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TO IMMEDIATE FCO

TELEGRAM NUMBER 70 OF 19 MARCH 1981

INFO PRIORITY UKREP BRUSSELS

INFO SAVING ALL OTHER COMMUNITY POSTS

EUROPEAN COUNCIL

Read in full

UKREP TELNO 940 TO FCO

1. ITALIAN PREOCCUPATIONS ON THE EVE OF THE EUROPEAN COUNCIL AS DESCRIBED IN UKREP TUR ARE GENERALLY CONFIRMED HERE, BUT BERLINGUER, FORLANI'S DIPLOMATIC ADVISER, STRESSED TO ME THAT (LIKE THE DUTCH) THEY SAW IT BEING A REFLECTIVE NOT A DECISION-MAKING COUNCIL, BOTH BECAUSE OF THE TIMING IN RELATION TO THE FRENCH ELECTIONS AND BECAUSE THE COMMISSION PAPER ON RESTRUCTURING WAS NOT YET AVAILABLE.
2. THE PRIME MINISTER MAY FIND FORLANI LESS THAN BUOYANT, ONLY IN PART DUE TO PREOCCUPATION WITH DOMESTIC AND PARTY POLITICAL ISSUES. THESE ARE FORLANI'S STOCK-IN-TRADE AND HE HANDLES THEM WITH SKILL. ALTHOUGH THERE ARE CONTINUING PROBLEMS WITHIN THE ITALIAN GOVERNMENT COALITION, PARTICULARLY WITH THE SOCIALISTS WHOSE SECRETARY-GENERAL, CRAXI, IS MAINTAINING HIS BID FOR PUBLIC ATTENTION AS THE ONLY POTENTIAL ALTERNATIVE TO PERMANENT CHRISTIAN DEMOCRAT TENURE OF THE PRIME MINISTER'S OFFICE, FORLANI HAS WEATHERED WELL A SERIES OF MAJOR SCANDALS. NO DOUBT THERE WILL BE MORE TO COME BUT NO-ONE IN THE OPPOSITION STANDS TO GAIN FROM A GOVERNMENT CRISIS OR EARLY ELECTIONS AT THIS POINT AND THE COMMUNISTS (PCI) HAVE SHOWN AS MUCH ON ONE RECENT OCCASION BY DECLINING TO PRESS HOME AN OPPORTUNITY TO OVERTHROW GOVERNMENT MEASURES.
3. FOR ONCE, HOWEVER, ITALIAN DISQUIET IS MORE CLOSELY RELATED TO EUROPEAN COMMUNITY AFFAIRS AND TO REAL ECONOMIC DIFFICULTIES TO WHICH COMMUNITY POLICY RELATES RATHER THAN TO PARTY POLITICAL INFIGHTING. WHEN RUGGIERO SPOKE TO COREPER (UKREP TELNO 774 TO FCO) ABOUT THE SERIOUS CONSEQUENCES OF THE WAY IN WHICH COMMUNITY POLICIES WERE DEVELOPING, HE MAY HAVE BEEN PREPARING THE GROUND FOR SOME HORSE-TRADING ON AGRICULTURAL ISSUES, STEEL, ETC. HE WAS, HOWEVER, SPEAKING AGAINST A BACKGROUND OF INCREASING DISSATISFACTION IN ITALIAN GOVERNMENT CIRCLES WITH THE WAY THE COMMUNITY IS NOW WORKING. BOTH BERLINGUER AND VANNI D'ARCHIRAFI (COLOMBO'S CHEF DE CABINET) HAVE CONFIRMED TO ME THAT THE ITALIANS SEE THE COMMUNITY IN ITS PRESENT SHAPE AS FAILING TO PROMOTE CONVERGENCE OR HELP MEET THE REAL PROBLEMS OF AGRICULTURE OR OF SECTORS OF INDUSTRY (STEEL, SHIPBUILDING, ETC) IN CRISIS OR TO DEVELOP HELPFUL INDUSTRY OR ENERGY PROGRAMMES.

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4. THE ITALIANS REMAIN DEEPLY COMMITTED TO THE DEVELOPMENT OF THE COMMUNITY SEMICOLON THEY BADLY NEED AN ALTERNATIVE TO THEIR DOMESTIC POLITICAL SYSTEM. BUT FOR SOME TIME NOW THE COMMUNITY HAS PROVIDED NO INSPIRATION AND EVEN ON MUNDANE ISSUES IT NO LONGER LOOKS CERTAIN THAT THE COMMUNITY WILL WORK TO THEIR ADVANTAGE. AFTER THE FRENCH ELECTIONS, THEREFORE, ACCORDING TO BERLINGUER AND GARDINI (POLITICAL DIRECTOR) THEY WILL WANT TO SEE SOME PROGRESS ON THE POLITICAL SIDE SEMICOLON THEIR STARTING POINT IS COLOMBO'S ADDRESS IN FLORENCE ON 28 JAN. HE HAS JUST BEEN EXCHANGING IDEAS WITH GENSCHER IN BONN.

5. THEY WILL ALSO WANT TO SECURE POSITIVE FINANCIAL RETURNS FROM THE OPERATION OF THE CAP. WHEN MARCORA WAS NEGOTIATING IN THE AGRICULTURAL COUNCIL HE COULD BE RELIED UPON FOR THE PURPOSE BUT BARTOLOMEI IS MUCH LESS QUALIFIED TO BRING HOME THE BACON. THEY NOW SEE THEIR NATURAL ALLIES, THE BRITISH (SINCE THEY WOULD ARGUE THAT WE SHARE WITH THEM AN INTEREST IN ECONOMIC CONVERGENCE AND A POLITICAL ALTERNATIVE TO FRANCO-GERMAN DOMINATION OF THE COMMUNITY) WEDDED TO THE MAINTENANCE OF A 1% VAT CEILING. THIS, THE ITALIANS BELIEVE, CAN ONLY RESULT IN A CRIPPLING REDUCTION OF ITALIAN FARMERS' INCOME, FACED AS THEY ARE WITH THE HIGHEST RATE OF INFLATION IN THE COMMUNITY, WITHOUT ANY COMPENSATING ADDITIONAL SOCIAL OR REGIONAL EXPENDITURE. THEY ARE UNEASILY AWARE THAT BEFORE SPANISH AND PORTUGUESE ENTRY THEY MUST SECURE FOR THEIR PRODUCERS OF MEDITERRANEAN-TYPE COMMODITIES, ASSURANCE OF CONTINUED AND, IF POSSIBLE, OPEN-ENDED COMMUNITY SUPPORT. THEY ARE ALSO COMMITTED IN THE INTEREST OF THEIR BALANCE OF PAYMENTS AND AGAINST ALL COMMUNITY PRINCIPLES TO ATTEMPT TO ACHIEVE GREATER SELF-SUFFICIENCY IN DAIRY AND MEAT PRODUCTS, WHICH IS AT PRESENT A HEAVY IMPORT BURDEN. AND THEY NEED TO SECURE EXEMPTION FROM ANY EXTREME RIGOURS OF RESTRUCTURING THAT MIGHT BE PROPOSED AT COMMUNITY LEVEL FOR STEEL AND SHIP-BUILDING.

6. ALL IN ALL, AFTER A PERIOD IN WHICH UNDER COSSIGA AND COLOMBO THEY HAVE PLAYED A CONSTRUCTIVE AND NOT NOTABLY NATIONALISTIC ROLE, THEY NOW FEEL THEY MUST FIGHT THEIR OWN CORNER IN ADVERSITY. HENCE FOR EXAMPLE THEIR HIGH BID AND STUBBORN RESISTANCE TO PRESSURE OVER SUGAR, NOT SIMPLY TO ACHIEVE A GOOD BARGAIN ON THE COMMODITY IN QUESTION BUT ALSO TO DEFEND WIDER ITALIAN INTERESTS IN EXEMPTION FROM CO-RESPONSIBILITY FOR PRODUCTS FOR WHICH ITALY IS IN DEFICIT.

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7. THIS WILL MAKE THE ITALIANS MORE TIRESOME PARTNERS. BUT IT WILL BE IMPORTANT NOT TO OVERLOOK THEIR REAL PROBLEMS. ENLARGEMENT CAN THREATEN ITALIAN INTERESTS SEMICOLON THE SORT OF RESTRUCTURING CARRIED OUT BY BSC IS NOT POSSIBLE IN ITALIAN POLITICAL CIRCUMSTANCES SEMICOLON AND IF THE ITALIANS CAST US IN THE ROLE OF EUROPEAN VILLAINS OF THE PIECE (EVEN ON THE 1% VAT CEILING IT IS AT PRESENT THE GERMANS WHO ARE SEEN HERE IN THE PRESS TO BE IN THE LEAD), IT WILL MAKE IT MUCH MORE DIFFICULT TO SECURE ITALIAN SUPPORT WHERE WE NEED IT. THEY CAN STILL BE USEFUL TO US.

8. ON THE AGENDA, BOTH BERLINGUER AND THE WELL-INFORMED LUXEMBOURG AMBASSADOR HAVE TOLD ME THAT THE FRENCH WILL RAISE THE SEAT OF THE INSTITUTIONS. THE ITALIANS THEMSELVES ATTACH IMPORTANCE TO THE DISCUSSION OF TRADE RELATIONS WITH THE US AND JAPAN, NORTH/SOUTH (THEY WANT TO PARTICIPATE IN MEXICO), AND TO POLITICAL ISSUES. AS FOR ITALIAN OBJECTIVES, THE ASSESSMENT PREPARED IN LONDON SEEMS TO ME WELL-FOUNDED SEMICOLON IT ILLUSTRATES A NUMBER OF ISSUES - THE VAT CEILING, INCREASES IN AGRICULTURAL PRICES, THE MINI-PACKAGE - ON WHICH WE AND THEY ARE AT ODDS.

9. FORLANI IS EXPECTED BY HIS ADVISERS TO CALL FOR A MORE COMPREHENSIVE COMMUNITY POLICY, DESIGNED TO PROMOTE CONVERGENCE AND CORRECT REGIONAL IMBALANCES. HE WILL URGE THAT THE COMMUNITY SEEK WAYS TO PLAY A STRONGER ROLE IN THE WORLD, AND TO BE MORE COHESIVE IN DEALING WITH THE US, AND IN REACTING TO CRISES. COLOMBO WILL EXPECT TO EXCHANGE IMPRESSIONS, PROBABLY OVER MEALS, OF RECENT VISITS TO THE US BY LEADERS FROM BRITAIN, GERMANY, FRANCE AND ITALY. THE ITALIANS EXPECT THE GERMANS TO RAISE STEEL AND FISH SEMICOLON FORLANI WILL PROBABLY REFER TO AGRICULTURAL PROBLEMS BUT NOT EXPECT TO RESOLVE THE SUGAR QUESTION WHICH FALLS TO AGRICULTURAL MINISTERS. FORLANI MAY TRY HIS COLLEAGUES PATIENCE SEMICOLON BUT I HOPE THAT HIS REAL PROBLEMS, AND THE IMPORTANCE OF ITALY'S POSITION FOR US AS WE APPROACH RESTRUCTURING AND THE PRESIDENCY, CAN BE O BORNE IN MIND.

FCO PLEASE PASS ALL SAVING ADDRESSEES

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