Record of Plenary Meeting at the Anglo/Italian Summit, 1130 am, 27 January

Present:

The Prime Minister

The Rt. Hon. Geofrey Howe, QC, MP

The Rt. Hon. Nigel Lawson, MP.

The Rt. Hon. Michael Heseltine, MP

The Rt. Hon. Michael Jopling, MP

HM Ambassador

Sir J. Bullard

Sir C. Tickell

Mr. D. Williamson

Mr. A.J. Coles

Mr. R.B. Bone

Mr. B. Ingham

Mr. T. Richardson
(Notetaker)

On Bettino Craxi,
President of the Council

On Giulio Andreotti

Sen Giovanni Spadolini

On Giovanni Gōria

On F.M. Pandolfi

Amb. Cagiati

Amb. Bottai

Amb. Ruggiero

Amb. La Rocca

Prof. Acquaviva

Cons. Badini

Cons. Visconti (Notetaker)

Sig. Craxi, after a brief welcome, invited Sig. Goria to speak. Sig. Goria said that he and the Chancellor had discussed three questions. They had considered international monetary and debt problems, and the respective contributions of the Group of Ten, the IMF and the London Economic Summit. The two sides were in broad agreement and would continue to collaborate. Both sides had reiterated their known positions on the European Community, but had expressed a common desire to work for its recovery. There had also been an exchange of information on Anglo/Italian bilateral matters. The Chancellor of the Exchequer agreed that both sides had set out their positions clearly on the Community Budget.

/ Sig. Craxi

Sig. Craxi said that it was important to define beforehand what might be agreed upon at the Brussels Summit. Otherwise there was a high risk of failure. We needed to adopt a different approach to that of Athens, where every problem had still been pending when Heads of Government met.

Sig. Pandolfi reported on his meeting with Mr. Jopling. Both Governments had decided to comply with the ECJ ruling on the tax treatment of alcoholic products. Both were willing to eliminate discriminatory treatment. Sig. Pandolfi said that Mr. Jopling had explained that the British Government envisaged the introduction of measures to comply with the ECJ ruling, though clearly their precise nature would depend upon Cabinet decisions. The Italians, for their part, wanted to phase in changes over a period, and thought that further technical talks might be necessary. Turning to Community matters, Sig. Pandolfi noted that while the two sides were agreed on the need to eliminate CAP surpluses, they differed on methods and timing. The Italian view was that the CAP had taken many years to evolve, and it was not necessary to implement all measures of reform by the end of 1984. Even if the CAP were in deficit by then, EC Ministers could consider action under Article 200 of the Treaty, which concerned transitional and exceptional national contributions to bridge a shortfall. The British side, for its part, had advocated a strict financial guideline. The two sides agreed, however, that early decisions were needed; if the milk surplus had been tackled earlier the problem would not now be so serious.

Mr. Jopling noted that Britain intended to comply with the ECJ ruling within one year of its enactment. He was disturbed that Italy might not comply before 1 January 1987, 4½ years after the ECJ decision in respect of Italy. While technical talks were possible, the two governments could not reopen or contest the Court's decision. On the CAP, Britain believed that the overproduction of food and the Budget deficit were problems to be resolved quickly. The Italian side had suggested a mixture of cutting some CAP expenditure, increasing revenue through an oil and fats tax, and special financial

/ contributions.

contributions. Mr. Jopling said he doubted whether the British Government or Parliament would ever agree to this, and in any case a phased solution would not resolve the crisis.

Mr. Lawson said that he had received a different impression from Sig. Goria of the Italian position on spirits taxation. He understood that the 18% VAT difference between whisky and grappa would disappear in stages, with an initial 6% cut. Sig. Pandolfi intervened again to distinguish between excise duties, which the Italians were prepared to abolish immediately, and the VAT differential, where the different cost structures of Italian and British spirits caused Italy some difficulty.

Sig. Andreotti said it was important to find solutions to the Community's problems before the March European Council. He agreed that no member should increase the production of milk, with the possible exception of Ireland. But production should only be reduced in those countries which had caused the surpluses in the first place - not Italy, which was a net importer. The comparison with Italian oranges would not run because only 2% of Community consumption of oranges outside Italy consisted of imports from Italy. Turning to the proposed oil and fats tax and to cereal substitutes, he wondered whether the Community could find a compromise solution. Perhaps only one tax could be introduced, and not the other.

Sig. Spadolini said that he and Mr. Heseltine had agreed on the importance of good US/European relations and of European collaboration on conventional armaments production and procurement. He was glad that the EH 101 project had reached the development stage on time. Italy was particularly interested in the coproduction and standardisation of armaments.

Both he and Mr. Heseltine had recently been to Beirut; the two sides were agreed about the problems they faced there and about their common objectives. Mr. Heseltine concurred.

The Foreign and Commonwealth Secretary said that he and Sig. Andreotti were agreed that there was no advantage in delaying a solution to the Community's crisis. While he believed that all members would have to take action to prevent surpluses, he had concentrated in his talks on identifying areas of common interest between Britain and Italy. The abolition of MCAs, or movement in that direction, might be one such common interest. Another might be the need to find a compromise over cereals; both Britain and Italy were food importers, the non-budgetary costs were high, and there was a common interest in restraining prices to bring production down. We must try to build on this. New policies and technological collaboration were also important.

Sir Geoffrey Howe accepted, however, that British and Italian interests did not coincide over the Budget. The UK net contribution had reached some 2800 m ECU in 1982, while Italy had had a net benefit of 1600 m ECU. Britain could not accept any increase in own resources that was not accompanied by changes in the budgetary arrangements. We must build on areas in common, but also recognise that all aspects of the negotiating dossier were linked and that an agreement on own resources was simply not possible in isolation.

Sig. Andreotti said that the two sides had also discussed Stockholm and the enlargement of the Community, where it was important that Spanish entry problems were resolved before the Referendum on NATO that had to be held within the lifetime of the present Spanish Parliament. On Community finances, it was important to avoid oversimplifying the issue by talking only of what member states gave and received. Italy was not self-sufficient in food and spent far more by not buying on the free market. It should not be forgotten that Community had granted preferential arrangements to the Maghreb countries and others. These had hurt agricultural production in Italy, Greece and to an extent Southern France. Community support for Mediterranean agriculture was small-scale, and Italy needed some compensation.

The Prime Minister suggested a brief discussion of the line to take at the press conference. It was clear that we all wanted a settlement in Brussels, but we must not underestimate the difficulties and raise unnecessary expectations. We might say that there were big problems to be solved, Britain and Italy had some interests in common, elsewhere they diverged, but we would both work for a solution. She proposed to reply to questions on the Falklands simply by saying that there had been a brief discussion. Sig. Craxi agreed.

A.J.C.

27 January, 1984.