

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

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E.O. 12958, Sec. 3.5

MEMORANDUM OF CONVERSATION

NSC Memo, 11/24/98, State Dept. Guidelines (Sulser)
By KBH, NARA, Date 6/29/99

PARTICIPANTS: President Ford
Giulio Andreotti, Prime Minister of Italy
Dr. Henry A. Kissinger, Secretary of State
Brent Scowcroft, Assistant to the President for
National Security Affairs
Mario Mondello, Director General, Ministry of
Foreign Affairs
Amb. John A. Volpe, U.S. Ambassador to Italy
Amb. Roberto Gaja, Italian Ambassador

DATE AND TIME: Monday, December 6, 1976
11:13 - 12:39 p.m.

PLACE: The Oval Office

President: First of all, Mr. Prime Minister, let me report the warm feeling that the American people have toward you and your people. We are very pleased to have you here. Please give my regards to President Leone.

Andreotti: Thank you very much, Mr. President. President Leone asked me to convey his warm greeting. We would very much welcome you in Italy. We honor not only the President, but Mrs. Ford also, and we would like very much to offer you our hospitality.

President: We would like to do some traveling.

Let me congratulate you on the job you have been doing since last summer. You have had some difficult problems to deal with and you have done an outstanding job.

Andreotti: Thank you very much for your kind words. At the time we are facing problems, but the Italian people are willing to do what is necessary. Since we don't have a parliamentary majority, we must work even harder to preserve democracy.

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It is the most difficult time, because now the other democratic parties would not cooperate. I even offered to give up premiership for a coalition. They wouldn't join, and the only other option was to hand the government to the Socialists and Communists. We are unwilling to do that, so we formed a minority government. We put together a program to deal both with foreign policy and the domestic economic problems. The government now has the votes of the Christian Democrats and the abstention of all others but two small parties on the left and on the right.

As I mentioned before, on foreign policy we reaffirmed our allegiance to NATO and the EC. On the other hand, the Communist Party for the first time said that both of these institutions constituted objective reality for Italy. It is the first time ever that they acknowledged this. I am aware this is only a tactical expedience, but it is good to be in a position to tell the Italian people we have been right over the years and the others wrong.

Our objective is to get credentials with the people and present the image that we can govern with skill and objectivity. I have been on television refurbishing the image of the party. One think we have worked hard on is combatting tax evasion and the misuse of government revenues. We have increased revenues 48% in one year, which is real progress. We have even submitted a special program to increase revenues by another 34%, for a total of 75% for two years -- which was unimaginable in our country. We also got legislation to jail people who are sending currency out of the country. We have saved \$1 billion through this. We have also eliminated seven holidays and made them work days, five religious and two secular. This represents a pattern of legislation which has gotten broad acceptance in Parliament.

President: I am aware of your attempts to strengthen your participation in NATO. Do the Communists support that in the Parliament, or how does that work?

Andreotti: What has happened is there are three pieces of legislation. The Navy part has passed, with the Communists abstaining. The other two (Army and Air Force) will also pass. The significant aspect is that we are able to get the votes for these special programs.

I don't want to give the impression all is rosy or that we have an easy life. Last September when our reserves were vanishing, I about resigned. But now we have this program in and we hope to get IMF

financing and a bit of help from our friends. It just may be that we can get the necessary spirit in the people and acquiescence of the Parliament. But if unemployment goes up and our balance of payments worsens, no IMF will be able to govern Italy. For every one percent increase in the price of oil, it costs us 70 million. We don't know how to cope with that.

I will also tell you about the EC meeting last week.

President: Let me tell you what we have done to convey our feelings on the oil price. I have written letters to the King of Saudi Arabia, to the Shah, and to the President of Venezuela. Secretary Kissinger has communicated with the other OPEC governments. I have called in selected OPEC Ambassadors. We have said it is not in the interest of OPEC to have an increase which would put the economic pause into a decline. It also would affect our ability to help the developing countries. If there is a downturn, we won't be able to buy the oil in the amounts they are talking about.

Have you communications with any OPEC nations? I know you have closer relations with Iraq than we.

Andreotti: Italy, both by diplomatic representations to OPEC and at the time of the Venezuelan visit, has expressed itself strongly on this. At the EC meeting we urged a joint action on this, but it wasn't possible. We pressed Libya (I can talk about their 10% purchase of Fiat) but I fear that Iran and others will press for an increase and I am worried. How do you see it?

President: I can't say there will not be one, despite our strong efforts, but I would hope it would not be an extreme one. It just isn't possible to forecast right now. What do you think?

Andreotti: Based on my conversations and reports, there is a fear of a 10% increase. Other leaders -- especial Giscard -- think this much is unacceptable for their countries. Others -- I am guessing -- like Britain may not be unhappy at this because of the North Sea. Also Holland which has gas. I was hoping the North South Conference could work out, with the developing countries, a formula.

President: The United States is spending \$30 billion a year for oil imports. A 10% increase would take it to 35 billion. Any such increase would adversely affect our coming out of the recession and moving to

prosperity. If so, that would affect our ability to help the developing countries. When is the North-South meeting?

Kissinger: It was planned for the 15th of December but it was postponed, both because the EC didn't have a position, we didn't want to tie Carter's hands, and we didn't want it to serve as an excuse for raising prices right after it.

Andreotti: What is delicate is their proposal for indexation. OPEC says industrial imports are up and they need indexation to balance it out. Maybe we should try some kind of formula of a different kind to deal with it.

Kissinger: But they haven't proposed country-by-country indexation. That would be clever, but they haven't asked.

President: What was your reaction to Perez's view?

Andreotti: Perez has a moderate position. For example, he went along with a delay for some months for a study of how to deal with the developing countries and other issues. This would give the United States time to send some kind of signal. But Perez can't come out against an increase. He thinks it is justified, though he will listen to reason.

Kissinger: He will listen but it does no good.

Andreotti: We have made efforts with other countries, like Libya, to promote Italian exports. It was not government, but private. Like Fiat, which sold 10% to Libya to help its exports. Then if the price of oil goes up, so would the price of our exports. But some countries, like Iran, have undertaken development programs exceeding their capability.

President: But somehow we have got to get the OPEC countries to recognize the seriousness of the situation both in economic and monetary terms.

Andreotti: There was unanimity against a price increase at the EC meeting. What we lacked was the ability to do anything about it. Some more than others -- like Great Britain -- who were not so vociferous. Do you have any advice?



President: We should all work on the OPEC countries. The increase would have an adverse impact on OPEC itself and on the developing world. We will continue our efforts. Henry, do you have any thoughts?

Kissinger: The best thing we can do is to maintain a common front. No one should go off alone trying to get a special deal. The other thing to do is conservation. Otherwise, unless we change the market conditions, we will face this every six months. Those who reject a common approach are being very unhelpful.

Andreotti: The talk at the EC was clear, but it just asserted a position and didn't come out for a delay. It decided each country would approach it bilaterally, which I am not sure is the best way to do it.

President: How are we coming with our joint energy committee? That offers hope for your country.

Andreotti: With regard to new sources, nuclear aspects are coming well. Many of the other sources are experimental only and will require years of work. We, of course, want to continue to work cooperatively.

President: Nuclear energy has to make a big contribution to our energy independence. On solar energy, though, it is two or three decades away from any serious contribution, our people think.

Andreotti: Some other issues we will take up with Secretary Kissinger and Secretary Simon. I would appeal for you to put in a good word with Secretary Simon.

President: We do hope the IMF negotiations work out. Would you give me an appraisal of how close you are?

Andreotti: All of the requirements of the IMF -- increased taxes, rates on services (electricity, railroad), have been done. The IMF has also asked us to reduce labor costs. We are consulting on that now and we will get some reductions. But we have to step carefully about reducing benefits for labor. The Fund doesn't necessarily understand that, though Witteveen has been a government minister.

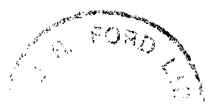
Volpe: The Prime Minister has put a scala mobile through in better shape than anyone imagined. He is too modest.

Andreotti: What we did was for wage earners over about \$5,000, we froze wages for 18 months. The Fund wants us to do more. We may be able to but it will have to be gradual.

As I mentioned before on F.P., we reaffirmed our
alliance to NATO & EC. On other hand, a
Cons party for 1st time since both these
institutions constituted objective reality for study.
First time ever they had acknowledged this.
I know now this only a technical judgement but
it good to be in position to tell St. people we
have been right over a years, otherwise.
Our
The objective is to get credentials w/c fresh &
image that ~~they~~ ^{we} can give w/ skill & objectivity.
I have on TV refurbishing image of a party.
One thing we have worked hard on is tax
evasion & increasing part revenues. We
have \uparrow them 40% in 1 yr, which is not
prog. We have now submitted spec prog to
the revenues by another 34%, for a total of
75% for 2 yrs - unimaginable in one country.
We also get legis to jail people sending money
out of country. We have saved 1 bil then
this. We have also eliminated 7 holidays
& made them work days. (5 wks. + 2 weeks)
This rep. a pattern of legis which has gotten
break except, in Paris.

P I am aware of your attempts to strengthen your
party, in Nato. Do C Courts support
that in a Parlia, a strong does that work?

A What has happened is that we 3 parties of
legis. The heavy part has passed, w/ Court



what entertainment

abstaining. The 5th & 2 (Army, AF) will also pass. The big aspect is that we are able to get a votes for the spec. prop. I don't want to give impression all is well or that we have an easy life. Most Spt members reserves are working I believe regarding. But now we have this prop in & hope to get IMF financing & a bit help from our friends. It just may be that we can get a uneasy spirit in - people & a gathering of Pacha, but if unemployment goes by & our P. Process, we IMF will be able to grow steady. For long, I can't see price of oil at cost was 20 mil. We don't know how to cope w/ that. I will talk to you about EC unity last week.

P Let me tell you what we have done to ease your feelings on oil. I have written to SA, Shah, Khomeini. I have even w/c other Opec parts. I have written in related Opec Amals. We know find it not in interest of Opec to have increase which would then cause prices into a decline. It also would affect our ability to help LDCs. If there is a downturn, we won't be able to buy oil use assets they talking about. Have you communicated w/ any Opec nations? I have



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Italy, both by ~~signing~~ w/ Open + at time
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A Based on my conversations + reports there is
fear of 10% +. Other leaders - esp Assad -
think this much is unacceptable for
their countries. Others - I am guessing -
like Keit may not be unhappy at this
because of N. Sea. Also Holland which
has good I saw hoping N-S compromise
could work out, w/ differing countries,
a formula.

P The US is spending 30 bil per cent 11. 10% +
would take it to 35 bil. Any such +
would obviously affect our economy
of recession + moving to prosperity. If 20,
that would affect our ability to buy LDC's.
When is N-S meeting?



K If planned for 1980 but it postponed, both because EC didn't have position, we didn't want to tie Carter hands, + we didn't want it to serve as excuse for raising prices right after it.

A What is delicate is their proposal for indexation. OPEC says industrial are up + they need indexation to balance it out. Maybe we should try some kind of formula of a dip. hard to deal w/ it.

K But they haven't proposed country by country indexation. That would be clever, but they haven't asked.

P What was your reaction to Pusey's view?

A Pusey has a moderate position - For example he went along w/ a delay for some months for a study of dealing w/ LDCs, etc. This would give US time to send some kind of signal. But Pusey can't come out against anything. He thinks it is justified, though he will listen to reasons.

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A We have made efforts w/ other countries, like Libya, to promote Situation X. It wasn't govt, but private. Like Fiat, which sold 10% to Libya to help X. Then if oil goes up, so ~~does~~ ^{used} price of X. But some countries like Iran, have endowment development purposes exceeding their capabilities.



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A There was unanimity against price \uparrow at a Ec level, what we lacked was a ability to do anything about it. Some more so than others - like GB, who was so very firmly. Do you have any advice.

P We should all work on Opec countries. An increase would have an adverse impact on Opec itself + on a h.o.c's. We will continue our efforts. How, any thoughts?

K The best thing we could do is to enter a common ^{front} ~~unanimity~~. No one should go off about trying to get a special deal. The other thing to do is ~~ensure~~ conservation. Otherwise, unless we change market conditions, we will face this every 6 mos. Those who reject a common approach are being very unhelpful.

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A. W/ regard to new sources, nuclear aspects are especially. Many of the other sources are experimental only & will require years of work. We of course are want to continue to work exp.

P. How, energy has to make a big contribution to our energy supply. Our solar, tho, it 2-3 decades away from any serious contribution, our people think.

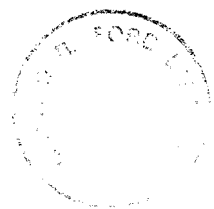
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