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THE ANDREOTTI GOVERNMENT ON THE EVE OF THE SUMMIT

SUMMARY

1. AFTER A CALM START, ANDREOTTI'S SIXTH MINISTRY LOOKS INCREASINGLY UNSETTLED. INFLATION IS STEADY AND THE REAL ECONOMY FLOURISHES, BUT THE VAST GOVERNMENTAL DEFICIT REMAINS UNCONTROLLED. DE MICHELIS' UNPREDICTABLE INITIATIVES (EG FOR A 'EUROQUOTA' ON IMMIGRATION) EARN MORE APPLAUSE IN ITALY THAN ABROAD. ANDREOTTI NOW ACCEPTS THAT GERMAN UNIFICATION IS INEVITABLE BUT ITS LIKELY PACE AND IMPLICATIONS ALARM HIM. FEARS THAT THE TWO PLUS FOUR FORMULA WILL BE THE FRAMEWORK FOR THE REAL DECISIONS. EFFECTS OF THESE FEARS ON THE SUBSTANCE OF AN IGC. ITALIAN ANXIETY TO MAKE THEIR PRESIDENCY A SUCCESS MAY PROVIDE US WITH SOME LEVERAGE ON POINTS AT ISSUE.

DETAIL

2. ANDREOTTI'S GOVERNMENT WILL BE SEVEN MONTHS OLD ON THE DAY OF THE SUMMIT TALKS (23 FEBRUARY). ON THE SURFACE, WITH ITALY ABOUT TO HOST THE WORLD CUP, SUCCEED TO EC PRESIDENCY, AND THEN COMPERE THE START OF THE IGC, WHILE ECONOMIC GROWTH CONTINUES AND INFLATION HOLDS STEADY, ANDREOTTI HAS EVERY REASON TO BE CONFIDENT. BUT, AFTER AN UNUSUALLY LONG HONEYMOON, HIS GOVERNMENT SEEMS JADED AND UNINSPIRED. LOCAL ELECTIONS ARE DUE IN MAY AFTER AN IMPORTANT COMMUNIST PARTY CONGRESS. ALL PARTIES ARE ALREADY LOOKING TO MAY, AND BEYOND. THERE IS LITTLE TO SHOW FOR THE COALITION'S SEVEN MONTHS IN OFFICE.

STATE OF THE PARTIES

3. ANDREOTTI'S MAIN DOMESTIC PROBLEM IS WITH HIS OWN CHRISTIAN DEMOCRAT PARTY (DC). IN IT THE 'LEFT' FACTION ASSOCIATED WITH DE MITA, REPRESENTING ONE-THIRD OF THE PARTY, IS IN REVOLT. IT IS DEMANDING A TOUGHER ATTITUDE TOWARDS THE SOCIALISTS AND A LARGER SHARE OF PUBLIC AND PARTY JOBS. CRAXI, WHOSE SOCIALIST PARTY IS THE SECOND LARGEST MEMBER OF THE COALITION, HAS BECOME MORE

STRIDENT, MUTTERING DARKLY ABOUT THE RISKS TO THE GOVERNMENT FROM DC FACTIONALISM. HIS CONTINUED SUPPORT REMAINS ESSENTIAL TO ANDREOTTI, BUT WHILE HIS LONG TERM AMBITION REMAINS TO HEAD THE GOVERNMENT, HIS IMMEDIATE OBJECTIVES ARE UNCLEAR AND DEPEND PARTLY ON HIS HEALTH (A DIABETIC, HE WAS IN HOSPITAL MOST OF JANUARY WITH AN UNDISCLOSED ILLNESS), AND PARTLY ON HIS PARTY'S FORTUNES IN MAY.

4. BECAUSE OF THESE PREOCCUPATIONS THE COALITION'S LEGISLATIVE PROGRAMME HAS RUN AGROUND, APART FROM GETTING THE 1990 BUDGET APPROVED BEFORE THE YEAR BEGAN. THE SOCIALISTS DEMAND FASTER PROGRESS ON NEW DRUGS LEGISLATION, OPPOSED BY MOST OF THE DC LEFT, TO OUTLAW PERSONAL USE. THE REPUBLICANS AND DC LEFT CLAMOUR FOR LEGISLATION TO LIMIT THE CONCENTRATION OF MEDIA OWNERSHIP. A NEW STORM HAS BLOWN UP OVER A LAW PROMOTED BY THE SOCIALISTS TO INTRODUCE MODEST LIMITS TO IMMIGRATION, MOSTLY FROM NORTH AFRICA AND THE OLD ITALIAN COLONIES. THERE IS GENERAL CRITICISM ABOUT THE LACK OF A COHERENT POLICY ON COMBATTING ORGANISED CRIME.

5. THE MAY ELECTIONS WILL GIVE THE FIRST INDICATION OF WHO IS TO BENEFIT FROM THE DISARRAY IN THE COMMUNIST PARTY, STILL THE SECOND LARGEST IN ITALY BUT SEEKING A NEW NAME AND ROLE. THE GREATER THE SWING, ESPECIALLY IF THE SOCIALISTS ARE THE MAIN GAINERS, THE MORE LIKELY THE PROSPECT OF EARLY GENERAL ELECTIONS AND THE END OF ANDREOTTI'S SIXTH GOVERNMENT. AT 71, IT MAY PROVE TO BE HIS LAST.

ECONOMY

6. THE REAL ECONOMY CONTINUES TO GROW STRONGLY. ITALIAN EXPORTS REACHED A RECORD LEVEL IN 1989 AND GDP GREW BY 3.2 PER CENT. THE LIRA IS HOLDING WELL WITHIN THE NARROW BAND OF THE ERM: THE ITALIANS WOULD LIKE US TO JOIN SOON. ANDREOTTI IS CONCERNED ABOUT THE GOVERNMENT'S FAILURE TO BRING INFLATION DOWN MORE RAPIDLY. THOUGH IT DROPPED SLIGHTLY LAST MONTH TO 6.3 PER CENT, THE END-YEAR TARGET OF 4.5 PER CENT LOOKS INCREASINGLY OPTIMISTIC. UNEMPLOYMENT CONTINUES TO HOVER STUBBORNLY AT AROUND 12 PER CENT. OBSTRUCTION OF ATTEMPTS TO PRIVATISE PARTS OF THE STATE SECTOR, ADVOCATED BY TREASURY MINISTER CARLI, IS PREVENTING ANY EASMENT OF THE CHRONIC GOVERNMENTAL DEBT BURDEN. ACCUMULATED DEBT IS NOW ROUGHLY EQUAL TO GDP, AND THE 1989 STATE SECTOR DEFICIT REACHED 11 PER CENT OF GDP. THE GOVERNMENT IS STILL PROMISING TOUGH ACTION TO TACKLE THE DEFICIT, BUT HAS LITTLE TO SHOW SO FAR. THE DEFENCE BUDGET, ALTHOUGH EXTREMELY MODEST AT 1.8 PER CENT OF GDP IN 1990, IS LIKELY TO BE REDUCED EVEN FURTHER ON GROUNDS OF EAST-WEST DETENTE.

INTERNATIONAL AND EC ISSUES

7. ANDREOTTI REMAINS THE MASTER STRATEGIST WITH HIS HAND BROADLY ON THE HELM OF ITALIAN FOREIGN POLICY. BUT HIS SOCIALIST FOREIGN MINISTER DE MICHELIS IS BECOMING AN INCREASINGLY ASSERTIVE TACTICIAN. HIS ANTICS AND APPEARANCE MAY SEEM CLOWNISH ABROAD, BUT HE SCORES POINTS AT HOME FOR KEEPING THE ITALIAN POSITION IN THE LIGHTS, AND HE SHOULD NOT BE UNDERESTIMATED. HIS POSTURING AND AMBITIOUS SCHEMES - SUCH AS FOR A EUROPE GLUED TOGETHER BY OVERLAPPING REGIONAL GROUPS - PROBABLY REFLECT AS MUCH DOMESTIC POLITICAL AMBITION AS CONVICTION.
8. ANDREOTTI WILL BE KEEN TO HEAR THE PRIME MINISTER'S VIEW ON GORBACHEV'S CHANCES OF STAYING ASTRIDE THE TIGER: AND ALSO TO HAVE SOME ACCOUNT OF THE PROSPECTS FOR POLAND (ESPECIALLY ITS WESTERN BORDER) AFTER MRS THATCHER'S RECENT DISCUSSIONS WITH THE POLISH PREMIER. BUT THE MAIN ITALIAN PREOCCUPATION IS WITH THE PACE AND IMPLICATIONS OF GERMAN UNIFICATION. ANDREOTTI TOLD THE PRESS AFTER MEETING KOHL AT PISA ON 17 FEBRUARY THAT SO MUCH HAD CHANGED THAT HE WAS NOT (NOT) OPPOSED TO UNIFICATION (A BIG CHANGE FROM HIS PUBLIC POSITION IN 1984). NEVERTHELESS, HE BELIEVES THAT THE WEST GERMANS (ESPECIALLY GENSCHER) ARE FAILING ADEQUATELY TO CONSULT THEIR PARTNERS - KOHL'S RECENT ANNOUNCEMENT ABOUT THE INTEGRATION OF THE TWO MARKS CAME AS A SHOCK HERE - AND HE SUSPECTS THAT, DESPITE REPEATED ASSURANCES, THE SHEER COMPLEXITY OF ABSORBING THE GDR WILL CAUSE BONN TO RELEGATE EC INTEGRATION INTO SECOND PLACE.
9. ACCORDINGLY, ANDREOTTI WILL HOPE THAT ON SOME ASPECTS OF THE GERMAN QUESTION HE CAN FIND COMMON GROUND WITH THE PRIME MINISTER, IN LINE WITH THE TALK HE HAD WITH HER AT THE ELYSEE DINNER BEFORE STRASBOURG. ON THE TWO PLUS FOUR FORMULA ADOPTED AT OTTAWA, WHICH DE MICHELIS CRITICISED FOR EXCLUDING ITALY, ANDREOTTI HAS NOW SAID PUBLICLY THAT, HAVING DISCUSSED THE MATTER WITH MITTERRAND IN PARIS ON 13 FEBRUARY, HE ACCEPTS THE JUSTIFICATION FOR IT 'BECAUSE THE FOUR WILL LIMIT THEMSELVES TO SOMETHING JURIDICALLY SPECIFIC, THAT IS TO SAY THE NEW STATUS OF THE CITY OF BERLIN'. THE IMPLICATION FOR PUBLIC CONSUMPTION IS THAT THE TWO PLUS FOUR TALKS WILL NOT DEAL WITH UNIFICATION AS SUCH, NOR WITH (NON-NATO) FRONTIERS. ON THE LATTER, THE ITALIAN POSITION REMAINS THAT THEY HAVE A DROIT DE REGARD AS SIGNATORIES OF THE HELSINKI FINAL ACT.
10. THE ITALIANS ARE GENUINELY CONCERNED, I THINK, THAT THE SECURITY ASPECTS OF GERMAN UNIFICATION SHOULD NOT (NOT) GET OUT OF PHASE WITH THE POLITICAL AND ECONOMIC. TO THAT END, THE SEQUENCE OF EVENTS WHICH WOULD SUIT ANDREOTTI AND DE MICHELIS BEST LOOKS LIKE THIS:

(A) AFTER THE GDR ELECTIONS, A SPECIAL EUROPEAN COUNCIL (AS NOW PROPOSED BY THE IRISH PRESIDENCY) TO CONSIDER THE EFFECTS ON THE COMMUNITY OF MOVES TOWARDS UNIFICATION.

(B) AN ADVANCED IGC, TO START EARLY IN THE ITALIAN PRESIDENCY, AND CONSIDER BOTH EMU AND INSTITUTIONAL QUESTIONS (THE SO-CALLED 'DEMOCRATIC DEFICIT' IS PAID MUCH LIP SERVICE HERE, NO DOUBT BECAUSE THE ITALIAN PARLIAMENT IS SO FRACTIONALISED). THERE IS EVIDENCE (C.F. PARIS TELNO 199) THAT ANDREOTTI AND MITTERRAND AGREED ON THE NEED TO ADVANCE THE STARTING DATE OF THE IGC AT THEIR 13 FEBRUARY MEETING, NEITHER RECKONING ON FRG RELUCTANCE. ANDREOTTI HAS NOW SAID PUBLICLY THAT THE IGC WILL HAVE TO CONSIDER WHETHER 'DEVELOPMENTS IN THE MONETARY FIELD' E.G. INTEGRATION OF THE TWO MARKS, WILL MAKE FURTHER DEVELOPMENT OF THE EMS MORE STRAIGHTFORWARD, OR THE REVERSE: AND THAT HE WILL WANT TO RAISE THE POINT WITH THE PRIME MINISTER.

(C) TREATIES ON CFE AND CONFIDENCE-BUILDING MEASURES TO BE CONCLUDED 'BY THE AUTUMN'

(D) THE WHOLE, UPDATED EUROPEAN SECURITY SYSTEM TO BE BROUGHT AT A SUMMIT MEETING 'INTO THE FRAMEWORK OF CSCE, WHICH ALREADY REPRESENTS A SORT OF COMMON EUROPEAN HOME' (WITH THE USA AND CANADA PERMANENTLY LODGING THEREIN). I QUOTE FROM DE MICHELIS' ADDRESS TO THE CFE PLENARY ON 25 JANUARY.

(E) THE ROME EUROPEAN COUNCIL, SOME TIME IN DECEMBER.

11. CLOSER TO HOME, CURRENT ITALIAN WORRIES INCLUDE INSTABILITY IN YUGOSLAVIA AND ROMANIA, AND HOW DEVELOPMENTS IN THOSE COUNTRIES MIGHT AFFECT DE MICHELIS' QUADRILATERAL DIPLOMACY (A REGIONAL GROUPING OF ITALY, AUSTRIA, YUGOSLAVIA AND HUNGARY). TO UNDERPIN THIS DE MICHELIS AIMS FOR A FINAL SETTLEMENT OF THE ALTO ADIGE ISSUE BY 1 AUGUST, AND HOPES THAT CZECHOSLOVAKIA WILL MAKE A PENTAGON OUT OF HIS PRESENT QUADRILATERAL BY THE SAME DEADLINE, IF HE CANNOT CONJURE UP ANOTHER QUADRILATERAL TO COVER CENTRAL EUROPE.

12. AS TO IMMIGRATION, DE MICHELIS MAY MENTION HIS CURIOUS IDEA OF A 'EUROQUOTA' FOR IMMIGRANTS TO BE IN PLACE BEFORE 1993. HE SEEMS NOT (NOT) TO UNDERSTAND THAT THE CONCEPT OF A EUROPE WITHOUT FRONTIERS DOES NOT IMPLY FREEDOM TO WORK ANYWHERE WITHIN EUROPE FOR NON-EUROPEANS, AND THINKS THAT A EUROQUOTA WILL LESSEN ITALY'S PROBLEM OF CONTROLLING ENTRY TO E.G. MAGHREB CITIZENS. WHAT HE

NEEDS IS AN ENTRY VISA SYSTEM LIKE MOST OTHER MEDITERRANEAN PARTNERS: ITALY'S PROBLEM IS ILLEGAL IMMIGRATION, AND A QUOTA SYSTEM WOULD DO NOTHING TO RESOLVE THAT.

13. ON TECHNICAL ISSUES, E.G. JAPANESE CARS, THE ITALIAN POSITION IS UNASHAMEDLY PROTECTIONIST, A REFLECTION OF FIAT'S POWER AND IMPORTANCE TO THE ECONOMY (5 PER CENT OF GDP). ITALY WANTS THE LONGEST POSSIBLE TRANSITION PERIOD AND STRICT CONDITIONS ON AN OPENING TO JAPANESE CARS THEREAFTER. THE COMMISSION IS TRYING TO SQUARE THIS CIRCLE, BUT IT WILL TAKE TIME. ON EC/US, THE ITALIAN POSITION IS SENSIBLE, AND THEY BROADLY SUPPORT THE SECRETARY OF STATE'S CALL FOR A CONSULTATIVE PARTNERSHIP WITH WASHINGTON. THERE MAY ALSO BE COMMON GROUND BETWEEN US ON HOW TO ACHIEVE A SATISFACTORY CONCLUSION TO THE GATT NEGOTIATIONS (WHERE THE ITALIANS, AS PRESIDENCY, WILL HAVE A PIVOTAL ROLE IN THE CLOSING STAGES OF THE ROUND).

14. LAST BUT NOT LEAST, THOUGH THE THE ITALIANS ARE NOT GREAT ENTHUSIASTS FOR THE SINGLE MARKET, THEY MAY BE RECEPTIVE NEARER THE TIME TO OUR IDEAS ON HOW TO KEEP THE MOMENTUM UP ON THIS ASPECT IN THE EXTREMELY BUSY LAST FOUR MONTHS OF THE YEAR. MEANWHILE, MINISTERS MIGHT ASK DE MICHELIS HOW THE GOVERNMENT IS GETTING ON WITH EX-EC MINISTER LA PERGOLA'S PLAN TO BUNDLE A LARGE NUMBER OF OUTSTANDING EC DIRECTIVES THROUGH PARLIAMENT BY APRIL. THERE IS NO (NO) SIGN OF A DRAFT BILL YET, AND TIME IS PASSING IF, AS MINISTER ROMITA TOLD ME LAST NOVEMBER, THEY WANT TO SEEM TO BE IN ORDER ON IMPLEMENTATION BY THE TIME THEIR PRESIDENCY BEGINS.

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