The IMF Bears Down On Italy

But Andreotti still looks to a nuclear-powered future

Even while Italy's leaders seek a way out from under the International Monetary Fund's dictates, the IMF is propelling the Italian economy into another nosedive.

Disaster is heralded by the imminent collapse of a major component of the country's chemicals industry, the SIR Company, and by the government's agreement to additional new cutbacks demanded by the IMF and allied financier forces centered in the City of London. But the Italians continue to hold to their stated long-term commitment to economic expansion based on high-technology industries and fueled by nuclear energy, and are looking to the potential political clout of the emerging anti-IMF combination led by West Germany as the prime means to allow them to realize that growth program.

The IMF has threatened to withdraw its earlier offers of loans for Italian industry, and to pull back its support for the Italian lira this autumn. These economic threats are backed by the less public but nonetheless clear promise of more terrorism, scandal, and every other device of political destabilization to force the government of Premier Giulio Andreotti into line. Under duress, the Andreotti government has decided to pacify the IMF, yet at the same time is trying to open up new avenues of expanded foreign trade to offset the downturn that will inevitably follow the introduction of further austerity measures in a country whose budget is already below rock bottom.

1. The Austerity Axe

The new austerity measures include a 16 percent increase in electric rates and increases in rail freight rates and rail passenger fares, and are designed to reduce Italy's overall budget deficit from 26 trillion to 25 trillion lire. The IMF has demanded that the overall deficit be no more than 24 trillion. Treasury Minister Pandolfi has stated that he expects to make up the difference with increased exports of Italian goods and cutbacks in imports.

But the proposed industrial expansion that would enable Italy to expand its foreign export markets is threatened by an inflation rate that is estimated to be at 15 percent by the end of 1978. Further, even moderate inflation will mean a nominal growth rate of 13-15 percent, far above the 3-4 percent limit set by the IMF. The European Economic Community (EEC) is also demanding low growth, and dictating production levels for major industries on a European-wide basis in adherence to proposals made by EEC Commissioner D'Avignon, who has asked Italy to make significant cuts in steel, chemical, agriculture, and synthetic fibers production.

In addition to budget and production cuts, the IMF has demanded concessions from Italian labor to hold down wage demands and submit to pension cuts, increased "labor mobility," and slashes in unemployment compensation. The three major Italian trade-union confederations, the CGIL, CISL, and UIL, have agreed in principle to such demands, even though it means a significant loss of real wages and benefits.

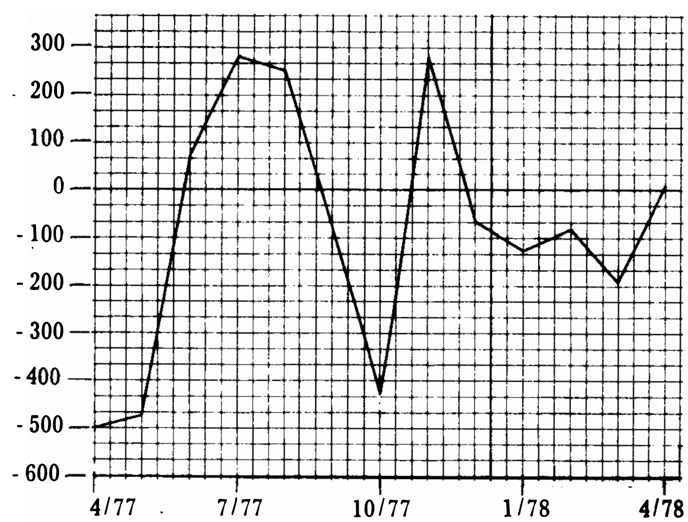
Luciano Lama, head of the CGIL, the largest of the three confederations, has justified these concessions by expressing his belief that workers' sacrifices will ease high unemployment by allowing more jobs to be created, particularly in the country's poverty-wracked southern Mezzogiorno region. However, work stoppages and mass demonstrations have been stepped up in recent weeks, fueled by workers' fears that if large sections of the industrial sector are triaged, there will be significant numbers of layoffs. For example, if the collapse of SIR chemicals does occur, job losses in Sardinia could total 10,000.

There have also been increased demands that labor increase productivity, by working additional overtime not now in the master labor contracts, and by calls for cracking down on absenteeism (a chronic problem in the Mezzogiorno area), as well as through straight speedup.

A good example is the Alfa-Romeo plants. Accused in the Italian media of producing cars at a "snail's pace,"

Italy's Trade Balance

April 1977 - April 1978, in billions of lire



Source: *Corriere della Sera*

the plants have been forced to work overtime for the last two months. While the metalworkers union, FLM, has declared the overtime project a success, the workers have been threatened by "prolabor" terrorist sympathizers who have infiltrated the major factories and carried out sabotage against electric transmission lines leading to the plants, newly produced autos, and so on. Such actions are bound to increase tensions among rank-and-file workers and could lead to potential major disruptions in industrial production, further enhancing the IMF one-two punch of austerity and destabilization.

A number of schemes have been put forward in recent months to pump some life into Italy's economy while zealously holding it to the IMF program. Two are worth discussion in more detail. Both assume the inevitability of a shrinking economic base, and instead of helping Italy rebuild its economy on a sound technological basis, would only hasten its collapse. One is the "Cuccia plan" for the chemicals sector, the other the recently proposed "Agnelli plans" for the Mezzogiorno.

2. For Chemicals: Asset-Stripping

The "Cuccia plan" for restructuring one of the cornerstones of Italy's economy, the chemicals industry, is named for Enrico Cuccia, director of the London-linked Mediobanca investment bank, which has financial control over the three major components of the chemicals sector: Montedison, SIR, and Liquigas. With the exception of the holdings by ENI, the state oil company, in Montedison, the majority of the stocks of the three largest chemical companies are in private hands, notably Cuccia's.

How Italy's Chemical Industry Has Fared

Chemical Companies	Profit or Loss 1976	Profit or Loss 1977	Profits from invoiced shipments (% over previous year) 1976	Profits from invoiced shipments (% over previous year) 1977
ITALY (L trillions)				
Montedison Group	-172	-462	- 3.6	- 8.4
ANIC Group	-133	-204	-14.3	-20.4
SNIA Viscosa S.p.A.	no net gain or loss	- 47	--	- 7.4
SIR Group	- 22	no net gain or loss	- 3.0	--
W. GERMANY (DM billions)				
Hoechst A.G.	786	691	8.1	7.3
Basf A.G.	823	677	8.4	7.0
Bayer A.G.	867	750	9.0	7.6
UNITED KINGDOM (£ billions)				
ICI	326	280	7.9	6.0
FRANCE (F billions)				
Rhone-Poulenc	-364		- 1.7	--
U.S.A. ($ billions)				
Union Carbide	460	386	7.2	5.5
Dow Chemical	619	556	11.0	8.9
Monsanto	366	300	7.8	6.0
Grace	132	141	3.7	3.5

Source: *La Repubblica*

Italian chemical companies, almost totally controlled by Enrico Cuccia, showed substantial losses over the major West European and U.S. chemical companies.

Cuccia's control over the giant Montedison firm stems from his takeover of Montedison soon after its inception in 1966. Stock manipulations and other acts of prestidigitation gained Cuccia sufficient stock holdings to be able to install his man, Eugenio Cefis, as Montedison's director.

Cefis was director of Montedison from 1968-1977; in only one year, 1975, could Montedison be said to have realized a clear profit. Despite an abundance of creative, technologically oriented personnel, Cefis cut his losses by cutting back on research, and sold off many of the "family jewels" — Montedison subsidiaries that were profitable, and could turn over a quick profit, to offset the financial losses resulting from a refusal to make technological innovations in plant and equipment and a policy of borrowing sums of money at short term rates of 20 percent interest. In addition, over the last two years, many top executives have left Montedison, leaving it with a lack of quality leadership.

Now, even with Cefis gone, Montedison continues to be a vast sinkhole. To remedy the situation, Cuccia is proposing to further asset strip it and the other chemical companies under his aegis. Cuccia is modeling his plan for Italian chemicals on the EEC plan for the fibers sector, one of the sectors whose Montedison holdings (Montefibre) have been steadily losing ground.

The EEC fiber plan, to come into being June 20, is to consist of a cartel of the EEC countries' fiber companies, with an overall 15 percent cut in production imposed by the EEC, fixed prices, freeze on building of new plants, and keeping existing plants operating below capacity.

Cuccia's plans for the chemicals sector are similar, which is why the debate in the Italian Parliament over the various plans for restructuring the chemicals sector to restore its profitability has been stalled since December 1977. The fact that the issue remains unresolved is indicative of a battle between Cuccia and the government, led by Industries Minister Donat-Cattin.

Cuccia's proposals, if carried out, would mean asset-stripping the chemicals industry to pay off back debts. Included would be closures of modern plants now in operation, such as the Southern Montedison plant at Porto Marghera, and the "rationalization" of existing, less modernized plants, most located in Italy's south. In addition, plants now on the drawing boards or being built would be totally scrapped, including several technologically innovative SIR plants now under construction in Sardinia.

In line with EEC proposals for cutbacks in chemicals production to compensate for a supposed "glut" in European chemicals markets, Italy would abandon basic chemicals, now the bulk of its production, for secondary or "fine" chemicals. Cuccia's plans also include establishment of a chemicals cartel, on a Europe-wide basis, that would divide the shrinking market among its members.

In Italy, the virtually bankrupt operations of SIR and Liquigas would have to be bailed out by the state, to assure that payments of debts, particularly short-term debt carrying interest rates of 20 and even 25 percent, are not defaulted on. Note that a state bailout would not increase liquidity, or enable capital investments, but would be strictly for debt rollover.

While the Montedison plants remain somewhat solvent, with the exception of the fiber company Montefibre, SIR and Liquigas — both brought into the Montedison nexus by Cuccia — are teetering on the edge of bankruptcy. SIR is now in virtual receivership, with 80 percent of its holdings under the control of the state-owned credit institution ICIPU. Two weeks ago, SIR head Rovelli announced that SIR (Rumianca) plants in Sardinia, along with feeder production plants, will have to close, since the plants can no longer pay for the virgin naphtha used at the plant, for which the supplier, Agip, is demanding payment on delivery. In addition, the Kuwaiti Treasury Minister has reportedly threatened Italy with an OPEC embargo on oil supplies because of unpaid SIR petrochemical debts amounting to some 50 billion lire.

The threatened closures forced Prime Minister Andreotti to call an emergency meeting of CIPI, (the Interministerial Committee for Industrial Planning) May 26 to propose that the two public credit institutions, IMI and ICIPU, grant emergency loans to SIR to enable it to keep opera

government's counterproposal to the Cuccia plan, which is being submitted June 20.

Liquigas, headed by Raffaele Ursini, is in a similar position. Faced with mounting debts totalling approximately 1400 billion lire, due to the year-long failure by the Italian Parliament to approve Ursini's plans to build plants to produce bioproteins, a cattle feed, Ursini has defaulted on debts, has been forced to liquidate his bioprotein holdings, and is threatened with bankruptcy. Like SIR, Ursini's company has just received a temporary stay of execution with a decision by his five major creditors to roll over debts pending a restructuring of Liquigas, on the argument that the company is still potentially profitable and should not be liquidated.

While there are no clear indications of what the government's proposals for the chemical sector will be, it is clear that under the lead of Industries Minister Donat-Cattin and Treasury Minister Pandolfi, every effort will be made to avoid direct state bailouts. Rather, the government will attempt to link state funding to expansion of the productive base, exemplified by the Soviet-Italian agreement recently signed to build a Montedison plant in the Soviet Union.

3. For the Mezzogiorno: "Jobs Creation"

Considerably more prominent in the organizing to dismantle Italy's economy is Gianni Agnelli, head of the Fiat auto empire and a major stockholder in Montedison. Last month, Agnelli put forward a proposal to create upwards of 5,000 labor-intensive jobs in the southern Mezzogiorno area, the traditionally underdeveloped region in Italy that has a high unemployment rate, and whose workers have few job skills that would net them a place in high-technology industry. The area's backwardness is used as a justification for those colonialist visions of looting the South's major resource: its labor force.

To that end, Agnelli has proposed his "jobs" plan, which involves dismantling existing Fiat-owned small truck plants in the industrialized North and transporting them south, piece by piece! While touted as economic expansion, it is actually contraction, since it involves loss of some 10,000 jobs in the existing plants, no new capital investment, and no training for skilled jobs for the southern workers. The proposal also hinges on the necessity for labor mobility; if plants are moved out of the north, northern workers, many of whom originally migrated from the south, will return to take the "jobs" Agnelli has promised.

Obviously, Agnelli isn't playing Santa Claus. For months, Agnelli has been trying to sabotage the high-technology nuclear energy industry's plans to build nuclear power plants not only in Italy, but for export to less developed countries.

Exemplary of this is Agnelli's recent attempts to prevent the signing of an agreement with Italy's state energy agency, ENEL, and Iran, for the building of up to 20 nuclear power plants, under licenses granted by General Electric and Westinghouse.

Agnelli caused a flap by claiming that he was to have

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Italy's Budget: Income and Expenditures

(% variation from preceding year)

	1978		1979	
	Quantity	Current prices (bns. L)	Quantity	Current prices (bns. L)
GNP at market prices	2.0	199.180	3.1	234.650
Imports	5.0	51.600	6.0	59.620
Private consumption	2.0	131.155	2.8	155.095
Public consumption	2.0	28.240	2.5	32.830
Gross fixed investments	-1.9	37.045	5.1	44.355
Construction investments	-0.5	21.390	3.0	25.000
Machinery investments	-3.7	15.655	8.0	19.355
Variations in reserves investments	50.0	3.765	3.6	4.370
Exports	5.5	50.575	5.5	57.620
Balance of payments, goods and services		-10.025		- 2.000

Source: *La Stampa*

led a delegation, which included Foreign Minister Forlani and State Industries Minister Bisaglia, that visited Iran this past April to discuss trade agreements between Fiat and Iran. While Bisaglia quashed this, asserting the true nature of the Iranian negotiations, nevertheless, in the aftermath, Iran withdrew its proposal, and the matter remains unsettled.

Since that time, Agnelli, in conjunction with U.S. Ambassador to Italy Richard Gardner, has attempted to sabotage Italy's domestic nuclear development by promoting coal as *the* answer to Italy's future energy needs, citing the recent signing of an agreement with Poland to supply Italy with coal as obviating any need for nuclear power. Within the nuclear industry itself, Agnelli's collaborator, Milvio, the head of Ansaldo Meccanica Nucleare, has led the fight to convince ENEL that nuclear is less important than coal, and has promoted schemes to develop solar energy boondoggles as a favorable "alternate energy source."

Ambassador Gardner, for his part, has sponsored trips by Italian nuclear experts to the U.S. to "show off" various American-developed solar energy schemes, and at a meeting recently at Milan's Bocconi University, Gardner attempted to dissuade the Italian industrialists in attendance from seeking a solution to Italy's energy problems with nuclear power by arguing that nuclear power would mean a proliferation of nuclear weapons.

4. The Nuclear Alternative

Despite the high-level antinuclear push by people like Gardner and Agnelli, Italy remains committed to the development of nuclear energy.

ENI has just undertaken a major advertising campaign aimed at promoting the nuclear fast breeder reactor as the best long-term solution to Italy's (to say nothing of the world's) energy crisis. It was announced two months ago that ENEL has formed a consortium called Corev to build a fast breeder reactor, of the French SuperPhenix type, in collaboration with France. Then Energy Resources Director for the Industries Ministry Ammassari declared at a recent meeting in Puglia that Italy will build a plutonium reprocessing facility at Rotondella, to supply one-third of the fuel for the Eurodif fast breeder program, in which Italy participates. Pro-development forces appear determined that Italy's nuclear program will not be undermined.

Italy's own nuclear reactor building program is relatively modest, calling for four reactors in the next five years, and eight more in the next ten. But nuclear reactor manufacturers are undertaking a campaign to expand their foreign markets.

ENEL recently concluded agreements with Egypt to provide that country with at least two light water reactors, and with Syria for a gas liquefaction plant and a conventional thermoelectric plant. Newspaper reports indicate that at least some of the financing for the Syrian plants will come from West Germany.

The West German financing is key, since there are no indications that U.S. banks, or the Carter Administration, will be ready or willing to encourage Italy's nuclear exports in the near future.

What is most promising, however, is for Italy to become a participant in the East-West economic cooperation represented by the recently signed 25-year economic cooperation agreement between Soviet President Brezhnev and West German Chancellor Schmidt.

At a conference of the Italo-Soviet Chamber of Commerce in Milan last month, the Soviet Ambassador explicitly invited Italy to participate. Wasting no time, Italy sent two delegations to Moscow in quick succession. The first, led by Vice-Foreign Minister Radi, discussed agreements for building a Montedison chemical plant, and a steel plant to be built by the State-owned Italsider. A second high-level delegation, led by State Industries Minister Bisaglia, and accompanied by ENI director Sette and the director of the state heavy industries (IRI), Petrilli, has "concretized matters" concerning the building of a steel plant in the USSR at Oskol, and supplying the Soviet nuclear Atommash program in Siberia with nuclear components. Also discussed: the possibility of a three-way deal with Italian (Italimpianti) and West German (Kruppwerke) collaboration to build a machine tool plant in the Soviet Union.

With these kinds of multilateral agreements, Italy could begin to point her economy toward economic stability, and recovery. The political conditions necessary to implement such agreements were no doubt a topic of discussion when Andreotti visited Chancellor Schmidt in Hamburg June 17.

A strong joint position at the upcoming Bonn summit by Schmidt and Andreotti against the IMF's insistence on austerity — hinted at by Italian Treasury Minister Pandolfi's statement earlier this month that Italy might have to declare a moratorium on payments of its $400 billion EEC loan — could point the way for immediate capital investment in real production, rather than bailouts. More important, it could give Italy the breathing space it needs to begin to implement a nuclear-powered alternative economic policy that can put that country on a sound basis for future development.

—Margaret Bardwell