



Foreign and Commonwealth Office

London SW1A 2AH

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21 February 1990

Dear Charles,

Anglo-Italian Summit: 23 February

The Prime Minister and Signor Andreotti will have talks alone from 1000 to 1130, a plenary session from 1130 to 1200 with Foreign Ministers and Ambassadors and, after a short pause, a Press Conference from 1215 to 1245 and lunch (Programme attached). Anglo-Italian Summits are usually held annually, in alternate countries. The last Summit was at Pallanza in October 1988. The Prime Minister's last bilateral meeting with an Italian Prime Minister was with Signor De Mita in April 1989. Signor Andreotti will be accompanied by Signor Vattani, his diplomatic adviser. Personality notes are enclosed.

After the fall of Signor De Mita's Government, Signor Andreotti formed a new government in July 1989. His dexterity together with the flamboyance of his Foreign Minister, Signor De Michelis, have led to a new dynamism in Italian foreign policy. A scene-setting telegram and a telegram on Italian views on the German Question are enclosed.

UK Objectives

Our main objectives at the Summit will be:

- (a) To reassure the Italians that there will be adequate consultation in NATO (and the EC) on the German Question against the background of the meetings of the Six;
- (b) to persuade the Italians to take account of UK views in their preparations for the Presidency;

/Italian Aims

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### Italian Aims

The Italians will seek to stress the importance of their involvement in all top level discussions on Germany, and on European architecture more widely, especially the EC role. They may claim a special role in Central European consultation (Italy/Austria/Hungary/Yugoslavia).

### Political Situation in Italy

After almost eight months in office and an unusually long honeymoon period, Signor Andreotti's coalition government is facing turbulence in Italian politics and discord in the Christian Democratic Party. While there is no immediate threat, Signor Andreotti will be concerned about internal problems in the run up to the regional elections in May.

### Germany/NATO

Following a meeting with Chancellor Kohl last week Andreotti has retracted his earlier opposition to German unity. He has also said the Four Plus Two talks should be confined to Berlin and that the question of German borders should be settled in a wider forum, e.g. CSCE. The Prime Minister might draw on the following:

- It is vital to anchor a united Germany firmly in NATO, and to reassure Mr Gorbachev about security arrangements for the territory of former GDR.
- We will need to work hard on the Soviet Government, who still have difficulties with this approach.
- The Polish border issue should also be settled definitively.
- The Four Powers have legal responsibilities for agreeing to the borders of a united Germany, as well as for Berlin.
- The Plus Four formula will provide for an initial discussion of these issues with the Soviet Union. We shall also want to see the fullest consultation in NATO (and EC) as we all develop our thinking about the practical implications.

On the implications of German unification for the EC, the Prime Minister might cover some of the following points:

- The FRG's partners need to be prepared for negotiations with her on Community consequences of unification. Preparations are now urgent. The Germans will be demandeurs, seeking derogations on eg state aids, competition policy, Single Market, environmental legislation, application of common customs tariff, etc.

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- Irish informal Heads of Government meeting in April a chance to review preparations, and give directions.

- Costs of bringing ex-GDR Laender into line with Community standards will primarily be for the Germans.

### Eastern Europe

Signor Andreotti is due to visit Czechoslovakia and Hungary in the near future. Hungary is involved in regional cooperation (the "quadrilateral initiative") with Italy, Austria and Yugoslavia: Czechoslovakia, too, could join. The Prime Minister could probe Italian views on the initiative, which we welcome. The Prime Minister might give an account of Mr Mazowiecki's visit and make the points that:

- Euphoria of 1989 now giving way to the reality of a dire economic situation and a large restructuring task. Unwillingness in places to take radical action required.

- Poland remarkably peaceful despite harsh measures now affecting living standards. Government remains popular. Shows power of a popular mandate.

- Support Poland's wish to reach an association agreement with the EC this year. Subject to economic and political reform, would support closer forms of association with other East Europeans.

- All of Eastern Europe will need Western help. Have announced extension of Know-How Funds to other countries fully committed to reform. Also welcome extension in principle of G24 remit.

### European Bank for Reconstruction and Development

The Prime Minister might take Andreotti through the detailed operational case for London as the site of the EBRD. The Italians are about to bid, probably for Milan. The Prime Minister might say that:

- we wish to see Bank functioning as quickly and efficiently as possible. London tailor-made to achieve this as the site for the Bank. We have the international banking experience, the network of contacts with Eastern European banks, the technology, the communications and the ability to attract high calibre staff.

/- Foreign

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- Foreign banks enjoy over 80 per cent of the UK's international business. 520 foreign banks are represented in London.
- London's equity market has a domestic equity valuation worth three times that of its nearest European rival.
- London has the world's largest foreign exchange market. Net daily turnover during April 1989 was estimated at 187 billion dollars.

Developments in USSR

The Prime Minister may wish to give an assessment of developments in the Soviet Union in the light of her recent meeting with Mr Medvedev and to underline the continuing need for the West to help Gorbachev (as far as we can) continue the welcome changes under way.

The February Plenum was a decisive victory for Gorbachev. The party is now set to lose its monopoly of power. The party could well split in the new atmosphere of turbulence which characterises the Soviet political scene. The Supreme Soviet gave a very mixed reception to Gorbachev's proposal for a new, more powerful Executive Presidency. The nationalities issue adds to the impression of a nation in crisis. The attempt to develop a new loose Union may satisfy Baltic aspirations for now. But there is no long-term answer to many of the demands being made - and risk of a Russian backlash.

The Role of CSCE

Work is underway on preparing a CSCE Summit. We consider that a Summit should:

- Strengthen democratic structures and the rule of law throughout Europe, and stimulate East/West economic co-operation.
- Be linked to CFE signature and, if possible, to a CSBM agreement (although we should not set a deadline for these talks).
- Agree a document which would give guidelines for future CSCE work.

EC Internal issues

Italian views on most major current EC internal issues are very different from ours. Their political vision is

/federalist;

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federalist; their industrial record protectionist; their performance on implementation of EC legislation poor; their enthusiasm for EMU Treaty amendment unlimited (despite the inherent implausibility of Italy being able to sustain economic and monetary union with the FRG even in the medium-term). They accept the Delors definition of EMU, with a European Central Bank; and rejected the approach in the UK November paper. They favour widening the scope of the IGC to extend the powers of the European Parliament and introduce the cooperation procedure and extend qualified majority voting on environmental and social issues. They would also like to start the IGC early in their Presidency, rather than December. They are likely to raise this at the Irish Informal Heads of Government meeting in April, despite Kohl's opposition.

The Prime Minister might therefore:

- Make clear that, while we support all the elements in EMU Stage 1, and believe it will greatly benefit the Community, we do not accept the Delors prescription for Stages 2 and 3; and believe that going too far in devising Stage 2/3 institutions before the effects of Stage 1 become clear makes no practical sense.

- Reiterate the need for full IGC preparation in ECOFIN, analysing the substantive economic and monetary issues; and oppose the idea of advancing the IGC start-date.

- Question the need for further expansion of the European Parliament's powers, so soon after the SEA, and resist any suggestion of an EP seat at the IGC, (although informal procedures, as in 1985, for consulting them during it would be acceptable).

- Probe Italian intentions on abolition of exchange controls (required before July).

The Italians do not share UK Single Market priorities (currently investment services, insurance, transport liberalisation) or seriousness about implementation. Of 84 Single Market directives which should have been implemented in Italy by December 1989, 50 were unimplemented - the highest tally of any member state (the UK had 77 to implement; had implemented 73; and will shortly be up to date with a further three). The Prime Minister might wish to:

- Urge the need to maintain the Single Market momentum, both Community-wide and in national legislation, because of its economic and political importance, not least as a magnet for Eastern Europe.

/GATT

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### GATT

The Italian's will have the Presidency at the climax of the GATT Uruguay Round. They have some positive ideas for improving the GATT system but have taken a protectionist line on market issues, particularly agriculture and textiles. EC flexibility on both will be essential to the success of the Round. The Prime Minister might point out to Mr Andreotti that Italy needs to be ready to make compromises in the interests of a successful outcome, for which Italy would be able to take considerable credit.

Italian protectionism is causing us particular difficulties in the debate on the regime for Community imports of Japanese cars after 1992. The Italians argue strongly, with French support, that transitional arrangements for restricting imports from Japan should include cars produced in the EC by Japanese-owned firms. This is effectively a rerun of the argument over eg the Sunderland Nissan Bluebirds in winter 88/89. The Prime Minister might emphasise to Mr Andreotti that:

- There can be no question of the UK agreeing to any arrangement which involved counting UK-built cars as Japanese.

- In any case, obstacles to their free circulation in the EC would be contrary to the Treaty of Rome.

### Argentina

Mr Andreotti will be interested in our recent talks with the Argentinians. The outcome is satisfactory: diplomatic relations have been resumed and the agreed security arrangements are in fact an improvement on the previous, unilateral FIPZ. The Prime Minister might also express our concern at the serious domestic problems facing President Menem's government.

### South Africa

The Prime Minister may wish to explain our thinking on South Africa, in the light of the EC Foreign Ministers' discussion on 20 February.

### Middle East (Libya/Syria/Terrorism)

In recent months the Italians have pressed for EC measures against Libya to be lifted. They would also welcome the lifting of measures against Syria.

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The Prime Minister might say that:

- We cannot consider lifting measures until Libyan and Syrian support for terrorism clearly ended;
- Weapons supplied by Libya to Irish terrorists are still causing bloodshed. Qadhafi unpredictable: in the past, Libyan support for terrorism has fluctuated according to shifting foreign policy calculations;
- Improved relations with Libya no guarantee of immunity from terrorist activity;
- On Syria, we must await the outcome of the investigations into the Lockerbie crash.

#### Horn of Africa

Andreotti may refer briefly to the Horn of Africa, where the Italians traditionally have strong interests. On Ethiopia, he may express concern at the new fighting in Eritrea, and its consequences for the peace talks and relief operations. The Prime Minister may wish to say that we share this concern, and shall go on voicing it bilaterally and multilaterally. EC Foreign Ministers made a statement on the Horn on 20 February.

On Somalia the Italians, like us, are worried about the lack of progress towards a negotiated settlement. The Prime Minister could say that we have recently had talks at senior official level with the Somali National Movement (SNM) rebels to urge them to come to the table. But they seem unlikely to respond so long as President Barré remains in power.

Comparisons between our line on Libya and Syria and our approach over South Africa are not relevant: the South African Government have fulfilled the conditions laid down by the EC when imposing the 1986 measures. We are not satisfied that Libya and Syria have changed their tune.

#### Bilateral

President Cossiga will make a State Visit in October. In the first 11 months of 1989 Anglo-Italian trade was £10.3 billion, with a balance of around £2 billion in the Italians' favour.

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The Italian Government has recently placed the Villa Lante at the disposal of the School of Civic Architecture formed by the Prince of Wales. Andreotti may mention this to the Prime Minister and will wish to refer to it at the joint Press Conference.

Bilateral cooperation on drugs matters is going well. The Prime Minister might say:

- We look forward to early signature of the bilateral agreement on the confiscation of the proceeds of crime, possibly at the London Drugs Summit in April (at which Interior Minister Gava will deliver keynote speech)
- Hope that UN Special Session on Drugs, will produce practical conclusions for future international and UN action and that we can continue to work together for an effective restructuring of the UN drugs bodies.

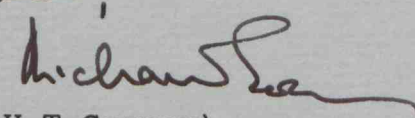
Andreotti may raise the question of the Venetian bid for Expo 2000, (the two other contenders are Hanover and Toronto). All three bids are imaginative. We will not take a decision on them until nearer the the vote at the International Bureau General Assembly (14 June). We have already decided to participate in the Columbus Ship and Sea Exhibition in Genoa in 1992 (cost £750,000).

The Prime Minister might wish to commend our proposed new cultural centre on the site of the Embassy in Rome. Andreotti's endorsement in principle might help with planning permission.

Andreotti is keen on football. For the World Cup in Italy June/July we have received good cooperation from the Italian authorities. Mr Moynihan will be visiting Italy again in May. Tens of thousands of British fans are expected.

#### Andreotti's programme

Before returning to Rome, Signor Andreotti is to visit the Tate Gallery with the Lord President.

Yours ever,  


(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street

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ANGLO-ITALIAN SUMMIT: 23 FEBRUARY

Programme for Signor Andreotti

- 0845 Arrive at London Heathrow Airport by special flight  
from Rome  
Special Waiting Room, South Side  
Met by Mr Maude
- 0900 Leave Airport by car
- 0955 Arrive at No 10 Downing Street
- 1000 Talks with Prime Minister  
(Signor De Michelis and Mr Hurd in separate talks  
at FCO)
- 1130 Talks at 10 Downing Street joined by Foreign  
Ministers and Ambassadors
- 1200 Pause
- 1215 Joint Press Conference at 12 Downing Street
- 1300 Lunch at No 10  
for 1315 hosted by Prime Minister  
  
(Lunch for officials at Admiralty House hosted by  
Mr Weston)
- 1440 Meet Lord President. Visit Tate Gallery.
- 1630 ETD Heathrow



**ANDREOTTI, ONEROVOLE GIULIO**

President of the Council (Christian Democrat).

Born in Rome in 1919. One of the founders of the DC party newspaper "Il Popolo" during the clandestine period. Appointed to the DC National Council in 1944, he was a member of the Constituent Assembly in 1946-48 and has been a Deputy for Rome since 1948. He held the posts of Under-Secretary in the Prime Minister's Office (1947-54), of the Interior (1954), Finance (1955-57), Treasury (1958), Defence (1959-66) and Industry (1966-68). He was leader of the DC group in the Chamber of Deputies in 1966-72. He became Prime Minister of a minority DC government from February-June 1972, and of a centre-right coalition from June 1972-July 1973. Minister of Defence (March-November 1974), and Minister for the Budget, Economic Planning and Mezzogiorno (1974-76). In 1976 he formed a minority DC government. In early 1978 the PCI were included for the first time ever in a parliamentary majority, supporting Andreotti's fourth government.

Andreotti was President of the Chamber's Foreign Affairs Commission from 1979-83. He served as Foreign Minister under Craxi, Fanfani, Goria and De Mita (August 1983-July 1989). Allying himself with the DC centrists led by Gava and Forlani, Andreotti contributed to the downfall of De Mita's Government in May 1989. He was again Cossiga's first choice (after De Mita) to form a new government, which he succeeded in doing in July 1989.

Married to Livia, a Piemontese who rarely appears in public. One son (an engineer in the US) and two daughters. A very tight-knit family.



**DE MICHELIS, ONOREVOLE GIANNI**

Minister of Foreign Affairs (Socialist).

Born in Venice on 26 November 1940 and still lives there. Trained as a chemist, he taught at the University of Venice and later at the University of Padua. From 1964-76 he was a member of the municipal council in Venice. He joined the Central Committee of the PSI in 1969 and the Directorate in 1976. Since 1976 he has been deputy for the Venice constituency and has served on the Industry and Budget Commissions in the Chamber. He became Minister of State Participation when the PSI joined Cossiga's second government in April 1980, and retained the post until Craxi's Government in August 1983, when he became Minister of Labour (until April 1987). Regarded then as the most internationally-minded of Craxi's Ministers apart from Andreotti. In April 1988 he became the senior Socialist in the new De Mita government, as Deputy President of the Council. Following De Mita's resignation in July 1989, he was appointed Foreign Minister in Andreotti's government.

Speaks English. Married a wealthy Venetian, but now separated. One son.