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TO IMMEDIATE FCO

TELEGRAM NUMBER 16 OF 8 JANUARY

INFO IMMEDIATE THE HAGUE

INFO PRIORITY ALL OTHER EEC POSTS.

VISIT OF LORD PRIVY SEAL

1. THE ITALIAN PRIME MINISTER SIGNOR COSSIGA GAVE THE LORD PRIVY SEAL A FIRM ASSURANCE ON 7 JANUARY THAT HE, HIS GOVERNMENT, THE MAIN POLITICAL PARTIES AND THE ITALIAN REPRESENTATIVES IN THE EUROPEAN PARLIAMENT ALL WANTED TO SEE A REASONABLE AND QUICK SOLUTION TO THE UK'S BUDGET PROBLEM IN THE EUROPEAN COMMUNITY. THIS WAS NOT ONLY BECAUSE THE COMMUNITY MUST GET THROUGH ITS OWN CRISIS BUT BECAUSE FAILURE TO DO SO WOULD WEAKEN EUROPE IN ITS DEALINGS WITH THE OUTSIDE WORLD IN THESE DANGEROUS DAYS. IT COULD EVEN ENCOURAGE THE SOVIET UNION TO PROFIT BY THE UNSTABLE SITUATION WHICH A COMMUNITY CRISIS COULD CREATE.

2. BY WAY OF PREPARATION FOR HIS IMPORTANT VISIT TO LONDON ON 29/30 JANUARY TO MEET THE PRIME MINISTER, SIGNOR COSSIGA HAD ASKED THE COMMISSION TO MAKE PROPOSALS. HE HAD PUT THIS BOTH TO ORTOLI AND NATALI IN ROME AND WOULD BE SEEING JENKINS HERE ON 11 JANUARY. THE COMMISSION PROPOSALS SHOULD TAKE ACCOUNT OF THE NEED FOR CONVERGENCE, FOR STRUCTURAL REFORM AND THE REDUCTION OF AGRICULTURAL EXPENDITURE, THE UK BUDGETARY PROBLEM, AND ALSO THE DIFFICULTY OF THE REJECTION BY THE EUROPEAN PARLIAMENT OF THE 1980 BUDGET. THE COMMISSION HAD UNDERTAKEN TO LET HIM HAVE PROPOSALS IN TIME TO CONSIDER BEFORE HIS VISIT TO LONDON. IT WOULD ALSO HELP HIM TO KNOW IN STRICT CONFIDENCE WHAT OUR EXPECTATIONS WERE ON THE ASSUMPTION THAT WE COULD ACCEPT AN IMPROVED CORRECTIVE MECHANISM ON THE CONTRIBUTION SIDE AND INCREASED EXPENDITURE IN THE UK, IN ORDER TO GET A SATISFACTORY RETURN.

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3. THE LORD PRIVY SEAL EXPRESSED GRATITUDE FOR THE ASSURANCES GIVEN BY SIGNOR COSSIGA AND SAID WE SOUGHT A GENUINE COMPROMISE THOUGH THERE WAS LITTLE SCOPE FOR MANOEUVRE IN RELATION TO OUR ORIGINAL DEMAND. MOREOVER THE PROBLEMS COULD NOT ALL BE SOLVED AT ONCE. WE NEEDED A QUICK SOLUTION TO OUR PROBLEM BUT RESTRUCTURING WOULD TAKE TIME AS WOULD AGREEMENT ON THE 1980 BUDGET.

4. SIGNOR COSSIGA SAID THAT PRESENTATION WAS VERY IMPORTANT. GISCARD AND SCHMIDT HAD GIVEN THE IMPRESSION IN DUBLIN THAT THEY THOUGHT WE WANTED A PERMANENT "RENEGOTIATION" OF OUR TERMS, WHICH WAS NOT ACCEPTABLE. HE HIMSELF DID NOT THINK THIS. HE RECOGNISED THAT WE MUST GIVE PRIORITY TO OUR BUDGETARY PROBLEM. BUT IF HE COULD OFFER SOME ADVICE IT WOULD BE THAT WE SHOULD PUT THIS IN A WIDER CONTEXT IN ORDER TO IMPROVE THE PRESENTATION. THE SHORT TERM REMEDY FOR THE UK MUST BE ACCOMPANIED BY LONGER TERM TREATMENT FOR THE COMMUNITY AS A WHOLE TO PREVENT SIMILAR PROBLEMS ARISING.

5. THE LORD PRIVY SEAL EXPLAINED THAT TWO-THIRDS OF OUR PROBLEM AROSE ON THE SCORE OF INADEQUATE RECEIPTS AND RESTRUCTURING COULD ONLY HAVE HELPFUL EFFECTS IN THE LONG TERM. IN THE SHORT TERM WE NEEDED A MECHANISM TO IMPROVE RECEIPTS.

6. SIGNOR COSSIGA REFERRED TO THE OTHER SUBJECTS MENTIONED AT DUBLIN (ENERGY, FISHERIES, SHEEPMEAT), WHICH HAD BEEN PUT INTO THE COMMUNIQUE. THE LORD PRIVY SEAL SAID THERE SHOULD BE NO MILEAGE WITH THE BUDGET PROBLEM AND THESE ITEMS SHOULD BE DEALT WITH ON THEIR MERITS. SIGNOR COSSIGA SAID IT WOULD BE EASIER TO MAKE PROGRESS ON THESE ITEMS IF THE BUDGET QUESTION HAD BEEN SETTLED: IT WAS IMPORTANT THAT WE SHOULD NOT GIVE THE IMPRESSION THAT WE WERE ONLY CONCERNED WITH THE BUDGET.

/7. THE

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7. THE LORD PRIVY SEAL'S TALKS WITH ZAMBERLETTI (DEPUTISING FOR FOREIGN MINISTER MALFATTI WHO IS STILL ILL) AT THE MINISTRY OF FOREIGN AFFAIRS WERE NOT VERY CONCLUSIVE, THOUGH THE SAME ITALIAN ARGUMENTS EMERGED. THEY DO NOT LOSE SIGHT OF CONVERGENCE, DO NOT WANT THE UK PROBLEM TO BE DEALT WITH IN ISOLATION, AND ARE AGAINST ANY MECHANISM BEING OF INDEFINITE DURATION. THEY SEEM PREPARED TO CONSIDER MAKING ADDITIONAL FUNDS AVAILABLE TO THE UK BUT POINT OUT THE DIFFICULTIES OF GETTING PROJECTS APPROVED AND MONIES PAID OVER IN A SHORT TIME SCALE. THE LORD PRIVY SEAL PRESSED THE MERITS OF A STRAIGHT-FORWARD RECEIPTS MECHANISM TO SOLVE THE MAJOR PART OF OUR PROBLEM. ZAMBERLETTI SAID THE REJECTION OF THE 1980 BUDGET BY THE EUROPEAN PARLIAMENT HAD INTRODUCED AN IMPORTANT NEW POLITICAL FACTOR. SOMETHING SHOULD BE DONE TO PLACATE THE PARLIAMENT ON THIS SCORE IN ORDER THAT THEY DID NOT TRY TO GET INVOLVED IN THE SOLUTION OF OUR PROBLEM, WHICH WOULD BE AN UNWELCOME COMPLICATION. THE PARLIAMENT WOULD REACT BADLY TO ANYTHING THAT SMACKED OF "JUSTE RETOUR" BUT WELL TO A SOLUTION WHICH PROMOTED CONVERGENCE IN THE COMMUNITY. ZAMBERLETTI WAS ANXIOUS TO EXCHANGE VIEWS WITH THE LORD PRIVY SEAL WHEN HE HAD FINISHED HIS TOUR OF OTHER COMMUNITY CAPITALS.

8. SIGNOR COSSIGA MADE A POINT OF BRINGING IN THE MINISTER OF THE TREASURY (PANDOLFI) AT THE END OF THE LORD PRIVY SEAL'S CALL, AND PANDOLFI SUBSEQUENTLY CAME TO MY DINNER ON THE EVENING OF 7 JANUARY. LIKE ZAMBERLETTI HE WAS SHORT OF CONSTRUCTIVE IDEAS BUT FULL OF A DESIRE TO HELP.

9. IT WILL BE IMPORTANT TO LET SIGNOR COSSIGA KNOW THE RESULTS OF THE LORD PRIVY SEAL'S ROUND OF VISITS TO OTHER CAPITALS BEFORE THE ITALIAN PRIME MINISTER'S VISIT TO LONDON ON 29/30 JANUARY. IF IT IS NOT CONVENIENT FOR THE LORD PRIVY SEAL TO VISIT ROME AGAIN FOR THIS PURPOSE I SHOULD BE GLAD TO PASS A REPORT TO SIGNOR COSSIGA SAY ON 24 JANUARY. BY THAT TIME THE ITALIANS SHOULD HAVE RECEIVED SOME ADVICE FROM THE COMMISSION AND IT WILL BE DESIRABLE TO INJECT SOME OF OUR IDEAS TO KEEP THEM ON THE RIGHT LINES.

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F.C.O. LORD PRIVY SEAL'S OFFICE

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HEAD OF EID(E),

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