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FILE No. **WR** J014/2. (Part A)

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PART A

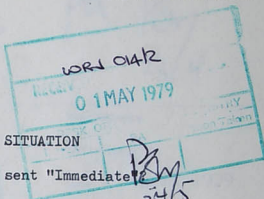
~~WRT~~ 014/2
WRT

NOW SEE
PART 'B'

LAST PAPER

Reference

Mr Vereker



ROME TELNO 130: ITALIAN POLITICAL SITUATION

1. Should this telegram have been sent "Immediate"
2. Mr McCarthy's comment that it adds nothing to press reporting implies that it should not have been sent at all rather than with a routine precedence. But we must look at it from the post's point of view. They have no idea what the UK press is saying, and know that we are anxious for news: the alternative would be to await the receipt of the UK newspapers and then decide if they needed to add to whatever they said. There is also no guarantee that all those concerned in Whitehall will see the relevant press reports. In brief, I do not think that a post can reasonably be expected either simply to assume that the press will accurately report and analyse a situation of this nature, or wait for the UK papers to arrive for them to check, when they are aware that we are keen to know progress. Given the communications situation at that time, I see no alternative to an Immediate precedence; a Routine telegram would presumably have been held up for days. BE Rome have in fact behaved very responsibly during the period of industrial action, sending very few telegrams.
3. I must confess, however, that I see no cause for a Confidential classification.

Peter Harborne

P G Harborne

5 April 1979

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British Embassy
Via XX Settembre 80A 00187 Rome

Telex 61049 Telephone 4755,441

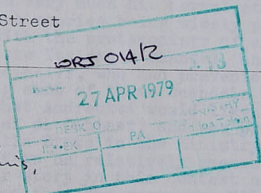
pa. PM
13/4

C J Baker Esq
HM Treasury
IFI
Parliament Street
LONDON

Your reference

Our reference

Date 19 April 1979



Dear Chris,

SCANDAL AT THE BANK OF ITALY

- (3)
1. Many thanks for your letter of 6 April. Although the situation continues to develop daily, I thought that since we have a bag leaving this evening I would take the opportunity to bring you up to date.
 2. After 12 days in prison Sarcinelli was eventually released on bail, but not before Baffi had agreed to suspend him temporarily from his office, which seems to have been the immediate purpose of the investigating judge.
 3. Following his release, the managing Council of the Bank of Italy, in Baffi's convenient absence in Basle, passed a resolution requesting the Government to reinstate Sarcinelli in his position: the Government have the power to do this, since he is one of the directors of the Bank. The Council of Ministers was due to meet today to discuss this request, and it was widely expected that they would indeed have reinstated Sarcinelli. However this possibility has now been pre-empted since the investigating judge yesterday took action by direct order to suspend Sarcinelli from his job pending the outcome of the case, in what was clearly a deliberate move to forestall a decision by Ministers. The magistrates have the power to do this under an Article of the penal code which permits the suspension of public officials where charges against them are particularly serious: but this is in fact a provision which has rarely been invoked in the past. Since the charges so far made against Sarcinelli are not regarded as all that serious the whole affair is beginning to look more and more like a plot designed specifically to keep him out of office. The case could in fact drag on for years. It has been widely pointed out that the only people who have really suffered so far in the 18 months judicial enquiry into the SIR financing have been Sarcinelli and a lawyer who was accused of reluctance to provide evidence, neither of whom could possibly have been central figures in the affair.
 4. Meanwhile there has been growing press criticism of Andreotti for failing to make his position clear, although the 11 members of the Government who belong to the Ministerial Committee for Credit and Saving did so in unequivocal terms in the Bank of Italy's favour (I was wrong in suggesting in the last paragraph of my letter of

/26 March



26 March that Andreotti had endorsed their resolution). Andreotti's office were in fact belatedly putting it about earlier this week that he was in favour of the reinstatement of Sarcinelli. The most probable explanation of Andreotti's equivocal behaviour is that in order to resolve what is fast becoming a serious clash between Government and magistrature he needs to avoid being drawn in decisively on either side. This is very much his normal style. There are however some less attractive stories being widely publicised concerning Andreotti's involvement with the protagonists of a number of financial scandals, particularly the Italcasse scandal, and his alleged determination to be rid of Sarcinelli, who had prevented senior Christian Democrats from resolving some of these scandals by dubious financial means. It is rumoured that Andreotti would like to replace Baffi with Milazzo, who is his Chief di Cabinet, and was previously the Head of the Ragioneria della Stato in the Ministry of the Treasury, or by Ciampi who is thought to be relatively amenable to the Christian Democrats. One particular story in this context seems to be based on rather firmer evidence than the rest: the Milan magistrate charged with investigating the Sindona case, who evidently has a high opinion of Sarcinelli, released two weeks ago a deposition made by Sarcinelli to him in which Sarcinelli alleged that not long ago he had been pressed by Evangelisti, who is a junior Minister at the Presidency of the Council and Andreotti's right hand man, to agree to the use of 150 billion Lire of public money to bail out some of Sindona's debt-ridden companies, and thus enable Sindona's name to be cleared. It is very difficult to distinguish truth from fiction in all these stories, with which the political weeklies have been having a whale of a time, but they do show quite convincing evidence of considerable friction between the Bank of Italy, and particularly Baffi and Sarcinelli, and certain members of the Christian Democrat Party. Some of the dirt being thrown around may well rub off on Andreotti, particularly since, whatever his real relationship with these shady financiers, he apparently did have some social connections with them, though those who have observed Andreotti over a longer period say that his ability to extricate himself from compromising situations is unrivalled.

5. We received some interesting background on the whole story from the economic spokesman of the Italian Communist Party, Barca, last week. He said that some two years ago, following the imposition of new exchange control legislation, the Italian financial police had conducted a series of investigations which had led them eventually to request documents from the Bank of Italy. After initial reluctance these documents had been provided and had gone to the magistracy. The latter had then been unable, since they lacked the technical expertise, to complete the investigation, and had entrusted the matter to a number of "experts" appointed by themselves. Among these experts, by chance or otherwise, were the lawyers of the Caltagirone brothers, protagonists in the Italcasse scandal. A number of Bank of Italy documents had gone missing, and copies of these had in fact formed the basis for the magistrates' recent assault against the Bank of Italy. There is a certain ring of truth in this story.

6. It is very difficult to see the way ahead. Clearly the magistrates' action to force the suspension of Sarcinelli puts Baffi, who faces the same charges, in an extremely difficult position. There are rumours in the press today that he and the other directors of the Bank will resign this week. This is not the first time that this



has been said. He is however under considerable pressure from Pandolfi to remain on at the Bank, and before the latest developments, we were told that it was unlikely that he would resign, if he did resign at all, before the annual general meeting of the Bank on 31 May. (This was the occasion at which Carli announced his surprise resignation in 1975). If Baffi does not receive any sign of support from Andreotti, he will clearly have to consider offering his resignation: but the only effective support Andreotti could give would be to refer the magistrates' decision to suspend Sarcinelli to the constitutional court. Unofficial press briefing from Andreotti's office suggests that he is unwilling to do this while heading a caretaker government. And we have just heard that today's meeting of the Council of Ministers on the case has been postponed sine die. It is in fact becoming increasingly difficult to foresee how a change in the leadership of the Bank can be avoided.

7. Meanwhile there are some quite serious economic implications. Not surprisingly, we understand that the banking supervision activities of the Bank of Italy are practically at a standstill. This means that the Bank of Italy's traditional moderating role in the shady world of Italian high finance is not being exercised at all. The persistence of such a situation would be extremely unhealthy. We also believe that practically no agreements for assisted interest rate loans available in one form or another under Italian legislation are at present being granted, since nobody is willing to risk having his decision investigated by the magistrates. Clearly this tendency, if allowed to develop, is going to cause even more paralysis than is normal!

8. I will write again when the situation develops further. I am sorry there appear to be so many diffuse strands in the story - but that is the nature of Italian politics.

*Yours ever,
Tony*

A C Galsworthy

cc: D Gore-Booth Esq FRD, FCO
P G Harborne Esq WED, FCO
A M Porter Esq Overseas Dept, Bank of England
Ms K Colvin, RD, FCO

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CPS 440

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FM ROME 111115Z APR 79

TO IMMEDIATE FCO

TOP COPY

Ry
17/4

TELEGRAM NUMBER 140 OF 11 APRIL

INFO SAVING TO WASHINGTON, UKDEL NATO, UKREP BRUSSELS, AND ALL OTHER EEC POSTS.

WRT OAL2	
RECEIVED	3.13
DEPT OF	STATE
DATE	25 APR 1979
TIME	
BY	
FOR	

MY TELNO 136: ITALIAN POLITICAL SITUATION. 25 APR 1979

1. THE COUNCIL OF MINISTERS ANNOUNCED YESTERDAY, 10 APRIL, THAT THE NATIONAL ELECTIONS WILL TAKE PLACE ON 3 AND 4 JUNE, IE ONE WEEK BEFORE THE EUROPEAN ELECTIONS.

2. ALTHOUGH IT HAD BEEN EXPECTED UP UNTIL A WEEK AGO THAT THE TWO ELECTIONS WOULD BE COUPLED, IT WAS ONLY REALISED AT THE LAST MINUTE THAT LEGISLATIVE ACTION WOULD BE REQUIRED TO ENABLE VOTING IN THE NATIONAL ELECTION TO TAKE PLACE ON SATURDAY 9 AND SUNDAY 10 JUNE (RATHER THAN ON A SUNDAY AND MONDAY AS USUAL IN ITALY). SINCE PARLIAMENT HAD ALREADY BEEN DISSOLVED, LEGISLATION COULD ONLY BE INTRODUCED BY DECREE LAW WITH THE UNANIMOUS APPROVAL OF ALL PARLIAMENTARY GROUPS. THIS APPROVAL WAS NOT FORTHCOMING, AND THE UPSHOT WAS THAT THE GOVERNMENT DECIDED TO ACCEPT THE ADVICE OF ITS CONSTITUTIONAL EXPERTS AND HOLD THE NATIONAL ELECTIONS ONE WEEK EARLIER. THE COMMUNISTS HAVE CRITICISED THE DECISION ON THE GROUNDS OF THE ADDITIONAL EXPENSE AND DISRUPTION THAT WILL BE CAUSED BY HAVING TWO ROUNDS OF ELECTIONS. THE SOCIALISTS, WHO HAVE ALWAYS BEEN PARTICULARLY ANXIOUS TO AVOID HAVING NATIONAL ELECTIONS FIRST, HAVE DESCRIBED IT AS A CYNICAL DECISION DESIGNED TO REDUCE THE SIGNIFICANCE OF THE EUROPEAN ELECTIONS.

THEY ARE THREATENING TO TAKE THE MATTER TO THE EUROPEAN COURT OF JUSTICE "TO PROTECT THE EUROPEAN ELECTORAL RIGHTS OF ITALIAN CITIZENS".

3. DESPITE THE CONTROVERSY SURROUNDING THE DECISION THERE NOW SEEMS NO DOUBT THAT THE ELECTIONS WILL GO AHEAD ON 3/4 JUNE. THE ELECTION CAMPAIGN DOES NOT FORMALLY OPEN UNTIL 4 MAY BUT THE

/POLITICAL

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POLITICAL PARTIES ARE ALREADY STAKING OUT POSITIONS. FOLLOWING BERLINGUER'S RALLYING CALL AT THE RECENT COMMUNIST PARTY CONGRESS (PARA 5 OF MY TUR) THE CHRISTIAN DEMOCRAT PRESIDENT, PICCOLI, STATED CATEGORICALLY LAST WEEK THAT THE CHRISTIAN DEMOCRATS WOULD NOT FORM A GOVERNMENT WITH THE COMMUNISTS. HE SAID THAT THIS WAS NOT A MATTER OF DISCRIMINATION, BUT A RATIONAL CHOICE DESIGNED TO CREATE THE CONDITIONS FOR AN EFFECTIVE ALTERNATION OF POWER. MEANWHILE THE SOCIALIST PARTY SECRETARY CRAXI HAS MADE CLEAR, IN REPLY TO OVERTURES FROM BERLINGUER FOR "UNIFIED PARTICIPATION OF THE LEFT" IN A GOVERNMENT AFTER THE ELECTIONS, THAT THE SOCIALISTS WILL NOT FIGHT AN ELECTION CAMPAIGN BASED ON SUPPORT FOR COMMUNIST DEMANDS TO ENTER THE GOVERNMENT. CRAXI ADDED THAT THE IMPORTANT ISSUE WAS NOT COMMUNIST ENTRY INTO GOVERNMENT (THOUGH THE SOCIALISTS WOULD NOT OPPOSE THIS) BUT THE CREATION OF AN INDEPENDENT THIRD FORCE ROLE FOR THE SOCIALIST PARTY.

4. FCO PLEASE PASS TO ALL SAVING ADR// ADDRESSEES.

CAMPBELL

FCO/WHITEHALL D

WED

[REPEATED AS
REQUESTED]

CONFIDENTIAL

Western European Department
FCO



With the compliments of
**HER BRITANNIC MAJESTY'S
CONSUL-GENERAL & MINISTER**

P. H. Scott

MILAN

9/4/79

Mr Osborn
Mr Thompson

cc: Mr Goodison, ROME
— Western European Dept, FCO
Mrs Colvin, Research Dept, FCO

14/12		5.13
RECEIVED		
10 APR 1979		
DEPT	PA	REGISTRY
INDEX		Notes Taken

CONVERSATION WITH DR NEZZO

1. On Friday, 6 April I took Mrs Kathryn Colvin of Research Department to call on Dr Alessandro Nezzo, the Managing Director of the Cassa di Risparmio delle Provincie Lombarde.
2. In some ways Dr Nezzo was rather less pessimistic than usual. He said that there were some encouraging features about the current economic situation, and that in particular the small and medium industry was going well. He said that this illustrated the fact that the Italians with their talents and ingenuity were perfectly capable of achieving prosperity, if only their Government would allow them to get on with it. The one thing that had been completely destroyed by the years of misgovernment was the currency. The accounts of the Government, the State enterprises, and the banks, were full of paper assets which could never be realised, and of debts which could never be paid. The situation was so much beyond control that the only possible solution was to cancel everything and start again.
3. Dr Nezzo said that the real malaise of Italy was not economic but political. Governments since the war had destroyed the currency by attempting to buy popularity with unrealistic concessions to the workers; they had failed to carry out the reforms that were necessary, and they had gradually brought the country closer to a position where Communist participation in the Government was virtually inevitable. He thought that there would certainly be risks in this participation, but he felt that the risks would be even greater if the Communists continued to be excluded, ~~from participation in the Government.~~

Bo

P H SCOTT

9 April 1979

Mr. Vesper:

Interesting — do not these remarks have a familiar ring about them, somewhat closer to home!

Ray
io/W

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British Embassy

Via XX Settembre 80A 00187 Rome

21 MARCH 1979

Telex 61049 Telephone 4755.441

RECEIVED ITALIAN GOVERNMENT

(DC-Mor. coalition)

Your reference

Our reference

Date 9 April 1979

P G Harborne Esq

WED

FCO

PRIME MINISTER
Under-Secretaries

RECEIVED ITALIAN GOVERNMENT	
11 APR 1979	
DEPT OF DEFENSE	DEPT OF STATE
DEPT OF JUSTICE	DEPT OF AGRICULTURE
DEPT OF COMMERCE	DEPT OF LABOR
DEPT OF ENERGY	DEPT OF HEALTH
DEPT OF ENVIRONMENT	DEPT OF HOUSING
DEPT OF TRANSPORT	DEPT OF EDUCATION
DEPT OF INTERIOR	DEPT OF JUSTICE
DEPT OF FOREIGN AFFAIRS	DEPT OF STATE

THE SOUTH

FOREIGN AFFAIRS
Under-Secretaries

Dear Peter,

NEW ITALIAN GOVERNMENT

1. I enclose for your records a complete list of the members of Andreotti's Fifth Government which, even though it failed to obtain a vote of confidence in Parliament, formally took office on 21 March (the date on which the new Ministers were sworn in) and will remain the Government of Italy until such time as a new government is formed after the elections. On past form this might not take place until as long as one and a half to two months after the elections, so that the present government could easily have at least four months in office.

Yours ever,

Mark

M E Pellew

Mr. Barisface

See Vx
Reg psc copy attached for
notice b.d.

By
w/iw

OK. 10/4

UNCLASSIFIED

21 MARCH 1979

THE FIFTH ANDREOTTI GOVERNMENT
(DC-PSDI-PRI coalition)

PRIME MINISTER	ANDREOTTI On. Giulio	(DC-And.)
Under-Secretaries	EVANGELISTI On. Franco	(DC-And.)
	BRESSANI On. Piergiorgio	(DC-Mor.)
	BOFFARDI On. Ines	(DC-And.)
	BASSI On. Aldo	(DC-Mor.)
THE SOUTH	DI GIESI On. Michele	(PSDI)
FOREIGN AFFAIRS	FORLANI On. Arnaldo	(DC-Fanf.)
Under-Secretaries	BATTAGLIA On. Adolfo	(PRI)
	SANZA On. Angelo	(DC-Base)
	SANTUZ On. Giorgio	(DC-F.N.)
INTERNAL AFFAIRS	ROGNONI On. Virginio	(DC-Base)
Under-Secretaries	LETTIERI On. Nicola	(DC-Mor.)
	DARIDA On. Clelio	(DC-Fanf.)
	OCCHIPINTI Sen. Antonino	(PSDI)
GRACE AND JUSTICE	MORLINO Sen. Tommaso	(DC-Mor.)
Under-Secretary	SPERANZA On. Eduardo	(DC-Col.)
BUDGET	VISENTINI Sen. Bruno	(PRI)
Under-Secretary	ABIS Sen. Lucio Gustavo	(DC-Dor.)
FINANCE	MALFATTI On. Franco Maria	(DC-Fanf.)
Under-Secretaries	AZZARO On. Giuseppe	(DC-Fanf.)
	AMADEI On. Giuseppe	(PSDI)
	TAMBRONI ARMAROLI Sen. Rodolfo	(DC-Dor.)
TREASURY	PANDOLFI On. Filippo Maria	(DC-Dor.)
Under-Secretaries	CORÀ On. Renato	(DC-Dor.)
	LIGIOS Sen. Giosué	(DC-F.N.)
	VENANZETTI Sen. Claudio	(PRI)
	ERMINERO On. Enzo	(DC-Dor.)
	MANCINI On. Vincenzo	(DC-Base)
DEFENCE	RUFFINI On. Attilio	(DC-Dor.)
Under-Secretaries	PETRUCCI On. Amerigo	(DC-Dor.)
	CAROLI On. Giuseppe	(DC-Fanf.)
	SCOVACRICCHI On. Martino	(PSDI)
EDUCATION	SFADOLINI Sen. Giovanni	(PRI)
Under-Secretaries	FALCUCCI Sen. Franca	(DC-Fanf.)
	ARMATO On. Baldassarre	(DC-F.N.)
	DRAGO On. Antonino	(DC-And.)

PUBLIC WORKS Under-Secretaries	COMPAGNA On. Francesco GIGLIA On. Luigi FONTANA On. Giovanni	(PRI) (DC-Dor.) (DC-F.N.)
AGRICULTURE Under-Secretaries	MARCORA Sen. Giovanni ZURLO On. Giuseppe CACCHIOLI Sen. Gino	(DC-Base) (DC-Base) (DC-Dor.)
TRANSPORT (& MERCHANT NAVY) Under-Secretaries (Merchant Navy)	PRETI On. Luigi DEL RIO On. Giovanni DEGAN On. Costante CIAMPAGLIA On. Alberto	(PSDI) (DC-Fanf.) (DC-Dor.) (PSDI)
POSTS AND TELECOMMUNICATIONS Under-Secretaries	COLOMBO Sen. Vittorino TIRIOLO Sen. Elio DAL MASO On. Giuseppe	(DC-F.N.) (DC-Dor.) (DC-Dor.)
INDUSTRY Under-Secretaries	NICOLAZZI On. Franco BALDI Sen. Carlo RUSSO On. Ferdinando	(PSDI) (DC-Dor.) (DC-F.N.)
LABOUR Under-Secretaries	SCOTTI On. Vincenzo PICCINELLI On. Enea PUMILIA On. Calogero RIVA Sen. Dino	(DC-And.) (DC-Fanf.) (DC-F.N.) (PSDI)
FOREIGN TRADE Under-Secretary	STAMMATI Sen. Gaetano CIFARELLI Sen. Michele	(DC-And.) (PRI)
STATE HOLDINGS Under-Secretaries	BISAGLIA On. Antonio REBECCHINI Sen. Franco GUNNELLA On. Aristide VIZZINI On. Carlo	(DC-Dor.) (DC-Base) (PRI) (PSDI)
HEALTH Under-Secretaries	ANSELMi On. Tina VECCHIARELLI On. Bruno ROCCAMONTE Sen. Giosi	(DC-Mor.) (DC-Fanf.) (PSDI)
TOURISM AND ENTERTAINMENT Under-Secretary	ARIOSTO Sen. Egidio ROSA Sen. Vito	(PSDI) (DC-Mor.)
CULTURAL PATRIMONY AND SCIENTIFIC RESEARCH Under-Secretaries	ANTONIOZZI On. Dario POSTAL On. Giorgio SPITELLA On. Giorgio	(DC-Col.) (DC-Dor.) (DC-Dor.)

STRENGTH OF GROUPS

MINISTERS (21)

CHRISTIAN DEMOCRATS

Andreottiani:	3:	Andreotti, Scotti, Stammati;
Dorotei:	3:	Bisaglia, Pandolfi, Ruffini;
Base:	2:	Marcora, Rognoni;
Fanfaniani:	2:	Forlani, Malfatti;
Morotei:	2:	Anselmi, Morlino;
Colombiani:	1:	Antoniozzi;
Forze Nuove:	1:	Colombo V.

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SOCIAL DEMOCRATS:

4: Ariosto, Di Giesi, Nicolazzi, Preti.

REPUBLICANS:

3: Compagna, Spadolini, Visentini.

UNDER-SECRETARIES (49)

CHRISTIAN DEMOCRATS

Dorotei:	13:	Abis, Baldi, Cacchioli, Corá, Dal Maso, Degan, Erminero, Giglia, Petrucci, Postal, Spitella, Tambroni Armadori, Tiriolo;
Fanfaniani:	7:	Azzaro, Caroli, Darida, Del Rio, Falcucci, Piccinelli, Vecchiarelli;
Forze Nuove:	6:	Armato, Fontana, Ligios, Pumilia, Russo F., Santuz;
Base:	4:	Mancini V., Rebecchini, Sanza, Zurlo;
Morotei:	4:	Bassi, Bressani, Lettieri, Rosa;
Andreottiani:	3:	Boffardi, Drago, Evangelisti;
Colombiani:	1:	Speranza

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SOCIAL DEMOCRATS:

7: Amadei, Ciampaglia, Occhipinti, Riva, Roccamonte, Scovacricchi, Vizzini.

REPUBLICANS:

4: Battaglia, Cifarelli, Gunnella, Venanzetti.

put in Italy internal

THE WORLD

WRS 04/2

Europe



Andreotti was delighted to bow out

The government that didn't want to live

FROM OUR SPECIAL CORRESPONDENT IN ROME

"It's pure Pirandello", mused a journalist watching a broad smile settle slowly across the face of Italy's prime minister, Mr Giulio Andreotti, when his government crashed to defeat on a vote of confidence in the senate on March 31st. As in Britain three days before, the government's defeat was by a margin of one vote. But, unlike Britain's, nothing would have dismayed Italy's government more than winning; Mr Andreotti's relief at being thrown out of office was plain to all.

Mr Andreotti had accepted that a general election was inevitable from the moment in February when Italy's Communists, on being refused government jobs, decided to go into outright opposition. The Christian Democrats feared that unless a general election was held fairly quickly, the Communists might regain in opposition some of the shine they

had lost in two and a half years of supporting a Christian Democratic government.

So when Mr Andreotti formed a coalition government in mid-March, he made it as unpalatable as possible. The two non-political ministers in the previous government, put there as a concession to the left-wing parties, were unceremoniously dumped to make way for political minnows from two small parties—the Social Democrats and the Republicans—which had joined the coalition. "It was a government begging to be defeated," Mr Bettino Craxi, the leader of Italy's third party, the Socialists, told your correspondent last week.

By abstaining, the Socialists could have kept the government in office. Mr Craxi wanted the election postponed until the autumn, after what he expects to be a Socialist success in the direct elections to

the European parliament in June. But after the death last week of the government's sole *pièce de résistance*, the Republican leader, Ugo La Malfa, there remained no possible excuse for the Socialists to support the government.

Mr Andreotti still feared that his government's suicide might be prevented by deputies from National Democracy, a breakaway group of the neo-fascist Italian Social Movement. He said in advance that his government would resign even if it won a vote of confidence with their support. Enter Mr Amintore Fanfani, the veteran Christian Democratic leader kicked upstairs to the honorific post of president of the senate in 1976, who has been trying to slide down the banisters again ever since. Mr Fanfani, as holder of the second office in the state, said that if the government won its vote of confidence he would advise President Pertini that parliament should not be dissolved. So Mr Andreotti's whips darkly hinted that, in order to make certain of the government's defeat, Christian Democratic senators would discreetly absent themselves from the voting. At least one senator is thought to have done this to ensure the government's narrow defeat.

Ignoring a last-minute plea from the Socialists for another attempt, the fourth in two months, to find a government, President Pertini dissolved parliament on Monday. Polling will almost certainly coincide with the European elections, on June 10th in Italy. The election campaign will be one of the longest in recent Italian history—more than 60 days—and is likely to be marred by terrorist attacks.

Mr Andreotti was not always keen on taking advantage of the drooping Communist percentage in the opinion polls to spring a general election; he was enjoying his indispensability as the only Christian Democrat the Communists felt they could trust. But he realised that when the frustrated rank and file of the Communist party wrenched its leadership into opposition, the pressure for an early election within the Christian Democratic party would become overwhelming.

The ruling party has long been split between those who, like the party secretary, Mr Zaccagnini, wanted to stave off an election and favoured co-operation with the Communists, and those who,

like the party president, Mr Piccoli, felt that the Christian Democrats should deal with the Communists only from a position of electoral strength. In 1977 Mr Forlani, the foreign minister, who will be Mr Andreotti's main rival for the job of prime minister after the coming election, tried to unseat Mr Zaccagnini with the support of the anti-Communists in the party. He failed, narrowly. But since then the conservatives have gathered support, and a challenge to Mr Zaccagnini at the party congress in the autumn is expected to succeed. So Mr Andreotti has been skilfully dissociating himself from the party secretary over the past few months, presenting himself less as the friend of the Communists than as the man who dished them.

So what will happen after the election? The Christian Democrats, who until now have been pursued by a Communist suit-or eager to get into government, are likely to start trying to woo the Communists. Both Mr Andreotti and, surprisingly, Mr Forlani have taken to saying that the election will change little. The Communists might lose a percentage point or so, the Christian Democrats gain one; but government, they say, will still have to be by agreement between the Christian Democrats and Communists.

Yet the Christian Democrats' modest electoral expectations are not supported by the outcome of last year's local elections, in which some 4m people voted and which are usually an accurate guide to general election results. The Communists lost more than 6% of their vote in these, while the Christian Democrats gained 1% and the Socialists 2%. If these results were repeated in the general election, they would give the Christian Democrats a comfortable 11% lead over the Communists, making an agreement with Italy's second largest party unnecessary.

The Christian Democrats' electoral bashfulness is understandable enough: a lot of people who voted for them in panic at the Communist advance in 1976 would withdraw their support if they thought the Christian Democrats would win easily anyway. But there is a more subtle reason for converting leading Christian Democrats to the idea of a permanent alliance with the Communists even though electoral arithmetic makes it seem no longer necessary. The Communists originally thought up the idea of a "historic compromise" coalition with the Christian Democrats in the hope that the senior coalition party would thereupon split, with its anti-Communist wing going into opposition, leaving the Communists dominating the government. Instead, after two and half years of Communist co-operation with the Christian Democrats, the result has been almost the

reverse. The Communists have lost not only votes but also much of their vaunted unity.

If the Christian Democrats do well in the election, they will be eager to attach themselves to the Communists again and bleed them for more votes. They also need the co-operation of the Communist trade unions, which last year helped to keep inflation down and the balance of payments hefty in surplus. Above all, the Christian Democrats would like to prevent the Communists moving into "constructive opposition" (see below) after the next election, which is likely to gain them votes in the future. If the Christian Democrats get enough votes at the next election, they might even offer jobs in the cabinet to the Communists—who, despite their present standoffishness, might find them hard to refuse.

Italy's Communists

Ciao, ciao, compromesso

FROM OUR SPECIAL CORRESPONDENT IN ROME

The Italian Communist party's strategy since 1973 of forming a "historic compromise" coalition with the Christian Democrats and the Socialists has evaporated. This was the central message delivered by the Communists' doleful-looking secretary, Mr Enrico Berlinguer, at his party's 15th national congress in Rome from March 30th to April 3rd.

The previous congress was held in 1975, on the eve of a local election in which the Communists almost overtook the Christian Democrats as Italy's major party, and success was in the air. But this time the bounce had gone out of most of the *compagni*, facing the prospect, in a June election, of losing a fair number of votes for the first time in more than 20 years. Party membership, at some 1,790,000, is 24,000 down on last year. New recruitment to the party last year was 41% lower than in 1976.

On paper, the historic compromise remains the strategy of the party. But it no longer necessarily means that the Communists must enter a coalition government. As Mr Luciano Barca, one of the party's senior secretariat (*politburo*) members, explained to your correspondent:

The historic compromise means the acceptance of the Communist party as a party of constitutional dignity. You have a historic compromise between the Labour and Conservative parties in Britain, in the sense that each accepts the other as a constitutional party, and each does not seek to unravel everything the

other does when it takes power. Thus the historic compromise embraces both the idea of the Communists coming to power with the Christian Democrats and the Socialists, or alternating in power with the Christian Democrats.

Which strategy does the party now favour?

After the election, we shall ask to join in a government of national emergency with the Christian Democrats. If we are excluded, we will go into opposition. There will be no middle way.

Mr Berlinguer, in his winding-up speech to the congress on Tuesday, reiterated his lieutenant's uncompromising approach.

Mr Barca insists that opposition will be of a "constructive" kind, and that the party has learned from its two and a half years close to government.

In the past we used to make proposals, and expect the government to find the money for them. Our proposals will now be much more realistic. We will not be seeking the radical transformation of society.

Thus the party seems likely to urge restraint on its followers in the unions, particularly as most of the three-year wage contracts now being negotiated will be concluded during the election campaign, at a time when the Communists least want strikes to disrupt industry.

But the Communists will feel free to attack Christian Democratic maladministration—such as the "clearly political" motives behind the recent arrest of a deputy director of the Bank of Italy. The prospect of a moderate Communist opposition recouping its lost votes is clearly intended to worry the Christian Democrats; and the Communists even seem to be putting out feelers towards the Socialists for a new left-wing alliance—although the Socialists have rarely been so anti-Communist as today.



Berlinguer takes his medicine

7 APR 1979

cutting dated 19

ITALY.

Italy plans to cut petrol consumption

From George Armstrong
in Rome

Italy's Ministry of Industry plans to reduce petrol consumption despite the fact that Italians are using more and more petroleum products. And the move could drastically change the Italian life-style.

The Government claims it does not intend to raise the price of petrol, which already is £120 a gallon. Instead it would shut down all petrol pumps on Saturdays, Sundays and holidays, except those on the motorway. A motorist running low on petrol would thus be obliged to pay a toll, to get on the motorway in order to refill his tank.

Pumps near Italy's frontiers would not be allowed to sell a motorist more than half a tank if he was about to leave the country. And since France is the only European country with more highly-priced petrol, Italian motorists heading for Switzerland, Austria or Yugoslavia, or boarding a car ferry

for Greece, would be lucky if they purchased Italian petrol when approaching the border.

All advertising signs would be switched off; outdoor night sports events would be restricted; speed limits on the motorways would be observed; public offices would have only one hour for lunch instead of the usual three; and all offices would be required to shut at 5.30 p.m., rather than at 7.30 or 8.0 as now. Buildings could not be heated in winter more than 70 degrees Fahrenheit.

On certain weekends no private cars would be allowed to circulate unless there was an urgent reason. These and other provisions under study would reduce Italy's petroleum consumption by about 5 per cent a year.

Italians consumed 5 per cent more petrol products in February than during the same period last year and during March the increase was 10 per cent. With good weather expected, April's increase is likely to be 15 per cent.

~~Keep~~
Prof. [signature]
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Anxieties cloud the Italian recovery

BY PAUL BETTS IN ROME

MR. ALAN WHITTON, European director of the International Monetary Fund, is back in Rome on one of his periodic visits to review the state of the Italian economy. But in sharp contrast with Italy's painstaking negotiations for a \$530m loan with the IMF two years ago, the Italian monetary authorities have no intention of asking for new support from the fund, at this stage at least.

During the past two years, there has been a spectacular improvement of the economy with an overall balance of payments surplus of nearly L6000bn (£3.45bn) last year, continuing stability of the lira, a substantial increase in foreign exchange reserves, and a reduction of inflation from levels of more than 20 per cent to an annual rate of 12 per cent last year.

At the weekend, official figures indicated a sustained recovery in industrial output with an increase of 8.2 per cent in the volume of production last February compared with the same month last year, confirming the encouraging trend of the last quarter last year. Indeed, there has now also been an upward revision of last January's output figures showing an increase of 5.6 per cent over January 1978.

However, despite this overall improvement, there are growing anxieties that the situation

The Bank of Italy last night ruled out any further easing of lending restrictions for commercial banks, in an effort to prevent the economic recovery now underway provoking a runaway upsurge in inflation.

Ceilings for the expansion of eligible loans will remain at 18 per cent above the March 1978 baseline for next month, 21 per cent for July and a similar figure for September. This amount to a maximum permitted lending growth of 16 per cent for the

year to September.

The central bank said last night that a few months ago a loosening of curbs might reasonably have been expected. But now that expectations of inflation had increased, any such move could merely serve to finance a speculative wave of stock-building by companies.

Monetary authorities will review the credit position in September. In the meantime the maximum on loans exempted from restrictions will stay at L100m (£60,000).

the PSBR's inflationary repercussions.

According to the so-called three-year (1979-81) Economic Recovery Plan, drawn up at the end of last summer but now seemingly indefinitely shelved, PSBR was to be contained this year to some L36,500bn, or the equivalent of 15.2 per cent of GDP compared to 16.5 per cent last year. However, as a consequence of the dissolution of Parliament last week, important draft legislation to correct the structural distortions of the Italian public sector has been lost.

Meanwhile alarm has been growing over the possible repercussions of the recent increases in oil prices which are expected to add an additional L1,000bn to Italy's annual oil import bill.

The proposed measures, designed to effect a saving of some 4m tonnes of petroleum equivalent this year include, among others, the shut down of all petrol stations at weekends and public holidays, harsher speed limits, earlier closing time for all offices, restrictions on neon advertising, stadium floodlights, and private car use on certain weekends, and a heating limit of 20 degrees centigrade for all buildings. There are also proposals to increase the price of petrol by L100 a litre to L600.

incompatible with the general target of containing the rise of labour costs, and prevent any real increases in wages over the next three years.

The current round of wage negotiations has been further soured by the country's general election campaign, which increasingly risks becoming focused on the key issue of whether or not the Communist Party should directly participate in any new government.

The general election has also cast a cloud over efforts to contain Italy's ever expanding PSBR. This has traditionally been one of the IMF's main areas of concern here in view of

could again deteriorate sharply. Retail price inflation is currently increasing above the 13 per cent mark, the impact of the renewal of a number of major national labour contracts threatens to act as a further stimulus to inflation, and the country's public sector borrowing requirement (PSBR) risks becoming seriously out of hand.

Sig. Bruno Visentini, the new Budget Minister in the caretaker Government of Sig. Giulio Andreotti and the chairman of the Olivetti mechanical engineering and electronics group, warned at the weekend that wage and shorter working hours demands by trade unions were

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Italy: Economy

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w/14

With another election imminent, Campbell Page anticipates the dilemma awaiting the next government

Italian parties seek formula for successful alliance

ITALY'S capacity for recidivism and survival is about to be put to the test once more. President Pertini has already dissolved Parliament, and tomorrow a date for the general election will be announced.

This will be the third premature general election in a row. The early dissolution of Parliament shows that the two biggest parties, the Christian Democrats and the Communists, are still in search of a formula which will allow them to work together and somehow preserve their identities.

In the last Parliament two formulas — the first of Communist abstention from voting against the Christian Democrat-dominated government, and the second of voting as part of the majority

Forattini, in the magazine L'Espresso, suggests an election campaign poster for the Communists: "The Communist Party in the Government... whatever the cost."

but without securing Cabinet posts — failed.

Mr Berlinguer, the Communist leader, is now fully committed to either full participation in government or a clear role in opposition.

As the Rome newspaper La Repubblica said last week, the Communists in the previous Parliament allowed themselves to get bogged down in a no-man's-land mapped out by the Christian Democrats. Yet the Communists at their recent party congress committed themselves to the same slogan that they used in the 1976 election: "Father in Government or in Opposition."

Has the party therefore wasted the three intervening years? "If the Christian Democrats are not accommodating, will the Communists remain faithful to their policy this time or will they yield once more to the temptation of advancing by small steps and become victims yet again of their legitimisation complex?"

Bargaining between the

two main parties could become more difficult if, as widely forecast, the Christian Democrats push their percentage of the vote for the Chamber of Deputies up from the 38.7 per cent obtained in 1976, and the Communists see their share fall from 34.4 per cent.

The anti-Communist Chris-

A BOMB wrecked a Rome supermarket and police station and injured a policeman yesterday, after anti-terrorist police arrested at least 25 extreme Leftists in Padua, Milan, Turin, Rovigo and Rome. The swoop was believed to be linked with investigations into the Red Brigades' kidnapping and murder last year of former Premier Aldo Moro. Several of those arrested, who included a journalist and university teachers, belonged to Italy's so-called Autonomous Groups, which are far to the Left of the Communist Party. It is believed they face charges ranging from subversion to armed insurrection.

tian Democrats will be encouraged to be more outspoken, while the Communists will be chastened and even more subject to the criticism, from within the party and from the far Left, that they have blunted their radical

thrust by an unsuccessful appetite for power in government.

The most serious loss in votes is expected to come from the South, where the Communist presence in local government has brought no magical solution to the intractable problems of cities like Naples.

lists, however, remain unpredictable. One senior Socialist recently described Mr Craxi's leadership as "less the evolution of a policy than the organisation of a series of happenings."

An MP who ran as an independent candidate on the Communist list in 1976 described the Socialist dilemma: If they stood alongside the Communists in government or in opposition, they would be overshadowed. If they abandoned the Communists and joined a government with the Christian Democrats, they would be charged with opportunism of the most obvious kind.

Post-electoral negotiations between the parties are likely to be protracted simply because the problems which made it hard to produce a government in 1976 are likely to be more severe this time.

Plenty of electors are already saying that the politicians, instead of wasting money on a purposeless election, should spend it on

cleaning up Naples, and other social problems.

But the real outsiders are the young, unemployed, and disaffected, who stand on the far Left, which is sometimes anarchic and sometimes violent. The conventional parties tend to see the extremists as an aggregate of individuals with anti-social or criminal tendencies.

The sociologist Franco Ferrarotti, without condoning violence, argues that such widespread disaffection must be rooted in social factors. The transition from the rural to the urban-industrial, he argues, is rarely neat or universally the same. Italy could easily be a country where the electronic present co-exists with the Bourbon past.

In a country still quivering from the impact of accelerated social change, there is an increasing demand for a government with the perception, the will, and the power to match national needs. Unfortunately, few Italians expect to see a qualitative advance of that kind

THE
GUARDIAN
9 APR 1979

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19 APR 1978

ITALY

WRT 014/2

Andreotti Cabinet fails to agree on election date

BY RUPERT CORNWELL IN ROME

IN AN atmosphere of undignified confusion, Sig. Giulio Andreotti's caretaker Cabinet failed last night to decide the precise date of the forthcoming General Elections here, due at the latest on June 10.

Under the Constitution, the poll has to be held not earlier than 45, and not later than 70 days after dissolution of the two Chambers of Parliament, announced by President Sandro Pertini on Monday.

Until 48 hours ago, it had been taken for granted that the elections would be held over the weekend of June 9 and 10, alongside the direct elections to the European Parliament.

But Justice and Interior Ministry officials have found that legal and constitutional difficulties block such a combined vote. These snags have, predictably, been exploited for political ends.

The Government will make another effort to decide the issue next Tuesday. By then, it will either have succeeded in breaking the political deadlock, or dates other than June 9 and 10 will have to be chosen. The most likely alternative is considered to be June 3.

This somewhat ridiculous denouement to a nine-week crisis follows the discovery that, to hold the two elections simultaneously, the Government would be obliged to launch a decree law, requiring approval from Parliament, within 60 days.

Even if a Parliament already

dissolved could be recalled to approve such a measure, the way would be open to obstructionism and filibustering by the left-wing Radical Party and the extreme Right, both of whom said yesterday they were opposed to the double election.

If the Government pushed on and ordered the joint vote, the election result could be challenged on a technicality, and possibly invalidated, experts say.

This impasse is a considerable embarrassment for Sig. Andreotti, and a big worry for the Socialists, whose entire strategy has been to try to ensure that their expected strong showing in Europe spills over into

national elections.

The Prime Minister's main tactical concern has been to spin out proceedings so that the dissolution would just fall within the 70 days before June 10.

It is also widely believed that the Radicals have been tacitly encouraged in their defiance by factions of the Christian Democrats, strongly opposed to holding both elections together, and none too well-disposed towards Sig. Andreotti.

To hold the two polls separately would mean that a possible saving of L150bn (£85m) of administrative expenses incurred by the Government would be lost.

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- 6 APR 1979

ITALY

cutting dated

19

WRS 014/2

Italian bank chief wins freedom

From George Armstrong
in Rome

Mr Mario Sarcinelli, a deputy director-general of the Bank of Italy, yesterday was granted provisional freedom by a State prosecutor and released from Rome's Queen of Heaven Prison, where he had been held for 12 days.

The prosecutor also advised the governor of the Central Bank, Mr Paolo Baffi, that the law says that a civil servant charged with a serious crime must be suspended from his job.

Mr Sarcinelli and Mr Baffi are charged with failing to send to the public prosecutor the Central Bank's report on the financial standing of Mr Nino Rovelli, a chemical magnate who has received State loans and subsidies totalling more than £1,000 millions. The charges, according to the local press, are likely to be upgraded to include embezzlement.

At the Bank of Italy it is being said, that Mr Sarcinelli was appointed by the Head of State, following recommendations from the Government, and that only the Treasury Minister can suspend him.

However, Mr Pandolfi, the Treasury Minister, and the Government, are on record as supporting Mr Baffi and his assistant, and have urged both not to resign. If either did resign, or was suspended, the entire board of directors has threatened also to quit. That would throw Italy's financial world into greater chaos.

The Bank of Italy "scandal" is probably political. Mr Sarcinelli and the Bank's governor are in legal trouble because they tried to sion State loans to other powerful men with powerful political connections. The Bank of Italy also has been the only major Italian institution that has remained outside the Christian Democrats' bailiwick. It is therefore

an aberration in a country where the Catholic party has held control of almost everything for more than 30 years.

If the Italian financial and banking world is now in chaos, so is the political world. The Government was to have decided two days ago on the date for general elections, and now has postponed the decision until next Tuesday. The idea of holding national elections on the same day as those for the European Parliament, on June 10, would require changing an Italian law that says the polls must remain open for a day and a half. The European rule is that the polls can be open only one day.

The small Radical Party has said that it will filibuster to block any change in the law when it comes before Parliament. They want the two elections held separately, one week apart.

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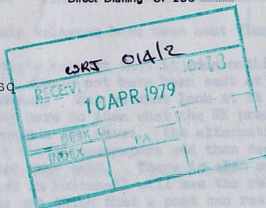
H M Treasury

Parliament Street London SW1P 3AG

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Direct Dialling 01-233

A C Galsworthy Esq
British Embassy
ROME



6 April 1979

SCANDAL OF THE BANK OF ITALY

I was compelled to pen to paper to say how tremendously informative, as well as hugely diverting, we have found your letters on the above topic. It really is a quite extraordinary state of affairs, and we very much look forward to the further episodes promised in your fifth paragraph.

C J BAKER

cc: D Gore-Booth Esq, FRD, FCO
P G Harborne Esq, WED, FCO
A M Porter Esq, Overseas Dept. B/E
K Colvin Esq, RD, FCO

Mr Vereker

WR 014/2

RECEIVED	2.13
10 APR 1979	
DESK	MINISTRY
INBOX	Don Tamm

ROME TELNO 130: ITALIAN POLITICAL SITUATION

1. Should this telegram have been sent "Immediate"?

2. Mr McCarthy's comment that it adds nothing to press reporting implies that it should not have been sent at all rather than with a routine precedence. But we must look at it from the post's point of view. They have no idea what the UK press is saying, and know that we are anxious for news: the alternative would be to await the receipt of the UK newspapers and then decide if they needed to add to whatever they said. There is also no guarantee that all those concerned in Whitehall will see the relevant press reports. In brief, I do not think that a post can reasonably be expected either simply to assume that the press will accurately report and analyse a situation of this nature, or wait for the UK papers to arrive for them to check, when they are aware that we are keen to know progress. Given the communications situation at that time, I see no alternative to an Immediate precedence; a Routine telegram would presumably have been held up for days. BE Rome have in fact behaved very responsibly during the period of industrial action, sending very few telegrams.

3. I must confess, however, that I see no cause for a Confidential classification.

P G Harborne

2. ALTHOUGH EVENTS HAVE THUS FOLLOWED THE SEQUENCE FORECAST IN MY TUR, THERE WERE DOUBTS UNTIL THE LAST MINUTE ABOUT THE PARL 5 April 1979) TE.

THE MOTION OF CONFIDENCE IN THE SENATE WAS LOST BY ONLY ONE VOTE, AND COULD EASILY HAVE GONE THE OTHER WAY HAD NOT THE RIGHT WING NATIONAL DEMOCRATS SPLIT FORCES AFTER ANDREOTTI HAD ANNOUNCED THAT HE WOULD NOT ACCEPT THEIR SUPPORT. THE VOTING WAS 169 IN FAVOUR (CHRISTIAN DEMOCRATS, SOCIAL DEMOCRATS, REPUBLICANS AND 4 NATIONAL DEMOCRATS), 150 AGAINST (COMMUNISTS, SOCIALISTS, INDEPENDENT LEFT, NEO FASCISTS AND 1 NATIONAL DEMOCRAT) WITH 20 EITHER ABSENT OR ABSTAINING (INCLUDING THE "MIXED GROUP" AND 4 NATIONAL DEMOCRATS).

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GR 700

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FM ROME 031615Z APR

TO IMMEDIATE FCO

TELEGRAM NUMBER 136 OF 3 APRIL 1979.

WRS 014/2	
REC'D	05 APR 1979
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INFO SAVING TO WASHINGTON, UKDELNATO, UKREP BRUSSELS AND
OTHER EEC POSTS.

26
MY TELNO 135: ITALIAN POLITICAL SITUATION

1. ANDREOTTI'S SHORT-LIVED 3-PARTY GOVERNMENT WAS DEFEATED IN THE SENATE ON 31 MARCH WITHOUT THE NEED FOR A FURTHER DEBATE IN THE LOWER HOUSE. ANDREOTTI DULY HANDED IN HIS RESIGNATION THE SAME DAY, AND THE PRESIDENT OF THE REPUBLIC, AFTER CONSULTING THE PRESIDENTS OF THE TWO CHAMBERS AS LAID DOWN BY THE CONSTITUTION, FORMALLY DISSOLVED PARLIAMENT ON 2 APRIL HAVING INVITED ANDREOTTI TO CONTINUE AS CARETAKER UNTIL NEW ELECTIONS. THE COUNCIL OF MINISTERS IS EXPECTED TO MEET TOMORROW (4 APRIL) TO DECIDE THE DATE OF THE ELECTIONS, WHICH MUST TAKE PLACE WITHIN 70 DAYS.

IT IS STILL EXPECTED THAT THE NATIONAL ELECTIONS WILL BE COUPLED WITH THOSE FOR THE EUROPEAN PARLIAMENT ON 10 JUNE.

2. ALTHOUGH EVENTS HAVE THUS FOLLOWED THE SEQUENCE FORECAST IN MY TUR, THERE WERE DOUBTS UNTIL THE LAST MINUTE ABOUT THE PARLIAMENTARY VOTE.

THE MOTION OF CONFIDENCE IN THE SENATE WAS LOST BY ONLY ONE VOTE, AND COULD EASILY HAVE GONE THE OTHER WAY HAD NOT THE RIGHT WING NATIONAL DEMOCRATS SPLIT FORCES AFTER ANDREOTTI HAD ANNOUNCED THAT HE WOULD NOT ACCEPT THEIR SUPPORT.

THE VOTING WAS 149 IN FAVOUR (CHRISTIAN DEMOCRATS, SOCIAL DEMOCRATS, REPUBLICANS AND 4 NATIONAL DEMOCRATS), 150 AGAINST (COMMUNISTS, SOCIALISTS, INDEPENDENT LEFT, NEO FASCISTS AND 1 NATIONAL DEMOCRAT) WITH 22 EITHER ABSENT OR ABSTAINING (INCLUDING THE "MIXED GROUP" AND 4 NATIONAL DEMOCRATS).

CONFIDENTIAL

/THE TONE

THE TONE OF THE DEBATE WAS LOW KEY, AND INDEED THE GENERAL ASSUMPTION IS THAT ANDREOTTI WAS HOPING TO BE DEFEATED DESPITE HIS DENIALS OF TRYING TO PROVOKE EARLY ELECTIONS. HIS STATEMENT BEFORE THE VOTE, IN WHICH HE SAID THAT THROUGHOUT THE CRISIS HE HAD SOUGHT, AND WAS STILL SEEKING, ONLY THE SUPPORT OF THE PARTIES OF THE FORMER MAJORITY (IE INCLUDING THE COMMUNISTS), HAS PROVOKED A SHARP REACTION FROM THOSE ON THE RIGHT WING OF THE CHRISTIAN DEMOCRAT PARTY WHO FOR SOME TIME HAVE BEEN LOOKING FOR OPPORTUNITIES TO SNIPE AT HIM.

3. SIMILARLY THE DISSOLUTION OF PARLIAMENT WAS BY NO MEANS A FOREGONE CONCLUSION. THE PRESIDENT OF THE SENATE, FANFANI, IS SAID TO HAVE ADVISED PRESIDENT PERTINI AGAINST IT AND IN FAVOUR OF A PAUSE FOR CONSULTATIONS WITH LEADERS OF ALL PARLIAMENTARY GROUPS TO SEE WHETHER ALTERNATIVE SOLUTIONS COULD STILL BE FOUND. THE SOCIALIST PARTY SECRETARY CRAXI WAS UNTIL THE LAST MOMENT CANVASSING THE IDEA OF GIVING A MANDATE TO SOME OTHER POLITICAL FIGURE. BUT PERTINI, WHO HAS PLAYED A DECISIVE ROLE THROUGHOUT THIS CRISIS, WAS EVIDENTLY UNWILLING TO ACCEPT ANY FURTHER DELAY.

THUS FOR ONLY THE THIRD TIME IN POST-WAR ITALIAN HISTORY (THE OTHER TWO OCCASIONS WERE IN 1972 AND 1976) ITALY IS TO HAVE EARLY ELECTIONS BEFORE THE END OF THE FIVE-YEAR LEGISLATURE.

4. ANDREOTTI WILL GO INTO THE ELECTIONS WITH THE ADVANTAGE (REGARDED AS CONSIDERABLE IN ITALIAN POLITICAL TERMS) THAT HE IS THE SITTING CARETAKER PRIME MINISTER. THIS COULD POSSIBLY HAVE AN INFLUENCE ON THE SHAPE OF THE NEW GOVERNMENT AFTER THE ELECTIONS. IT IS WORTH RECALLING THAT HIS FIRST GOVERNMENT (IN FEBRUARY 1972) ALSO FAILED TO OBTAIN AN INITIAL VOTE OF CONFIDENCE IN PARLIAMENT, BUT THAT AFTER EARLY ELECTIONS WITH HIMSELF AS CARETAKER, HE SUCCEEDED IN FORMING A SECOND GOVERNMENT WHICH LASTED FOR OVER A YEAR.

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5. THE COMMUNISTS MEANWHILE, AT THEIR PARTY CONGRESS FROM 30 MARCH TO 3 APRIL, HAVE FALLEN IN PREDICTABLY BEHIND BERLINGUER'S RALLYING CALL OF "EITHER GOVERNMENT OR OPPOSITION". THIS WILL PROBABLY STRENGTHEN BERLINGUER'S PERSONAL POSITION IN THE PARTY. BUT MOST PEOPLE STILL THINK THAT THE COMMUNISTS WILL DROP BACK A FEW POINTS IN A GENERAL ELECTION.

6. FCO PLEASE PASS SAVING ADDRESSEES.

CAMPBELL

[REPEATED AS REQUESTED]

FCO/WHITEHALL DISTN.

WED

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28



British Embassy
Via XX Settembre 80A 00187 Rome

Telex 61049 - Telephone 4755.441

pr. Italy: internal
Phy
4/w

WKS 014/2

05 APR 1979

C J Baker Esq
IFI
HM Treasury
Parliament Street
LONDON

Your reference

Our reference

Date 1 April 1979

Mr. Virekov

Dear Chris,

*More or less what one has read
in the press, with the important
exception of the question of
embezzlement.*
Phy
3/w

SCANDAL AT THE BANK OF ITALY

1. I wrote on 26 March to describe the alarming events which had recently taken place at the Bank of Italy. I thought I had better bring you up-to-date. Sarcinelli remains in jail, though he was expected to be released on bail today, now that, as the magistrates say, his offices have been searched and he is no longer able to destroy incriminating evidence. Baffi has been interrogated twice. Meanwhile, the whole affair has begun to assume the dimensions of a power struggle between the magistrature and the Government, and it is possible to distinguish this as a separate theme from the underlying investigation of the financing of SIR.
2. The Government's reaction to the action of the magistrates last week was sharp: the Ministerial Committee on Credit and Saving met on Thursday and approved a statement which repeated the Government's confidence in Baffi and the Bank of Italy, and, perhaps rather unwisely, suggested that the Banking Law, which gives the Bank of Italy discretion over reporting misdemeanours by the commercial banks to the magistrates, takes precedence over the Penal Code, which makes it an offence for any public official to withhold information from the magistrates when he has obtained evidence of illegal activities. The magistracy have not unreasonably pointed out that it is for the courts to rule on this point, and not the Government. Parliament, in the person of the Parliamentary Committee on Credit, have also pronounced solidarity with the Bank of Italy. Similar sentiments have appeared on the part of other national institutions. Andreotti however has been notably absent from the list, whether because, as it is whispered, he has an interest in seeing the activities of the Bank of Italy curtailed, or, much more probably, because he recognises the unwisdom of a public confrontation with the magistracy.
3. These reactions, which have been rather visibly orchestrated by the Bank of Italy, have led to a tightening of the ranks among

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the magistracy, and even those members of the latter who were known to feel that the indictment of the Bank of Italy was mistaken have now publicly sided with the magistrates in charge of the case. In fact the thing has now reached rather ludicrous proportions. The magistrates, having requested and been refused the minutes of Thursday's Ministerial Meeting, have announced their intention of attempting to interrogate all the Ministers involved in the meeting to establish on what evidence they approved the statement. 50 prominent economists who signed an open letter in support of Baffi have been served with orders to appear before the magistrates to justify their statements. And, perhaps most absurdly of all, all 22 employees of the Bank of Italy's branch at Enna in Sicily, down to those who sweep the floor, have been indicted before the courts under an article of the Penal Code which prohibits strike action designed to put pressure on authority. I mentioned in my last letter that the Bank of Italy had gone on strike over the affair. It remains uncertain whether this is a local initiative on the part of the Sicilian magistrates, or whether the magistracy have decided to serve similar notices on all employees of the Bank of Italy, starting, one assumes, at the southernmost point and working upwards.

4. While this comedy is proceeding there are more serious developments in the background. It is reported that the enquiring magistrates are about to issue a number of warrants for the arrest of prominent persons involved in the financing of SIR, this time for embezzlement or complicity in embezzlement. Hitherto the charges have been on the misuse of public funds, and since there is a widespread expectation in Italy that decisions on the allocation of public funds are often likely to be pretty dubious, this is not regarded as a particularly damaging charge. Putting the money in one's own pocket, or deliberately conniving at it, would be. It is almost certain that charges for this crime will be issued against Rovelli, and the heads of the main banks involved, including IMI: it should be remembered that Baffi himself was a senior director of IMI at the time the loans were approved. But it is perhaps not very probable that senior members of the Bank of Italy will be accused of this more serious offence, though assiduous rumours are nevertheless going about that they will.

5. More next week.

Yours ever
Tony

A C Galsworthy

cc: D Gore-Booth Esq FRD, FCO
P G Harborne Esq WED, FCO
A M Porter Esq Overseas Dept, Bank of England
K Colvin Esq, RD, FCO

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British Embassy
Via XX Settembre 80A 00187 Rome

Telex 61049 Telephone 4755.441

314
1) ~~cc EJD (I)~~ (27)
2) Mr Verker - to see
3) ~~PAV~~
314/12

P G Harborne Esq
WED.
FCO

LRS 014/2	
RECEIVED	1979
05 APR 1979	
INDEXED	

Your reference

Our reference

Date

29 March 1979

Dear Harborne,

ITALIAN POLITICAL SITUATION

1. Please refer to Rome telno 130 describing the latest situation. In Mark Pellew's absence on local leave I take advantage of tonight's bag to bring you up to date.
2. Our predictions were wrong on one point. Andreotti has appointed a new Minister of the Budget in succession to La Malfa, namely Senator Bruno Visentini (Italy leading personality notes No 132). Visentini (Republican) has had a distinguished industrial and financial career and is a prominent member of the Parliamentary Standing Committee on Finance and Treasury matters.
3. As foreseen, Andreotti also announced the names of the Under-Secretaries (Junior Ministers) yesterday evening. I will not weary you with names of all of those (since the government seems likely to be short-lived). So far as the MFA is concerned, you should however know that only one of the previous Under-Secretaries Angelo Sanza (Community questions) has retained his post. Both Radi and Feschi have been passed over: their places have been taken by Giorgio Santuz (Christian Democrat) and Adolfo Battaglia (Republican) (Italy leading personality notes no 15). I do not know Santuz but Battaglia is well-known to us and in fact dined at my house a fortnight ago. He was Under-Secretary at the MFA in a previous coalition government and is well disposed to the UK. Unfortunately, along with certain other politicians who happened to hold the post of administrative secretary of their respective parties some years ago, he has recently been named in the current Italcasse scandal as having received funds from this Italian savings bank for party purposes. All I can say about this is that he is in good company in Rome political life!

Yours ever,

James Agnew

cc: Head of Chancery
UKREP BRUSSELS

W J Adams

CONFIDENTIAL

FR APR 1978

cutting dated 19

Berlinguer keeps his options open

BY RUPERT CORNWELL IN ROME

ITALY'S Communist Party leader, Sig. Enrico Berlinguer, sent his party into the electoral fray yesterday with the warning that the campaign will be much harder than in June 1976, when the party won 34 per cent of the popular vote.

The Cabinet of Sig. Giulio Andreotti, the caretaker Christian Democrat Prime Minister, meets today to fix the election timetable. It is thought that he will pick as polling days, June 9 and 10, the weekend of the European elections.

Sig. Berlinguer's closing address in Rome to the 15th national congress of his party launched a campaign which on current indications could see the Communists lose ground to the Christian Democrats. But despite pressure from an influential hardline faction within the party, Sig. Berlinguer has carefully kept his options open for future co-operation with its rivals.

Reaffirming that the Communists will settle for nothing less than direct representation in a new Government if they are to be hired from opposition, he renewed his call for a government of national unity, as the only means of putting Italy to rights.

His speech was more notable for the common ground it sought to establish with the Christian Democrats than for the predictable attack on their refusal to countenance Communist Ministers.

Sig. Berlinguer pointed out that the Communists were "the second largest Catholic party in Italy," and added that in some areas, such as the Veneto and parts of industrial Lombardy,

the Christian Democrats had enrolled greater working class support than the Communists.

The division within the party leadership over the path to follow after the Communists' unhappy experiences of the past three years has been made clear in three days of debate. The hard-line approach, summed up in an outspoken speech by Sig. Armando Cossutta, was rejected by

another member of the leadership, Sig. Giorgio Napolitano, who came out emphatically against any defensive retrenchment.

Sig. Berlinguer stressed that the party would not retreat into its shell. He laid great importance on reforcing good relations with the Socialists to create a united Left which might challenge the dominance of the Christian Democrats.

LEFT WILL 'FIGHT ON' IN ITALY

By FRANK TAYLOR
in Rome

SIGNOR Berlinguer, the Italian Communist party leader, would up the five-day party congress in Rome yesterday with a speech that brought 1,000 delegates to their feet, cheering and applauding.

Although the Communist party had been halted "on the threshold of power in Italy" by the "prejudices" of the Christian Democrat party, he pledged that the fight would go on.

A government of "democratic solidarity," meaning one in which the Communists would have a clear role, was the only possible solution in Italy.

MISTAR Communists of Italy call for left alliance

ITALY'S Communist Party leader Enrico Berlinguer yesterday accused the Christian Democrats of causing early general elections and called on the Socialists to form an alliance of the left.

"The responsibility lies with the Christian Democrats, who have rejected all proposals for an effective democratic solidarity," he told the closing session of the party's congress in Rome.

Mr. Berlinguer also called on the Socialist Party to join "a clear and definite battle to take votes away from the Christian Democrats . . . under the flag of the unity of the left."

The Christian Democrats are expected to follow the Communist congress with a national council which will approve an election policy rejecting the Communist demand for cabinet posts.

But some leading party members, including ex-Premier Andreotti, believe that the country is only governable with the consent and support of the Communists.—Reuter.

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Keep all 3 on
Italy: internal

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F-4 APR 1979

cutting dated 19

Italy.

There's no black comedy in the Italians' moonlighting

ITALIAN flair, imagination and creativity are characteristics which earn worldwide admiration. Cars, fashion, food and furniture all benefit from the large measure of "fantasia" applied to them.

Flair and inventiveness also flourish here on the political scene—typified recently by tacit communist support for a minority Christian Democrat government and by the concept of converging parallels suggested some years back by the late Aldo Moro.

Although it seems that the British are now pressing hard, one area in which the Italians are world leaders is in the development of the "black economy." The Italians have found enormous scope for the application of their imaginative skills in this sector of the economy "economia sommersa."

There can be no doubt about the objective of the operators in the black economy. Black books and black labour are the simple tools of tax evasion. As to the size of the problem here, at the end of last year Fiat chief Giovanni Agnelli estimated that the nation is some 30 per cent better off than would appear from the published national statistics. Underpinning the Italian economy is a solid foundation of black labour and black production.

Obviously the Ministero delle Finanze in Rome, which is responsible for the collection of taxes, is battling to

DAVID LANE reports from Rome on the State's attempts to curb unauthorised working

maximise its permitted take. But each new measure which it proposes is only seen as a spur to the evaders to be more imaginative.

For example, in an attempt to overcome the problem of black production (goods which are manufactured, delivered and resold without ever being recorded for fiscal purposes), vans and lorries must now carry detailed transportation documents. These papers should describe not only the precise nature of the goods and the quantities carried but also the name, address and fiscal code number of both sender and addressee.

The law requiring the "bollo di accompagnamento" came into effect at the beginning of the year. However, determined evaders promptly put into operation their solutions to the problem. The problem is to satisfy any random roadside check which may be carried out by the police or by the Guardia di Finanza—the Ministry's own law enforcers.

Until the end of this year it will be possible to use documents without serial numbers, permitting later destruction without trace in the event of there being no police check. Some other alternatives—repeated use of the same document or alte-

rations to documents—are reckoned to be risky.

However, a ploy which is finding favour is the description of loads in terms of number of boxes or cartons. Whilst the type of goods carried in the boxes or cartons is precisely described, the exact number is not defined.

The bollo di accompagnamento ought to strike at the roots of evasion of both value added and income tax. Goods whose production is never registered and whose movement is clandestine incur VAT at no point in their manufacturing or distribution phases.

Whether this extensive evasion will be checked depends partly on the enforcement side. For their part, they have recently stepped up the frequency of roadside checks and the penalties for incorrect documentation (heavy fines and prison sentences up to three years) have put the frighteners on some operators.

On the other side manufacturers, wholesalers and to a lesser extent retailers are dipping deep into the reservoirs of Italian imagination to combat this fiscal assault.

Given the size and momentum of the black economy it is difficult to see how it can be brought quickly to a halt. Ways have been and are being found by the evaders to transport goods with minimum risk along the black distribution channels from manufacturer to consumer.

The compromise at the heart of the Italian struggle

CAMPBELL PAGE

THE COMMUNIST Party is the most serious in Italy, perhaps in Western Europe. It is partly the seriousness of the boy who always comes to the top of the class, but its leaders are forever analysing problems, reconciling policies and keeping an attentive eye on the symmetry of their master plan for Italian society.

This helps to explain the furrows on the brow of the party's leader, Enrico Berlinguer. Every time he speaks in public he is taking a viva voce examination. He is much more on trial than other party leaders because the Communists claim a logical law for their policies.

Having argued himself into a position Mr Berlinguer must argue himself out of it or remain a hostage to his earlier views. The voters, the other parties, the various groups within his own party, are weighing every word.

In his closing speech at the five-day party congress which ended in the Palace of Sport in a grassy Rome suburb yesterday Mr Berlinguer passed his test with relative ease. He could rightly claim that the congress had shown the party was not a gathering of conformists, nor had the course of the debate been fixed in advance.

It had been, he said, a good congress for the level of discussions and the degree of freedom and frankness. He also recommitted the party, just as he had done in his opening speech on the first day, to full participation in a coalition government together with the Christian Democrats after next June's general election.

For all its openness the congress never strayed too widely from the consensus which Mr Berlinguer outlined on the first day. It was only to be expected that he would play the good shepherd and unite the party yesterday behind his general strategy and his electoral plans.

Yet there are strains. Giuseppe Vacca, a Communist and professor of political theory at the University of Bari, gave his view of delegation reaction in *La Stampa*. The policy towards which the few thousand who constitute the brain of the party are evolving is that of a party of government: rationality, detachment, flexibility. But we have not yet learned how to win over the many more members involved in local affairs.

And then there is a gap between private and public

matters, between politics and a culture whose radical Socialist and Marxist impulses influence above all the young, peoples and the grass roots.

In fact the party is being asked to think with the subtlety of its highly intelligent leadership. Members are not so much required to swallow paradoxes as to accept ideas which, if not contradictory, are at least hard to reconcile.

Mr Berlinguer told the congress that they were "a party of government" and at the same time "a party of struggle." The party's "democratic road to Socialism," he said, was not a matter of opportunism or the compromise of revolutionary tasks but one calling for militancy and continuous revolutionary energy. At the same time Mr Berlinguer is limited to the historic compromise — the coming together of the Communists, Socialists and Christian Democrats as the main forces in the State.

The Communists' withdrawal of support from the Andreotti government, an act which helped to bring on a new general election, was a sign of disenchantment with their limited role. This time they want to be full members of a coalition government with their own cabinet seats.

The obvious question is whether the war of attrition which the Christian Democrats successfully waged against them as junior partners in the government formed after the last election will not be waged with similar success once more.

Armando Cossutta, the best known of the Communist hardliners, nicknamed "Torquemada by the free-wheeling Leftist students of 1968, was the readiest to pour cold water over cooperation with the Christian Democrats.

They had not sought an understanding with the Communists but had tried to erode the Communist image amongst the masses, he said. "In these situations we have often been slow to recognise their intentions, slow to react with the proper energy, and slow to make a relationship which threatened to become one of simple subordination."

It was also Mr Cossutta who touched one of the sore spots in the party's collective psyche. This is the bewitching glow from the East—the example of the Soviet Union whose swift road to Socialism once seemed to give Italian Communists some glamour and a cutting edge in dealing with messy Italian reality.

In the era of Eurocommunism it still appeals to some Italian Communists of the older generation. Indeed, Mr Cossutta said: "The

Italian Communist Party cannot renounce its own identity and the way in which it manages its affairs through democratic centralism or the inspiration of the ideas of Marx, Engels and Lenin and its bonds with the Soviet Union." Nor, he added, should anyone ask the Communists to turn into Social Democrats, whose failures in Western Europe were a matter of record.

Other senior Communists put the more modern view. Pietro Ingrao, President of the Chamber of Deputies, said: "We have learned from the Soviet Union and the October Revolution and I see nothing wrong in learning also from the experiences of Social Democracy." Yet another elder statesman Giorgio Amendola urged the party to advance with increasing energy on the road of national unity, "confronting without arrogance or sectarianism the new movements—

among intellectuals, the young and women."

There is little doubt that the party as a whole is sincerely committed to a pluralist democratic electoral path. Eurocommunism is being carefully presented not as a declaration of independence within national or Western European boundaries but as the logical contribution of the European workers movement to history and the interdependence of events throughout the world.

The most serious challenge the Communists face will come at the polls expected in early June. Their share of the vote in general elections for the Chamber of Deputies has risen from the low twenties in the 1950s to 27.2 per cent in 1972 and a startling 34.4 per cent in 1976. This has been interpreted as a sure footed and almost inevitable electoral ascent.

It is now a commonplace among politicians and journalists here that the Communists may well fall back towards 30 per cent this time. Any drop below that would, as one sympathetic deputy said, be a grave blow to the leadership. Mr Berlinguer argues, in effect, that the party is playing its part in history, not in statistical exercises, and another senior figure emphasised that it was something more than an American-style electoral machine.

Indeed one young delegate from Naples said after Mr Berlinguer's opening speech: "He has made us understand that there is no beginning or end because we are involved in a historic struggle. Therefore we should not be afraid even of an electoral setback because such things are incidents in history."

So other Communists may not be so philosophical. For the Communist's march towards electoral strength has been very much the march of the mind.

Mr Berlinguer, however, gave clear signs yesterday that the party is flexible enough to revise its strategy, update its blueprints and get its message through to the grassroots.

He insisted that no other country and no other Communist Party could be a guiding light for others. In a national context he hammered home the lesson of the old Italian Communist leader Togliatti—that no one class or party could save Italy, but only a unity among democratic forces, classes and social groups.

Italy

12 MAR 1970

DAILY TELEGRAPH

cutting dated 19

WRJ 074/12

Italians face general elections in June

By FRANK TAYLOR in Rome

ITALIANS face an early general election following President Pertini's decision yesterday to dissolve Parliament after more than two months of fruitless manoeuvring by the leaders of the five major parties.

The ballot is expected to take place on June 9 and 10, coinciding with the European Parliamentary elections.

President Pertini signed the decree for the dissolution of Parliament as soon as he had followed the protocol laid down by the Constitution and consulted the leaders of the two Houses.

Informed sources said that Signor Pertini, like most Italians, appeared to have lost patience with the parties that have prolonged the negotiations by repeatedly offering political bargains and then finding excuses for pulling out of them.

Wheeling and dealing

In nearly nine weeks of wheeling and dealing, all the major party leaders declared their opposition to the holding of a general election more than two years before the appointed date.

All must now begin a costly election campaign that no one believes will make any marked difference in Italy's political make-up.

The Christian Democrats party, the biggest, is thought likely to increase its strength by a few percentage points, the Communists to lose some

ground, and the Socialists to gain slightly.

But the Communists and Socialists together can still be expected to emerge strong enough to block Christian Democrat policies in Parliament. So both Left-wing parties are likely to make new demands that they join a coalition government.

Keep on file

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2 APR 1979

June vote in Italy

cutting dated

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From George Armstrong
in Rome

Italy will hold general elections in June, two years earlier than required by law. President Pertini signed the decree yesterday dissolving the seventh post-war Parliament, an act which was "most painful" for him, according to a spokesman.

Until the decree was signed, every political leader in the country was on record as being opposed to early elections at this time, but after a Cabinet crisis lasting two months it became clear that there was no other way out of the impasse.

Mr Andreotti, who failed on Friday to win a vote of confidence for his newly-formed Government, will remain Prime Minister for the time being.

The electoral rules say that an election must be held within 70 days after Parliament breaks up, and that the electoral campaign cannot be less than 45 days.

Italians are to vote for the European Parliament on June 10. It is thought that the general elections will be held on June 9 and 10 or June 10 and 11. Polls here must remain open for a day and a half—except for the European elections. Combining the two elections makes financial sense, as State schools, used for polling, would not be closed for four days.

Italy.

Resolution clears way for
Parliamentary election

The President's decree... The dissolution... The Government... The election... The campaign... The results...

Italy

Dissolution clears way for Italian general election

BY PAUL BETTS IN ROME

PRESIDENT Sandro Pertini yesterday dissolved Italy's Parliament and cleared the way for an early general election. Polling is expected to take place on July 9 and 10, at the same time as direct elections to the European Parliament.

Sig. Pertini's decision comes after two months of unsuccessful attempts to find a compromise acceptable to the two main parties, the Christian Democrats and the Communists.

The defeat of Sig. Giulio Andreotti's coalition of Christian Democrats, Republicans and Social Democrats in a Senate confidence debate at the weekend left the President with no alternative.

The deadlock between the main parties was demonstrated

again yesterday by Communist insistence on direct participation any new Government of "national unity" and by equally firm Christian Democrats rejection of the idea of Communist Cabinet Ministers.

The dissolution makes the present Parliament the third in succession to be interrupted before the completion of its five-year term.

The Christian Democrats are expected to make some gains in the election. The Communists stand to lose ground after their record 34.4 per cent of the popular vote in the inconclusive June 1976 election and 20 years of practically uninterrupted electoral advances.

Following their decision to withdraw from the Parliamentary majority and return to opposition in January, the Com-

munist appear to have regained some of the ground lost on the left. Their alliance with the Christian Democrats provoked increasing tension and discontent in the party rank and file.

The election campaign comes at a time of renewed economic anxiety, with a renewal of inflation and possible repercussions from the Bank of Italy affair.

Figures released at the weekend show a 1.7 per cent increase in wholesale prices in February confirming the trend of recent months. Retail prices increased by 1.5 per cent, representing an annual rate of 13.4 per cent compared with the official target of 12 per cent for this year.

There is also concern that the recent renewal of political violence may cast its shadow over the election campaign.

12 MAR 1979

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TELEGRAM NUMBER 135 OF 28 MARCH 1979...

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(22)

MY TELNO 130: ITALIAN POLITICAL SITUATION

1. DESPITE THE SUDDEN DEATH OF UGO LA MALFA THE TIMETABLE FOR THE PRESENTATION OF ANDREOTTI'S NEW 3-PARTY GOVERNMENT IS GOING AHEAD AS PLANNED. THE LIST OF UNDER-SECRETARIES (JUNIOR MINISTERS) IS DUE TO BE ANNOUNCED THIS EVENING, 28 MARCH. IT IS EXPECTED THAT ANDREOTTI HIMSELF WILL FOR THE TIME BEING ASSUME LA MALFA'S PORTFOLIO (DEPUTY PRIME MINISTER AND BUDGET) AT LEAST UNTIL IT IS KNOWN WHETHER THE GOVERNMENT WILL LAST.

2. ANDREOTTI WILL OPEN A CONFIDENCE DEBATE ON THE NEW GOVERNMENT IN THE SENATE ON 29 MARCH. THE VOTE IN THE SENATE IS EXPECTED TO TAKE PLACE SOMETIME ON SATURDAY 31 MARCH. IF THE RESULT IS A CLEAR DEFEAT THERE WILL BE NO NEED FOR A FURTHER DEBATE IN THE LOWER HOUSE. IF HOWEVER THE GOVERNMENT SCRAPES THROUGH IN THE SENATE OR IF THE RESULT IS AMBIGUOUS (EG IF THE MOTION IS CARRIED ONLY WITH THE DETERMINING VOTES OF THE RIGHT WING NATIONAL DEMOCRATS, WHICH THE GOVERNMENT WILL PROBABLY NOT ACCEPT) THERE WILL THEN BE A FURTHER DEBATE IN THE CHAMBER OF DEPUTIES WITH A VOTE PROBABLY TAKING PLACE ON 2 APRIL.

3. THE GENERAL ASSUMPTION NOW IS THAT IN THE CHAMBER, AT LEAST, THE VOTE WILL BE LOST, AND IT WILL THEN REMAIN ONLY FOR ANDREOTTI TO HAND IN HIS RESIGNATION AGAIN AND FOR PRESIDENT PERTINI TO DISSOLVE PARLIAMENT AND CALL EARLY

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ELECTIONS (WHICH WOULD ALMOST CERTAINLY BE COUPLED WITH THE EUROPEAN ELECTIONS ON 10 JUNE). IN THESE CIRCUMSTANCES THE NEW ANDREOTTI GOVERNMENT WOULD MERELY SERVE AS A CARETAKER UNTIL THE ELECTIONS. AS ALWAYS, HOWEVER, IN ITALY THERE IS AN ELEMENT OF UNCERTAINTY TO THE LAST, AND UNTIL THE DECISIVE VOTE HAS OCCURED ONE CANNOT ALTOGETHER DISCOUNT THE POSSIBILITY THAT THE NEW GOVERNMENT WILL SURVIVE.

4. BARRING UNFORESEEABLE DEVELOPMENTS I WILL NOT REPORT FURTHER UNTIL EARLY NEXT WEEK AFTER THE VOTE(S) OF CONFIDENCE.
5. FCO PLEASE PASS SAVING ADDRESSEES.

CAMPBELL

[REPEATED AS REQUESTED]

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OUR REFERENCE

C J Baker Esq
IFI
HM Treasury
Parliament Street
LONDON

Our reference

Date 26 March 1979

✓ 1. Mr. Verker:

2. Some interesting background
Regy:

Dear Chris,

Enter & A. P. B. 28/iii

SCANDAL AT THE BANK OF ITALY

1. At 11'am on the morning of Saturday 24 March the Carabinieri arrived at the Bank of Italy, where they arrested the Deputy Director General, Mario Sarcinelli, and took him forthwith to the Regina Coeli prison where he now languishes. While at the Bank, the Carabinieri served on the Governor, Professor Baffi, an order to appear before the magistrate. The magistrature have since let it be known that Baffi himself would have been arrested but for considerations of his age and the international repercussions. Since it seems likely that these untoward events may cause some international interest, I thought I would let you have as much of the background as we know.

2. The warrant was requested by a young Roman magistrate named Infelisi, and confirmed by Judge Alibrandi, both of whom have been engaged in investigating the affairs of the chemical empire of Nino Rovelli, Societa Italiana Resine, usually known as SIR. The charges are that Sarcinelli and Baffi gave personal favours, and allowed private interests to dictate official acts. The charges relate to the failure of the Bank of Italy to transmit to the magistrature a report of an inspection which the Banking Supervisory Section of the Bank of Italy had carried out on the Industrial Credit Bank of Sardinia, in connection with dubious finances which that bank had made to SIR. You will probably have heard of the various scandals surrounding the financing of Rovelli's empire, of which this is but one. The Bank of Italy maintains that the report of their inspection was available to the magistrature all along, and that in any case it does not reveal anything incriminating about the Sardinian bank, since all documentation of the suspect loans had already been seized by the local magistrature before the inspection took place.

3. As usual in Italy, there seems to be a rather more complicated motivation behind the whole operation. (Much of what follows, while being common gossip, is wholly unproven. But I report it anyway, since at least some of it is bound to be true, and in any case much of the importance of this affair is likely to be less what happens than what people think about it). Sarcinelli is thought to be very close to the Italian Communist Party: since he became the Deputy Director of the Bank and Head of the Banking Supervisory Department in 1975, the Bank's system of inspection of bank operations has

/been



been greatly tightened, and the Bank has been very much more punctilious in its duty of passing on to the magistrature any evidence of illegal activities discovered in the course of inspections. One famous such case was the Sindona scandal. A more recent one in 1978 was the Italcasse scandal where the Bank of Italy uncovered the activities of the then President of Italcasse, Arcaini, who had been funding a number of political parties, primarily the Christian Democrats. Arcaini fled into exile where he subsequently died, but I believe that another of his co-directors is still in prison. Not unnaturally these activities on the part of the Bank of Italy have made Sarcinelli a number of enemies, and in recent months there has been a growing crescendo of criticism, mainly in the right wing press, of the Bank's activities, generally alleging that the Bank was itself involved in doubtful financial dealings. There are two possible motives for such attacks: the first simply revenge, but the second, perhaps more credible, the fear that the Bank might discover and reveal other cases of illegal dealings.

4. Last week an Italian journalist called Nino Pecorelli was found shot dead in his car: he had run a small right wing newspaper and news agency which specialised in circulating insidious articles about leading political figures, and particularly senior officials of the Bank of Italy. The suspicion is that Pecorelli was killed to keep him quiet. However Pecorelli is known to have been close to Infelisi, the Procurator who requested the arrest order on Sarcinelli, and to have seen him shortly before he was killed. The judge who issued the arrest order, after, incidentally Infelisi failed to get it endorsed by his superior, who is an Andreotti man, is himself suspected of being close to the Fascist Party.

5. There is thus a strong suspicion of a political motive hidden somewhere in the undergrowth. This does not necessarily mean that there is no truth in the charges: it is by no means inconceivable that the Bank of Italy, perhaps acting with the purest of motives, might have at least delayed the publication of more scandals concerning Rovelli. And attempts to get one's opponents involved in judicial proceedings is an all too familiar device in Italian politics. There are many great men in this country who have spent the odd night behind bars: it is one of the curiosities of the Italian legal system.

6. Following Sarcinelli's arrest the Italian Socialist Party leapt to the defence of the Bank very quickly, perhaps not surprisingly in view of Rovelli's links with the PSI. More importantly the PCI is also hinting through the Communist press of "dark manoeuvres" by right wing political interests designed to suppress the only Italian political institution which has hitherto been above suspicion whatever the truth behind all this - and there will probably be further revelations - there is no doubt about the seriousness of the situation. The Bank of Italy certainly has been the one Italian institution which has remained largely above suspicion of corruption, not only domestically but also internationally. There is already considerable nervousness on the part of the Government about the effects which a scandal could have on international confidence in Italy. Following the arrest of Sarcinelli all three of the senior remaining members of the Bank of Italy's "Directorate", Baffi, Ciampi, the Director General, and Acerbo, the Deputy Director General put out a statement in which they committed



themselves to resigning if the magistrature did not immediately release Sarcinelli (the Bank itself is on strike today in protest). At the same time they declared their continued readiness, as before, to cooperate completely with the magistrature. We believe that there is a strong possibility that Baffi and the other leaders will carry out their threat. This would place the Government in a very difficult position. The Minister of the Treasury, Pandolfi has already made a strong statement expressing confidence in Baffi, which was endorsed by Andreotti, and the President of the Republic, Pertini, who is ex-officio the Head of the Magistrature, received Baffi yesterday as a gesture of confidence. In view of the political consequences of a showdown the most probable outcome is that pressure will be brought on the magistrature and that Sarcinelli will be released, although I gather that he was interrogated by the magistrates this morning, and that they did not order his release. Even if he is released it will be a long time before the ripples die down. If he is not, there could be an interesting crisis - see tomorrow's newspapers.

*Yours ever,
Tony*

A C Galsworthy

cc: D Gore-Booth Esq FRD FCO
P G Harborne Esq WED, FCO
A M Porter Esq, Overseas Dept, Bank of England
K Colvin Esq ARRD, FCO

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cc. Mrs. Gellon, R.D.

Your reference

Our reference

Date

26 March 1979

P G Harborne Esq
WED
FCO

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MARK	PA

*1. Guter
Mr. Vercher*

Dear Peter,

To see. The gov. is at f23

Peter Harborne

NEW ITALIAN GOVERNMENT

1. I enclose some brief notes on the 4 new Ministers who are not already included in our Leading Personality Notes for 1978. Of the other new Ministers, Preti (Social Democrat) and Spadolini (Republican) are at numbers 102 and 121 respectively in last year's Notes. As I mentioned to you on the telephone, the man who is most widely tipped to take the third Republican seat in the Government following Ugo La Malfa's death today is Senator Bruno Visentini (No 132 in the Leading Personality Notes). But Visentini is reported to have refused to join the government when it was formed last week, and the Republicans may therefore have to look elsewhere.

Yours ever,

Mark Fellow

M E Fellow

PS I have made these notes unclassified since we know little about the people concerned - except for Senator A, who is a genial, talkative, pipe-smoking character whom we in this Embassy have always thought of as the PSDI court jester. He hardly seems of Ministerial calibre - but if he had to be a Minister he is certainly well placed at Entertainment!

UNCLASSIFIED



On. Francesco COMPAGNA (Republican)

Minister of Public Works.

Born Naples 1921. Degree in Law. An expert on the problems of Southern Italy, on which he has published numerous books. A member of the Institute of Historical Studies founded by Benedetto Croce in 1947. In 1954 he founded the periodical "North and South", which still directs. Professor of Political Geography in the Faculty of Political Science at Naples University.

His political origins were with the Liberal left, but in 1955 he switched to the Republican Party when the Liberals moved to the right under their new Secretary Malagodi (now President of the Liberal Party). In 1968 he was elected Republican Deputy for the Naples constituency, which he still represents. Under-Secretary for problems of the South from July 1973 to February 1974 under Rumor, and again from November 1974 to January 1976 under Moro.

On Michele DI GIESI (Social Democrat)

Minister for the South.

Born Bari (Apulia) 1927. A Trade Unionist, he was first elected to Parliament for the Bari-Foggia constituency in 1972. He has been Secretary of the Social Democrat Group (15 members) in the Chamber of Deputies and Chairman of the Chamber of Deputies Education Committee.

On Franco NICOLAZZI (Social Democrat)

Minister for Industry.

Born near Novara (Piedmont) 1924. Began life as a schoolmaster. After the split between the Socialists and the Social Democrats in 1947 he became Provincial Secretary for the Social Democrat Party in Novara until 1952. Member of the PSDI Central Committee in 1956 (and later of the PSI*PSDI unified Central Committee from 1966 until the further split in 1969). Elected to Parliament in 1963 as Deputy for the Turin-Novara constituency, which he still represents.

Under-Secretary in the Ministry of the Interior in the Colombo government (1970-72) and again in the second Andreotti government (1972-73).

Sen. Egidio ARIOSTO (Social Democrat)

Minister for Tourism and Entertainment.

Born near Brescia (Lombardy) 1911. A former printing worker, self-taught, he gained a degree in philosophy in 1938. Joined the PSDI at its foundation in 1947. Elected to Parliament in 1948 as Deputy for Brescia, which he continued to represent until becoming a Senator (for Salò) in 1972. President of the Institute of Italian Drama since 1949 and editor of a theatrical quarterly

/review



review.

He was Under-Secretary for Transport from 1954-57 and Under-Secretary with special responsibility for entertainment from 1958-59. From 1962-63 he was Under-Secretary in the Ministry of the Interior. Since 1972 he has been President of the Social Democrat group in the Senate and a member of the Italian delegation to the European Parliament.

LEFT SPLIT AS ITALY FACES POLL

By FRANK TAYLOR
in Rome

THE Italian political crisis, now nearly two months old, has led to bitter recrimination between the Communists and Socialist parties and has destroyed hopes of Left-wing solidarity, perhaps for years to come.

This is the opinion of most political observers in Rome, who also feel they are witnessing a steady degeneration of the political responsibility of the country's major parties.

Even as Signor Andreotti, the caretaker Prime Minister, was last night submitting his "last ditch" formula for a new government to President Pertini, the betting was heavily on an early general election, to be held in tandem with the European Parliament ballot on June 10.

Coalition plan

Signor Andreotti's new government, his fifth, is a coalition in which his own Christian Democrat party will have the majority of portfolios, with the rest being divided up between the smaller Republican and Social Democrat parties. To have any hope of being effective, the new administration would have to rely on the Socialists abstaining in a vote of confidence.

The Communists, second in size to the Christian Democrats, have already declared that they will go into opposition.

An attempt yesterday by the Christian Democrats to secure Socialist backing for the new government failed.

But at the same time, the Socialists are angry at having been cast in the role of government-wreckers, responsible for an election which the politicians swear they do not want.

Bitter attack

This bitterness was reflected in an attack by the Socialist leader, Signor Craxi, on both Communists and the Christian Democrats. He said, in effect, that they were pushing the country into a general election that would only further polarise the political scene.

The Communist newspaper, *L'Unità*, replied yesterday that Signor Craxi had made "absurd" charges that the Communists were under foreign (Soviet) influence, and had even made insinuations about links with terrorism.

At the same time, the Christian Democrats are being accused by many independent observers of self-serving inflexibility by refusing to share power with even left-wing independents, let alone Communists.

F/TIMES

Italian Premier names Cabinet

By Rupert Cornwell in Rome

SIG. GIULIO ANDREOTTI, the Italian Christian Democrat leader, yesterday named his fifth and Italy's 41st Cabinet since 1943. The administration brings to an end the purely Christian Democrat rule since the inconclusive general elections of June 1976.

The major changes include dropping Sig. Rinaldo Ossola the widely respected technocrat and former Deputy Governor of the Bank of Italy, while three members of the Republican Party and four Social Democrat join the Cabinet.

Sig. Ossola's place at the Foreign Trade Ministry is taken by a Christian Democrat, Sig. Gaetano Stannatti. Another technocrat, Sig. Romano Prodi, the Bologna University Economics Professor who had held the Industry portfolio for less than four months, is also excluded.

The departure of the two technocrats, scathingly attacked by both Socialists and Communists last night, reinforces the impression that the new Government is merely a caretaker administration, destined to last no longer than the elections expected in a few months.

With no previously agreed majority behind him, Sig. Andreotti will face Parliament for a vote of confidence, probably within the next fortnight.

If he is defeated, President Sandro Pertini will have no choice but to dissolve Parliament and call elections, probably to coincide with the first direct elections to Europe, already set for June 10.

Among other Ministers, Sig. Ugo La Malfa, the veteran Republican Party leader, combines the post of Deputy Premier with the Budget portfolio. Sig. Filippo Maria Pandolfi retains his place as Treasury Minister.

The chances of the Socialist Party bailing out Sig. Andreotti at the eleventh hour dimmed still further yesterday, when Sig. Bettino Craxi, the Socialist leader, called off at the last moment a meeting with the Christian Democrat leadership.

Describing such talks as "completely useless," Sig. Craxi declared that the Socialists would reserve their position until the vote of confidence.

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TELEGRAM NUMBER 131 OF 21 MARCH

INFO SAVING WASHINGTON, UKDEL NATO, UKREP BRUSSELS, AND ALL OTHER
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MIPT: ITALIAN POLITICAL SITUATION.

Pa. *PKM*
ii/tn

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22 MAR 1979

DEPT OF STATE

INFORM

1. FOLLOWING IS LIST OF ANDREOTTI'S NEW GOVERNMENT'S PREVIOUS
INCUMBENTS ARE INDICATED IN BRACKETS). ALL ARE CHRISTIAN
DEMOCRATS UNLESS OTHERWISE INDICATED:

PRIME MINISTER	GIULIO ANDREOTTI	(NO CHANGE)
DEPUTY PRIME MINISTER AND BUDGET	UGO LA MALFA (PRI)	(NO PREVIOUS DEPUTY PM: MORLINO WAS MINISTER OF THE BUDGET)
MINISTER FOR THE SOUTH	MICHELE DI GIESI (PSDI)	(CIRIACO DE MITA)
FOREIGN AFFAIRS	ARNALDO FORLANI	(NO CHANGE)
INTERIOR	VIRGINIO ROGNONI	(NO CHANGE)
GRACE AND JUSTICE	TOMMASO MORLINO	(PAOLO BONIFACIO)
FINANCE	FRANCO MALFATTI	(NO CHANGE)
TREASURY	FILIPPO MARIA PANDOLFI	(NO CHANGE)

/DEFENCA

DEFENCE	ATTILIO RUFFINI	(NO CHANGE)
EDUCATION	GIOVANNI SPADOLINI (PRI)	(MARIO PEDINI)
PUBLIC WORKS	FRANCESCO COMPAGNA (PRI)	(GAETANO STAMMATI)
AGRICULTURE	GIOVANNI MARCORA	(NO CHANGE)
TRANSPORT AND MERCHANT NAVY	LUIGI PRETI (PDSI)	(VITTORINO COLOMBO)
POST AND TELECOMMUNICATIONS	VITTORINO COLOMBO	(ANTONINO GULLOTTI)
INDUSTRY	FRANCO NICOLAZZI (PSDI)	(ROMANO PRODI)
LABOUR	VINCENZO SCOTTI	(NO CHANGE)
FOREIGN TRADE	GAETANO STAMMATI	(RINALDO OSSOLA)
STATE HOLDINGS	ANTONIO BISAGLIA	(NO CHANGE)
HEALTH	TINA ANSELMi	(NO CHANGE)

Tourism

TOURISM AND
ENTERTAINMENT

EGIDIO ARIOSTO (PSDI) (CARLO PASTORINO)

CULTURE AND
SCIENTIFIC RESEARCH

DARIO ANTONIOZZI (NO CHANGE)

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TELEGRAM NUMBER 130 OF 21 MARCH 1979

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MY TELNO 126: ITALIAN POLITICAL SITUATION.

1. ANDREOTTI PRESENTED THE LIST OF NAMES OF HIS NEW THREE-PARTY (CHRISTIAN DEMOCRAT/REPUBLICAN/SOCIAL DEMOCRAT) GOVERNMENT TO PRESIDENT PERTINI ON 20 MARCH. MOST OF THE IMPORTANT PORTFOLIOS REMAIN UNCHANGED (INCLUDING FOREIGN AFFAIRS, DEFENCE, INTERIOR, FINANCE, TREASURY AND AGRICULTURE). BUT SEVEN FORMER CHRISTIAN DEMOCRAT MINISTERS HAVE BEEN DROPPED, INCLUDING THE TWO NON-PARLIAMENTARY TECHNICIANS OSSOLA AND PRODI. THE SEVEN NEW MINISTERS ARE THREE RUPUBLICANS - LA MALFA (DEPUTY PRIME MINISTER AND BUDGET), SPADOLINI (EDUCATION) AND COMPAGNA (PUBLIC WORKS) - AND FOUR SOCIAL DEMOCRATS - DI GIESI (THE SOUTH), PRETI (TRANSPORT AND MERCHANT NAVY), NICOLAZZI (INDUSTRY) AND ARIOSTO (TOURISM). THE COMPLETE LIST IS IN MIFT.

2. IT IS WIDELY ASSUMED THAT THIS NEW GOVERNMENT (ANDREOTTI'S FIFTH) WILL MERELY SERVE AS A BRIDGE UNTIL EARLY ELECTIONS. COMMENT ON THE APPOINTMENTS HAS SO FAR BEEN CORRESPONDINGLY MUTED. THERE IS, HOWEVER, SOME CARPING FROM THE LEFT ABOUT THE "UNPRESENTABILITY" OF THE NEW MINISTERS, PARTICULARLY THE FOUR SOCIAL DEMOCRATS (WHO ARE INDEED A PRETTY UNDISTINGUISHED GROUP), AND ABOUT THE FACT THAT THE CHRISTIAN DEMOCRAT FACTION LEADERS HAVE BEEN ALLOWED TO KEEP THEIR JOBS TO THE EXCLUSION OF THE TWO "TECHNICIANS" (WHICH WAS PERHAPS THE ONLY REAL SURPRISE ABOUT THE LIST).

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3. AFTER ANNOUNCING HIS NEW GOVERNMENT ANDREOTTI SAID THAT IT WOULD PRESENT ITSELF TO PARLIAMENT "WITHIN THE TEN DAYS LAID DOWN BY THE CONSTITUTION". THE PRECISE TIMETABLE REMAINS UNCERTAIN, BUT IT IS EXPECTED THAT A DEBATE ON A MOTION OF CONFIDENCE WILL START ON ABOUT 29 OR 30 MARCH, WITH THE VOTE TAKING PLACE ON ABOUT 2 APRIL. ASSUMING THE VOTE IS LOST, THIS WOULD ALLOW A GENERAL ELECTION TO BE HELD AT THE SAME TIME AS THE EUROPEAN ELECTIONS ON 10 JUNE.

4. IT STILL CANNOT BE TAKEN FOR GRANTED (FOR REASONS EXPLAINED IN PARA 3 OF MY TUR) THAT THE NEW GOVERNMENT WILL NOT OBTAIN A VOTE OF CONFIDENCE IN PARLIAMENT. BUT THE CHANCES OF SOCIALIST ABSTENTIONS APPEAR TO HAVE RECEDED STILL FURTHER FOLLOWING THE CANCELLATION YESTERDAY (20 MARCH) BY CRAXI OF A PLANNED MEETING BETWEEN THE SOCIALISTS AND CHRISTIAN DEMOCRATS. CRAXI SAID THAT IT WOULD NOW BE POINTLESS TO HOLD SUCH A MEETING SINCE THE CHRISTIAN DEMOCRATS HAD PRODUCED A GOVERNMENT "MERELY TO MANAGE THE ELECTIONS".

5. PLEASE SEE M I F T.

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Telex 61049 Telephone 4755,441

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P G Harborne Esq
WED
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WRT 01412
21 MAR 1979

Your reference
Our reference
Date 13 March 1979

Dear Peter,

INTERNAL POLITICAL SITUATION

1. Thank you for sending us a copy of your letter of 26 February to Mrs Bradfield in Stockholm about the preparation of memoranda on the internal scene in the various countries of your parish.
2. We agreed on the telephone that the present political situation in Italy, on which we will of course continue to report as necessary by letter and telegram, is so fluid that it would not be worth attempting the sort of memorandum which you have in mind at least until the present political crisis is resolved. Meanwhile there is of course the recent draft JIC paper on Italy. Even though this has, I understand, been put temporarily into cold storage (again because of the political crisis) it contains some excellent general background on the internal scene up to the time of the Communist withdrawal from the five-party majority in January. I hope you can make do with this plus our ad hoc reporting for the time being.

Yours ever,
Mark Pellet

M E Pellet

PS As of today, the odds are fairly strongly on a general election in Italy on 13 May. But the picture ^{may well} ~~will~~ look different in a few days time when Andreotti has actually formed his proposed government.

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Elections closer in Italy after parties disagree

BY RUPERT CORNWELL IN ROME

CHANCES OF avoiding early general elections in Italy this spring effectively vanished over the weekend with a fresh wave of violence and with what looked like a final breach between the Christian Democrats and the Communists (PCI).

The collapse of any lingering hope of a new understanding between the two largest parties, supported by nearly 75 per cent of the electorate, makes it virtually certain that the government to be formed by Sig. Giulio Andreotti, the Prime Minister Designate, will fall in Parliament.

In that case his stillborn administration would have the job of presiding over elections—possibly on either May 6 or May 13—more than two years before Parliament's five-year term was due to expire in June, 1981.

However, the parting of the ways between Christian Democrats (CD) and Communists has been overshadowed by a renewed series of terrorist activities up and down the country, almost exactly one year after the kidnapping and murder of

former Premier, Sig. Aldo Moro, by the Red Brigade.

The most serious was in Palermo where on Friday night gunmen from the Prima Linea (front line) urban guerrilla group ambushed and killed Sig. Michele Reina, the provincial organiser for the Christian Democrats. It is the first time that terrorist, as opposed to Mafia, violence has appeared in Sicily.

Prima Linea also claims responsibility for the murder of an 18-year-old student in Turin. Meanwhile political terrorists may have been behind the kidnapping in Rome of a local CD official Sig. Emilio Falco who was released yesterday after a gun battle in the southern city of Potenza.

The rift between Christian Democrats and Communists was sealed when Sig. Benigno Zaccagnini the Christian Democrat secretary described as "unacceptable" the conditions laid down by the PCI for their endorsement of a government containing Left-wing independent ministers.

At a meeting with Sig. Andreotti, the Communist

leader Sig. Enrico Berlinguer in principle accepted the idea of Left-wing independents, whose inclusion in an administration had provided a glimmer of compromise.

But he coupled this with demands for the direct entry of Communists into a number of regional governments alongside the CD, full agreement on a policy programme, and an end to the distribution of cabinet posts to suit various factions within the ruling party.

With both major parties now wedded to the idea of early polls and whatever the danger of a new terrorist wave, the probable sequence of events is as follows:

Sig. Andreotti is expected, upon his return from the EEC summit in Paris today and tomorrow, to make his formal proposals for the government either on Wednesday or Thursday.

Assuming Sig. Andreotti is voted down, it would only remain for Sig. Sandro Pertini, the President, to sign the decree dissolving parliament. Elections must then be held between 45 and 70 days later.

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Our reference

15 March 1979

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19 MAR 1979	
PA	SECRETARY

Dear Peter,

ITALIAN POLITICAL SITUATION

(19)

1. In the last sentence of paragraph 3 of our telegram No 126 we said that a three-party Christian Democrat (DC)/Republican(PRI)/Social Democrat (PSDI) government might in theory obtain a majority in Parliament even with the Socialists (PSI) in opposition. To help explain the Parliamentary arithmetic, it might be useful to you to have the enclosed two tables from today's Corriere della Sera. These show how the majorities might theoretically be made up in the two Chambers. You will see that in both cases the majority depends on the National Democrats (D.Naz.), the group which broke away two years ago from the Neofascist MSI and has 9 seats in the Senate and 17 in the Chamber of Deputies. Since the National Democrats stand to be virtually eliminated in an election they are keen to do anything to keep the present Parliament in being.

2. It is as well to stress the word "theoretically" about these tables. Italian party discipline is notoriously bad, and there are always many more rebels against the party line than there would be in, say, a vote of confidence in the House of Commons. However, assuming that the PSI has at least its fair share of rebels (a safe assumption!), who would presumably abstain rather than vote in favour or against, this would if anything tend to increase the size of the majority.

Yours ever,

Mark Pellew

*Yes - the parliamentary
numbers game is much
v. different in these
circs.*

Pr 19/3

M E Pellew

Mr. Verker:

To see. It reveals a further (to me, as a
newcomer) amusing facet of Italian political life — that
although the D.Naz. have more seats than either the
PRI or PSDI, no-one takes them seriously other than
as a possibly means of enabling the other two to be in



Government; least of all are their 17 seats
apparently seen as meriting direct participation.

Peter Hartom

Am

Il tripartito DC-PRI-PSDI potrebbe avere la maggioranza

Un eventuale governo tripartito (DC, PSDI e PRI) potrebbe avere una maggioranza sia pure esigua: democristiani, socialdemocratici e repubblicani infatti, dovrebbero poter contare su 167 voti al Senato e su 317 alla Camera. Considerato che il «quorum» è rispettivamente di 161 e 315 voti, al Senato il governo avrebbe un margine di 13 voti e di 5 alla Camera, così come risulta nella tabella con i probabili schieramenti al momento del voto:

SENATO

Totale senatori 321, maggioranza 161 (il presidente Fanfani non è calcolato perché non vota)

A favore		Contro	
DC	135	PCI	99
PRI	7	PSI	31
PSDI	8	Ind. sin.	18
D. Naz.	9	MSI	6
Misto *	8		
<hr/>		<hr/>	
167		154	

CAMERA

Totale deputati 629, maggioranza 315 (il presidente Ingrao non è calcolato perché non vota)

A favore		Contro	
DC	263	PCI	218
PRI	14	PSI	57
PSDI	15	MSI	17
D. Naz.	17	DP	6
PLI	5	PR	4
SVP	3	Misto	9
<hr/>		<hr/>	
317		312	

Majority required : 161

Majority required : 315

- * In the Senate the "Gruppo Misto" (Mixed Group) includes 3 Life Senators, two South Tyrol Party (SVP), one Vald'Aosta Party (UV) and an independent, who would all vote in favour. In the Chamber of Deputies however the "Gruppo Misto" consists mainly of Independent Left members elected on the PCI list, who would vote against.

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TELEGRAM NUMBER 126 OF 15 MARCH

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(15)

MY TELNO 109: ITALIAN POLITICAL SITUATION.

1. MOST COMMENTATORS NOW ASSUME THAT THE NEW GOVERNMENT WHICH ANDREOTTI IS EXPECTED TO PUT TOGETHER IN THE NEXT WEEK OR SO WILL FAIL TO OBTAIN A VOTE OF CONFIDENCE. IF THIS HAPPENS THE PRESIDENT WILL ALMOST CERTAINLY DISSOLVE PARLIAMENT AND THE NEW GOVERNMENT WILL MERELY SERVE AS A CARETAKER UNTIL AN EARLY GENERAL ELECTION.
2. ACCORDING TO CONSTITUTIONAL PRACTICE AN INTERVAL OF 45 TO 70 DAYS IS REQUIRED BETWEEN THE DISSOLUTION OF PARLIAMENT AND THE HOLDING OF ELECTIONS. ELECTIONS COULD THUS IN THEORY TAKE PLACE AS EARLY AS 6 MAY IF PARLIAMENT IS DISSOLVED NEXT WEEK. BUT THERE IS SOME PRESSURE, PROMOTED LARGELY BY THE SOCIALISTS AND SOCIAL DEMOCRATS (WHO ARE ANXIOUS TO AVOID A NATIONAL ELECTION BEFORE THE EUROPEAN ELECTIONS), TO DELAY MATTERS FOR LONG ENOUGH TO ALLOW THE TWO ELECTIONS TO BE HELD TOGETHER ON 10 JUNE. IN THIS CASE THE DISSOLUTION WOULD HAVE TO BE DELAYED AT LEAST UNTIL EARLY APRIL (IE 70 DAYS BEFORE 10 JUNE). THIS WOULD ALSO ALLOW THE COMMUNISTS TO HOLD THEIR CONGRESS, WHICH HAS NOW BEEN RESCHEDULED FOR 30 MARCH - 3 APRIL, BEFORE VOTING DOWN A NEW GOVERNMENT.
3. THE INCREASED LIKELIHOOD OF ELECTIONS FOLLOWS THE FAILURE OF ANDREOTTI'S LAST MEETING WITH THE COMMUNISTS ON 9 MARCH TO FIND A FORMULA WHICH WOULD HAVE ALLOWED THE COMMUNISTS TO COME BACK INTO THE MAJORITY. BERLINGUER APPARENTLY INSISTED ON A NUMBER OF NEW CONDITIONS IN ADDITION TO THE INCLUSION OF MINISTERS FROM THE INDEPENDENT LEFT, EG A COMMUNIST RIGHT OF VETO OVER THE CHOICE OF MINISTERS.

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/ THESE CONDITIONS

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THESE CONDITIONS WERE CLEARLY UNACCEPTABLE TO THE CHRISTIAN DEMOCRATS. ANDREOTTI WAS THEREFORE LEFT WITH NO ALTERNATIVE BUT TO FORM A GOVERNMENT (PROBABLY INCLUDING BOTH THE REPUBLICANS AND THE SOCIAL DEMOCRATS) WHICH WILL BE OPPOSED BY THE COMMUNISTS PLUS THE EXTREME LEFT AND THE EXTREME RIGHT. SUCH A GOVERNMENT IS UNLIKELY TO OBTAIN A MAJORITY IN PARLIAMENT UNLESS THE SOCIALISTS CAN BRING THEMSELVES TO ABSTAIN (THOUGH THERE MIGHT IN THEORY BE A FRAGILE MAJORITY - IF THE NON-FASCIST, RIGHT WING NATIONAL DEMOCRACY PARTY WERE INCLUDED - EVEN WITH THE SOCIALISTS IN OPPOSITION).

4. THE SOCIALISTS ARE MEANWHILE IN DISARRAY. IT IS STILL POSSIBLE THAT THEIR DESIRE TO AVOID NATIONAL ELECTIONS BEFORE THE EUROPEAN ELECTIONS MAY INDUCE THEM TO FIND A WAY OF ALLOWING A NEW ANDREOTTI GOVERNMENT TO SURVIVE WITH SOCIALIST ABSTENTIONS. BUT THE LEFT WING OF THE PARTY APPEAR FIRMLY AGAINST THIS, WHATEVER CRAXI HIMSELF MAY WANT, AND THE ODDS ARE NOW ON A DISSOLUTION AND EARLY ELECTIONS.

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TELEGRAM NUMBER 109 OF 9 MARCH

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EEC POSTS.



MY TELNO 1 SAVING: ITALIAN POLITICAL SITUATION.

1. ANDREOTTI WAS GIVEN A NEW MANDATE TO FORM A GOVERNMENT BY PRESIDENT PERTINI ON 7 MARCH. IN A SOMEWHAT UNUSUAL MOVE (POSSIBLY INSPIRED BY THE PRESIDENT HIMSELF, WHO IS PLAYING A VERY ACTIVE ROLE IN SEEKING A SOLUTION TTO THE CRISIS). ANDREOTTI ACCEPTED THE MANDATE "WITHOUT RESERVATION", WHICH MEANS THAT HE IS NOW COMMITTED TO FORMING A NEW GOVERNMENT TO FACE A VOTE OF CONFIDENCE IN PARLIAMENT WHETHER OR NOT HE SUCCEEDS IN OBTAINING A PREVIOUSLY GUARANTEED MAJORITY.

2. IN ANOTHER SURPRISE MOVE PRESIDENT PERTINI NOMINATED THE VETERAN SOCIAL DEMOCRAT AND REPUBLICAN LEADERS SARAGAT AND LA MALFA AS JOINT DEPUTY PRIME MINISTERS UNDER ANDREOTTI. LA MALFA ALSO ACCEPTED THE TASK "WITHOUT RESERVATION", BUT SARAGAT MADE HIS ACCEPTANCE CONDITIONAL ON THE INCLUSION OF MINISTERS FROM THE INDEPENDENT LEFT IN A NEW FOUR-PARTY GOVERNMENT (IE A CHRISTIAN DEMOCRAT, SOCIALIST, REPUBLICAN AND SOCIAL DEMOCRAT COALITION).

THE COMMUNISTS ANNOUNCED LAST WEEK THAT THEY WERE PREPARED TO SETTLE FOR THE INCLUSION OF MINISTERS FROM THE INDEPENDENT LEFT, THOUGH THIS WAS STILL UNACCEPTABLE TO THE CHRISTIAN DEMOCRATS IN A GOVERNMENT OF WHICH THEY THEMSELVES DID NOT HAVE THE LEADERSHIP (PARA 2 OF MY SAVING TUR). THE KEY ISSUE NOW IS WHETHER THE CHRISTIAN DEMOCRATS CAN AGREE ON THE INCLUSION OF INDEPENDENT LEFT MINISTERS IN A COALITION GOVERNMENT HEADED BY ANDREOTTI AND WHETHER THE COMMUNISTS WOULD BE SATISFIED WITH THIS.

ONE OF THE INDEPENDENTS WHO IS SPOKEN OF AS A MINISTERIAL CANDIDATE IS ALTIERO SPINELLI, THE FORMER EEC COMMISSIONER, WHO WAS ELECTED ON THE COMMUNIST LIST BUT IS NOT A MEMBER OF THE PARTY.

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3. IF THE COMMUNISTS AND CHRISTIAN DEMOCRATS CAN AGREE ON A FORMULA ON THESE LINES ANDREOTTI STILL HAS A CHANCE OF SUCCESS. OTHERWISE THE CHANCES ARE THAT THE COMMUNISTS WILL NOW CHOOSE TO GO INTO OPPOSITION, IN WHICH CASE THE SOCIALISTS SEEM UNLIKELY TO BE WILLING TO SUPPORT A NEW ANDREOTTI GOVERNMENT, OR EVEN TO ABSTAIN.

IN THESE CIRCUMSTANCES THE VOTE OF CONFIDENCE WOULD BE LOST AND EARLY ELECTIONS WOULD BECOME INEVITABLE.

4. THERE IS STILL SOME WAY TO GO BEFORE THE FINAL POINT OF DECISION IS REACHED, AND THE PICTURE IS NOT YET CLEAR ENOUGH TO ALLOW FIRM PREDICTIONS. BUT THE RE-APPOINTMENT OF ANDREOTTI AS PRIME MINISTER-DESIGNATE, AND THE CERTAINTY THAT HE WILL NOW EITHER FORM A NEW GOVERNMENT OR AT LEAST REMAIN IN CHARGE UNTIL EARLY ELECTIONS SHOULD GIVE HIM ADEQUATE STANDING FOR NEXT WEEK'S EUROPEAN COUNCIL.

5. PLEASE PASS ADVANCE COPIES TO THOSE BRIEFING FOR THE EUROPEAN COUNCIL (E.G. WED, EID(1) AND (E)).

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ITALIAN POLITICAL SITUATION

11 The Republican leader La Malfa gave up the attempt to form a government on 2 March. He reported to President Pertini that he had not been able to reconstitute the former 5 party parliamentary majority, nor had he found a sufficient measure of agreement among the parties to enable him to form a government based on any other formula.

2. The Communists had somewhat modified their position during the past week: they had announced that they were prepared to settle for inclusion in a La Malfa Government of members of the Independent Left elected on the Communists' list, rather than insisting on fully fledged members of their own party. But this was still clearly unacceptable to the Christian Democrats, particularly if they did not even have a Christian Democrat as Prime Minister. As the same time the Socialists were eventually unwilling to dissociate themselves from the Communists to the extent of allowing the formation of a new 4 party majority, including the Socialists, but not the Communists. La Malfa thus had no option but to report that he had not been able to find a basis for a solution.

3. President Pertini will himself conduct a further round of consultations with the parties today and tomorrow (5 and 6 March) and is then expected to announce his decision about the next move. If his consultations suggest that there is still some hope of finding a solution without dissolving Parliament, he will probably give the mandate back to a Christian Democrat - the names of Piccoli (Party President) and Forlani (Foreign Minister) are being spoken of, though

/it

it could also be Andreotti again. Alternatively, if all ways seem blocked, the President may decide to dissolve Parliament and call early elections, though in view of his concern for constitutional propriety it is thought that he would probably not do this without first sending back the outgoing Andreotti Government to face a vote of confidence in Parliament.

4. A possible compromise, which was apparently favoured by the Socialist Party Secretary Craxi, is for the President to give a mandate for the formation of a limited term government to see the country through the European Election in June and to enable the Communists and Christian Democrat Party Congresses to take place as scheduled (the former on 20-25 March, the latter not yet fixed). In this way the Socialists would hope to avoid having to face a National Election before the European Elections (in which they expect to do well enough to bolster their vote in any subsequent national poll). But such a government would almost certainly leave the Communists outside the supporting majority, and for the solution to be viable the Socialists would have to agree to distance themselves in some way from the Communists (for example by abstaining if the Communists were in Opposition). Although Craxi himself appears to be willing to do this, it remains to be seen whether he can bring the rest of his party with him. Berlinguer for his part said in a weekend speech in Naples that the Communists would be ready to "go into a constructive position", and would not put obstacles in the way of a government supported by a more limited majority.

5. The situation is thus still obscure, and there is no immediate end to the crisis in sight. The likelihood of early elections is certainly increased following the failure of both Andreotti's and La Malfa's attempts to form a new government, but nobody (except the extreme Right) wants early elections, and at this stage the possibility of a limited term government with the Communists in position seems to be coming to the fore as the most likely solution. Meanwhile Andreotti and his Ministers are carrying on in office and there seems every prospect of their remaining there at least until after the forthcoming European Council.

5 March 1979

Italy

Italian Communists renew fight for share of power

014/2

By FRANK TAYLOR in Rome

THE Italian Communist party began a vigorous new offensive yesterday in its fight for a share of governmental power after the failure of the Christian Democrats, Italy's biggest party, to form a new administration.

"The real drama of the Italian situation must be faced," the Communist party newspaper *L'Unità* said in a leading article.

It attacks the Christian Democrat leadership for imposing a veto on Communist participation in government and said it was the cause of the political crisis now in its fourth week.

"With 32 per cent. of the vote, the Christian Democrats wanted 100 per cent of executive power" it said.

The last Christian Democrat Government, led by the Prime Minister Signor Andreotti, fell when the Communists who gained 34 per cent of the popular vote in the last election withdrew their Parliamentary support.

After three weeks of talks with other party leaders, Signor Andreotti conceded on

Wednesday night that he was unable to form a new Government. Yesterday morning President Pertini summoned the leader of the small but influential Republican party, Signor La Malfa 76, to the Quirinale Palace.

Signor La Malfa said afterwards that he had been asked to try to "reconstitute" the previous pact under which the Christian Democrats, Communists, Socialists, Social Democrats and Republicans agreed to co-operate in a Parliamentary majority.

Dedicated 'European'

In a fine piece of Italian understatement he said:—"I recognise it will be difficult."

There was little doubt among political informants that yesterday's Communist broadside was timed to take full advantage of President Pertini's change of tactics.

Signor La Malfa is the first non-Christian Democrat in more than 50 years to be given full authority to form a Government, and the Communists are clearly

hoping that the Christian Democrat grip on political power in Italy is slipping.

But if he is to succeed, and the auguries in Rome are not good, he will need the kind of co-operation from the big parties for which Signor Andreotti sought in vain.

If the Communists are admitted to a new Cabinet the Christian Democrats would presumably stay out. Similarly the Christian Democrats would probably not give their Parliamentary backing to a government that included Communists.

Signor La Malfa is a dedicated "European" and has the respect of most other party leaders. He was one of the early inspirers of Italy's so-called Centre-Left coalition governments and has remained on good terms with both Christian Democrats and Communists.

But no one has any illusion about the difficulty of his task and there is a feeling that an early general election is now even more likely.

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cutting dated 23 FEB 1979 19

Italy

Republican David tries to reach a truce with Christian Democrat Goliath

Italian leaders hold crucial talks in move to form new Government

From George Armstrong
in Rome

The new Republican Party Prime Minister-designate, Mr Ugo La Malfa, starts his round of talks with party delegations today, beginning with the Christian Democrats. The party has a relative majority (38 per cent of the votes) but has always run Italy as if it was the party with absolute majority.

Today's meeting between the two forces will be like that of David trying to reach a friendly truce with Goliath. Although Mr La Malfa will also be meeting other party leaders at the weekend, the meeting could be crucial. It will tell him if he can set up a new Government, and one with the first non-Christian Democrat Prime Minister since the earliest post-war months.

There have been only favourable comments from all sides over President Pertini's nomination of Mr La Malfa. Only the Christian Democrats are lukewarm about the idea,

but they have held a monopoly on the post for 34 years and a certain brave, frozen-smile attitude is to be expected. As for the other party leaders, Mr La Malfa could hardly hope for kinder and warmer praise.

That does not mean they think he will succeed in forming a government. They recognise in Mr La Malfa a man who has devoted the second half of his 76 years to serving and promoting Italian democracy, operating from the small but influential area which is the Republican Party, supported by only 3 per cent of the electorate, but which always has attracted Italian intellectuals of liberal views who could not quite stomach the larger Marxist parties.

Mr La Malfa has a small power base in his native Sicily, although most Italian mainlanders probably do not think of him as being Sicilian. His image is that of a dour Dutch uncle, always pointing out the economic weaknesses in any proposed Government spending plan, always talking about the urgent need for "national unity," particularly in the last

few years. His arrangement with the Communists for some time has been one of "mutual respect."

He is certainly not an anti-Communist, and with his slogan of "national unity in this time of national emergency" he would want the Communists in his Government. But he will also want to include the Christian Democrats and the majority of the Catholic Party's leaders are not yet prepared to share Cabinet posts with the Communists.

A solution open to Mr La Malfa would be to put men in his Cabinet who are not Communist Party members but who are considered to be either in the Communist camp or on its fringe. That solution might be acceptable to the Communists as a substitute for their actual presence in the next Government.

Another solution would be for the Christian Democrats to support the La Malfa Government by abstaining from voting altogether in Parliament.

If Mr La Malfa fails to set up a Government, President Pertini could ask Mr Andreotti

to take up again where he left off. Technically, Mr Andreotti remains acting Prime Minister until his replacement has been sworn in. But if he returns to the Prime Ministership it only would be to see the country through new elections.

Some Christian Democrats are apparently studying the calendar for a likely voting date on the conviction that the party would do well. April 29 is favoured because it is the feast day of Italy's patron saint, Catherine of Siena, and follows close enough after Easter for the Catholic voter to be given a broad hint during the Easter sermon on his "Christian" duty at the ballot box.

The only thing which surprised some people was that President Pertini, on learning that Mr Andreotti could not form a Government, skipped the usual second round of talks, and passed the nomination at once to Mr La Malfa. President Pertini is the first Socialist to hold that post, and he has done away with much of the ceremonial rituals, as has another Head of State, Pope John Paul II.

Italy turns to an older generation

BY PAUL BETTS IN ROME

SOME 36 years after the collapse of Fascism, Italy is falling back on one of the pre-representatives of the pre-Fascist generation to try to resolve its apparently insoluble political crisis.

The decision to turn to Sig. Ugo La Malfa, 75-year-old leader of the small but influential Republican Party, a Deputy Prime Minister and several times Minister in earlier coalition governments, reflects the impasse that has increasingly blocked the Italian political system since the foundation of the republic after the Second World War.

Sig. La Malfa is the first non-Christian Democrat politician to be asked to form a government in the country's post-war history. This alone is a measure of the seriousness of the situation in Italy, now in its fortieth government crisis since the fall of Fascism in 1943, facing a renewed and fierce wave of political violence, and continuing dire economic and social difficulties.

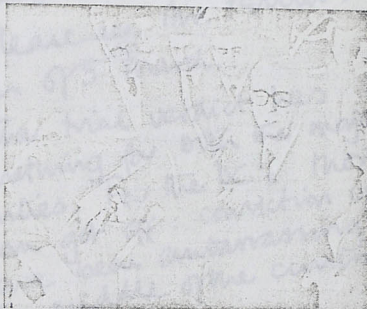
The choice of Sig. La Malfa is part of a political process that began 11 months ago with the kidnapping and murder of Sig. Aldo Moro, the Christian Democrats' undisputed leader.

Sig. Moro had been the main advocate of a policy of collaboration between the two main parties: the Christian Democrats and the Communists. This came to fruition, to some extent, in the last Christian Democrat Administration of Sig. Giulio Andreotti which was formed on the very day Sig. Moro was kidnapped by Red Brigade extremists.

It involved a governing alliance in which the minority Administration of Sig. Andreotti was supported in parliament by the Communists and Socialists, together with the backing of the smaller Republican and Social Democrat parties.

The fundamental concept was to enable the formulation of an all-party programme to tackle the most pressing economic, social and law and order problems, while laying the basis for a truce between the Christian Democrats and Communists, which amount for more than 70 per cent of the electorate.

The election as President last July of Sig. Sandro Pertini, an avowed Socialist and well-known anti-Fascist personality, following the resignation of Christian Democrat Giovanni Leone, was a demonstration of the new political pact. After 10 inconclusive ballots, and after the main parties' candidates were dropped, Sig. Pertini was regarded as an acceptable compromise.



Sig. La Malfa faces the Press.

But the governing alliance has collapsed in the face of renewed hostilities between the Christian Democrats and the Communists. The latter have publicly accused the ruling party of breaking the collaboration pact, and of no longer following Sig. Moro's policies. But the party's hard line, and its demands for direct participation in any government of "national unity," are also a reflection of its own internal difficulties.

The Communists found the alliance uncomfortable. The leadership has been coming under attack from its left and the party has seen its electoral support decline in regional elections. Indeed, since adopting a hard line, the Communists are apparently regaining some electoral ground.

During the past two weeks,

Sig. Andreotti, the outgoing Prime Minister, has attempted to rebuild a parliamentary majority to support a minority Government. But on Wednesday night, he was compelled to admit defeat in view of the deadlock between his own party and the Communists and the decision of the smaller socialist party to remain a neutral.

The President has now swiftly taken matters into his own hands by summoning his old friend Sig. La Malfa, the speed of the move took by surprise most political leaders who had expected the President to open a new round of consultations with the main parties before asking someone to attempt to form a government.

Sig. Pertini is opposed to an early general election, and clearly feels Sig. La Malfa may

have a chance where Sig. Andreotti has failed. But the very choice of someone in many ways similar to himself and part of his own generation perhaps indicates that generation's inborn lack of confidence in Italy's post-war politicians.

Although the Republican Party is negligible in terms of votes, Sig. La Malfa has always been at the centre of Italian political life. He is regarded as a bit of a guru. In the 1930s he was a member of Justice and Liberty, the only active political anti-fascist movement, apart from the Communists.

When it became the Action Party in 1941, Sig. La Malfa was one of its founders. But when in the first post-war elections, in 1945, the electorate voted for the old pre-Fascist parties, Action Party was swept away and Sig. La Malfa joined the Republicans.

A Sicilian, he quickly gave the party a more liberal and progressive look. He became an enthusiastic sponsor of bringing together the Roman Catholic electorate and the Socialists. Together with Sig. Aldo Moro, he was a prime mover of the centre-left formula of the sixties which subsequently collapsed.

He is now, like Sig. Moro was, committed to a political formula of all-party collaboration and national unity to resolve the country's fundamental economic and social problems. He is also a committed European and one of the most ardent promoters of Italian membership of the European monetary system.

Unfailingly and controversially, he has criticised the distortions of the Italian economic system and called for a rigorous incomes policy, including a radical reform of Italy's highly inflationary automatic wage indexation mechanism, the so-called scala mobile.

Despite his reputation for political and personal integrity and the respect even of his antagonists, Sig. La Malfa's chances of success appear slender. The Communists, who like the Socialists welcomed yesterday the president's choice, are likely to continue to press for their inclusion in any new government and the Christian Democrats will doubtless veto this.

Whatever the outcome, however, President Pertini's decision to ask Sig. La Malfa to try to form a government is significant and could have important repercussions. For the first time since the constitution of the Italian Republic, the Christian Democrats appear to have lost their sovereign right to govern. This is bound to have an effect on the electorate at large.

La Malfa begins his task

BY RUPERT CORNWELL IN ROME

SIG. UGO LA MALFA plans to begin talks this afternoon with party leaders in the uphill task of trying to end the political deadlock.

After his appointment by President Sandro Pertini yesterday, the Republican Party leader said he would attempt to rebuild the five-party majority which backed the previous Christian Democrat administration of Sig. Giulio Andreotti.

His chances of success, however, are universally held to be slim, and a general election in the spring seem likely.

Sig. La Malfa, who has long advocated vigorous pay and financial policies to tackle Italy's problems, is likely to lay great emphasis in his con-

sultations on the need for an agreed economic programme.

The importance of such measures, and the difficulty of applying them, was underlined yesterday by a four-hour national strike by 1.5m engineering workers in support of their three-year wage contract claim, which employers argue would add 43 per cent to labour costs by 1981.

This stoppage, to be repeated next week, came 24 hours after news of a 1.9 per cent jump in prices in January. This has highlighted the danger of a protracted political hiatus when stiff policy decisions might be required.

Mr Vercher

1. Please see Mr. Pallen's letter of 5⁽¹⁶⁾ March.
2. The trial verdict has something for both the major parties. For the DC's their man got off: conviction cd. have been embarrassing in the middle of the current crisis.
3. While the PST have been deprived of that opportunity, they can nonetheless ~~make~~ make some mileage out of the next departure the trial & conviction represents.
4. It appears that the result is unlikely to affect how the current crisis is eventually resolved. Mr Berenson 9/16

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Enter with ref. telnos

(16)



British Embassy

Via XX Settembre 80A 00187 Rome

Telex 61049 Telephone 4755,441

P G Harborne Esq

WED

FCO

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09 MAR 1979

DESK OFFICER

INDEX

PA

Your reference

Our reference 014/5

Date

5 March 1979

Dear Peter,

LOCKHEED BRIBES TRIAL

1. As you will have read in the press, the verdict in the long-running Lockheed bribes trial was announced on 1 March. Mario Tanassi (Social Democrat), who was Defence Minister between 1970 and 1972 at the time when the bribes for the purchase by the Italian Air Force of 14 Hercules C-130 aircraft were said to have been handed over, was sentenced to 2 years 4 months imprisonment. His predecessor as Defence Minister, Luigi Gui (Christian Democrat), was however acquitted. Various lesser personalities involved in the affair were also given prison sentences: among these the two Lefebvre brothers, who were the main intermediaries for the payments, received sentences of 2 years 4 months and 2 years 2 months respectively, and General Fanali, who was Chief of the Air Staff at the time, was given a suspended sentence of 1 year 9 months.

2. If you wish to look up the political background to the trial, you will find it described in our Saving telnos 4 of 8 March 1977 (supplemented by our telnos 153 of 11 March 1977). Parliament decided at that time to impeach both Gui and Tanassi before the Constitutional Court, after the Committee of Inquiry had narrowly decided in January 1977 that there was no case for Mariano Rumor (Christian Democrat Prime Minister at the time of the bribes) to answer. The Constitutional Court started on the case in April 1978, and after 10 months of hearings and 23 days of recess the verdict has now finally been delivered.

3. After all this time the political impact of the verdict, which was more or less on the lines expected (though many people thought that Gui would be convicted as well as Tanassi), had largely been discounted by press and public opinion. It certainly would have been regarded as a scandal if both ex-Ministers had been acquitted. But as things are, the balanced verdict of one conviction and one acquittal for the two ex-Ministers has generally been well received - except of course by the Social Democrats, who have condemned the sentence passed on Tanassi as a "political crime". The Christian Democrats are naturally

/delighted

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- 2 -

delighted that their man has got off - though the acquittal probably does not in fact do much to remove the dirt which has rubbed off on their party over a period of years as a result of the Lockheed investigations. (It is widely said that Gui was merely saved by the accident of a government change just at the moment when the bribes became due to be paid; and Tanassi has claimed that he himself did no more than finish off what Gui had started)

4. The Communists have not sought so far to make much political capital out of the verdict. But the general line of their comments has been that this is the end of the era in which Ministers and high officials can be regarded as untouchable; and this line has been echoed with approval elsewhere in the non-Communist press. This is the first time in the history of the post-war Republic (and in fact the first time in Italy since 1908) that an ex-Minister has been sent to prison - though everyone knows that there has been no shortage of corrupt Ministers. The general feeling is that whatever effect the verdict may have on the immediate political situation - and for reasons explained in paragraph 3 above this is not likely to be very great - it is an important warning of the need for greater accountability and higher moral standards in public life.

Yours sincerely,

Mark Fellow

M E Fellow

cc:

Chanceries UKDEL NATO WASHINGTON

SAVING TELEGRAM

RESTRICTED

FROM ROME

TO FCO TEL NO SAVING ~~4~~ OF 5 Mar

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SAVING FOR INFORMATION:

WASHINGTON
UKREP BRUSSELS
UKDEL NATO
OTHER EEC POSTS

MY TELNO 117, (12)
ITALIAN POLITICAL SITUATION

1. The Republican leader La Malfa gave up the attempt to form a government on 2 March. He reported to President Pertini that he had not been able to reconstitute the former 5 party parliamentary majority, nor had he found a sufficient measure of agreement among the parties to enable him to form a government based on any other formula.
2. The Communists had somewhat modified their position during the past week: they had announced that they were prepared to settle for inclusion in a La Malfa Government of members of the Independent Left elected on the Communists' list, rather than insisting on fully fledged members of their own party. But this was still clearly unacceptable to the Christian Democrats, particularly if they did not even have a Christian Democrat as Prime Minister. As the same time the Socialists were eventually unwilling to dissociate themselves from the Communists to the extent of allowing the formation of a new 4 party majority, including the Socialists but not the Communists. La Malfa thus had no option but to report that he had not been able to find a basis for a solution.
3. President Pertini will himself conduct a further round of consultations with the parties today and tomorrow (5 and 6 March) and is then expected to announce his decision about the next move. If his consultations suggest that there is still some hope of finding a solution without dissolving Parliament, he will probably give the mandate back to a Christian Democrat - the names of Piccoli (Party President) and Forlani (Foreign Minister) are being spoken of, though

/it

it could also be Andreotti again. Alternatively, if all ways seem blocked, the President may decide to dissolve Parliament and call early elections, though in view of his concern for constitutional propriety it is thought that he would probably not do this without first sending back the outgoing Andreotti Government to face a vote of confidence in Parliament.

4. A possible compromise, which was apparently favoured by the Socialist Party Secretary Craxi, is for the President to give a mandate for the formation of a limited term government to see the country through the European Election in June and to enable the Communists and Christian Democrat Party Congresses to take place as scheduled (the former on 20-25 March, the latter not yet fixed). In this way the Socialists would hope to avoid having to face a National Election before the European Elections (in which they expect to do well enough to bolster their vote in any subsequent national poll). But such a government would almost certainly leave the Communists outside the supporting majority, and for the solution to be viable the Socialists would have to agree to distance themselves in some way from the Communists (for example by abstaining if the Communists were in Opposition). Although Craxi himself appears to be willing to do this, it remains to be seen whether he can bring the rest of his party with him. Berlinguer for his part said in a weekend speech in Naples that the Communists would be ready to "go into a constructive position", and would not put obstacles in the way of a government supported by a more limited majority.

5. The situation is thus still obscure, and there is no immediate end to the crisis in sight. The likelihood of early elections is certainly increased following the failure of both Andreotti's and La Malfa's attempts to form a new government, but nobody (except the extreme Right) wants early elections, and at this stage the possibility of a limited term government with the Communists in position seems to be coming to the fore as the most likely solution. Meanwhile Andreotti and his Ministers are carrying on in office and there seems every prospect of their remaining there at least until after the forthcoming European Council.

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06 MAR 1979	
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ITALIAN POLITICAL SITUATION

- A B C 1. Rome telegrams 80, 92 and 104 give the background to the Italian political situation. As anticipated in telegram 104, Andreotti has now admitted the failure of his first attempt to form a new government, and President Pertini has asked the 75 year old leader of the tiny Republican party to try to form a government (Rome telno 117). There seems little chance that he will be able to break the deadlock whereby the PCI are insisting on direct participation in government, which the DC are refusing to countenance. It is hard to see how fresh elections can be avoided unless one or the other backs down.
- D
2. Other sources suggest that one of the main reasons for PCI intransigence is that the collective PCI leadership is deeply divided, though there are as yet no signs that Berlinguer's own position is threatened. He is likely to try to prolong the "crisis" at least until the PCI Congress on 20-25 March, which will provide an opportunity for the Party to clarify its thinking.
3. A possible strategy for the PCI would be to press for enforced early elections in order to clip the wings of the socialists (who are otherwise expected to do well in the June European Assembly elections) and demonstrate to the DC and the country at large that effective government and a solution to the country's economic problems are impossible without active PCI participation. However the PCI would ~~likely~~ likely to lose some of its current strength in an election; whether the strategy would work would depend on how large that loss turned out to be. The risks of loss of morale and damage both to Berlinguer's own position and to the policy of "historic compromise" must be strong disincentives.
4. For the time being, the assessment in the last sentence of Rome telegram 80 appears to remain valid.

Western European Department
FOREIGN AND COMMONWEALTH OFFICE

27 February 1979

Mr Harbane

@ 28/2



With the compliments of

W. J. ADAMS

23/2/79.

BRITISH EMBASSY
ROME

Signature
cc. R. Venturini (W.D.)

22/2
Reference

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WRT 0142
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06 MAR 1979
13

POLITICAL SITUATION

1. It may be worth recording some observations based mainly on a conversation yesterday evening with a DC journalist, Franco Venturini of "Il Tempo"
 - (a) La Malfa is very unlikely to succeed in forming a government (Venturini said "80/20 against"). PCI intransigence, which caused the failure of the Andreotti attempt, is unlikely to be modified. The PCI will go on insisting on having ministers in the government and the DC will go on rejecting this.
 - (b) There are however two important differences in the situation now:
 - (i) the Prime Minister-designate has often said in the past that he is in favour of having Communists ministers, and
 - (ii) it is the DC who may now find themselves in the position of having to appear negative. The DC are worried about this.
 - (c) La Malfa cordially hates Craxi, and vice-versa. This is not going to make it any easier for La Malfa to find a solution.
 - (d) Conversely Andreotti and Craxi have been getting on very well lately. Gianni Letta, editor of "Il Tempo", (who is close to Andreotti) had them both to lunch a trois shortly after the crisis began. They apparently both thought then that some formula could be worked out. (This is interesting evidence of moves behind the scenes to bring the PSI closer to the DC).
 - (e) La Malfa might conceivably be able to achieve a temporary solution, at least until the European elections, on the lines of government which the Marone region has had since last December (ie a giunta of the small lay parties with external support from both the DC and the PCI). But this seemed hardly likely, and would in any case be a very weak government.
 - (f) This was not the first time since 1945 that the mandate had been given to a "laico". Pertini himself (as President of the Chamber of Deputies) had been given a mandate by Saragat for a few days in 1968 after the fall of one of the Leone governments.

M. E. Pellew

22 February 1979

M E Pellew

e) is not at present acceptable to the PCI and would be a humiliating defeat for the DC. It is the obvious compromise. But I don't think it will work.

CR. G. S. S.

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FM ROME 221500Z FEB 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 117 OF 22 FEBRUARY

INFO PRIORITY WASHINGTON, UKREP BRUSSELS, UKDEL NATO.

INFO SAVING ALL OTHER EEC POSTS.

MY TELNO 104: ITALIAN POLITICAL SITUATION

TOP COPY

WRS 014/2

11 MAR 1979

1. ANDREOTTI GAVE UP THE TASK OF TRYING TO FORM A NEW GOVERNMENT ON 21 FEBRUARY, THUS ENDING THE FIRST PHASE OF THE CURRENT CRISIS. AS HAD BEEN WIDELY EXPECTED (PARA 2 OF MY TUR) PRESIDENT PERTINI DECIDED TO PASS THE MANDATE TO THE PRESIDENT OF THE REPUBLICAN PARTY, UGO LA MALFA (LP NOTES NO 64).
2. IN ACCEPTING THE MANDATE THIS MORNING, 22 FEBRUARY LA MALFA MADE CLEAR THAT HE HAD NO ILLUSIONS ABOUT THE DIFFICULTIES HE FACED AND SAID THAT HE WOULD SEEK TO FIND A SOLUTION BY MEANS OF A RECONSTITUTED FIVE-PARTY MAJORITY (IT THE SAME PATH WHICH ANDREOTTI HAS TRIED AND FAILED).
3. PRESIDENT PERTINI'S ACTION HAS ON THE WHOLE BEEN FAVOURABLY RECEIVED BY THE POLITICAL PARTIES, THOUGH CHRISTIAN DEMOCRAT REACTIONS HAVE BEEN MIXED. IT IS GENERALLY THOUGHT THAT LA MALFA STANDS LITTLE CHANCE OF SUCCESS GIVEN THAT THERE IS AT PRESENT NO SIGN OF MOVEMENT IN THE COMMUNISTS' INSISTENCE ON THE INCLUSION IN THE GOVERNMENT AND IN THE CHRISTIAN DEMOCRATS' EQUALLY FIRM REJECTION OF THE COMMUNIST PROPOSITION.
4. IT IS WIDELY NOTED THAT THIS IS THE FIRST TIME A MANDATE TO FORM A GOVERNMENT HAS BEEN GIVEN TO A NON-CHRISTIAN DEMOCRAT SINCE 1945 (APART FROM A BRIEF EXPLORATORY MANDATE WHICH WAS GIVEN TO PERTINI HIMSELF, AS PRESIDENT OF THE CHAMBER OF DEPUTIES, IN 1968).
5. FCO PLEASE PASS SAVING ADDRESSEES.

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- 8 MAR 1979

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19

WRT 014/2.

ANDREOTTI AGREES TO TRY AGAIN

By FRANK TAYLOR
in Rome

SIGNOR ANDREOTTI, Italy's Christian Democratic leader, has again been asked by President Pertini to try to form a new government and so head off the need to call an early general election.

It is the second time in just over a month that Signor Andreotti has been called on to try to break the deadlock that has paralysed Italian political life for the past five weeks. His last government fell at the end of January after the Communist party withdrew its parliamentary support.

Signor Andreotti tried to re-organise the parliamentary pact but was unable to reconcile the differences between his own party executive and the Communists. The Christian Democrats refused to allow Communists into the government while the Communists said they would not give any kind of parliamentary support to a Cabinet in which they were not represented.

New formula

This time, Signor Andreotti and his party have a new formula to consider. The Communists have indicated they might accept a coalition government comprising the Christian Democrats, Socialists, Republicans, and Social Democrats, provided there were also at least two Cabinet members drawn from the ranks of "independent Leftists."

These are people who have Communist leanings but are not members of the party.

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- 8 MAR 1979

cutting dated 19

Another chance for Andreotti

From George Armstrong
in Rome

President Sandro Pertini yesterday asked Mr Giulio Andreotti to form the next Government and to accept two deputies in Mr Giuseppe Saragat and Mr Ugo La Malfa.

Mr Andreotti is now acting Prime Minister and a Christian Democrat, while Mr Saragat and Mr La Malfa can be considered the founding fathers of the Social Democrat and the Republican Parties.

The choices made by the Socialist Head of State caught politicians by surprise. Almost without exception, yesterday's newspapers had predicted that Mr Saragat would be named as next Prime Minister, with the other two men as his deputies.

Another surprise, of a technical but significant nature, was that Mr Andreotti accepted the mandate without the customary "reservations." This may mean that, although he was as surprised as anyone by Mr Pertini's decision, he plans to form his Government with or without the full assent of his Christian Democrat Party.

Mr Saragat, who is himself a former Head of State, accepted his nomination with the reservation that the Cabinet must include some Left-wing independents — that is, men elected to Parliament on the Communist ballot, but who are not party members. He said that it was wrong to think of them as being "marked Com-

munist," and also said that the next Prime Minister had to be a Christian Democrat if the Government was to survive. The Communists are pleased with Mr Saragat's stand, which also is theirs.

Normally, when there is a deputy Prime Minister (there never have been two), he is chosen by the Prime Minister, and, if he holds no portfolio, it is an honorary post.

When Mr Pertini, who is 83, was elected last summer, it was predicted that he would be the most energetic and unconventional President the Republic has had. His decision yesterday was without precedent, and also was his last attempt to avoid early elections.

cutting dated

8 MAR 1979

FINANCIAL TIMES.

Andreotti in final bid to stave off a spring election

BY RUFERT CORNWELL

SIG. GIULIO ANDREOTTI, the outgoing Italian Prime Minister, yesterday undertook to form a new government to face a parliamentary vote of confidence, in a final bid to stave off a premature general election this spring.

And in a move with repercussions, a marked constitutional departure, *Sig.* Sandro Pertini, the Italian President, designated *Sig.* Giuseppe Saragat, the former President, and *Sig.* Ugo La Malfa, leader of the Republican Party, as Deputy Premiers in the new administration.

The decision of *Sig.* Pertini yesterday came as a complete surprise here. It offers the last hope, albeit strictly limited, of

finding a way round the political stalemate which has seemed to make elections a certainty. Everything, now, depends on whether Sir Andrzej can break the deadlock between the Communists (PZP) and Christian Democrats. This, in turn, hinges on whether parties can be formed on the basis of the key issues, rather than following ideological lines. Ministers in the new government.

Sir Saeed yesterday noted his participation in the new government conditional on the presence of independents. It appears not to participate, either appears no way in which other Communists or Socialists could Sir Andrzej. The

premier designate would then be constrained to defeat. But while the Communists have indicated they could go along with a government containing non-PCI left-wingers, the Christian Democrats would have to develop a more heterogeneous coalition on the grounds that such Ministers would be "caudoullage" by Communists.

The re-annointment of Sirg. Andreotti came after 48 hours of feverish activity here, which showed the impossibility of rebuilding a variant of the old Centre-left formula, including the Socialists, but with the Communists in opposition. General elections in early May

Sig. Perlin, however, has insisted all along that the duty to improve the chances of the poor is not a political issue, as such events are seen as his final attempt to hold the politicians to their word. Two likely sequences of events remain.

Either Sig. Andreotti in the course of his consultations with the parties in the outgoing parliament for a government parliamentary majority will win approval for a government including a center-right coalition, or he will be defeated. In the latter case, the government would be Sig. Altiero Spinelli, the former Italian EEC Commis-

sonner who was elected to Parliament on a PCU list although he is not a member of the party.

In that case, the Prime Minister's administration would be a coalition government headed by Christian Democrats, Republicans, Social Democrats and Socialists, with at least Communist abstention.

If he fails, Sig. Andreotti is nonetheless committed to submitting whatever government he can form to a vote. In the event of defeat, he will then have to resign and there will be the task of organizing elections, for which the date of May 6 has been widely pencilled in.

The crisis, now into its sixth

This risk is weighing heavily on the shoulders of the banking community. The recovery, led, the Standard & Poor's Institute, reported a January rise of 4.8 per cent in industrial output has meant, and meant, that the pessimism which gripped the market in the early months of 1979, has been replaced by a more optimistic outlook. The recent rapid increase in both wholesale and retail prices, however, makes the prospects, therefore, uncertain.

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British Embassy

Via XX Settembre 80A 00187 Rome

Telex 61049 Telephone 4755.441

1. *Mr Goulety (Assessments Staff)*
Mr Mrs Cowlin
(Research Dept) (11)
 2. *Enter.*

Rm
28/2

P G Harborne Esq
 WED
 FCO

0125 074/2
 RECEIVED
 02 MAR 1979
 INDEX

Your reference

Our reference

Date 26 February 1979

Dear Harborne,

PSDI VIEWS ON THE POLITICAL SITUATION

1. The Italian Social Democrat Party (PSDI) has only 15 deputies in Parliament. But because it is one of the parties of the "five-party majority" it has an influence out of proportion to its size, and its Party Secretary, Pietro Longo, is included in most of the inner consultations about the formation of a new government. You may therefore be interested in the following account of a lunch which James Adams, Bob Marshall (Information Officer) and I had on 23 February with Longo, Mauro Ferri (responsible for PSDI party organisation) and Giampiero Rolandi (of the PSDI newspaper "L'Umanità").

2. Longo said that La Malfa had little chance of succeeding in his attempt to form a government. He was following the same path that Andreotti had tried and failed (ie re-constitution of the five-party majority) but the margins were even more limited for him than they had been for Andreotti. The Christian Democrats could not afford to give Berlinguer a single inch of ground if they did not even have the Prime Ministership. The only kind of La Malfa government that the Christian Democrats could accept would be one with themselves inside and the Communists outside. This the Communists could not accept, so the attempt was doomed to failure. Longo reckoned that the La Malfa attempt would last for about another 10 days. He thought that we might then see Fanfani given a mandate to form a temporary government to take the country into the European elections in June, when Longo thought that there would probably have to be national elections as well.

3. On the possibility of elections, Longo said that all the parties would hang back till the last possible moment since nobody wanted to appear responsible for provoking them. But assuming that elections, if there were to be elections, would take place on the same day as the European elections (the Socialists being so firmly against holding them earlier) the critical period for a decision would be around the end of March, ie 70 days before 10 June. This was because the dissolution of Parliament had to

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take place between 70 and 50 days before elections (I have not net been able to check the facts, but this is what Longo said).

4. Longo also predicted that the Communist Party Congress, scheduled for 20/25 March, would be postponed. This was because the Communists, according to Longo, would rather not go into an election with their hands tied by a Congress. The same point has also been made recently in the Turin newspaper "La Stampa", which is usually well informed about Communist affairs, though we have not seen it elsewhere.

5. Longo spoke very firmly against the Communists, whose international policies, he said, proved that they were still unacceptable as partners in an Italian government. This is in line with previous statements by the PSDI in which they have shown themselves to be the most publicly outspoken against the Communists of all the former partners in the five-party majority. (Incidentally Longo let slip the fact that he had been invited to the American Ambassador's house that evening: no doubt the Americans are encouraging the PSDI to stick to their line).

6. Longo did not say much about the PSDI's relations with the PSI, which had been regarded as one of the questions at issue when Longo rather suddenly took over the Party Secretaryship from Romita last October (see my letter of 13 November to Pat Kenwick). But the way he referred throughout lunch to "we two Socialist parties" suggests that he does indeed regard himself as closer to Craxi than Romita had been (para 2 of that letter).

7. Incidentally Longo and his colleagues pointed out that the last time a mandate to form a government was given to a non-Christian Democrat was not in 1945 (as we had stated in our telegram no 117 of 22 February, taking our cue from the press) but in May 1947, when the independent pre-Fascist President of the Council, Francesco Nitti, made a brief and unsuccessful attempt between two De Gasperi governments.

Yours sincerely,
Mark Pellew

M E Pellew

~~SECRET COVERING CONFIDENTIAL~~

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WRS 014/2

28 FEB 1979

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~~QUADRIPARTITE MEETING OF POLITICAL DIRECTORS, WEDNESDAY 26 FEBRUARY~~

(H) ITALY

- A B C
1. Rome telegrams 80, 92 and 104 give Sir A Campbell's present assessment of the Italian political situation.
 2. Other sources suggest that one of the main reasons for PCI intransigence is that the collective PCI leadership is deeply divided, though there are as yet no signs that Berlinguer's own position is threatened. His immediate objective may be to prolong the "crisis" until the PCI Congress on 20-25 March which will provide an opportunity for the Party to clarify its thinking.
 3. A possible strategy for the PCI would be to press for enforced early elections in order to clip the wings of the socialists (who are otherwise expected to do well in the June European Assembly elections) and demonstrate to the DC and the country at large that effective government and a solution to the country's economic problems are impossible without active PCI participation. However the PCI would be likely to lose some of its current strength in an election; whether the strategy would work would depend on how large that loss turned out to be. The risks of loss of morale and damage both to Berlinguer's own position and to the policy of "historic compromise" must be strong disincentives.
 4. For the time being, the assessment in the last sentence of Rome telegram 80 appears to remain valid.

Western European Department

20 February 1979

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FM ROME 191300Z FEB 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 104 OF 19 FEBRUARY

INFO PRIORITY WASHINGTON, UKREP BRUSSELS, UKDEL NATO.

INFO SAVING ALL OTHER EEC POSTS..

1/6

MY TELNO 92: ITALIAN POLITICAL SITUATION

1. ANDREOTTI'S ATTEMPTS TO FORM A NEW GOVERNMENT SEEM TO HAVE GROUND TO A HALT FOLLOWING AN APPARENTLY FIRM REJECTION BY THE COMMUNISTS ON 15 FEBRUARY OF HIS PROPOSALS FOR RECONSTITUTING A PARLIAMENTARY MAJORITY SIMILAR TO THE PREVIOUS ONE. AFTER HEARING FURTHER STATEMENTS TODAY AND TOMORROW FROM THE SOCIAL DEMOCRATS AND SOCIALISTS, ANDREOTTI IS EXPECTED TO GO TO THE PRESIDENT OF THE REPUBLIC WITHIN THE NEXT FEW DAYS TO REPORT THE FAILURE OF HIS FIRST ATTEMPT.
2. IT IS NOT YET CLEAR WHETHER PRESIDENT PERTINI WILL THEN PASS THE MANDATE TO ANOTHER CANDIDATE OR WHETHER, WITH HIS KNOWN PREFERENCE FOR AVOIDING DELAY, HE WILL INSIST ON ANOTHER ATTEMPT BY ANDREOTTI AS THE ONLY CANDIDATE WITH A REAL CHANCE OF SUCCESS AT THIS STAGE. MOST PEOPLE HOWEVER NOW THINK THAT THE PRESIDENT WILL ACCEPT ANDREOTTI'S WITHDRAWAL, AT LEAST FOR THE TIME BEING, AND WILL NOMINATE A LAY CANDIDATE IN HIS PLACE - POSSIBLY THE VETERAN PRESIDENT OF THE REPUBLICAN PARTY, LA MALFA. THE CHANCES OF SUCH A CANDIDATURE SUCCEEDING ARE REMOTE, PARTICULARLY IN VIEW OF THE DECLARED OPPOSITION TO IT OF THE CHRISTIAN DEMOCRATS. BUT IT WOULD GIVE ALL PARTIES TIME FOR REFLECTION AND COULD PAVE THE WAY TO A FURTHER CHRISTIAN DEMOCRAT ATTEMPT LATER.

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3. THE COMMUNISTS MEANWHILE ARE KEEPING UP THE PRESSURE FOR LAY CANDIDATURE. IN A WEEKEND SPEECH IN LIVORNO, BERLINGUER REPEATED WHAT HE SAID ON 15 FEBRUARY IN REFLECTING ANDREOTTI'S PROPOSALS, IE THAT IF THE CHRISTIAN DEMOCRATS COULD NOT ACCEPT COMMUNIST MINISTERS THE COMMUNISTS PROPOSED A LAY PRIME MINISTER SUPPORTED BY CHRISTIAN DEMOCRATS AND COMMUNISTS, WITH BOTH OF THEM IF NECESSARY OUTSIDE THE GOVERNMENT. BERLINGUER CANNOT BELIEVE THAT SUCH A PROPOSAL STANDS ANY CHANCE OF SUCCESS. BUT HE NO DOUBT HOPES IN THIS WAY TO KEEP THE SOCIALISTS WITH HIM, WHILE AT THE SAME TIME CREATING AN APPEARANCE OF NOT BEING ENTIRELY NEGATIVE IN HIS OWN APPROACH.

4. THE COMMUNIST REJECTION OF ANDREOTTI'S FIRST ATTEMPT HAS BROUGHT THE POSSIBILITY OF EARLY ELECTIONS A LITTLE NEARER. BUT IT IS STILL POSSIBLE THAT THE SOCIALISTS WILL BE WILLING TO DISASSOCIATE THEMSELVES FROM THE COMMUNISTS TO THE EXTENT OF ALLOWING A NEW GOVERNMENT TO BE FORMED WITH THE COMMUNISTS IN OPPOSITION (PARA 4 OF MY TELNO 80). ALL THIS HOWEVER IS HIGHLY SPECULATIVE AT THIS STAGE, AND THE ONLY THING WHICH IS CLEAR IS THAT WE ARE STILL SOME WAY FROM A SOLUTION TO THE CRISIS.

5. FCO PLEASE PASS SAVING ADDRESSEES.

CAMPBELL

[REPEATED AS REQUESTED]

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TO PRIORITY ROME

TELEGRAM NUMBER 33 OF 16 FEBRUARY.

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YOUR TELNO 80: ITALIAN POLITICAL SITUATION.

1. QUADRIPARTITE POLITICAL DIRECTORS MEET ON FEBRUARY 26. IF THERE IS ANYTHING FURTHER THAT CAN BE SAID AT THIS STAGE BEYOND THE ASSESSMENT IN YOUR TELEGRAM UNDER REFERENCE IT WOULD BE USEFUL TO HAVE IT BY CLOSE OF PLAY ON 19 FEBRUARY.

OWEN

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Mr Stephen

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INDEX	

cc Mr Whyte (News Dept) ✓
Mr Vereker (WED) ✓

M. Brown
M. Hartline

Lpa
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REQUEST FOR WRITTEN INTERVIEW WITH SECRETARY OF STATE
FROM BRUNO VESPA OF ITALIAN TELEVISION

Your minute to Mr Whyte of 8 February asked Planning
Staff to draft preliminary answers to Bruno Vespa's questions
Nos 7, 17, 18 and 19. These are attached.

16/2

Leaski

J Q Greenstock
Planning Staff

15 February 1979

pa - Euro communism
- Italy: internal

Phy
19/11

No.

DRAFT

Type 1 +

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To:-

From

Telephone No. Ext.

Department

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In Confidence

7. Decolonisation was indeed consistent with the Labour Party's ideological thinking, but ideology was not the only reason for decolonising, as the Conservative Governments' action showed. There were also good political and economic reasons, going to the heart of Britain's ability to maintain a position as a global power. In practice it was neither desirable nor possible that all British colonies should be brought to independence within a short space of time. The peoples' own wishes had to be taken into account; and we had to ensure that a newly independent country had the means to survive. This policy still holds for our remaining colonies.

17. The speech in which I made that statement, in November 1977, also explains why I think revisionist Marxism would thus be given new weight. Part of the appeal of the Communist Parties in France and Italy, for instance, stems not only from the fact that they appear to be prepared to introduce an element of democracy into Communism, through the ballot-box, but also from their advocacy of a form of communism that is tailored to national circumstances and maintains an independence from Moscow. The latter point in

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19. The Labour Party does not accept that participation :
NATO of a country with Communist participation in its
Government should automatically be excluded. One would
have to look carefully at the particular circumstances:
the nature of that participation (ie the portfolios held by
Communists), the structure of the Government concerned and
the nature and aims of the Communist Party in question.
The consequences for the alliance would be the crucial
issue and would have to be estimated by its members at
the time.

22 FEB 1979

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Non-Christian Democrat may be Italy Premier

BY PAUL STEIN IN ROME

A NON-CHRISTIAN Democrat politician is expected to be asked to attempt to form a government in Italy on the first day after the war.

Mr. Ugo La Malfa, the 75-year-old chairman of the small but influential Christian Democrat Party, is to be asked to form a government in the postwar period.

The President is likely to give him the mandate to attempt to form a government in the postwar period.

It follows the failure of the Christian Democrats to form a government.

Outsider tipped to lead Italy

PRESIDENT Sandro Pertini of Italy is today expected to ask Mr Ugo La Malfa to try and form a government. If the 75-year-old leader of the tiny Left-of-Centre Republican Party accepts, he will become the first Italian Prime Minister not to be a Christian Democrat since the postwar general elections in 1948, writes George Armstrong from Rome.

The question of early elections (which would be unavoidable if Mr La Malfa fails to form a government), will depend largely on the Christian Democrats.

They would have the choice of entering Mr La Malfa's Government or supporting it by abstaining from voting. Either choice would mean a radical change in the country's administration, and it would be an abnormal situation if the country's largest party, with 38 per cent of the seats in Parliament were to accept a passive role.

Mr Giulio Andreotti, the outgoing Prime Minister, told the President last night that he had been unable to form another government because his party could not include Communists.

cutting dated 22 FEB 1979 1979 19

Non-Christian Democrat may be Italy Premier

BY PAUL BETTS IN ROME

A NON-CHRISTIAN Democrat politician is expected to be asked to attempt to form a government in Italy for the first time since the war.

Sig. Ugo La Malfa, the 75-year-old chairman of the small but influential Republican Party and a former Deputy Prime Minister, is to see President Sandro Pertini today.

The President is likely to give him the mandate in an attempt to resolve Italy's 40th government crisis since the fall of Fascism.

It follows the failure of Sig. Giulio Andreotti, the out-going

Christian Democrat Prime Minister, to rebuild a parliamentary majority to support a Christian Democrat minority administration.

After two weeks of unsuccessful consultation with the main opposition parties—the Communists and the Socialists—Sig. Andreotti last night informed President Pertini, a Socialist, that he was giving up his attempt to form a government.

The latest crisis, now in its fourth week, follows the decision in January of the powerful Communist Party to withdraw its support to the minority

Andreotti administration.

The Communists — Italy's second largest party—are now demanding direct participation in a so-called government of national unity.

This has been flatly rejected by the Christian Democrats whose leadership meeting yesterday also rejected Communist proposals for an alternative coalition formula, which would see the Communists in government but which would be supported externally by the Christian Democrats.

President Pertini is known to be opposed to an early general election, and he is clearly now

looking towards Sig. La Malfa as a possible solution.

It is unlikely, however, that the Christian Democrats, after 30 years of uninterrupted rule, will accept any compromise involving a government not led by one of its members.

In view of the continuing deadlock between the Communists and the Christian Democrats, the general view here last night was that Sig. La Malfa was unlikely to succeed in resolving the crisis and preventing the eventual dissolution of parliament, which, in turn, would open the way to early elections.

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17 FEB 1979

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ITALY

THE ITALIAN SOCIALIST PARTY

Flower-power without fire-power

BY RUPERT CORNWELL

AFTER AN interval of 60 years the red carnation is once again the official emblem of the Italian Socialist Party (PSI). This week pretty girls were distributing the appropriate flower to assembled journalists at party headquarters. On the walls were vast posters proclaiming in six EEC languages "If you speak Socialist in Europe, you'll be understood" — a reference to the forthcoming European elections on which the PSI is pinning so much.

The occasion though was curiously muted for the Italian Socialists have suddenly found themselves in the most uncomfortable seat in domestic politics. Four months ago they were sniping merrily at the Communists (PCI). Regional elections the previous May had suggested that the PSI was regaining support after the collapse to just 9.6 per cent of the poll in the June 1976 general election.

The pointed ideological attacks from Sig. Bettino Craxi the PSI Secretary were only adding to the confusion and disarray of the Communists over their obviously ineffectual role within the five-party majority Parliamentary coalition backing the minority Christian Democrat administration of Sig. Giulio Andreotti.

Now everything has changed. Local polls in the North East Trentino-Alto Adige region last November revealed a loss of Socialist support to the radical left. Then, with an audible heave of relief, the Communists finally withdrew their parliamentary support, and Sig. Andreotti's government fell. His attempts to rebuild the alliance have exposed anew the endless dilemma of the Socialists, how to flourish between the two giants of Italian politics, the PCI and the Christian Democrats.

A chastened Sig. Craxi himself admitted his party's plight this week: "With under 10 per cent we have a limited influence. We are always in a difficult position, whether the big parties try to reach agreement over our heads, or when they clash and then try to enlist our help as junior partners."

That, in a nutshell, is the Socialist dilemma—and it is made worse by the pressures within the party pulling it in two directions. It is often said of Italian politics that splits within parties are more important than the divisions between the parties themselves, and the PSI is no exception to the rule. One faction looks instinctively towards the Christian Democrats, with the implicit corollary of a return to the old days of the centre-left governing

formula of the 1960s and early 1970s. The other turns towards the Communists, and the dream of a fully democratic left alternative government for Italy.

The ambiguity extends deep into the past of the PSI, and even into its insignia. Between 1919 and 1979 the hammer and sickle, symbol of the common past of Communists and Socialists, was the party's emblem. It remains part of the new one, tucked away beneath the carnation, a sign of its improbable hope of becoming once more, at the expense of the Communists, a significant spokesman of the Left.

The fact remains that the Socialists, whatever their crisis of identity, still hold the key to the present situation. Now that the Communists have burnt their boats with the Christian Democrats, Sig. Craxi and his colleagues when they meet to decide their next move face a stark choice: either to follow the PCI and thus make elections certain, or by direct support or abstention allow some other government to be born, and permit the Communists to reap the fruits of opposition alone.

With the refusal by the PCI of proposals for a joint government of Christian Democrats and "technocrats" acceptable to every one, including the Communists, Sig. Craxi has lost the

best chance of squaring the circle, and his room for manoeuvre is more restricted than ever.

In the background are daily reports, daily denied, of strains between himself and Sig. Claudio Signorile, his deputy and the left-leaning faction of the PSI.

The Socialist secretary's game-plan is to try to ensure that European elections take place before (or at worst on the same day as) any Italian general election. Not surprisingly he plays the European card for all its worth: extensive pictures are beamed back into Italy every time European or international Socialist leaders meet, showing Sig. Craxi rubbing shoulders with such luminaries as Herr Schmidt, M. Mitterrand or Mr. Callaghan.

Recently a leaked poll taken by the Brussels Commission confirmed what many suspected: that direct elections could be a socialist bonanza. In Italy the PSI was given 23.8 per cent of the vote, more even than the Communists who outscored them almost four times in the 1976 general election here. Sig. Craxi is counting on even a more modest success to spill over into domestic elections. But he is also aware that the reverse might equally be true—that a poor showing in Italy might severely dent his chances in Europe.

Da Italy: internal

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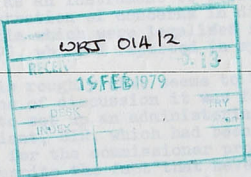
Telex 61049 Telephone 4755.441

C J Baker Esq
HM Treasury
London SW 1

Your reference

Our reference 090/1

Date 8 February 1979



Enter with

Dear Chris,

ITALIAN INDUSTRIAL AID MEASURES

WKS 01412

1. Please refer to my letter of 27 November 1978 on the above subject, and particularly paragraph 4, where I referred to the unsuccessful attempt by the Italian Government to introduce legislation suspending liquidation procedures in the case of certain large companies.
2. The Italian Government has now reintroduced this measure in a somewhat revised form, which has been, so it is claimed, agreed in advance with the other political parties. It has been introduced as a degree law and is thus immediately valid, though it must be confirmed within 60 days by Parliament. Given the prior agreement of the parties, it is quite possible that it will be so approved in spite of the present government crisis.
3. The measure applies to companies which have debts to other companies or banks on a medium term basis higher than 5 times their paid up capital, and greater than 20 billion lire, of which at least 15% derives from state-assisted interest rate loans. Firms in this position will not be able to go into liquidation: instead, a commissioner, or panel of commissioners, will be appointed by the Minister for Industry to run the concern, with the co-operation of the creditors, while its finances are restored to health. The Commissioner will be required to draw up a programme, which must be consistent with government industrial policy, and which will in turn be authorised by the Ministerial Committee on Industrial Policy. In certain circumstances funds will be available to companies in this position under the law on industrial restructuring. When such a commissioner is appointed, he will have jurisdiction not only over the firm in immediate difficulties, but also over firms controlled by it, firms controlling it, and firms which have outstanding debts or guarantees to it exceeding one third of the total value of their own assets. The latter condition is an introduction at the behest of the PCI.

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4. There is a good deal of uncertainty about how this measure would work, and indeed how finance would be found to keep going concerns which were placed under the administration of commissioners. In fact it seems quite probable that the threat of the appointment of commissioners will be used more by the Government as an instrument to persuade the banks to undertake the administration of concerns in difficulties voluntarily via the consortia which were legalised in the law passed in December (Number 787), which I reported in my letter under reference.

5. This is roughly what seems to be happening at present. After months of discussion it was finally agreed by the banks this week to set up an administering consortium for the Italian chemical giant, SIR, which had been thought to be one of the early candidates for the commissioner procedure. This agreement was achieved despite the fact that several of the banks involved were reluctant to increase their exposure, and we must assume that the Banks decided that the alternative of being constrained by a commissioner was a greater evil than taking a voluntary decision to take over the management of the concern. There are in fact still difficulties with this consortium, not least the efforts of the previous SIR Chairman, Nino Rovelli, to maintain control of the operation, despite the wishes of the Banks, but it seems likely that the SIR consortium will in the end get off the ground and thereafter act as a pilot project. A second likely candidate for this treatment is the smaller private chemical group, Liquichimica: hopes of forming a banking consortium for this concern had almost faded, but there does seem to be a certain revival of interest following the promulgation of the new legislation on liquidation procedures.

Yours ever,

Tony

A C Galsworthy

cc:

S N Wood Esq, OFG 1, HM Treasury
 D Gore-Booth Esq, FRD, FCO
 A Smith Esq, Economists Dept, FCO
 A J Lane Esq, Asst Sec, Dept of Prices and Consumer Protection
 Miss P Kenwright, WED, FCO
 A M Porter Esq, Overseas Dept, Bank of England
 CRE 3, DOT
 Miss K M Dudley, Dept of Industry IIc
 Miss K Colvin, Atlantic Region, RD, FCO

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TO IMMEDIATE FCO

TELEGRAM NUMBER 92 OF 8 FEBRUARY

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19 FEB 1979

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INDEX

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MY TEL NO 80: ITALIAN POLITICAL SITUATION.

1. SIGNOR ANDREOTTI WAS DULY INVITED BY THE PRESIDENT OF THE REPUBLIC ON 3 FEBRUARY TO ATTEMPT TO FORM A NEW GOVERNMENT. AFTER A PAUSE FOR REFLECTION, DURING WHICH HE MADE CLEAR HIS BELIEF THAT THE CONDITIONS EXISTED FOR RECONSTITUTING A PARLIAMENTARY MAJORITY SIMILAR TO THE PREVIOUS ONE, ANDREOTTI HAS NOW STARTED HIS FIRST FORMAL ROUND OF CONSULTATIONS WITH THE OTHER PARTIES, BEGINNING WITH THE COMMUNISTS AND SOCIALISTS ON 7 FEBRUARY. ALTHOUGH NO SIGNIFICANT PROGRESS HAS SO FAR BEEN MADE, ALL PARTIES APPEAR AT THIS STAGE TO BE SET ON AVOIDING AN EARLY BREAKDOWN.
2. THE COMMUNISTS ARE CONTINUING TO INSIST ON THEIR INCLUSION IN GOVERNMENT, BUT ARE DOING SO IN TERMS WHICH SUGGEST THAT THERE IS AT LEAST SOME ROOM FOR MANOEUVRE IN THEIR POSITION (EG BERLINGUER SAID IN A WEEKEND SPEECH IN SARDINIA THAT THE ONLY WAY OF GUARANTEEING A RECONSTITUTED MAJORITY WOULD BE BY "EFFECTIVELY OVERCOMING" THE EXCLUSION OF THE PCI FROM GOVERNMENT). MOST COMMENTATORS BELIEVE AT THIS STAGE THAT THE COMMUNISTS WILL IN THE END ACCEPT ANOTHER CHRISTIAN DEMOCRAT-BASED GOVERNMENT, WHICH MIGHT BRING IN MORE MINISTERS ACCEPTABLE TO THE OTHER PARTIES, RATHER THAN CARRY THEIR INSISTENCE ON INCLUSION IN THE GOVERNMENT TO THE POINT OF PROVOKING EARLY ELECTIONS.
3. THE SOCIALISTS FOR THEIR PART, NO DOUBT SPURRED ON BY THEIR FEAR OF EARLY ELECTIONS, ARE PLAYING A GENERALLY CONSTRUCTIVE ROLE. THEIR PARTY SECRETARY CRAXI MADE CLEAR, AFTER HIS CONSULTATIONS WITH ANDREOTTI ON 7 FEBRUARY, THAT HE BELIEVED A WAY COULD BE FOUND TO CREATE A NEW PARLIAMENTARY MAJORITY, BUT THAT IT WAS UP TO THE CHRISTIAN DEMOCRATS AND THE COMMUNISTS TO CLARIFY THEIR RELATIONSHIP FIRST.

CONFIDENTIAL

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4. MEANWHILE THE NORMALLY FISSILE CHRISTIAN DEMOCRAT PARTY SEEMS TO BE STANDING REASONABLY FIRMLY BEHIND ANDREOTTI, AND HAS GIVEN HIM A FULL MANDATE TO NEGOTIATE, PROVIDED THERE IS NO BREACHING OF THE PRINCIPLE OF EXCLUSION OF COMMUNISTS FROM GOVERNMENT. SIGNOR FORLANI IS REPORTED IN THE ITALIAN PRESS AS HAVING STRESSED IN HIS INTERVENTION AT THE FOREIGN AFFAIRS COUNCIL (FCO TELNO 203 TO UKREP BRUSSELS, NOT TO ALL) THAT THE CHRISTIAN DEMOCRATS WOULD NOT ALLOW COMMUNISTS INTO THE GOVERNMENT. ANOTHER OF HIS REPORTED STATEMENTS HOWEVER, TO THE EFFECT THAT THE MARGINS OF MANOEUVRE WERE LIMITED AND THE RISK OF EARLY ELECTIONS WAS GREATER THAN WAS GENERALLY THOUGHT, MAY NOT HAVE BEEN WELCOME TO ANDREOTTI AND SHOULD BE VIEWED IN THE CONTEXT OF THE FACT THAT IF ANDREOTTI FAILS, FORLANI IS SOMETIMES SPOKEN OF HERE AS A POSSIBLE ALTERNATIVE CANDIDATE TO FORM A GOVERNMENT.

5. IT IS STILL GENERALLY AGREED THAT A SOLUTION OF THE CRISIS WILL TAKE A LONG TIME.

CAMPBELL

FCO/WH DISTX.

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ITACy

cutting dated 10 FEB 1979 19

Italian Communists risk losing workers' support

By FRANK TAYLOR in Rome

THE Italian Communist party's bid for a share of governmental power appeared last night to be in danger of losing the vital support of organised labour.

The country's National Trade Union Federation was reported to be in favour of a compromise solution to the current political deadlock, one which would continue to exclude Communists from the Cabinet.

Leaders of the federation which encompasses the three biggest Communist, Socialist and Social Democratic unions, were said to be ready to back the compromise first put forward by the Socialist party and later taken up by the Christian Democrat caretaker Prime Minister, Signor Andreotti.

It envisages a new Cabinet in which the Christian Democrats would share power with an unspecified number of Ministers agreed upon by all parties, including the Communists.

One of the Communist union leaders, Signor Arcostino Marinetti, said he regarded the Socialist proposal as "the only one which would realise the two objectives for which the trade unions stand—to avert an early general election and to maintain national unity."

The non-Christian Democrat ministers in the proposed Cabinet scheme could be drawn from a number of parties in the Centre and on the Left, but at the insistence of the Christian Democrats, they could not be from the Communist party. The Communists were said to be still pondering the suggestion last night.

Communist withdrawal

The present crisis began over a fortnight ago when the Communists, Italy's second biggest party withdrew their parliamentary support from the ruling Christian Democrats. They alleged that the ruling party had not carried out promises to consult them on major issues. The Communists said they would hold out for Cabinet posts or go into outright opposition.

But the attitude of the trade union movement could be a key element in forcing them into a compromise. While they are clearly reluctant to break Left-wing unity at a time of political uncertainty, the unions apparently feel that a solution must be found quickly if economic objectives are not to be prejudiced.

The Christian Democrats' new three-year economic plan, much of which has the backing of the unions, is in abeyance because of the political vacuum.

Pr Italy internal

By
15/11

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~~Refer~~
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13 FEB 1979

cutting dated 19

ones dim for Political compromise in Italy

By Rupert Cornwell in Rome

SIG. GIULIO ANDREOTTI, the Italian Prime Minister designate, is tomorrow expected to begin a second round of consultations to try to rebuild a government majority, amid mounting pessimism over his chances of success, and thus of avoiding early general elections.

Preliminary soundings last week failed to produce any new grounds for a possible compromise between the two major parties, the Christian Democrats and the Communists. Over the weekend, both camps appeared to harden their positions further.

A fortnight after the Communists pulled out of the five-party parliamentary majority supporting Sig. Andreotti, the Communist chief whip, Sig. Alessandro Natta, daily restated his party's demand for direct ministerial portfolios in a new government.

In doing so, he virtually ruled out the one compromise that has been floated—that of an administration made up of Christian Democrats and so-called "technocrat" ministers picked by the other four parties in the majority.

Such a formula has been implicitly rejected by Christian Democrat leaders—and not only by the hard-line wing of the party keen to force an electoral showdown with the Communists—who argue that it would be little more than thin camouflage for direct participation by the Communists.

The possibilities seem to boil down to no more than an offer to renegotiate the future government's programme, including the recently published three-year economic recovery plan, and minor structural changes in the administration acceptable to his own party.

With an end to the crisis apparently further off than ever, attention is focusing on the Socialists. Caught in the cross-fire between the two major parties, they have been the most ardent backers of a mixed Christian Democrat-technocrat government.

If the Communists cannot be lured out of opposition, the chances of forming a new Christian Democrat-led government depend on the support, or at the very least the abstention, of the Socialists, the third largest party with 37 of the 630 parliamentary seats.

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FM F C O 021311Z FEB 79

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 250 OF 2 FEBRUARY

AND SAVING TO ROME (PERSONAL FOR AMBASSADOR).

WRT 014/2	
3.13	
19 FEB 1979	

FOLLOWING FROM HIBBERT. *NIR*.

YOUR TELEGRAM NO 382: VEST'S INTEREST IN A UK ASSESSMENT ON ITALY.

1. THE DEPARTMENT FULLY ENDORSES THE ASSESSMENT IN ROME TELEGRAM NO 80 WHICH WAS REPEATED TO YOU. YOU COULD DRAW ON THIS IN RESPONSE TO VEST'S REQUEST. IT WILL BE POSSIBLE TO HAVE A SHORT DISCUSSION OF THE SITUATION IN ITALY IF VEST WISHES ON 26 FEBRUARY.

OVEN

FILES

WED

PLANNING

PS/PUS

SIR A DUFF

SIR R. HIBBERT

MR FERGUSSON

CONFIDENTIAL

FINANCIAL TIMES

cutting dated 2 - FEB 1979 19

Pertini seeks new formula

BY RUPERT CORNWELL IN ROME

CONSULTATIONS BETWEEN President Sandro Pertini and senior politicians set in motion yesterday what will certainly be an extremely arduous round of negotiations to try to rebuild a governing formula for Italy.

Sig. Pertini made it clear that he would like the interregnum between governments to be as short as possible, and yesterday's soundings at the Quirinale Palace took place at a much brisker pace than in previous political crises.

However the President's constitutional power is limited, and so far at least there is no strong sign of the compromise that will have to emerge if elections before the theoretical expiry of

the current Parliament in 1981

are to be avoided. The prevailing belief is that Sig. Giulio Andreotti, the outgoing Premier who formally resigned on Wednesday evening, will be asked by Sig. Pertini to succeed himself, and try to form what would be his own fifth, and Italy's 41st administration since 1943.

However, as the parties themselves went into caucus to work out their strategies for the difficult bargaining ahead, there was no sign of any break in the deadlock between Italy's two largest parties. The Christian Democrats are still adamant in their refusal to give into the Communist demand of direct ministerial portfolios.

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Confidential

Reference: 1035 014/2

104

Mr Bonifazi:

Mr. Vereker:

To see. Please dig out the
Papers overleaf. ^{Part II}

ROME TEL NO 80: ITALIAN POLITICAL SITUATION

1. The TUR is a sound analysis of recent events which tends to bear out earlier reporting & analysis by resident correspondents (Telegraph, Guardian, FT, Economist).
2. Where do we go from here, given the starting positions of the PCI (seats in a new government) and the DC (unwillingness to countenance this before a new election)? There is a widespread feeling that the PCI will not want elections before the 23-5 Party Congress; that the PSI will want to postpone them at least until the June European elections, when they hope to do well; & that though the DC might be tempted to force the issue by the prospect of ~~doing so~~ electoral gains, they will not do so.
3. It is anybody's guess how this stalemate might be ended. Rather than speculate, let us wait & see how Pres. Pertini gets on over the weekend. If the eventual outcome is a long period of ~~stalemate~~ caretaker governance, then the most worrying

result
~~consequence~~ wd. be the consequent
inability of that government to begin
to tackle the economic problems
confronted by the "Andorfi Plan"

Peter Hambro

2/11

Mr. Hambro PM 2 11

Thank you. I agree. The key point here is that in the first lecture of the TOR, it was stated that after we had charged we should have expert consultations with our other NATO Allies. You may like to glance at the pp. prepared in the FCO when it last looked at it. The PCI might actually participate in government.

P.

2/2.

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FM ROME 011400Z FEB 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 80 OF 1 FEBRUARY

INFO IMMEDIATE WASHINGTON AND PRIORITY UKREP BRUSSELS, UKDEL NATO
AND OTHER EEC POSTS.

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SAVING FOR INFO MOSCOW

(3)
MY TELNO 70: ITALIAN POLITICAL SITUATION

1. AS EXPECTED, FOLLOWING THE COMMUNISTS' ANNOUNCEMENT ON 26 JANUARY OF THEIR WITHDRAWAL FROM THE 5-PARTY PARLIAMENTARY MAJORITY, SIGNOR ANDREOTTI YESTERDAY (31 JANUARY) HANDED HIS RESIGNATION TO THE PRESIDENT OF THE REPUBLIC, THUS FORMALLY OPENING A PERIOD OF POLITICAL "CRISIS". IT IS THOUGHT LIKELY THAT WITHIN ABOUT THREE DAYS HE WILL BE INVITED BY THE PRESIDENT TO ATTEMPT TO FORM A NEW GOVERNMENT. BUT IT IS BY NO MEANS CLEAR WHETHER HE WILL SUCCEED IN THIS, OF WHAT THE FINAL OUTCOME WILL BE, AND THE PROCESS IS LIKELY TO TAKE SOME TIME. YOU MAY LIKE SOME BRIEF REFLECTIONS ON THE PROSPECTS
2. THE KEY FACTOR WILL BE THE ATTITUDE OF THE COMMUNISTS. ANDREOTTI HAD HOPED THAT THE GOVERNMENT WHICH HE FORMED LAST MARCH, SUPPORTED BY A MAJORITY INCLUDING THE COMMUNISTS, WOULD SURVIVE AT LEAST UNTIL AFTER THE EUROPEAN ELECTIONS IN JUNE. HE RECOGNIZED THAT THEREAFTER THE PARTIES MIGHT DRAW CONCLUSIONS FROM THE EUROPEAN ELECTIONS WHICH COULD LEAD TO CHANGES ON THE NATIONAL SCENE. BUT WHAT IN FACT SEEMS TO HAVE HAPPENED IS THAT THE COMMUNISTS BEGAN TO FIND THEIR POSITION SO UNCOMFORTABLE, TRAPPED IN ASSOCIATION WITH GOVERNMENT POLICY BUT WITHOUT ANY REAL INCREASE IN POWER, THAT THEY HAVE BEEN OBLIGED TO PROVOKE A CHANGE IN ADVANCE OF THEIR PARTY CONGRESS IN MARCH, WHEN BERLINGUER AND OTHER MODERATES IN THE LEADERSHIP WOULD OTHERWISE HAVE COME UNDER HEAVY ATTACK.
3. IN ANNOUNCING THEIR WITHDRAWAL FROM THE MAJORITY THE COMMUNISTS HAVE PUT UP A BARRAGE OF CRITICISMS (SOME MORE JUSTIFIED THAN OTHERS) OF CHRISTIAN DEMOCRAT FAILURES,

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BUT HAVE OFFERED NO REAL ALTERNATIVE OF THEIR OWN - APART FROM THE OLD IDEA OF AN EMERGENCY GOVERNMENT OF ALL THE PARTIES. IT IS NOTEWORTHY THAT THEY HAVE AVOIDED COMMITTING THEMSELVES TO OPPOSITION TO THE PANDOLFI PLAN, RECENTLY PUBLISHED, WHICH LAYS DOWN GUIDELINES FOR THE MANAGEMENT OF THE ECONOMY OVER THE NEXT THREE YEARS. GIVEN THAT THEIR POSITION, ON THE EVIDENCE OF THE POLLS, IS RELATIVELY WEAKER VIS-A-VIS THE CHRISTIAN DEMOCRATS THAN IT WAS A YEAR AGO, THEY CANNOT SERIOUSLY EXPECT TO ACHIEVE WHAT THEY FAILED TO ACHIEVE IN THE LAST CRISIS. I THINK THE IDEA OF COMMUNIST PARTICIPATION IN GOVERNMENT, AT ANY RATE IN ADVANCE OF A GENERAL ELECTION, CAN BE RULED OUT. IT IS POSSIBLE HOWEVER THAT THE COMMUNISTS MAY BE PREPARED TO PUSH MATTERS TO THE EXTENT OF PROVOKING ELECTIONS (IN WHICH, ALTHOUGH THEY WOULD PROBABLY FARE WORSE THAN IN JUNE 1976, THEY MIGHT EXPECT TO PICK UP SOME VOTES ON THE LEFT THROUGH HAVING GONE INTO OPPOSITION). ON THE WHOLE I THINK IT UNLIKELY THAT THEY WILL GO FOR ELECTIONS AT THIS STAGE. WHAT SEEMS MORE PROBABLE IS THAT THEY WILL SEEK TO PROLONG THE CRISIS IN ORDER TO DELAY TAKING ANY DECISIONS UNTIL AFTER THEIR PARTY CONGRESS (20/25 MARCH).

4. ONE NEW FACTOR IN THE SITUATION IS THE ATTITUDE OF THE SOCIALISTS. THEIR RECENT LOCAL ELECTION RESULTS HAVE NOT CONFIRMED THE UPWARD TREND THAT WAS APPARENT IN THE MIDDLE OF LAST YEAR. CONVERSELY THEY EXPECT TO DO WELL IN THE EUROPEAN ELECTIONS IN JUNE, AND ARE CONCENTRATING ALL THEIR EFFORTS ON THIS OBJECTIVE. ANDREOTTI'S DIPLOMATIC ADVISER LA ROCCA, PUT IT TO ME THE OTHER DAY THAT IN THESE CIRCUMSTANCES THE SOCIALIST PARTY SECRETARY, CRAXI, MIGHT BE WILLING TO MOVE SOME WAY AWAY FROM THE COMMUNISTS IN PARLIAMENT IN ORDER TO AVOID HAVING A NATIONAL ELECTION BEFORE THE EUROPEAN ONE. IF SO, THIS COULD POINT THE WAY TO THE RECONSTITUTION OF AN ANDREOTTI GOVERNMENT WITH SOCIALIST ABSTENTION AND COMMUNIST OPPOSITION, OR POSSIBLY EVEN WITH SOCIALIST SUPPORT AND COMMUNIST ABSTENTION.

/s. 1

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5. I CONCLUDE THAT WE MAY WELL FACE A LONG PERIOD IN WHICH ANDREOTTI WILL CONTINUE IN CHARGE OF A CARETAKER GOVERNMENT, TAKING NO INITIATIVES BUT ADMINISTERING DOMESTIC AND EXTERNAL POLICY ON ESTABLISHED LINES. THERE IS NO REASON TO SUPPOSE THAT THE CRISIS WILL BE RESOLVED ON A BASIS WHICH WOULD CAUSE DISQUIET TO ITALY'S ALLIES AND PARTNERS.

FCO PLEASE PASS SAVING ADDRESSEE.

CAMPBELL.

[REPEATED AS REQUESTED]

FCO WHITEHALL
WED

CONFIDENTIAL

cutting dated 31 JAN 1979 19

Italy's Communists demand places in Cabinet

By FRANK TAYLOR in Rome

THE Italian Communist party intensified its fight for power yesterday with an outright demand for Cabinet representation.

If this was not forthcoming the party would go into "hard" opposition.

The demand and the warning came from Signor Gian Carlo Pajetta, one of the party's leaders.

He called on Sgr Andreotti, the Prime Minister, to recognise that the time had come for a change in the Italian political structure.

Sgr Andreotti, whose Christian Democrat minority government has foundered, following the Communists' decision to withdraw Parliamentary support, is due to hand in his resignation today.

Like the other Communist leaders, Sgr Pajetta is well aware that with his party in opposition no government could hope to last long and early elections would ensue. He called on Sgr Andreotti to "give a sign" that Communist demands for a more representative government team were being heeded.

"A sign would be useful," he declared. "And the sign should be the presence of Communists in government. This would show that there is a will to change."

After Sgr Andreotti submits his resignation to President Pertini there is likely to be

a pause of two or three days: then Sgr Pertini will no doubt ask Sgr Andreotti to try to form a new government.

The party leadership was reported yesterday to be agreed that Sgr Andreotti is their obvious choice to lead another government.

Many political observers were struck by the cool fashion in which he faced the Chamber of Deputies on Monday. He gave less the impression of a Prime Minister on his way out than one confident of the future.

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31 JAN 1979

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Italy's Parliament opened a debate last night on a political crisis which is expected to force the Prime Minister, Mr Giulio Andreotti, to resign today.

Calling for a new Government based on "full collaboration and operational ties" between the ruling Christian Democrats and the Communists, a Communist Party Deputy, Mr. Alessandro Natta, stressed his party did not want to return to the opposition but wanted to become part of a ruling coalition with increased power. "We are not running away... rather we are appealing for politics of unity and solidarity based on full collaboration and operational ties with the Christian Democrats and other parties," he said.

But Italy's third largest party, the Socialists, argued again yesterday for a Communist role, indicating that negotiations to form a new Administration may reach total deadlock.

The Prime Minister is expected to submit his resignation to President Sandro Pertini today and the President, anxious to avoid elections, will probably hand Mr Andreotti the mandate to continue in a caretaker Government.

PA
Bm
31/1

B3 JAN 1979
MORNING
STAR.

THE crisis that has shaken the Italian government has once again emphasised that Italy cannot be governed without the Communists.

There are 228 Communist MPs in the Chamber, representing 34 per cent of the voters, and for the last ten months the minority Christian Democrat government has ruled with the parliamentary support of the Communists, Socialists, Social Democrats, Radicals and Republicans.

The Communists, however, only gave their support on condition that they were consulted on major issues. They were not consulted when Italy joined the European monetary system, and this, the last instance in a series of failures to keep the promise of consultations, was the last straw.

The government has been under pressure from the United States to adopt EMS and other financial measures, so the Communist withdrawal of support is aimed against American interference as well as broken pledges.

The Communists have over the last few months constantly warned that the government's failure to keep its promises of meaningful consultation could lead to a major campaign outside Parliament by the working-class movement to force the Christian Democrats to honour their pledge.

STRONGER ACTION

Such a campaign could bring about a big change in the political situation and set Italy on an entirely new course. In particular the Communist Party has been demanding stronger action on unemployment and agrarian reform.

One of the possibilities is that the Communist Party will be asked to take part in a coalition government.

Asked at a recent press conference whether the Communist Party would not find it difficult to accommodate itself to the gradualism of a reformist government in any coalition, party general secretary Enrico Berlinguer reminded the journalists that the party was not yet in the government. He made it clear that the programme of such a government would have to be agreed in consultation with the other parties involved in the coalition.

"If we use the formula 'party of government' (in describing the Communist Party) it is to signify that the Communist Party feels that it has the res-

Italy needs new course

ERIC SCOTT looks at the Italian Communists' campaign which may lead to their forming a coalition government.



Italy's future generation — and the symbol which will mean so much to it.

possibility and function of putting forward positive proposals for all the country's concrete problems and not to limit itself to denunciation but to advance just and realisable solutions," he said.

"We must link our political action in Parliament with adequate action in the country to bring pressure to see what agreements reached are respected."

The current crisis gives added interest and importance to the theses which have been published by the Communist Party for its congress in March.

The perspective offered in the theses is that of an extension of democracy in the workplaces and in the localities until the people have become strong enough to make a decisive change in Italy.

The draft resolution for congress says: "The participation of the workers in making decisions regarding the productive process (in the factories and elsewhere) is essential for a programme of democratic advance." It goes on to demand further extension of the rights won by

the unions on information about investments and employment.

In a call for the defence of democracy, the resolution says: "The fight against terrorism in all its aspects, is in the fundamental interest of the workers' movement and involves militant Communists as a priority and must be conducted constantly with political initiative and the firmest and most intransigent campaign in the battle of ideas."

The resolution goes on to say that history has shown that every advance of the workers' and democratic movement and workers' resistance are violent reactions, and even attempts to overthrow the democratic regime, terrorist actions and campaigns of various types, and attempts at open or creeping coup.

"But the conditions today are such that violence and attempts to attack the democratic regime could be defeated and frustrated by the support of the overwhelming majority of the population for the democratic institutions, by reform of the economic structure, and by the mass struggles of the workers."

The resolution says that Socialists and Communists should work for a Socialist transformation in their various countries corresponding to the traditions and peculiarities of individual countries and parts of the world.

Paying tribute to the building of a new society as the result of the October Revolution in Russia, the resolution says: "At the same time their great historic experiment has revealed limits, contradictions and errors which adversely affect the economic life of all Socialist countries, especially as regards democracy."

ERRORS

"These limits, contradictions and errors also adversely affect the relations between the different Socialist countries and limit the attractiveness of Socialist ideas in the whole world."

In any case it was evident that the roads followed in these countries were not applicable to Socialist transformation in countries like Italy and those of West Europe.

The resolution also says: "The social democratic parties, and particularly those that are or have been the governments of various European countries, although they have brought about improvements in the social and economic conditions of the working class, have not brought society out of the logic of capitalism."

Social democracy did not show itself capable, faced with the actual crisis, of finding a solution to the great problems of unemployment, justice, emancipation and democratic participation by the great masses of men, women, and young people.

The resolution spoke of transition to Socialism with the characteristics of a Socialist society having deep roots in the history of Western Europe and in the struggles for political, cultural and religious liberty, especially in the great battles for democracy, liberty and social progress which had been fought and conquered by the workers' movement.

The theses say: "The peculiarity of the Italian situation is that it is 'without doubt more advanced, from the point of view of democracy and the social and material gains of the workers, than that of the other capitalist countries.'"

Pa
Pm
31/1

30 JAN 1979

cutting dated 19

Italian parties harden positions

BY PAUL BETTS IN ROME

ITALY'S TWO largest parties, the Christian Democrats and the Communists, appear to be hardening their positions. This leaves little room for an eventual compromise to avoid an early general election following the collapse of the minority Christian Democrat Government of Sig. Giulio Andreotti.

Although the Prime Minister, after tendering his formal resignation to President Sandro Pertini, is expected to be asked later this week to attempt to form a new Government, the general view here is that the Communists are likely to insist on the appointment of Communist ministers in any new administration.

This has already been flatly rejected by the ruling Christian Democrats, who have described the demands of the Communists as "unrealistic."

In the face of the renewed outburst of political violence and continuing economic difficulties, most of the country's main parties claim to be against an early electoral confrontation. But it is unlikely that a lasting political compromise can be reached as long as the two leading parties maintain their current intransigent stand.

The Communists are now coming under increasing pressure from the Left of the party. With the prospect of a key national congress in March, Communist leaders are now clearly attempting to recover some of the electoral ground lost to the Christian Democrats during the two and a-half years of collaboration with the ruling party.

In these two and a-half years, the Communist Party has seen its electoral support drop in a series of regional polls and its

position increasingly undermined by extreme Left-wing factions and militant non-aligned union movements. These groups have accused the Communist Party of becoming increasingly conservative by collaborating with the Christian Democrats.

For their part, the Christian Democrats have indicated that only after an election could the party re-examine the controversial issue of direct Communist participation in Government. In any case, the ruling party is generally confident it would gain votes in an election at the expense of the Communists.

Against this background, both leading parties would clearly lose face towards their respective electorate should they accept a compromise which would inevitably involve concessions from both sides on the crucial question of Communist entry into Government.

NNNN

UKP601 EPA604

1323 :URGENT * * * :LEAD GOVERNMENT * * * :

ROME, JAN 31, REUTER -- ITALIAN PRIME MINISTER GIULIO ANDREOTTI TOLD PARLIAMENT TODAY THAT HE WILL SUBMIT THE RESIGNATION OF HIS CHRISTIAN DEMOCRATIC MINORITY GOVERNMENT TO PRESIDENT SANDRO PERTINI TONIGHT.

MORE AYB/PMS/AEN.

Copy to M. Gooda

Mr. Kern
Mr. Hasbanc 10

Pa. 21/1

NNNN

UKP603 EPA605

1327 :LEAD GOVERNMENT 2 * * ROME:

SUNNING UP A THREE-DAY DEBATE IN THE CHAMBER OF DEPUTIES DISCUSSING THE WITHDRAWAL OF A FIVE-PARTY PARLIAMENTARY PACT WHICH PROPPED UP HIS 10-MONTH-OLD GOVERNMENT, MR ANDREOTTI SAID THE DEBATE MADE CLEAR THAT HE NO LONGER HAD A MAJORITY TO RULE.

MR ANDREOTTI, WHO HAS HEADED FOUR GOVERNMENTS IN SEVEN YEARS, SAID THE POLITICAL DIVISIONS EMERGING FROM DEBATE REQUIRED A COMPLETELY NEW INITIATIVE.
(PICKUP AS REQUIRED)

REUTER AYB/PMS/AEN.

NNNN

UKP613 EPR273

1346 : LEAD GOVERNMENT 3 ROME (EPA605):

THE PRIME MINISTER SAID HE WOULD INFORM HIS CABINET ABOUT THE COLLAPSE OF THE PARLIAMENTARY PACT AT 1700 GMT, THEN HAND IN HIS RESIGNATION TO PRESIDENT PERTINI.

THE COMMUNISTS, DISSATISFIED WITH WHAT THEY CALLED A MISMANAGED AND INEFFICIENT GOVERNMENT, ARE CALLING FOR CABINET SEATS IN A GOVERNMENT OF NATIONAL UNITY, A DEMAND WHICH ALSO TOPPLED MR ANDREOTTI'S PREVIOUS MINORITY GOVERNMENT.

THEIR BID FOR MORE GOVERNMENT RESPONSIBILITY IS BEING SUPPORTED BY THE SOCIALISTS, ITALY'S THIRD LARGEST PARTY.

BUT THE CHRISTIAN DEMOCRATS, WHICH LED ALL ITALIAN POST-WAR GOVERNMENTS, ARE FIRMLY REJECTING THE COMMUNIST AND SOCIALIST DEMANDS, THUS MAKING PREMATURE ELECTIONS ALMOST INEVITABLE. PRESIDENT PERTINI IS EXPECTED TO ASK MR ANDREOTTI TO STAY IN OFFICE IN A CARETAKER CAPACITY.

THE 82-YEAR-OLD HEAD OF STATE WILL OPEN A SERIES OF TALKS WITH THE COUNTRY'S LEADING POLITICIANS TOMORROW.

BUT HE IS ALMOST CERTAIN TO ASK MR ANDREOTTI TO TRY AND FORM A NEW GOVERNMENT WHEN HE COMPLETES HIS ROUND OF TALKS ON SATURDAY.

(PICK UP AS REQUIRED)

REUTER AVB WB

MOST URGENT.

Miss P. Kenwick

VED.
W65
D.S.W.

Copy to M. Ferguson

M. Goodal

Min Kevin

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ADREOTTI'S RESIGNATION ALMOST INEVITABLE

ROME FRIDAY - ITALY'S COMMUNIST PARTY TODAY MADE PRIME MINISTER
STUCCO ANDREOTTI'S RESIGNATION ALMOST INEVITABLE BY WITHDRAWING
ITS SUPPORT FROM THE MINORITY CHRISTIAN DEMOCRATIC GOVERNMENT.
COMMUNIST PARTY LEADER ENRICO BERLINGUER ANNOUNCED THE WITHDRAWAL
AFTER A FIVE-PARTY SUMMIT TO DECIDE THE FATE OF MR ANDREOTTI'S
TEN-MONTH-OLD ADMINISTRATION.

THE COMMUNISTS, ITALY'S SECOND LARGEST PARTY WERE A KEY
ELEMENT IN THE LOOSE FIVE-PARTY PACT WHICH KEPT MR ANDREOTTI'S
MINORITY GOVERNMENT IN POWER.

THE COMMUNISTS HAVE ACCUSED THE RULING PARTY OF BETRAYING
THE PACT UNDER WHICH THE GOVERNMENT PLEDGED TO CONSULT THE
PARTIES ON ALL MAJOR DECISIONS.

PRIME MINISTER ANDREOTTI, WHO HAS GOVERNED WITHOUT A MAJORITY
IN TWO MINORITY ADMINISTRATIONS SINCE STATEMATE ELECTIONS IN
JUNE 1976, WAS EXPECTED TO RESIGN EARLY NEXT WEEK.
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UKP556 EPB191

1313 :URGENT * *SECOND LEAD GOVERNMENT. .:

ROME, JAN 26, REUTER -- ITALY'S COMMUNIST PARTY TODAY MADE THE MINISTER GIULIO ANDREOTTI'S RESIGNATION ALMOST INEVITABLE BY WITHDRAWING ITS SUPPORT FROM THE MINORITY CHRISTIAN DEMOCRATIC GOVERNMENT.

COMMUNIST PARTY LEADER ENRICO BERLINGUER ANNOUNCED THE WITHDRAWAL AFTER A FIVE-PARTY SUMMIT TO DECIDE THE FATE OF MR ANDREOTTI'S 10-MONTH-OLD ADMINISTRATION.

+AFTER A CAREFUL EXAMINATION OF THE FACTS, WE REACHED THE CONCLUSION THAT OUR PRESENCE IN THE PARLIAMENTARY MAJORITY PACT WHICH SUPPORTS THIS GOVERNMENT HAS BECOME IMPOSSIBLE,+ MR BERLINGUER SAID.

MORE BH/AVB/REG/AEM.

NNNN

UKP557 XDA755

1315 :SECOND LEAD GOVERNMENT 2 ROME:

THE COMMUNISTS, ITALY'S SECOND LARGEST PARTY, WERE A KEY ELEMENT IN THE LOOSE FIVE-PARTY PACT WHICH KEPT MR ANDREOTTI'S MINORITY GOVERNMENT IN POWER.

MR BERLINGUER'S ANNOUNCEMENT FOLLOWED A MEETING BETWEEN THE LEADERS OF THE FIVE PARTIES -- THE RULING CHRISTIAN DEMOCRATS, THE COMMUNISTS, SOCIALISTS, SOCIAL DEMOCRATS AND REPUBLICANS.

THE COMMUNISTS HAVE ACCUSED THE RULING PARTY OF BETRAYING THE PACT UNDER WHICH THE GOVERNMENT PLEDGED TO CONSULT THE PARTIES ON ALL MAJOR DECISIONS.

PRIME MINISTER ANDREOTTI, WHO HAS GOVERNED WITHOUT A MAJORITY IN TWO MINORITY ADMINISTRATIONS SINCE STATEMATE ELECTIONS IN JUNE 1976, WAS EXPECTED TO RESIGN EARLY NEXT WEEK. (PICK UP AS REQUIRED)

REUTER BM

MOST URGENT.

Miss P. Kenwright

VED.

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DSW.

RESTRICTED

FM ROME 261150Z JAN 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 70 OF 26 JANUARY

INFO SAVING TO UKREP BRUSSELS, UKDEL NATO,
POSTS.

MY TELNO 56: ITALIAN POLITICAL SITUATION

TOP COPY

RECEIVED	
WASHINGTON, OTHER EEC	
29 JAN 1979	
DESK OFFICER	
INDEX	PA
Full.	

- ②
1. INTENSIVE CONSULTATIONS BETWEEN THE POLITICAL PARTIES DURING THE LAST FEW DAYS HAVE SO FAR PRODUCED NO FORMULA FOR PRESERVING THE PRESENT MAJORITY AGREEMENT. A MEETING OF THE LEADERS OF THE FIVE PARTIES MAKING UP THE MAJORITY IS TAKING PLACE TODAY (26 JANUARY). UNLESS THERE IS SIGNIFICANT PROGRESS AT THAT MEETING, MOST PEOPLE NOW THINK THAT SIGNOR ANDREOTTI WILL RESIGN IN THE COURSE OF NEXT WEEK AND WILL PROBABLY BE INVITED SOON AFTERWARDS TO TRY TO FORM A NEW GOVERNMENT. HE IS HOWEVER UNLIKELY TO RESIGN UNTIL THERE HAS BEEN DEBATE IN PARLIAMENT, SINCE PRESIDENT PERTINI IS KNOWN TO BE INSISTENT THAT CONSTITUTIONAL PROCEDURES BE OBSERVED.
 2. IT IS NOT YET CLEAR HOW FAR THE COMMUNISTS WILL PUSH MATTERS, BUT IN THE DIFFICULT POSITION IN WHICH THEY NOW FIND THEMSELVES (PARA 4 OF MY TUR), THEY SEEM TO HAVE DECIDED THAT A MOVE TOWARDS OPPOSITION, EVEN AT THE RISK OF PROVOKING EARLY ELECTIONS, IS A LESSER EVIL THAN CONTINUED ASSOCIATION WITH THE GOVERNMENT MAJORITY. MANY POSSIBLE ALTERNATIVE FORMULAE ARE BEING SPOKEN OF, INCLUDING THE IDEA OF A CHRISTIAN DEMOCRAT GOVERNMENT WITH SUPPORT FROM THE SMALL PARTIES, SOCIALIST ABSTENTION AND COMMUNIST OPPOSITION. SUCH A SOLUTION MIGHT POSSIBLY BE NEGOTIABLE WITHOUT A LENGTHY CRISIS OR RECOURSE TO ELECTIONS. BUT THIS IS ONLY ONE OF A NUMBER OF HYPOTHESES AT THIS STAGE.

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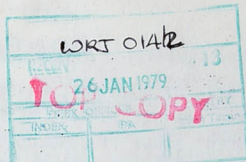
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TO IMMEDIATE FCO

TELEGRAM NUMBER 56 OF 22 JANUARY

INFO SAVING UKREP BRUSSELS, UKDEL NATO, WASHINGTON AND OTHER EEC POSTS.



ITALIAN POLITICAL SITUATION

1. THE PARLIAMENTARY MAJORITY ON WHICH SIGNOR ANDREOTTI'S MINORITY CHRISTIAN DEMOCRAT GOVERNMENT DEPENDS FOR SUPPORT HAS BEGUN TO LOOK INCREASINGLY FRAGILE OVER THE PAST FEW DAYS. ALTHOUGH A GOVERNMENT CRISIS DOES NOT YET APPEAR TO BE IMMINENT, THE AGGRESSIVE NOISES WHICH THE COMMUNIST PARTY HAS RECENTLY STARTED MAKING COULD POSSIBLY LEAD TO A BREAK-UP OF THE MAJORITY OVER THE ISSUE OF THE GOVERNMENT'S 3-YEAR ECONOMIC PLAN (MY TELNO 39) WHICH IS DUE TO BE DISCUSSED IN PARLIAMENT ON 29 JANUARY.

2. THE COMMUNIST OFFENSIVE BEGAN WITH APLEADER IN THE PARTY PAPER L'UNITA ON 14 JANUARY AND WAS FOLLOWED UP IN RATHER MORE SPECIFIC TERMS IN A STATEMENT BY THE PARTY EXECUTIVE ON 18 JANUARY. THE STATEMENT ACCUSES THE CHRISTIAN DEMOCRATS OF CHANGING POLITICAL DIRECTION AND BLOCKING THE IMPLEMENTATION OF THE MAJORITY AGREEMENT OF LAST MARCH. IT CRITICISES THE GOVERNMENT FOR ITS "HASTY AND UNCONDITIONAL" ENTRY INTO THE EMS, AND FOR ITS RECENT NOMINATION "WITHOUT DUE ACCOUNT OF PCI VIEWS" OF CANDIDATES FOR THE CHAIRMANSHIP OF MAJOR PUBLIC BODIES. THE STATEMENT ALSO EXPRESSES ALARM AT THE "SCANDALOUS" ESCAPE FROM CATANZARO LAST WEEK OF GIOVANNI VENTURA, ONE OF THE CHIEF SUSPECTS IN THE LONG-RUNNING TRIAL OF THOSE SAID TO HAVE BEEN INVOLVED IN A RIGHT-WING BOMB OUTRAGE IN MILAN IN 1969. (THE CHIEF OF POLICE WAS PROMPTLY SACKED AFTER THE ESCAPE: IT REMAINS TO BE SEEN WHETHER THE POLITICAL LEFT WILL ALSO DEMAND THE HEAD OF THE MINISTER OF THE INTERIOR, ROGNONI). THE COMMUNIST STATEMENT GOES ON TO CRITICISE THE 3-YEAR ECONOMIC PLAN FOR ITS EMPHASIS ON REDUCING THE COST OF LABOUR, WHICH IT SAYS SHOULD BE ONLY ONE ELEMENT IN A COMPLETE REFORM OF WAGES POLICY, AND FOR THE VAGUENESS OF ITS PROPOSALS FOR NEW INVESTMENT IN THE SOUTH.

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THE STATEMENT DOES NOT, HOWEVER, GO SO FAR AS TO SUGGEST THAT THE COMMUNISTS WILL NECESSARILY SEEK TO BRING THE GOVERNMENT DOWN: IT CONCLUDES BY SAYING THAT IT IS NOW UP TO THE CHRISTIAN DEMOCRATS TO DECIDE WHETHER TO ALLOW THE PRESENT MAJORITY AGREEMENT TO CONTINUE.

3. THE CHRISTIAN DEMOCRATS HAVE REPLIED WITH A STATEMENT ON 20 JANUARY EXPRESSING READINESS TO HOLD IMMEDIATE DISCUSSIONS WITH THE OTHER PARTIES OF THE MAJORITY ABOUT THE DIFFERENCES BETWEEN THEM, AND STRESSING THE IMPORTANCE OF THE 3-YEAR PLAN AS A TEST OF THE PARTIES' POLITICAL WILL TO MAINTAIN THE PRESENT AGREEMENT. THE CHRISTIAN DEMOCRATS ARE THUS MAKING CLEAR THAT IF THE COMMUNISTS WISH TO PROVOKE A CRISIS THEY WILL HAVE TO STAND UP AND BE COUNTED IN A VOTE AGAINST THE 3-YEAR PLAN. THE SOCIALISTS FOR THEIR PART ARE SAYING THAT SOME CHANGE OF GOVERNMENT FORMULA IS INEVITABLE. BUT THEIR PARTY SECRETARY, CRAXI, HAS MADE CLEAR THAT HE IS ANXIOUS TO AVOID A CRISIS "IN THE DARK" (IE WITHOUT PREVIOUS AGREEMENT ON WHAT IS TO FOLLOW) FEARING NO DOUBT THAT THIS WOULD LEAD TO EARLY ELECTIONS FOR WHICH THE SOCIALISTS ARE NOT YET READY. HE SEEMS DISPOSED TO PLAY A MEDIATORY ROLE BETWEEN THE CHRISTIAN DEMOCRATS AND THE COMMUNISTS. OF THE SMALLER PARTIES, THE SOCIAL DEMOCRATS HAVE FOR SOME TIME BEEN CALLING FOR A CHANGE PROBABLY BECAUSE THEY SEE THIS AS OFFERING THEM A CHANCE OF OFFICE.

4. THE COMMUNISTS ARE IN A DIFFICULT POSITION, AND ARE CLEARLY DIVIDED ON HOW TO PROCEED, PARTICULARLY IN VIEW OF THEIR PARTY CONGRESS IN MARCH. ACCORDING TO THE POLLS, THEIR POPULARITY IS SUFFERING FROM ALLIANCE WITH THE GOVERNMENT. THERE IS THEREFORE AN IMPULSE IN SOME WAY TO DISSOCIATE THEMSELVES FROM GOVERNMENT POLICY. BUT TOO MUCH DISSOCIATION COULD LEAD TO AN EARLY ELECTION, THE RESULTS OF WHICH THEY FEAR: NOR IN THE FINAL ANALYSIS DO THEY HAVE ALTERNATIVE ECONOMIC POLICIES TO PROPOSE. YET IF THEY ACCEPT THE 3-YEAR PLAN AS A BASIS OF POLICY IT WILL BE DIFFICULT TO AVOID STICKING WITH THE GOVERNMENT FOR SOME TIME TO COME. THIS EXPLAINS THEIR CRITICAL, BUT CONFUSED AND INCONCLUSIVE REACTION TO THE 3-YEAR PLAN.

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5. THE SITUATION FACING SIGNOR ANDREOTTI'S GOVERNMENT IS THUS DIFFICULT, THOUGH NOT YET CRITICAL. MUCH WILL DEPEND ON THE OUTCOME OF THE TALKS WHICH THE CHRISTIAN DEMOCRAT SECRETARY, ZACCAGNINI, IS EXPECTED TO START WITH OTHER PARTY LEADERS LATER THIS WEEK. IT IS NOT CLEAR WHAT THE OUTCOME IS LIKELY TO BE: BUT THERE ARE OF COURSE MANY INTERMEDIATE SOLUTIONS SHORT OF A FULL-SCALE CRISIS, E.G. THE INTRODUCTION OF MORE TECHNICIAN MINISTERS ACCEPTABLE TO THE COMMUNISTS, WHICH MIGHT BE SUFFICIENT TO GET THE MAJORITY AGREEMENT BACK ON THE RAILS. BUT THE CHRISTIAN DEMOCRATS MAY BE RELUCTANT TO YIELD ANY GROUND SINCE THEIR POSITION APPEARS RELATIVELY STRONGER THAN THAT OF THE COMMUNISTS. MY GUESS IS THAT THE COMMUNISTS WILL DECIDE IN THE END NOT TO PROVOKE A CRISIS FOR THE TIME BEING.

6. FCO PLEASE PASS SAVING ADDRESSEES.

CAMPBELL.

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TRILATERAL CHIEFS OF STAFF TALKS

/ 1. Please refer to your letter of 19 December. I
enclose a brief on the Italian internal political
and economic scene.

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