TELNO 035
OF 201500Z JANUARY 1984

CONFIDENTIAL

ESID ✓
RD. ✓
SM

INFO SAVING PARIS, BONN, WASHINGTON, UKDEL NATO, UKREP BRUSSELS,
MOSCOW, HOLY SEE (ACTIONED), CONSULATES-GENERAL AND CONSULATES
IN ITALY (ACTIONED).

ANGLO-ITALIAN SUMMIT, 26/27 JANUARY: CRAXI GOVERNMENT

SUMMARY

1. CRAXI IS MORE CONCERNED BY DOMESTIC POLITICAL PROBLEMS
THAN HE WAS BEFORE CHRISTMAS, BUT HIS GOVERNMENT IS IN NO
IMMINENT DANGER OF FALLING. ITALY'S ECONOMIC PROBLEMS ARE UNCHANGED.
IN FOREIGN POLICY ITALY'S LEBANESE COMMITMENT CAUSES MOST
ANXIETY. FOR EC MATTERS SEE MIFT: THEY ARE ALMOST THE ONLY
CLOUD IN ANGLO-ITALIAN RELATIONS.

DOMESTIC POLITICS

2. ALL THE COALITION PARTIES ARE NOW PREPARING FOR CONGRESSES
THIS SPRING. THE EUROPEAN ELECTIONS IN JUNE ARE ALSO BEGINNING
TO INFLUENCE THE POLITICAL SCENE, AND THE LAY PARTIES HOPE TO MAKE
SLIGHT GAINS AT THE EXPENSE OF THE DC AND PCI. CRAXI HAS LITTLE
SUCCESS TO SHOW AT HOME, AND THIS PARTLY EXPLAINS HIS CONCENTRATION
ON FOREIGN POLICY SINCE TAKING OFFICE. INSTITUTIONAL REFORM, A PSI
RALLYING CRY BEFORE LAST YEAR'S ELECTIONS, LOOKS AS ELUSIVE
AS EVER: CRAXI'S ONLY INNOVATION SO FAR IS THE CREATION OF A
SMALL INNER CABINET. NONE OF HIS GOVERNMENT'S MEASURES HAVE HAD
A SOCIALIST STAMP. CRAXI'S HOPES THAT A NEW CONCORDAT COULD SOON
BE SIGNED WITH THE VATICAN HAVE BEEN SET BACK BY CRITICISM FROM
OTHER LAY PARTIES, WHO INSIST ON

A FULL PARLIAMENTARY
DEBATE BEFORE SIGNATURE. ORGANISED CRIME IN THE SOUTH IS
AS ACTIVE AS EVER. IN SEVERAL CITIES (NAPLES, TURIN) AND
REGIONS IT HAS NOT BEEN POSSIBLE TO FORM NEW LOCAL ADMINISTRATIONS.
ALL THIS GIVES THE PUBLIC AN IMPRESSION THAT CRAXI AS PRIME
MINISTER IS SURVIVING RATHER THAN DOMINATING: AS THE EXCITEMENT
OF SEEING HIM BECOME THE FIRST SOCIALIST PRIME MINISTER WEARS
OFF, HIS SUPPORTERS WILL BEGIN TO EXPECT TANGIBLE RESULTS.

3. NEVERTHELESS CRAXI'S POSITION IS STRONGER THAN IT APPEARS,
AND PSI LEADERS ARE REASONABLY CONFIDENT THAT HE WILL LAST
LONGER THAN THE NORM. PSI SUPPORT IS ESSENTIAL FOR ANY GOVERNMENT
TO HAVE A MAJORITY IN PARLIAMENT, AND IF CRAXI WERE UNSEATED
THERE IS NO GUARANTEE THAT HE WOULD BACK A SUCCESSOR FROM ANOTHER
COALITION PARTY. THE PCI ARE PREOCCUPIED BY INTERNAL DEBATES
AND DO NOT (NOT) WISH TO LAUNCH AN ALL OUT ATTACK ON THIS GOVERN-
MENT, PARTLY BECAUSE THEIR LONG-TERM STRATEGY, AT PRESENT MORE

CONFIDENTIAL

/HOPE

HOPE THAN EXPECTATION, DEPENDS ON REACHING AN UNDERSTANDING WITH THE PSI. THE DC NEED TIME TO RECOVER FROM LAST JUNE'S ELECTORAL SHOCK, AND ARE ANYWAY ABSORBED BY PRE-CONGRESS MANOEUVRING: MANY OF THEIR TOP FIGURES, INCLUDING ANDREOTTI, HAVE THEIR EYE ON THE PRESIDENTIAL ELECTIONS DUE IN 1985 AND ARE NOT ANXIOUS TO ROCK THE COALITION BOAT. THE ONLY FORESEEABLE THREAT TO CRAXI IN THE NEAR FUTURE IS FROM SPADOLINI, IF HE PERSUADES HIS REPUBLICAN PARTY THAT THEY SHOULD LEAVE GOVERNMENT (AS THEY DID IN LATE 1982) TO INCREASE THEIR ROOM FOR MANOEUVRE BEFORE THE EUROPEAN ELECTIONS. THE PRETEXT WOULD PROBABLY BE THE ECONOMY. BUT TIME IS SHORT FOR SUCH A MANOEUVRE.

ECONOMY

4. THIS IS STILL CRAXI'S BIGGEST HEADACHE. THE GOVERNMENT HAVE HAD TO ACKNOWLEDGE CONTINUED GAPS BETWEEN TARGETS AND LIKELY OUTTURN, ESPECIALLY FOR THE PSBR, DESPITE THE ECONOMIC MEASURES ADOPTED SO FAR. THEIR MAIN EFFORT IS NOW DIRECTED TOWARD THE ACHIEVEMENT OF A REVISED PAY AGREEMENT LIMITING EARNINGS TO THE INFLATION TARGET RATE OF 10% IN 1984. PROSPECTS OF AN EARLY AND EFFECTIVE DEAL WITH THE DIVIDED UNIONS ARE POOR. CRAXI APPEARS TO BE LESS CONCERNED THAN GORIA (TREASURY MINISTER) ABOUT THE SIZE OF THE PSBR (ON VERY BEST ASSUMPTIONS LIKELY TO BE 15% OF GDP IN 1984), COUNTING INSTEAD ON GROWTH IN ITALY'S EXPORT MARKETS (INCLUDING UK) TO PULL ITALY OUT OF RECESSION, WITHOUT THE NEED FOR COUNTER INFLATIONARY MEASURES. THE REPUBLICANS ARE CRITICAL, BUT IF A PAY AGREEMENT IS CONCLUDED CRAXI WILL PROBABLY BUY HIMSELF A PERIOD OF GRACE.

FOREIGN POLICY

5. CRAXI'S ENERGY IN THIS FIELD HAS BROUGHT HIM FEW REWARDS, AND HIS UNCOMFORTABLY AWARE OF ANDREOTTI'S GREATER EXPERIENCE. NEVERTHELESS HE ENJOYS INTERNATIONAL MEETINGS AND THE CHANCE OF MEETING WORLD LEADERS AS EQUALS. ON SEPARATE ISSUES :

A) LEBANON. THE ITALIAN GOVERNMENT REMAIN CONCERNED ABOVE ALL BY THE PROSPECT OF SERIOUS LOSSES AMONG THEIR MNF CONTINGENT. HENCE THEIR CAUTION ABOUT GEMAYEL'S SECURITY PLAN AND THEIR KEENNESS ON AN INCREASED UN ROLE. REDUCTION OF THEIR MNF CONTINGENT TO 1500 MEN HAS TEMPORARILY APPEASED THEIR DOMESTIC CRITICS BUT THEY CANNOT AFFORD A LONG DIPLOMATIC STALEMATE. SPADOLINI IS UNDER PRESSURE FROM THE MILITARY FOR BETTER LOGISTIC SUPPORT IF THE ITALIAN CONTINGENT STAYS (BUT WE DO NOT EXPECT THE QUESTION OF AIR COVER TO BE RAISED AT THE SUMMIT). UK AND ITALIAN VIEWS APPEAR LARGELY TO COINCIDE.

B) EAST/WEST. CRAXI IS CONCERNED BY THE PRESENT LACK OF DIALOGUE BETWEEN THE TWO SUPER POWERS, AND SHARES ANDREOTTI'S ENTHUSIASM FOR THE CDE PROCESS. HE IS ALSO KEEN ON BILATERAL INITIATIVES, AND STILL HOPES TO VISIT HUNGARY THIS SPRING. AT HOME THE PEACE MOVEMENT REMAINS INEFFECTIVE AND DEPLOYMENT OF CRUISE MISSILES AT COMISO SEEMS UNLIKELY TO CAUSE THE GOVERNMENT DIFFICULTY.

2
CONFIDENTIAL

(c) ARGENTINA

C) ARGENTINA. CRAXI, WHO ATTENDED ALFONSINI'S INAUGURATION, FAVOURS NEGOTIATIONS BUT HAS NO CLEAR IDEAS. IN SEEKING A ROLE FOR HIMSELF HE MAY HAVE ONE EYE ON POTENTIAL ITALIAN VOTES IN LATIN AMERICA, IF THE BILL ON FOREIGN VOTING EVER PASSES. WE SHALL ENSURE THAT THE ITALIANS UNDERSTAND OUR POSITION BEFORE THE SUMMIT. THEY HAVE INFLUENCE IN BUENOS AIRES AND COULD BE HELPFUL.

D) TRANSATLANTIC RELATIONS. CRAXI VALUES HIS LINKS WITH WASHINGTON AND HIS INSTINCT IS TO MEDIATE IN ANY CLASH OF INTEREST BETWEEN EUROPE AND THE UNITED STATES. HE KNOWS THAT LOSS OF AMERICAN CONFIDENCE WOULD WEAKEN HIS DOMESTIC POLITICAL POSITION. HE AND ANDREOTTI SHOULD WELCOME A DISCUSSION OF HOW TO MANAGE US/EUROPEAN RELATIONS IN AN AMERICAN ELECTION YEAR.

CONCLUSION

6. CRAXI IS ENJOYING HIS PRIME MINISTERSHIP AND GAINING EXPERIENCE. HE HAS MADE LITTLE IMPACT ON THE FUNDAMENTAL PROBLEMS, BUT THAT IS NOT HOW SUCCESS IN ITALIAN POLITICS IS USUALLY MEASURED. HIS CONFIDENCE IS UNDIMINISHED AND HIS TOUGHNESS WILL RE-EMERGE WHEN HE FACES HIS FIRST SERIOUS DOMESTIC CHALLENGE. HE WILL APPRECIATE A FRANK EXCHANGE WITH THE PRIME MINISTER, AND IS ENOUGH OF A PRAGMATIST TO CONSIDER OUR ARGUMENTS ON THEIR MERITS.

7. INF MATTERS AND THE LEBANON ARE ALREADY THE SUBJECT OF REGULAR HIGH-LEVEL DISCUSSION SO THIS MAY BE THE MOMENT TO LOOK AHEAD IN OTHER FIELDS, EG THE CDE, US/SOVIET RELATIONS, US/EUROPE AND THE LONDON ECONOMIC SUMMIT WHICH BOTH THE PRIME MINISTER AND THE CHANCELLOR MAY WISH TO RAISE. ON EC MATTERS (MIFT) THE ITALIANS HAVE NOT BEGUN TO FOCUS ON THE POST-ATHENS DOSSIER, AND WE SHALL NEED TO TAKE THE LEAD IN DISCUSSIONS. RECNET PROGRESS ON THE EH 101 AND A REFERENCE TO THE FIRST ROUND TABLE MEETING EXPECTED TO TAKE PLACE IN THE SPRING SHOULD GIVE OUR BILATERAL RELATIONS A USEFUL IMPETUS.

8. FCO PLEASE PASS SAVING ADDRESSEES.

BRIDGES

LIMITED

WED

NEWS.D

PUSD

INFO.D

ECDC(I)

ECDC(E)

PS

PS/LADY YOUNG

[REPEATED AS REQUESTED]

PS/MR. WHITNEY

PS/PUS

SIR. J. BULLARD

MR. JENKINS

3
CONFIDENTIAL