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# Italian Arms Sales: Policies and Prospects



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**An Intelligence Assessment**

DIA review  
completed.

State Dept. review completed

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GI 82-10177  
September 1982

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# **Italian Arms Sales: Policies and Prospects**

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**An Intelligence Assessment**

This paper was prepared by [Redacted]  
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welcome and may be directed to the Chief,  
Weapons Proliferation Branch, International Security  
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This paper has been coordinated with the National  
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Operations. [Redacted]

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**Italian Arms Sales:  
Policies and Prospects**

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**Key Judgments**

Permissive arms export regulation, extensive licensing and coproduction agreements, and the desire of many Third World states to reduce their dependence on great-power military assistance have made Italy a major arms exporter. With sales totaling more than \$6.7 billion in the past six years, triple the sales of the previous six years, Italy now ranks fourth among West European suppliers and sixth worldwide.

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We believe Italy's market share will stabilize in the next few years as increased competition and changing market demands limit sales opportunities. Heightened international tensions will prompt many LDCs to resort to assistance and sophisticated arms from traditional suppliers—the United States, USSR, France, and Britain. The absence of a high-performance aircraft in the Italian inventory will also hinder sales. Italian arms manufacturers may find some relief in additional sales to Libya, Argentina, and Taiwan, and to other customers who prefer the low political profile and moderately sophisticated technology of Italian arms.

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Washington can expect an increase in Italian requests for:

- Foreign Military Sales (FMS) financing of Italian arms sales.
- Approval for sales of weapons produced under US license.
- US purchases of Italian weapons systems.

Meeting these requests might entail a reduction in direct US sales to pro-Western Third World states and members of NATO's southern flank. While Italian sales to pariah and radical Third World states may on occasion conflict with US policy, they also could serve US interests when Washington wishes these nations to receive Western security assistance but does not want to take the lead.

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*Information available as of 13 August 1982  
has been used in the preparation of this report.*

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**Italian Arms Sales:  
Policies and Prospects** [Redacted]

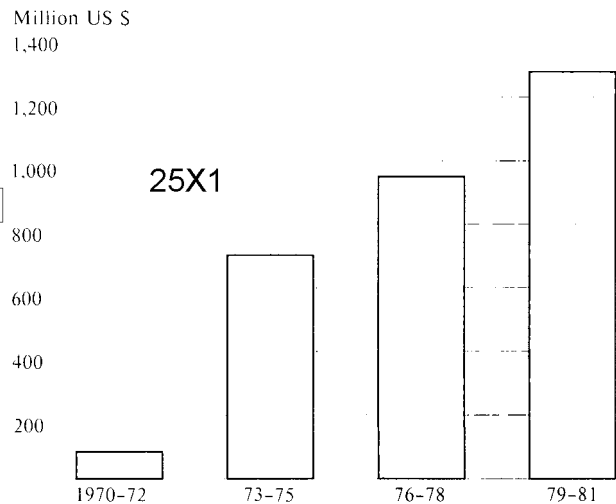
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**Scope and Magnitude**

Italy is the sixth-leading arms supplier in the world, having sold more than \$6.7 billion worth of military equipment and services in 1976-81, almost tripling sales of the preceding six years (figure 1).<sup>1</sup> Sales tend to fluctuate yearly reflecting a few major transactions—such as the \$1.9 billion Iraqi sale in 1980—rather than continuing sales to many countries. Stiffening competition last year and a general decline in Third World arms purchases resulted in a precipitous drop in sales to less than \$400 million. [Redacted]

**Figure 1**

**Average Annual Italian Arms Sales**



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**Arms Customers.** [Redacted] radical Arab states, particularly Iraq and Libya, have come to view Rome as an alternative to the superpowers and traditional European arms exporters<sup>2</sup> for a wide range of military equipment and services. The Middle Eastern market now accounts for more than 65 percent of Italian arms sales (figure 2). The \$1.9 billion sale of warships to Iraq in 1980 was the largest Italian arms deal and made Iraq the principal recipient of Italian military equipment. Libya, Italy's second-largest customer, has purchased a variety of equipment, including turboprop trainer and transport aircraft. Rome has also sold small amounts of electronic equipment and tanks to some of the smaller Persian Gulf states. [Redacted]

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Sub-Saharan Africa and Latin America account for almost 20 percent of Italian arms sales. Somalia, in part a former colony, is the major Sub-Saharan customer, having received transport aircraft and ground forces equipment. [Redacted] In Latin America, Italy has successfully marketed trainer aircraft and small naval combatants

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<sup>1</sup> Appendix A details sales of Italian military equipment and services. Arms sales data are from all-source collection. We regard these estimates as accurate, but, because of the difficulty of confirming individual transactions, they may not be complete.

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[Redacted]

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to Ecuador, Peru, and Argentina. Brazil produces Italian jet trainer aircraft under license and, according to trade journals [Redacted] has helped fund the new AMX jet fighter, which it will also produce. [Redacted] 25X1

Italy has had little success in selling weapons to its NATO allies. Much of Italian military equipment is produced under European or US license, and sales to NATO members are usually restricted by marketing agreements. [Redacted]

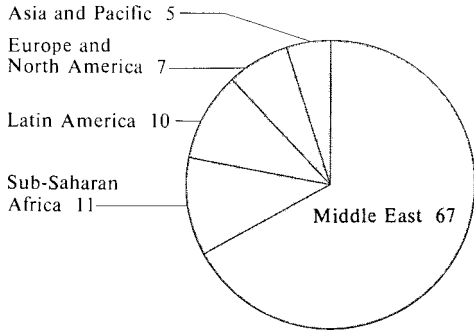
Italian-designed equipment has faced stiff competition from superior foreign weapons systems or has been blocked by preferences for domestic products. Italian officials have complained that the Italian-US 1978 Memorandum of Understanding on Cooperation

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**Figure 2**

**Italian Arms Sales by Region, 1976-81**

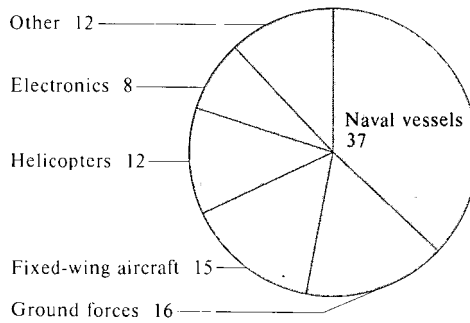
Percent



**Figure 3**

**Italian Arms Sales by Type, 1976-81**

Percent



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in the Research, Development, Production, and Procurement of Defense Equipment has produced few concrete results. Like all NATO allies, Rome wants a more equal two-way street in transatlantic arms sales.

Italy has not competed for sales to China in the past in order to avoid endangering its substantial commercial ties with the USSR and creating political complications with the Italian Communist Party.

relatively low percentage of aircraft sales (only 38 percent compared with 63 and 41 percent for France and Britain) reflects the absence of expensive, high-performance fighters in Italy's inventory. Aircraft sales consist primarily of trainers such as the Aermacchi MB-326 and the SF-260, which are popular among Third World nations because they can be converted to perform light attack and counterinsurgency missions. Helicopters make up 17 percent of sales and in most cases are produced under US license. Ground forces materiel covers a wide range of equipment, including small arms, trucks, tanks, and armored personnel carriers.

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**Equipment Sales.** Because of the 1980 sale of 11 warships to Iraq, Italian arms sales show a preponderance of naval equipment (figure 3). When this Iraqi sale is removed from the total, Italian arms agreements show a more balanced distribution among fixed-wing aircraft, helicopters, ground forces equipment, and small naval combatants (figure 4). The

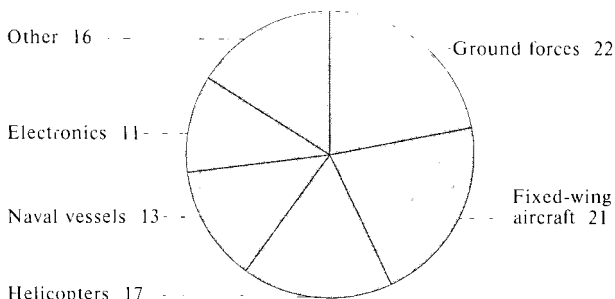
Italy also provides technicians and training for foreign customers, mainly those in the Middle East. Most training is provided as part of an arms-sale package although it is occasionally provided free in a new market. Technicians provide limited in-country maintenance and some training, usually under direct contract. Major overhauls of equipment and extensive

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Figure 4

Italian Sales by Type, 1976-81<sup>a</sup>

Percent



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<sup>a</sup> Excluding 1980 Iraqi naval deal.

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particular, Italy has attempted to reduce its balance-of-payments problems with its major oil suppliers by selling arms. Arms agreements with Iraq, Libya, Saudi Arabia, and with other oil producers have often been accompanied by lucrative contracts for construction and nonmilitary industrial development projects. Italian arms manufacturers have further enticed these customers to invest directly in their corporations or to underwrite indirectly the development costs for new weapons systems.

[Redacted]

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[Redacted] Iraq provided Italy with \$24 million to develop an AWACS version of the G-222 transport aircraft, which it intends to purchase. [Redacted]

According to Italian defense officials, arms exports in the past six years have made the defense industries a profitable and growing sector of the economy. They have helped Italy to expand its industrial base, skilled labor pool, and technological capability, as well as to reduce the unit costs of military equipment, given the limited needs of the Italian armed forces. Arms manufacturers export 80 percent of their production, which accounts for almost 3 percent of total Italian manufactured exports. The defense industries employ 300,000 workers, approximately 1 percent of the national labor force. [Redacted]

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In addition to promoting national economic objectives, Italian officials have used arms sales to promote Western political and security interests. According to State Department reporting, Rome is sensitive to the problem of maintaining Western influence in the Third World. In NATO discussions, for example, Italian diplomats have pointed to their sales to radical LDCs as a means of preserving a foothold in a Soviet-dominated market. Italy has also assisted pro-Western countries during crises. State Department reporting indicates that Rome considered expediting the delivery of armored personnel carriers to Somalia during its recent conflict with Ethiopia. [Redacted]

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training of foreign personnel take place in Italy. We suspect that Rome uses these opportunities to develop close relations with foreign officers and enlisted men in the hope that they will favor Italian military and commercial manufactures. [Redacted]

Motivations and Development

Italy began to rebuild its defense industries in the 1950s in support of NATO goals for the rearmament of Europe. Firms such as Fiat, which were capable of producing ground forces equipment, were the first to begin military production. Later, shipbuilding, electronics, and aerospace manufacturers were added to the defense sector, often through the kit assembly and licensed production of foreign weapons systems.

Italy's arms export business remained largely oriented toward Western Europe until the energy crises and trade deficits of the early 1970s compelled Rome to seek markets in the Third World. [Redacted]

[Redacted] economics has become the prime motive for expanding arms sales. In



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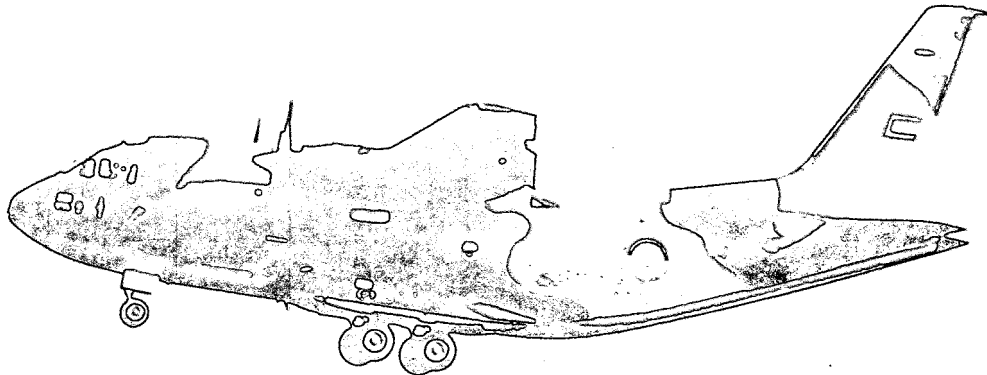


Figure 5. G-222 transport

Catalogo della Produzione Militare Industriale Italiana

**Competitive Factors**

[redacted] Italy's "nonpower" status has made it an attractive supplier to Third World customers who want to protect their nonaligned status and diversify their inventories while maintaining access to the defense industries of the industrialized world. [redacted]

[redacted] Italy does not overestimate its ability to influence the military and political activities of client nations. We have no reports, for example, of Italy attempting to tie arms supplies to basing rights or security cooperation agreements. [redacted]

Italy's attractiveness as an arms supplier has been enhanced by its close association with the defense industries of its NATO allies (table 1). [redacted]

[redacted] Italy has been able to complement domestic industrial capabilities with experience from its relationships with foreign manufac-

turers to design, develop, and produce weapons systems tailored to Third World needs:

- The Agusta company has applied bonding techniques acquired in the licensed production of Boeing CH-47 helicopters to the manufacture of the S.211 jet trainer, which is produced by its subsidiary Siai Marchetti.
- Aermacchi, another aerospace firm, has used its experience in the Trinational Tornado fighter aircraft program in the design of the AMX export fighter.
- In the manufacture of missiles, Oto Melara, which coproduced the Otomat antiship missile with Martel of France, is now developing an indigenously designed antiship missile, the Otomach, with the Italian firm, Alfa Romeo Aviation.

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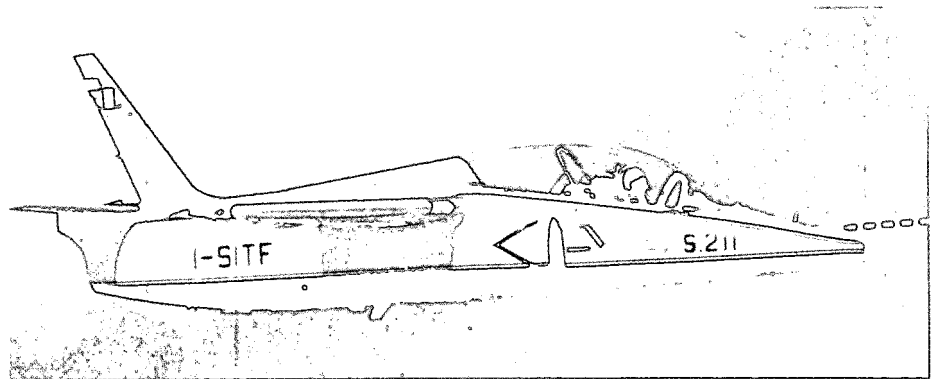
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Figure 6. S.211 trainer



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 • Oto Melara has used its experience in the licensed production of the West German Leopard I tank to produce with Fiat the OF-40 tank. This vehicle, designed specifically for export, is heralded by its manufacturer as the first Italian designed and produced tank since 1945, despite its striking resemblance to the Leopard I. [redacted]

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 Licensed production and the incorporation of US components in Italian weapons systems have caused nagging problems for Italy. Washington's refusal to approve the transfer of US-manufactured equipment or Italian equipment produced under US license—F-104s to Equador, CH-47s to Iran, and US-engined G-222 transport aircraft to Libya—probably weakened Italy's reputation as a reliable arms supplier. State Department reporting indicates that the need to request US approval for third-party transfers has caused the loss of several contracts. Italy, for example, has not been able to meet several Iraqi requests for US-designed equipment produced or exported by licensed Italian manufacturers. Italian manufacturers are unhappy with the limited markets accorded them under standard US licensing agreements and, according to [redacted] press reports, are increasingly turning to Western Europe for participation in code-development programs. Moreover, some Italian firms have begun to substitute West European or indigenously produced equipment for US-made components in their weapons systems. Aeritalia, for example, has equipped its AMX fighter and a version of its G-222 transport with British engines.<sup>3</sup> [redacted]

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<sup>3</sup> The AMX does, however, have US-designed engine and fuel indicators and a heads-up display, which may be replaced in export models. [redacted]

**Organization and Practices**

**Ownership.** Like most of its European neighbors, Italy's defense sector is owned primarily by the government, although industrial centralization and rationalization have not been carried as far as in France and Britain. About one-third of the Italian defense sector is privately owned. For example, FIAT, Montedison,<sup>4</sup> and their subsidiaries continue to be important, privately owned manufacturers of armored vehicles, missiles, and electronic equipment. Government ownership of the arms manufacturers is organized through two large holding companies under the Ministry for State Participation—the Institute for Industrial Reconstruction (Istituto per la Ricostruzione Industriale—IRI) and the State Holding and Finance Company for the Manufacturing Industry (Ente di Partecipazione e Finanziamento Industria Manifatturiera—EFIM).<sup>5</sup> The holding companies have attempted to integrate the arms manufacturers into the nation's economic plans and to enhance their competitiveness, in part by engaging in market research and promotion. According to press [redacted] reports, they have been able to market their products effectively because they can offer foreign customers a complete trade package that includes both military and nonmilitary goods and services—construction, nuclear power equipment, and civilian manufactures.

<sup>4</sup> In 1981 the Italian Government sold its 16-percent share of Montedison. [redacted]  
<sup>5</sup> See appendix B. [redacted]

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**Table 1**  
**Italian Coproduction and Licensing Agreements**

<b>Coproduction Agreements</b>			
Equipment	Partners	Date	Status
Tornado fighter	United Kingdom, West Germany	1969	Production
AMX fighter	Brazil	1977	Prototype
EH-101 helicopter	United Kingdom	1978	Design
Albatros SAM	France	1966	Production
Sea Sparrow SAM	United States, Belgium, Netherlands, Norway, West Germany, Denmark	1968	Production
OTOMAT (ASM)	France	1969	Production
FH-70 field gun	West Germany, United Kingdom	1968	Production
SP-70 field gun	West Germany, United Kingdom	1973	Prototype
RS-80 rocket system	West Germany, United Kingdom, United States	1978	Design
Hydrofoil	West Germany, United States	1972	Production
Sea Guard naval fire control system	Switzerland	1978	Design
<b>Licensing Agreements</b>			
Equipment	Supplier	Date	Status
Fighter (F-104 Starfighter)	United States	1966	Production
Transport (C-119)	United States	1955	Production ended
Helicopter (Bell models)	United States	1952-75	Production
Helicopter (Sikorsky models)	United States	1965	Production
Helicopter (Boeing CH-47)	United States	1968	Production
Helicopter (Hughes models)	United States	1970	Production
Air-to-air guided missile (Sparrow III)	United States		Production
Air-to-air guided missile (AIM 9L Side-winder)	United States	1978	Production
Surface-to-air guided missile (HAWK)	United States	1960	Production ended
Surface-to-air guided missile (Improved HAWK)	United States	1960	Production
Tank (M-60A1)	United States	1964	Production ended 1971
Tank (Leopard)	West Germany	1971	Production
Armored personnel carrier (M-113)	United States	1963	Production
Howitzer (M-109SP)	United States	1968	Production
Patrol craft (Swordfish hydrofoil)	United States	1965	Production ended 1974
Radio (AN/PRC)	United States	1974	Production
Radar (ARGOS-10)	United States	1974	Production

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The holding companies permit individual arms manufacturers considerable autonomy in their day-to-day affairs. According to trade journals, this management approach fosters entrepreneurship, but it also produces competition for industry dominance and foreign sales. For the past few years EFIM and IRI have competed, directly and through subsidiaries, for control of Italy's aerospace business. Agusta of EFIM and Aeritalia of IRI, for example, have both marketed jet trainer aircraft that directly compete with each other for foreign orders. [redacted]

Press reports indicate that IRI and EFIM also protect inefficient producers threatened with bankruptcy by purchasing minority shares of their stock. A subsidiary of IRI, the Holding and Participation Company (Gestione E Partecipazione Industriali—GEPI), has a charter to buy up failing companies, improve their financial condition, and return them to the private sector. This practice has permitted a multitude of inefficient arms manufacturers to exist. Recently, both GEPI and Agusta purchased stock in OMI, a debt-ridden navigation and aeronautic instrument manufacturer. [redacted]

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**Regulation.** [redacted]

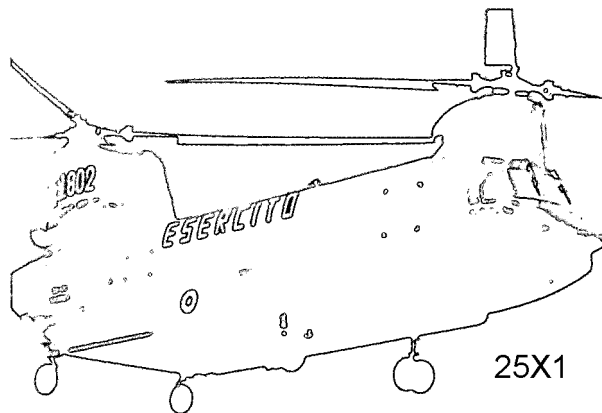
[redacted] Italian arms exports are regulated in an ad hoc process that favors the military and defense industrialists. After initial marketing research, firms are required to obtain government permission to initiate negotiations with foreign customers. If a deal is consummated, an export license must be obtained from a special interagency committee established in 1975 to oversee arms transfers. The Ministries of Defense, Foreign Affairs, Finance, Foreign Trade, Industry, and Interior are represented. All committee decisions must be unanimous, but the committee's casual operations, effective cooperation among working-level bureaucrats and the military, and the domestic political power of corporate leaders guarantee the success of most applications.<sup>6</sup>

End-user certificates, which prohibit equipment transfers to third parties, are required by Italian law, but, according to media [redacted] they are

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[redacted]



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Catalogo della Produzione Militare Industriale Italiana

Figure 7. C-47 helicopter

commonly waived, falsified, or ignored. These certificates often become a problem for exporters when the equipment is produced under license by an Italian manufacturer who wishes to sell to a customer outside of the markets granted to him by the foreign licensor. The destination cited in the certificate is sometimes falsified to finesse this problem. The relaxed nature of the process was best revealed last year in parliamentary debates when the Minister of Defense defended the sale of naval guns to Israel—which then transferred them to South Africa—by noting that Rome could not control what sovereign governments did with military equipment once it was delivered. [redacted]

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Rome's laissez-faire attitude is often cited in press reports and Italian political debates as a factor contributing to its role as an intermediate exporter for foreign manufacturers whose domestic legal systems impose tough restrictions on arms exports. For example, the Swiss gun manufacturer Oerlikon Buhrle has established two subsidiaries in Italy that deal largely in the Third World market. In addition, Italian press sources assert that several US and West European arms manufacturers have purchased large shares of Italian defense industries for better access to Third World markets (table 2). [redacted]

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**Table 2**  
**Foreign Ownership of Italian Defense Industries**

Italian Firm	Foreign Ownership	Products
Aeromacchi	Lockheed (United States) <sup>a</sup>	Aircraft
Contraves Italia	Oerlikon Buhle (Switzerland)	Fire control systems
Fabbrica Italiana Apparechi Radio, SpA	General Electric (United States)	Avionics
Marconi Italia	GE, Ltd. (United Kingdom)	Electronics
Oerlikon Italiana	Oerlikon Buhle (Switzerland)	Cannon and rockets
Rockwell Collins Italia	Rockwell International (United States)	Aircraft parts
Sistel	Oerlikon Buhle (Switzerland) <sup>a</sup>	Tactical missiles
Turbo Union	MTU Munich (West Germany) and Rolls-Royce (United Kingdom) <sup>a</sup>	Jet engines

<sup>a</sup> Partial ownership.

[Redacted]

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**Promotion.** While most sales are concluded by corporate executives, who give highly personalized service to foreign buying agents, the Italian Government apparatus assists industry in its marketing. [Redacted]

[Redacted] the Ministry for State Participation, which supervises the major holding companies, has begun to directly negotiate arms contracts. The Ministry of Foreign Affairs is also involved, providing a coordinating service in an attempt to prevent competition between Italian firms for the same contracts. Weapons demonstrations are provided by the Ministry of Defense which, [Redacted] has also diverted to foreign customers equipment earmarked for the Italian armed forces when quick delivery was necessary to clinch a deal. This ministry also assists quasi-private marketing associations, such as the Melara Club (surface naval vessels) and the Trieste Club (submarines), in the organization of promotions such as the Genoa Naval Show. The Melara Club has had remarkable success in selling warships to several states, but the Trieste Club has not sold a submarine since its inception in 1977. [Redacted]

[Redacted]

[Redacted]

According to State Department reporting, the Italian Government also supports arms sales by providing generous export credits. Mediocredito Centrale, a government bank, extends credits at rates as low as 7 percent when giving aid. This subsidy gives manufacturers a competitive edge, especially when dealing with LDC clients who have lower performance standards for equipment and often purchase weapons primarily on the basis of price. Italian law does require, however, a downpayment of at least 15 percent. In addition, the government-run Special Section for Export Credit Insurance (Sezione Special per l'Assicurazione del Credits all'Esportazione—SACE) insures exports, including arms, against political and commercial risks. This service is particularly important to

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**Trieste Club**

*CNR-Italcantieri*

*Ansaldo*

*ELSAG*

*Grandi Motori Trieste*

*Ercole Marelli*

*Riva Calzoni*

*USEA*

*Whitehead Motorfides*

**Melara Club**

*Cantieri Navali Riuniti*

*Grandi Motori Trieste*

*Fiat Aviazione SpA*

*Oto Melara*

*Breda Meccanica Bresciana*

*ELSAG*

*Electronica*

*Montedei-Elmer Division*

[Redacted]

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arms manufacturers who deal primarily with Third World countries where the risks of sudden financial loss and contract interruption are high. [Redacted]

**Market Prospects**

We believe that over the next two to three years Italy will only be able to maintain, or at best marginally increase, its market share. Italian sales to Middle Eastern countries, restrained in part by US licensing agreements, are being challenged by French and British sales efforts. According to press reports: [Redacted]

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• France is rapidly consolidating a close military assistance relationship with Iraq, Italy's biggest customer, based on sales of Mirage F-1 fighter aircraft and tactical missiles, and on Iraqi coproduction of the Franco-German Alphajet.

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• Britain is vying for the Iraqi and Egyptian markets by offering Baghdad spare parts for captured Iranian Chieftain tanks and supplying coproduction agreements for tactical missiles to Cairo.

• Britain and France are both competing for Saudi orders for armored vehicles and electronic equipment, which Italian manufacturers would like to fill.

[Redacted]

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We believe Italy's inability to offer advanced fighter aircraft comparable with those being marketed by its competitors will continue to limit Italian sales prospects among the larger Third World purchasers. The AMX fighter, which will not even become available for several years, pales in comparison with the F-16 and Mirage 2000 aircraft, and in our opinion Italian estimates of a 600-plane market for the AMX are likely to be overly optimistic. At best, the AMX may supplement the capabilities of high-performance fighters in the larger air forces of the Middle East. [Redacted]

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Italy's lack of a centralized procurement and marketing organization will also hamper sales. Such organizations in the United Kingdom and France channel research and development funds to promising weapons designs and then enlist the efforts of government-supported marketing consortia. The Defense Technical Center in the Italian Ministry of Defense performs only a minor role in the design and development of weapons systems; it lacks broad authority over the nation's defense industries. [Redacted]

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Italy's proposed industrial development plan would restrict plant modernization and expansion by attempting to stimulate capital investment and economic development in the poorer, southern half of the country. EFIM, for example, plans to target 60 percent of its investment credits through this program. According to press reports, companies that have moved to the south have experienced production lags, caused in part by shortages of skilled workers. [Redacted]

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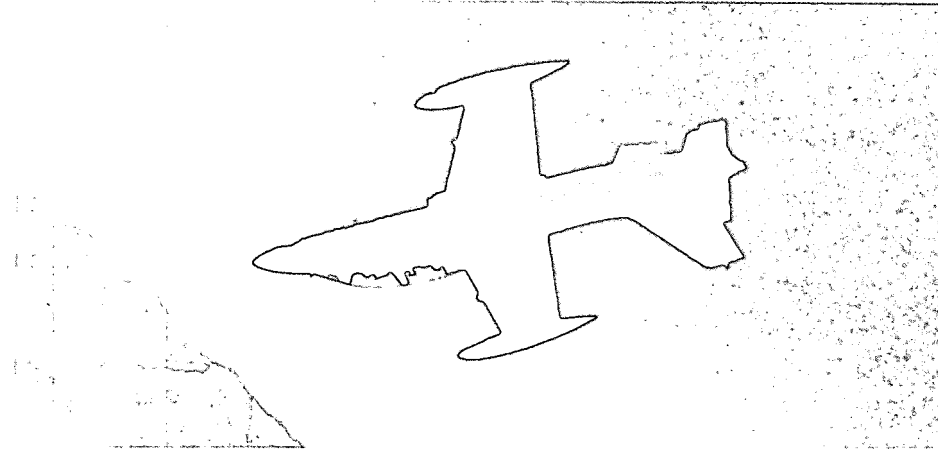
Finally, we expect global security and economic trends to limit Italian arms sales over the next few years. Sales rose in the mid-1970s when oil-wealthy states increased their arsenals and diversified their purchases to nontraditional suppliers like Italy. Many of these countries now face increased security threats and [Redacted] are looking for implicit security commitments to accompany their

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Figure 8. AMX fighter



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arms purchases. Italy's nonpower status is likely to be less of a competitive factor than in the past. At the same time, many of Italy's traditional customers are facing foreign exchange shortages and are likely to give cost greater weight in their choice of weapons systems. [redacted] many LDCs have been attracted to Italy's medium-performance equipment because of its lower price and high quality compared with that of smaller suppliers. Italy's high inflation rate, relative to other suppliers, may increase the cost of Italian weapons. If prices rise, this equipment will become less competitive both with more advanced weapons systems and with lower technology systems produced by smaller European and Third World suppliers. [redacted]

To maintain its present market share, we believe Italy will:

- Continue to rely on sales to radical Arab states. Press [redacted] sources indicate that Italy has been reassessing its arms-supply relationship with Libya for more than a year, but we anticipate that new contracts for trainer aircraft, electronics, and missile systems will be signed once Tripoli's financial situation improves. Diplomatic reports indicate that Italy is willing to conclude major arms agreements with Iraq after the war with Iran ends. We believe Rome is also willing to consider similar sales to Iran.

- Continue to offer a unique collection of medium-performance weapons such as the G-222 AWACS, A-129 attack helicopter, and OF-40 tank. Competitors lack comparable weapons systems in the same price range. [redacted] for example, that Nigeria and Peru will soon purchase the MB 339 jet trainer.

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- Take advantage of disruptions in existing supplier-recipient relationships. Italy should be able to pick up some sales in Latin America at the expense of the United Kingdom and France because of Rome's resistance to economic sanctions on Argentina by the European Community. Italian press accounts of the Falklands conflict are already highlighting the presence of Italian-made warplanes in the Argentine Air Force.

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- Reassess its policy toward sales to China and Taiwan. [redacted] Taiwan is interested in purchasing 50 turboprop trainer aircraft and 30 helicopters from Italy. [redacted] Italy is simultaneously exploring sales to China. We believe Italy will have to choose between the two in the long run, probably on the basis of immediate economic gain.

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- Continue its close association with NATO partners in the codevelopment of new weapons systems. This will guarantee Italian manufacturers access to the

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Figure 9. MB 339 trainer

Catalogo della Produzione Militare Industriale Italiana

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newest technology, which they can then incorporate into purely Italian weapons systems, as they have done in the past. [redacted]

#### Implications for the United States

We believe that Italy's continued reliance on sales to radical Arab states will periodically lead Rome to approve arms transfers that are inimical to US interests. Italian sales to Libya, for example, have assisted Tripoli in circumventing US attempts to isolate Qadhafi's regime. Italian and other West European arms only slightly improve Libya's Soviet-based arsenal, but they are valuable political symbols of nonalignment as well as an opening for wider economic relationships. Italian sales to Iran have served a similar purpose for Tehran. [redacted]

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To preserve their relationships with these states, Italian manufacturers are likely to continue to replace US components in their weapons systems when they feel Washington might restrict sales. This process of substitution, combined with the growing involvement of Italian defense contractors in European codevelopment and coproduction projects, will reduce Italian dependence on US technology. Individual Italian manufacturers will, however, maintain close ties with their US counterparts when profitable. [redacted]

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Rome will continue to insist on increased US purchases of Italian weapons systems. Italian officials point out in bilateral discussions that Washington has failed to implement the 1980 Memorandum of Understanding, which was designed to increase such purchases. The recent cancellation of the US Army's 9-mm handgun procurement program, in which an Italian entry was a leading candidate, drew a sharply negative response from Rome. We believe the size of Italy's defense budget and the pace of its modernization programs—items that Washington has used as indicators of alliance resolve and unity—could become increasingly tied to US purchases of Italian weapons systems. [redacted] 25X1

Washington can also expect additional Italian requests for US cooperation in arms sales to the Third World and NATO's southern flank. These will typically involve FMS financing of Italian arms sales and approval for the transfer of US weapons systems. Such requests will often be detrimental to US economic interests when they involve a reduction in direct purchases of US equipment. They may also complicate US security and political relationships when the introduction of this equipment upsets regional balances of power and complicates the logistics

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systems of recipient nations. [redacted]

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[redacted] an Italian transfer of obsolete M-47 tanks to Somalia threatens to overload the Somali Army with equipment that it will have serious difficulty in maintaining. [redacted]

25X1

We believe these problems are manageable and will not threaten Italy's reliability as an ally. [redacted]

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25X1

[redacted] Should regimes change in Ethiopia, Iran, or Libya, Italy would also be in a good position to create the basis for Western influence in those nations. [redacted]

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## Appendix A

## Italian Arms Sales and Services

**Table A-1**  
Sales of Major Arms Exporting Nations

*Millions of current US \$*

Country	1976	1977	1978	1979	1980	1981
United States <sup>a</sup>	14,538	7,985	10,206	12,391	15,347	8,540
USSR	8,797	11,293	4,010	10,310	15,884	7,652
France	1,263	3,193	2,362	4,381	8,714	1,302
United Kingdom	701	1,865	3,156	1,712	2,735	1,458
West Germany	1,167	1,289	2,648	1,571	1,289	982
Italy	401	1,036	1,429	394	3,086	376

<sup>a</sup> US yearly totals include training.

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**Table A-2**  
Italy's Leading Arms Sales Customers

*Millions of current US \$*

Country	1976	1977	1978	1979	1980	1981
Iraq	2	2	121	19	2,016	75
Libya	6	412	428	15	180	3
Iran	1	436	7	26	NEGL	10
Saudi Arabia	160	41	7	5	0	30
Egypt	40	10	0	NEGL	245	12
Argentina	NEGL	0	58	31	30	60
Brazil	2	0	0	0	12	65
Thailand	86	0	1	56	0	0
Ecuador	0	2	268	0	0	10
Somalia	0	7	331	27	9	5

Note: Amounts rounded to the nearest million.

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**Table A-3**  
**Foreign Military Trainees in Italy**

Origin	1976	1977	1978	1979	1980	1981
<b>Total</b>	<b>277</b>	<b>520</b>	<b>573</b>	<b>624</b>	<b>539</b>	<b>456</b>
Middle East	198	451	454	508	438	367
Latin America	18	8	38	5	16	9
Sub-Saharan Africa	60	60	80	75	78	79
Europe	1	1	1	36	5	1
Asia and Pacific	0	0	0	0	2	0

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**Table A-4**  
**Italian Military Technicians Abroad**

Region	1976	1977	1978	1979	1980	1981
<b>Total</b>	<b>57</b>	<b>73</b>	<b>87</b>	<b>89</b>	<b>43</b>	<b>53</b>
Middle East	9	28	39	40	30	30
Latin America	0	0	0	0	0	0
Sub-Saharan Africa	6	2	8	9	13	23
Europe	42	43	40	40	0	0
Asia and Pacific	0	0	0	0	0	0

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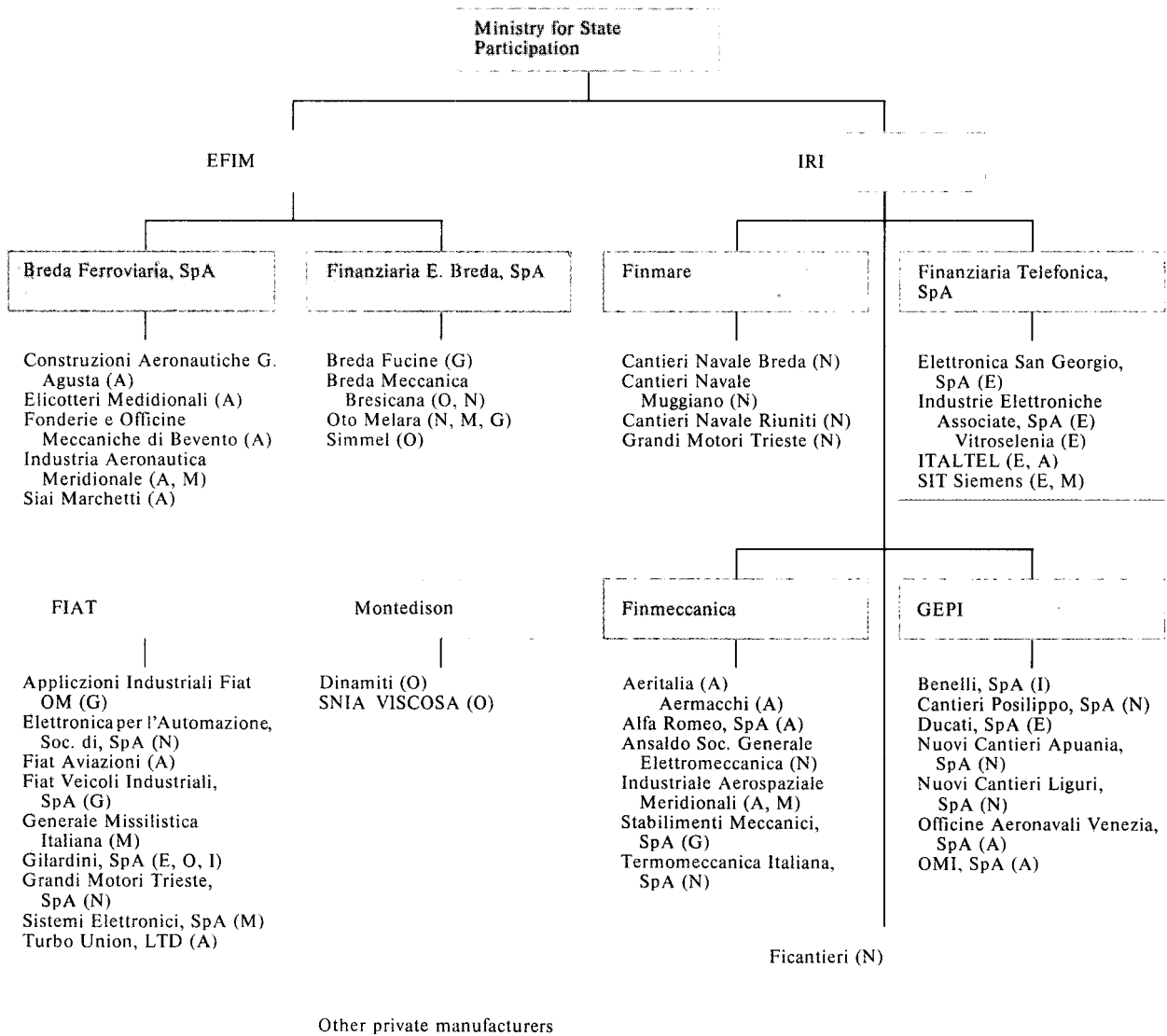
Appendix B

Ownership of the Italian Arms Industry

- Indicates either total or partial ownership
- Holding companies
- ▨ Subsidiary holding companies
- Manufacturers

- A=Aircraft
- E=Electronics
- G=Ground forces vehicles
- I=Infantry equipment
- M=Missiles

- N=Naval equipment
- O=Ordnance



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