

THE PRIME MINISTER AND

RECORD OF TALKS BETWEEN THE PRESIDENT OF THE COUNCIL OF MINISTERS OF THE ITALIAN REPUBLIC AND THE PRIME MINISTER, IN ROME AT 2.45 PM ON 7 JULY 1982

In plenary session

PRESENT:

BRITISH SIDE

(As per Delegation List)

ITALIAN SIDE

- Prime Minister
- Foreign and Commonwealth Secretary
- Chancellor of the Exchequer
- Sir Ronald Arkins
- Lord Bridge
- Mr. Little
- Mr. Jordan
- Mr. Simpson-Oakley
- Mr. Lynam
- Mr. Cole
- Mr. Fall
- Mr. Keir
- Mr. Goulden
- Mr. Richardson

- Senator Spadolini
- On. Colombo
- Senator Andreatta
- On. La Malfa
- Min. Berlinguer *Advisor to Spadolini*
- Prof. Savona *Advisor to La Malfa*
- Prof. Gallimberti *Advisor to Andreatta*
- Amb. Cagiati
- Amb. Bucci *Economic Director*
- Min. Franceschi *Dep. political*
- Cons. Badini *Pr's Office*

Prime Minister

v. rough draft, I fear

Maharaj

Rohman

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Cover

Type please

1. Spadolini, after opening courtesies, gave a summary of the talks he had held tete-a-tete with the Prime Minister before lunch. They had ~~discussed~~ ^{main} examined three elements: issues:

LEBANON

They had discussed the situation in Lebanon following the Israeli attack on the Palestinians in Lebanon and repeated their earnest hope for a peaceful resolution of the conflict. They had also considered the latest US initiative, announced without previous consultation, involving the possible withdrawal of the PLO, and had noted that the PLO had yet to associate themselves with the American proposal. They recalled the declaration made by the European Council which called for a peaceful solution to the conflict and the withdrawal of all foreign troops and expressed the hope that it would be possible to achieve restitution

NOTHING TO BE WRITTEN IN THIS MARGIN

of the territorial integrity of a country which had suffered so cruelly ~~such devastation~~. They had also recalled the spirit of the Venice Declaration on the prospects for a ^{whole to the} Palestinian State ^{problem in order} so that the Palestinians would cease to be degraded to the status of refugees. They had agreed on the difficulties, especially after recent developments, ^{surrounding} ~~on~~ the achievement of this objective, but ^{has} committed themselves to continuing with others the search for its achievement over the next months. They had paid ~~and~~ tribute to the particularly helpful role of Egypt.

US/EUROPE

They had discussed US economic sanctions against the Soviet Union and ^{which seemed to} ~~had agreed that the measures~~ ~~announced~~ conflicted with what had been agreed at Versailles. They had noted that the US measures had evoked a strong reaction from France and the FRG. They had agreed that it was the joint wish of the UK and Italy to avoid polemics with the United States, and hoped that the new ^{US} Secretary of State would be induced to adopt a moderate interpretation of the US Government's directives which had ~~such~~ damaging potential ^{consequences} for both the UK and the Italian economies. They were both committed to efforts to avoid any negative impact arising from the current division of opinion ^{between} the US and Europe which were linked together in so many other important ways.

/ EUROPEAN COMMUNITY

EUROPEAN COMMUNITY DEVELOPMENTS

N.
~~Senator~~ Spadolini had described his recent visit to Spain, ~~and they had~~ ^{P.M.'s Lab} both agreed on the importance of Spain and its entry into the Community for the future of Europe, though accession would have to be subject to a transition period to allow for the solution of economic problems posed by enlargement, which President Mitterrand had already drawn attention to. *Mr. Spadolini*
 He had repeated to Mrs Thatcher the Spanish Government's gratitude for the firm stand of the United Kingdom and Italy in favour of Spanish entry, stressing the particular internal political difficulties of Spain at the present time.

After Spain
 At the same time they had discussed current Mediterranean issues, especially Libya and Malta, which were of concern to both countries. They had concluded by discussing current unresolved issues in the Community, which would now come under the care of the Danish Presidency. It was the clear will of both countries to co-operate over means to safeguard the continuing process of the economic integration of Europe. Likewise they were dedicated to the linked question of political integration in conformity with the Colombo/Genscher proposals.

/ The Prime Minister

// The Prime Minister expressed gratitude for the hospitality the British Delegation had received and her pleasure at being in Italy again, ~~and said that~~ ^{N.} She could not fault ~~Senator~~ Spadolini's summary of their talks. She only wished to mention that they had not had time to discuss East/West Relations and Disarmament, ~~and the Defence of Freedom.~~ She also wanted to wish Italy well in the World Cup.

^{N.}
~~Senator~~ Spadolini invited the Italian Foreign Minister to give an account of his talks with the ~~Secretary of State.~~ *Foreign and Commonwealth Secretary*

^{N.}
Colombo said that the two Foreign Ministers had discussed European Community issues and agreed that the European Community was in need of a fillip. There were many economic and political difficulties, notably associated with enlargement and the UK budget problem. They had agreed to resume discussion of the latter in the autumn with the aim of achieving a solution at least for a certain time to avoid harmful annual negotiations on the issue. This solution would have to take into account the views of other Member States on enlargement, ~~and they~~ shared the views already expressed by the two Prime Ministers. There were important political reasons not to reject Spain and Portugal, especially because of the former's difficult internal situation. It

/ had

had been clear from his recent discussions in Paris that the French were not prepared to negotiate further unless a solution was agreed to the problems posed by enlargement for Mediterranean agriculture and certain industrial issues. Italy had the same difficulties as the French. So there needed to be a new orientation to Mediterranean policy. This discussion had led to the wider problem of convergence and the financial situation of the Community. There was the problem of resources. Some Member States favoured an increase in own resources: others did not. He personally thought that sooner or later the Community would have to face up to this issue. It was not possible to have continuing development of the regional, social and other policies, as well as the restoration of balance between different areas of the Community, within current available resources.

The two Ministers had then discussed the strengthening of political decision-making in the Community. Differences remained between the UK and Italian positions, but he hoped that ^{Gradual} agreement would nevertheless be possible ~~eventually~~.

The two Ministers had discussed the present unsatisfactory state of relations between the US and Europe and the need to eliminate current friction. They both looked forward to discussions with the new US Secretary of State.

On the Lebanon, he had nothing to add to what the Prime Ministers had discussed.

Foreign and Commonwealth Secretary
 The ~~Secretary~~ *Secretary* of State found no fault with ~~Mr.~~ *Mr.* Colombo's summary. In the course of 1½ hours tete-a-tete early in the morning, they had covered the present state of Community problems, ~~and~~ *it has been* ~~was~~ clear how anxious both Ministers were to press ahead with the solution of present difficulties. He looked forward to welcoming ~~Mr.~~ *Mr.* Colombo in London in September for further talks. On the Community budget, the financial basis of the Community must be adjusted to give satisfaction to all Member States because, until it was, there was a limit to ^{the} progress that could be made in the Community.

The two Ministers had briefly discussed also relations with Latin America. Both were optimistic about the prospects for improvement.

Mr. ~~Senator~~ *Senator* Spadolini invited ~~Senator~~ *Mr.* Andreatta to give an account of his talks with the Chancellor of the Exchequer. ~~Senator~~ *Mr.* Andreatta agreed with ~~Mr.~~ *Mr.* La Malfa that he would speak on behalf of them both.

Mr. ~~Senator~~ *Senator* Andreatta said that they had first discussed US/European economic relations, and the strong

/ impact

impact on the growth and inflation prospects of the European economies which ^g US economic policy ~~had~~. That very day was the first meeting of the Committee set up at Versailles to look into possibilities for collaboration over intervention on the foreign exchange markets. Both Ministers had agreed that current high US interest rates were harmful to European economies. A better mix of fiscal and monetary policies in the US would be better for the rest of the world's economy. Countries should take account of the impact on others of their economic policies. Both agreed that ~~the~~ co-ordinated intervention had some impact on erratic exchange rate movements, the Italians being more convinced of this thesis than the British. Both had noted an increase in productivity in recent years in both countries, especially/during a recession. They had likewise noted a change in industrial ^{relationships} attitudes. They had discussed the problems likely to arise from 1983 onwards if the world economy resumed growth. ^{This} ~~which~~ would be ^{a severe} ~~the~~ test of the durability of current anti-inflationary policies.

^{n.} ~~Senator~~ Andreatta had described how negotiations over wage costs and the reduction of the public sector deficit were central to current Italian Government economic policy.

They had briefly discussed techniques of controlling current public expenditure and the difficulties of doing so.

/ They

They had also discussed European Community affairs. Sir G Howe had made the British case plain on the budget issue. A less prosperous Member State should not suffer a net burden, ~~and that~~ ^A permanent solution was needed to redress the current imbalance. The Italians agreed that a temporary solution was not desirable. But they thought that the best way of solving the problem lay in the expansion of ^{own} ~~an~~ agricultural Community policies in fields such as industry and energy. Sir G Howe had expressed a certain scepticism over the possibility of achieving a redress of the balance in this way. Both had agreed on the desirability of limiting CAP expenditure. The Italian view was that this should be achieved not by quotas but ^{through} ~~by changing~~ intervention price levels. The sugar regime was a disastrous example of quota control. On the immediate budget issue, Italy was not prepared to compensate the FRG for transfers to the UK.

Finally, the two Ministers had had a brief discussion on new techniques of selling public debt in the UK.

The Chancellor of the Exchequer

Mr.

Sir G Howe paid tribute to ~~Senator~~ Andreatta as a faithful rapporteur. On the EC budget issue he had taken note of Italian views on the 1982 correction. Britain recognised Italian difficulties

/ over

over apparent refunds to the FRG. He had made it clear that there could be no going back on the terms of the 24 May agreement which provided a UK refund net.

In their discussion on US interest rates, the two Ministers had agreed that any approaches to the US needed to be very private. He also believed that if the Europeans succeeded in getting their own policies right on public debt and inflation, they ought to be able to temper the effects of high US interest rates.

They had had a useful discussion of their respective domestic economies, and of whether the black economy and its effects were virtuous or vicious, on which they had reserved judgement. They had also discussed the problem of unemployment, and especially youth unemployment.

Mr.
She & Mr. Spadolini
The Prime Minister said that ~~they~~ ought to consider what other issues they might be asked about at their press conference. She expected to be asked about the Falklands and would therefore give a short account of how things stood.

Falklands
Britain had been
She ~~was~~ grateful for Italy's ^{quick} response to the *need to* ~~impose~~ ^{again} ~~imposition~~ of sanctions ~~so quickly~~ and fully

/ understood

understood her difficulties over renewal. She knew how much had been done behind the scenes and in particular ^{that} no armaments of any sort had reached the Argentines, which was the most important thing of all. On the ground, there had been no active hostilities for three weeks. Britain had returned more than 10,000 prisoners of war, under the observation of the ICRC. The UK was worried that ~~in spite of messages~~, the Argentines had given no promise of a permanent cessation of hostilities. Under the Geneva Convention there was no requirement to return prisoners of war until hostilities had ceased. Britain had kept 593 officers and specialist troops, which she wanted to return as soon as possible. The Argentines had one British prisoner who, since he was wounded, should have been returned forthwith. The new Argentine Government had sent no reply to two messages sent over the last few days. Meanwhile, they continued to search for arms. After a certain time, Britain would have to decide whether a de facto cessation of hostilities had occurred. ^{Britain} ~~she~~ had withdrawn some troops. Rehabilitation of the islands was a big problem. Mines had been laid indiscriminately and houses badly damaged. There were formidable problems of supply. Only after some time, when life had returned to normal, would it be possible to consider the next step which would be some ^{further progress towards} ~~form~~ of self-government.

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LUXEMBOURG COMPROMISE

The Prime Minister wished to emphasize that the UK believed the maintenance of the Luxembourg compromise was in the interests of all Member States, though she appreciated that others had different views.

EAST/WEST

Britain was up-to-date in plans for the deployment of Cruise missiles should it be necessary. She believed that the best way to help disarmament negotiations was to demonstrate that one was prepared to defend ~~cities, citizens and our way~~ of life. The purpose of disarmament negotiations was to see whether this could be achieved at less cost.

WORLD ECONOMY

If the world economy was to expand, it was necessary for the US economy to expand too. All countries needed to pursue lower deficits and lower inflation. But recovery would take time.

EC

It was vital that Europe continued to stand together as an area of stability, which should be enlarged as much as possible.

/ ^{N.} Senator Spadolini

^{W.}
~~Senator~~ Spadolini recalled the talks he had had with the Prime Minister about the Falklands at Versailles and Brussels. Italy had applied an arms embargo against Argentina, and had ^{strongly} ~~had~~ ^{supported} ~~appreciated~~ the UK's stand to re-establish the rule of international law violated by an authoritarian regime in its attack on the Falkland Islands and on British sovereignty. Italy's failure to renew sanctions had to be seen in the context of Italy's doubts on economic sanctions in general. The sentiment of the Italian population was in a large part one of support for the UK in spite of ethnic ties with Argentina. He was grateful for the Prime Minister's exhaustive information on the present situation and shared her hope that there ~~should~~ be a clear indication of a cessation of hostilities. It was too early to form a view about the new Argentinian Government. He recalled the declaration agreed at the European Council on the need for closer relations between European and Latin-American countries, especially if the threat of the Soviet Union filling a void was to be evaded.

^{W.}
~~Senator~~ Spadolini recalled the Italians' ~~long~~ ~~standing~~ firm stand on East/West relations. Italy remained committed to Cruise missile ~~basing~~, in spite of quite strong internal opposition. They would go ahead unless the Geneva talks achieved a reduction of nuclear armaments for which everyone hoped.

He recalled his statement to Gromyko at the United Nations that the best method of maintaining peace was for each country to remain faithful to the alliance they had chosen.

The meeting ended at 3.45 pm.

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