

eGram



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Caveat

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Subject NOSEC: ITALY - VALEDICTORY
Summary [REDACTED]

Envoi. Need to redress the balance of our activities. Less management, fewer consultants, more foreign policy advice. Impossibility of quantifying diplomatic activity even recognised in the Stalin era. My thanks to Elizabeth.

SIC

-----Original Message-----

From: [REDACTED]* Rome Conf
Sent: 13 September 2006 10:19
Subject: NOSEC: ITALY - VALEDICTORY

NO 10 FOR SHEINWALD AND DARROCH

DETAIL

Internal politics

1. [REDACTED] The country is divided more or less down the middle with elections three months ago having brought about a virtual dead heat in the Senate and a win in the lower Chamber for Prodi by only 24,000 votes. The fissiparous nature of Prodi's nine-party coalition is demonstrated virtually daily. It has already had to resort to seven votes of confidence since it took office less than three months ago.

[REDACTED]

Economy

4. There has been virtually no growth in the Italian economy for the last five years (although OECD indicators suggest 2006 could end with growth up to a five year high of 1.8%). Previously, when faced with a period of stagnation, the Italian response was to devalue the lira, thus providing a competitive edge to boost exports and restore growth. The euro has put a stop to all that and Italy's competitiveness has continued to decline. One recent survey put it as only fractionally better than Botswana's. Part of the same nexus of problems is the low level of foreign direct investment. As a percentage of GNP it is woefully low at 2.1%, whereas the UK's figure is 8.2%. The poor quality of the infrastructure and lack of competitiveness among public utilities, together with very low investment in R&D, are the principal reasons cited for Italy's lack of attractiveness to foreign investment. There are other unspoken obstacles too. Certainly the difficulties we have faced in ensuring that British companies who invest here do so on a level playing field have been so great that I have conducted a public campaign over the last year or two to heighten awareness and sensitivity to the difficulty of investing in Italy. Italians still prefer to own their own banks or car firms, even if they are in terminal decline. I regularly point out that although we have no major car manufacturer in the UK who is indigenous, we nevertheless produce more cars, and therefore more jobs, than Italy. They are astonished.

5. The lack of investment and the low levels of research and development (inevitable in an economy so dominated by SMEs (there are some 4 million in Italy) militate against growth. Paradoxically, there are now some tentative signs of recovery in growth in the last few months, in some

cases bizarrely attributed to the World Cup factor. This can only be ephemeral and the Prodi government must attack the main inhibitors of growth, including the above-mentioned, but also the stifling bureaucracy of Byzantine complexity, the still restrictive, antique labour laws, the black economy and tax evasion, and of course the public sector debt, now starting to grow again despite the benevolent effects of membership of the euro. Like other European countries, Italy also needs to address the question of pensions. [REDACTED] Prodi's government, with its fissiparous nature and bare majority in the Senate (which has absolute parity with the Camera from a legislative point of view) means that the chances of a comprehensive package of reforms being seen through is minimal, though there have been some modest measures to liberalise previously closed professions. Occasionally one hears calls for a two-year technocrat government to deal with the Juncker question: "We know what has to be done but we don't know how to get re-elected after we've done it". A technocrat government would have many attractions: there are several candidates for leading positions in it, such as Mario Monti, the former Commissioner, Mario Draghi, the current Governor of the Central Bank, and Luca di Montezemolo, the head of Ferrari and the CBI-equivalent, Confindustria. All are respected internationally and all want to modernise the country. [REDACTED]

Society

6. Italian society is changing from the traditional image of large families and relatively stable family units. Italy has one of the lowest birth rates in Europe now, partly a function of the decline in the Church's influence but also a more traditional reason, the Italian obsession with *bella figura*. [REDACTED] A typical married couple has just one child. If this continues, the effects on Italian demography will be dramatic (by 2050, 33.6% of Italians will be over 65): immigration can meet part of the shortfall but Italian politicians generally now accept the need to introduce far more family-friendly policies in the workplace and this despite the fact that female participation in the workforce is very low for an industrialised society (national figure of 45% going down to 30% in the South). Of course it is not all a gloomy picture in a gilded frame. Divorce levels in Italy are still far lower than in the UK, life expectancy is substantially higher, no doubt as a result of the diet, and it is still not unusual for three generations to live under the same roof. The laxities of the university system mean that many 30-year-olds are still studying for their first degree while living at home. Yet secondary education seems a relative success story. [REDACTED] The secondary education system delivers schoolchildren who have all studied Dante (public readings on successive nights canto by canto are increasingly popular) and when one of my Italian bodyguards recently quoted "I Promessi Sposi", the first Italian novel, he was neither surprised nor impressed by the fact that I recognised the quote.

Foreign Affairs

7. The Prodi government came into office under the flag of discontinuity. [REDACTED] The much-bruited withdrawal from Iraq is taking place more or less according to the timetable which the Berlusconi government would have followed; they have remained in Afghanistan and in a bold but

bipartisan-supported move, they are sending over 2,500 troops to Lebanon and leading UNIFIL from next spring. And all the while their largest overseas liability has remained the Balkans with a force numbering well over 3,000. Italy will be on the Security Council next year and will continue to argue its case for a permanent seat [REDACTED]

[REDACTED]

Atque Vale

9. I return full circle to the university I left in 1968, being, I'm told, the last person to retire under the 60 rule. If I'd been born a week later, I'd be under the wire. But after 38 years in harness, it's time to shuffle off in any case. I have no regrets nor complaints at the postings I've had. I'm particularly grateful to have had the opportunity of heading three Missions in Belgrade, Dublin and Rome even if it has brought me into some outlandishly disreputable company over the last 12 years. Negotiating with war criminals in the Balkans (indeed nearly everyone I dealt with is now either dead -several suicides- in prison or on the run), surrendering my immunity to give evidence in a Dublin court against the head of the Real IRA (fortunately he got 20 years) [REDACTED]. My heartfelt thanks to the many wonderful colleagues, both British and locally-based, who have supported me in those posts.

10. The Foreign Office I leave is perforce very different from the one I entered in 1968. And most changes have been for the better, particularly those long-overdue reforms on the status and parity of women. Over hierarchical, too deferential, rigid regulations where women had to offer their resignation on marriage, as did those of us who married non-Brits. But the culture of change has reached Cultural Revolution proportions with no opportunity for new working methods to put down roots. Three recent criticisms of the FCO are disturbing. Chris Patten mused that it was "sad to see experienced diplomats trained to draft brief and lucid telegrams ...terrorized into filling in questionnaires from management consultants by the yard ...and expected under Orwellian pressure to evince enthusiasm for this work." The former foreign policy adviser to John Major, Rodric Braithwaite, claims that No 10 has reduced the Foreign Office to a "demoralised cipher" while a recent Independent editorial asked "What is the Foreign Office for?". Tempting as it is to brush aside such comments as unconstructive, perhaps we need to ask whether they have a point? Can it be that in wading through the plethora of business plans, capability reviews, skills audits, zero-based reviews and other excrescences of the management age, we have indeed forgotten what diplomacy is all about? Why have we failed so signally to explain to the likes of the Cabinet Secretary that well-conducted diplomacy cannot properly be measured because diplomatic successes are more often than not elusive or ephemeral? The diplomat is condemned to a Sisyphean task in which, as (s)he attempts to grapple with one conflict, another breaks out. We manage or contain disputes; very rarely do we deliver a quantifiable solution. Indeed we should be sceptical of 'permanent' solutions or models: think democracy in the Middle East or war on terror. Diplomacy is the classic example of the Spanish proverb, "Traveller, there are no roads. Roads are made by walking". We need to keep flexible and innovative and be less worried about strategic priorities which may need to be displaced at short notice or added to with no commensurate additional resources. Priorities and

objectives have their place, clearly. But an excess of them smacks of a command economy with its long and inglorious pedigree. Ordered to come up with a business plan by Stalin in 1929, Commissar Maxim Litvinov refused. "The Commissariat for Foreign Affairs cannot, unfortunately, put forward a five-year plan of work. We have to deal with a number of factors that are scarcely subject to calculation, with a number of elements outside our control.... International affairs are composed of those of a large number of countries, built on different lines from our Union, pursuing other aims than ours, and using other means to achieve those aims than we allow." Rather prissy and fastidious coming from the pen of Comrade Litvinov but the point is valid. I suggest a variant of it be used on the Treasury.

11. And while we may now be better at managing ourselves overall, there are notable exceptions. PRISM has been a veritable *via dolorosa* and estate management has focussed too much on selling off the family silver for short-term profit. The long-term cost, as I saw in Dublin and Rome, where disposals of assets took place against my advice, is usually punitive. Nor should we forget that change management is a means not an end. Our prime purpose should remain objective, trenchant foreign policy advice. We used to be better at this. Overloading the successor to the Planning Staff with the responsibility for the process of change management seems to me a serious mistake. DSI should be writing incisive think pieces such as "Iraq. How did we get into this mess and how to extricate ourselves." Or "Why are we so hated in the Middle East and what we should do about it" Or "Balkan map-making. Time for a new Congress of Berlin?" It's been an excellent initiative to bring together senior Ambassadors from around the world twice a year but it would make better sense even if occasionally uncomfortable for the home team if we were allowed to debate foreign policy rather than corporate governance.

12. Too much of the change management agenda is written in Wall Street management-speak which is already tired and discredited by the time it is introduced. Synergies, vfm, best practice, benchmarking, silo-working, roll-out, stakeholder, empower, push-back and deliver the agenda, fit for purpose are all prime candidates for a game of bullshit bingo, a substitute for clarity and succinctness. A personal aversion is the Utopian mission statement (so 1980s) which should be dispensed with rather than affronting me every morning on my Firecrest screen and even appearing on my pay slip! I'm not suggesting a statement along the lines of Thucydides' Melian dialogue "The strong do what they can; the weak suffer what they must" - an obvious neo-con nostrum. But if we have to have one of these statements to get our CSR settlement, let's make it either more realistic and sharper about promoting our interests or put it in the fully-fledged, caring department of looking after our citizens in a dangerous world. "We'll BE there for you". Of far greater use would be the old-style individual despatch to Ambassadors departing for their post. Less than a side would do but it should be endorsed/written by a Minister. Jonathan Powell's reported instruction to Christopher Meyer conveys the brevity if not the flavour.

13. As Chris Patten adumbrated, the bane of the FCO in recent years has been the explosion of use of consultants, many of whose recommendations (I'm talking specifically of Collinson Grant) do little more than reverse the recommendations of the previous consultants (Coopers and Lybrand) 15 years

ago. A more cynical observer than me might think they were all in collusion at the FCO's expense. Collusion or not, they are certainly ferociously expensive, though it may be a kind of perverse comfort that DfID's consultancy fees are said to match the whole of the FCO's budget. I recommend a lengthy moratorium. We understand ourselves better than anyone and can introduce sensible reforms at a fraction of the cost. But it must in any event be time to allow the latest reforms to bed down. Our greatest asset, our outstandingly dedicated workforce, risks being demoralised and alienated by the successive degradations of conditions of service (allowances and accommodation), particularly in Europe, and the dramatic reduction in promotion prospects for the SMS. Indeed our failure to make a successful case for resources adequate to finance the current network while others are literally awash with funds is at the heart of the malaise. And yet it should not be this way. Conflict prevention is so much cheaper than post-conflict peacekeeping and reconstruction. It is sad that there is not a recognition by government as a whole that allocating greater resources to the FCO saves the spending of far larger resources through MOD or DfID.

[REDACTED]

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Attachments	