

RECORD OF PLENARY MEETING: ANGLO-ITALIAN SUMMIT  
AT 10 DOWNING STREET ON 19 OCTOBER AT 12 NOON

Present:

The Prime Minister	On. Bettino Craxi
The Rt. Hon. Geoffrey Howe	On. Giulio Andreotti
The Rt. Hon. Nigel Lawson	On. Giovanni Goria
The Rt. Hon. Michael Jopling	On. F M Pandolfi
Mr. Geoffrey Pattie	On. Renato Altissimo
and officials	On. Clelio Darida
	and officials

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The Prime Minister reported on her discussions with Prime Minister Craxi, which had covered the international political and economic situation and Italy's forthcoming Presidency of the European Community. Signor Craxi had described his strategy as being to pay more attention to the industrial and commercial aspects of the Community, to counterbalance the excessive emphasis placed on agriculture in the past. This was an ambitious but timely objective. Europe must be economically successful and politically stable in order to attract investment from outside. By the end of the year we should have settled the question of enlargement and the Community's major internal problems. The Italian Presidency would therefore be an opportunity to chart a course for the Community's future development.

She and Signor Craxi had also discussed unemployment, new technology, East/West relations and the need for the Community countries to help the Eastern European countries over trade so as to avoid their over-dependence on the Soviet Union. They had agreed that the Ten should be ready to help in any way they could to support a US initiative in the Middle East after the US Presidential election. Signor

Craxi agreed with the Prime Minister's summing up.

The Foreign and Commonwealth Secretary summarised his discussions with Signor Andreotti. They had agreed on the importance of the forthcoming WEU Ministerial meeting in Rome in showing that the European countries were serious about their defence cooperation. This should help to convince the US that they were pulling their weight. They had agreed on the importance of looking for further possibilities of industrial collaboration, building on the good start in the EH101 helicopter. He had thanked Signor Andreotti for Italy's role as protecting power in Libya. They had reached a clear understanding of the position regarding British detainees in Libya. They had agreed that there would be a window of opportunity over the Lebanon after the US elections and that the Ten might have a contribution to make in the Arab/Israel dispute. Signor Andreotti had outlined the Italian position on the Falklands debate in the UN, viz. that as things stood there should be no change from last year. They had agreed on the importance of concluding the accession negotiations with Spain and Portugal. Signor Andreotti had reported Herr Genscher's view that, provided the process of ratification of enlargement was complete by the end of the summer in all the Community countries, Germany could agree to advance a decision on the introduction of Own Resources by three months into 1985. They had agreed on the importance of budget discipline, and of pressing ahead with the liberalisation of the internal market. Signor Andreotti had questioned the wisdom of pricing oil exclusively in dollars. They were all agreed on the explosive potential of the Cyprus problem and the need for pressure on all sides to the dispute in support of the efforts of the UN Secretary-General. They had discussed the situation in Malta.

Signor Andreotti commented that the Ten should consider

during the period of the Italian Presidency some action on the Arab/Israel dispute on the lines of the Venice Declaration. The problem of enlargement of the Community was a political one which must now be resolved by a package deal involving sacrifices by all.

The Chancellor of the Exchequer summed up his discussions with Signor Goria. There were no bilateral problems (the problem of taxation on whisky having been solved previously). Signor Goria had outlined the background to his recent budget. The burden of debt interest was a major problem. He was determined to reduce this as a percentage of GDP by a stringent fiscal policy. This was a tough task, requiring close monitoring. By 1988 he aimed to reduce the overall budget deficit to 8 per cent of GDP. The Chancellor had explained that his fiscal objectives were similarly tight, although he was aiming for a budget deficit of less than 3 per cent of GDP this year (compared with about  $3\frac{1}{4}$  per cent last year). The sale of public sector assets would help to achieve this: Signor Goria had similar plans though on a smaller scale.

On Community affairs the Chancellor had stressed the importance of reaching early final agreement in Ecofin on budget discipline, and of not reopening the issues already agreed. He referred particularly to the need to adopt a form of text that would bind the Council. Signor Goria thought that the present text, which reflected much compromise, would be sufficiently binding and saw difficulty in persuading the French to lift their reservations. He had referred to the importance of relations with the Parliament, and expressed concern that if agreement was not reached soon, some countries might start to back away from the Fontainebleau agreement. The Chancellor had stressed that this must not be allowed to happen. He had said it would be useful to have from the Commission a clearer explanation of the practical effects of the present

proposals for agricultural spending.

The Prime Minister expressed admiration for Signor Gorla's achievement in reducing Italian inflation so far this year.

The Minister of Agriculture said that his discussions with Signor Pandolfi had concentrated on three topics:

- (i) The 1985 price fixing, where they were in broad agreement. 1984 had been a turning point in the evolution of the CAP and there must be no retreat from that. Guarantee thresholds must be made to work. The UK would prefer to attack the milk problem through prices rather than through quotas. They had agreed that there was a need in the medium term for a broad look at the future development of the CAP.
- (ii) The milk quota scheme. Signor Pandolfi had explained Italy's particular difficulties in implementing the arrangements agreed in March. Italy had a large number of farms with less than ten cows. They would, however, soon be slaughtering 100,000 cows and hoped to bring production below the quota agreed in March. Mr. Jopling had explained that Britain would find itself in an impossible position if any country failed to abide by the arrangements previously agreed in March.
- (iii) The wine problem. Spanish accession made it urgent to find a solution. They had agreed that this must be based on a balance of structural and market measures and that it would be necessary to find a solution for the problem posed by enrichment of their wine by some countries.

Signor Pandolfi added that the wine problem was essentially a bilateral issue between France and Italy. Italian table wine was more competitive than French. Italy understood French preoccupations but could not accept a system of physical quotas. He added that Italy and Britain shared a large measure of agreement on the approach to the future of the CAP, and on the direction to be taken during Italy's Presidency. 1984 had seen major cuts in agricultural expenditure. It was important now to give farmers something to look forward to.

Mr. Pattie reported that he and the Ministers of Industry and State Shareholding had a useful exchange about the current international climate for trade and industry. They agreed on the importance of bilateral and Community cooperation to promote policies which would expand world trade and help to meet the challenge of the international market place and provide higher levels of employment. They agreed that the EC should lead the way in implementing acceleration of tariff cuts agreed in the Tokyo round, and that enlargement of the Community must provide early expansion of its industrial market. This meant cuts in high Spanish tariffs (especially duties on car imports). There would also be problems over the excessive capacity and subsidisation of the Spanish steel industry. They welcomed the opportunity of the Italian Presidency of the Community to promote a single internal market in goods and services. They identified as priorities, streamlining clearance of goods at the frontier; simpler procedures to secure the health and safety standards of manufacturers; cooperation in telecommunications, information technology and advanced manufacturing technology - particularly establishing Community standards to facilitate cooperation between enterprises and help to open up the purchasing policies of public utilities and other major customers in the private sector. They agreed to work further together on these issues in preparation for action during the Italian

Presidency. They shared concern about the current German proposals to control vehicle emissions, which threatened to fragment the Community car market.

The Ministers had welcomed the evidence of Anglo-Italian industrial cooperation, e.g. the EH101 helicopter, and the recent links between Racal and Selenia; and Plessey and Electronica. They agreed to pay close attention to each other's existing civil and defence high technology products: on the Italian side the Al29 helicopter, on the UK side Plessey's latest switching system, the Westland 30 helicopter, and Sea Harrier; and telecommunications on both sides. Bilateral cooperation should lead wherever possible to wider European cooperation to ensure the necessary economies of scale. They stressed the importance of the pursuit of overseas sales opportunities for the EH101 and other collaborative projects. The two countries shared a similar approach to the European Fighter Aircraft project. Their aeroengine companies were closely involved in the newly launched V2500 project. The new discussions between Rolls Royce and Piaggio about the RTM 322 helicopter engine were welcomed.

Signor Altissimo agreed that there was a need for further collaborative work between Britain and Italy. They shared a similar approach also to the role of the European Community in industrial development. Signor Darida said that it would be necessary for Italy and Britain to act vigorously to achieve Community-wide cooperation in research and development, and in telecommunications where the Europeans faced serious competition from the US and Japan.

Summing up, Signor Craxi said that there was a large measure of convergence on the important political questions, especially on East/West relations, where developments gave grounds for cautious hope. They hoped that next year the Soviet Union would involve itself again in negotiations.

If the international situation did improve, this would be largely due to the way in which Western governments had kept the dialogue going with Eastern Europe. Italy and Britain had played their full part in this. Each of the European countries should exploit in its own way the possibilities for dialogue with the countries of Eastern Europe.

There was also agreement on the need for the Ten to exercise influence on the Middle Eastern situation over the next few months. Britain could count on Italy to defend her interests in Libya and to try to secure freedom for the detainees. As to the Falklands vote in the UN, the Ten should speak with one voice. It would be necessary to watch developments in the UN. At present it seemed that they were much as last year. Italy would like to see a dialogue between Britain and Argentina, and would say so to Alfonsin in Rome in a few days' time. They hoped for realism from both sides in defending their own positions. Signor Craxi thanked the Prime Minister for her words about the Italian Presidency of the Community where British cooperation would be important. Italy shared much of the approach of "Europe - The Future".

The Prime Minister thanked Signor Craxi for Italian support in Libya, and for his words about the Falklands. Britain would value Italian abstention in the UN vote. She concluded that this had been a highly successful Summit at an important time for Britain and Italy and the Community. She looked forward to the Italian Presidency of the Community under Signor Craxi's leadership.

22 October 1984