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CURRENT INTELLIGENCE WEEKLY SUMMARY

ITALIAN STATE ENTERPRISES

Italy has more than 1,000 publicly owned industrial enterprises--more than any other Western European country. These firms employ over 350,000 workers and account for about one fifth of the value of the gross national product. The government has hitherto played only a passive role in shaping their policies and managing their operations. Despite political opposition and resistance from the entrenched managements, however, the Fanfani government has recently begun efforts to bring these enterprises under closer executive direction in the interests of national economic planning.

Developments of the State-Owned Sector

The Italian Government acquired most of its large and complex network of holdings, not by legislative action, but through financial rescue operations during the depression of the early 1930s. At that time it established the Institute for Industrial Reconstruction (IRI) as a channel for advancing cash to the large commercial banks--which were the dominant stockholders in major industries--in exchange for the industrial securities held by the banks. The large banks also held most of their own stock, through controlled holding companies, and these too were taken over by IRI. The government's policy--which amounted to nationalization--was enthusiastically supported by the industrialists and the bankers, who were thus bailed out by the taxpayer.

Successive Italian governments since World War II have maintained their industrial empire, justifying this as "directly related to the process of removing imbalances in the economic and social structure of the country." Despite the

size of the state firms and their importance in various essential sectors of the economy, however, the concept of a market economy has not been abandoned. This is in part reflected in the form of the government's participation. Whereas the transportation and most of the communications facilities are directly controlled by the cabinet ministries concerned, the government's participation in the industrial enterprises is through the ownership of equity shares which, since early 1957, have all been held by a Ministry of State Holdings.

As specified in the enabling legislation, that ministry's principal function is to "provide over-all direction and coordinate the economic activities of the firms under its jurisdiction." It was not intended, nor has it developed, that the ministry should directly manage the business activities of individual firms. The law further provides that the activities of the ministry are to be coordinated with the government's over-all economic policies through a standing committee composed of the prime minister and the principal economic ministries.

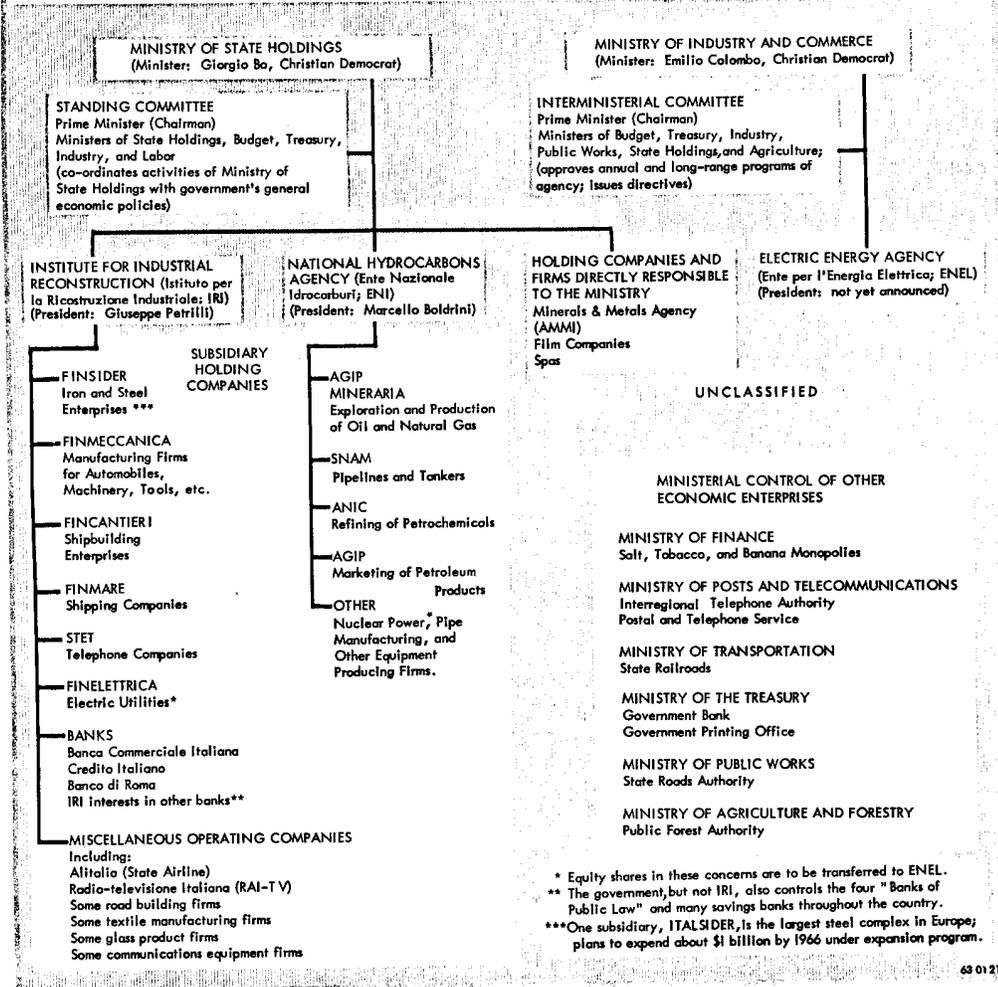
With the exception of comparatively minor industrial interests, all of the government-owned companies for which the Ministry of State Holdings is responsible now are grouped according to the type of commodity produced or service rendered under about a dozen very large holding companies. These companies are themselves subsidiaries of and directed by the two giant holding corporations, IRI and the National Hydrocarbons Agency (ENI). A third corporation, the newly established Electric Energy Agency (ENEL), will be under the supervision of the Ministry for Industry and Commerce.

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ITALY: GOVERNMENT-OWNED ENTERPRISES



* Equity shares in these concerns are to be transferred to ENEL.
 ** The government, but not IRI, also controls the four "Banks of Public Law" and many savings banks throughout the country.
 *** One subsidiary, ITALSIDER, is the largest steel complex in Europe; plans to expend about \$1 billion by 1966 under expansion program.

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The state-owned enterprises are, on the whole, efficiently run businesses. The present government has attributed to them much of the credit for Italy's high economic growth rate, pointing out that in general they have expanded production faster than firms in the private sector. During 1962-65 it is expected that state-owned firms will invest over \$4 billion in the economy.

Institute for Industrial Reconstruction

IRI is by far the largest financial holding group in Italy. According to its official report for 1961, assets of the industrial and banking concerns under its control amounted to about \$11.25 billion: \$5.22 billion for the industrial firms, \$5.86 billion for the "banks of national interest," and the balance representing other assets.

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Through its six subsidiary holding companies, the institute by law supervises firms wholly or partially government-owned which produce a substantial percentage of Italy's basic industrial output. Firms controlled by IRI are estimated to account for 80 percent of Italian shipbuilding and to produce more than 90 percent of Italy's total output of pig iron, 57 percent of its steel, and 40 percent or more of its ball bearings, as well as a lower but still significant percentage of the output of many other industries. Notable other examples are those enterprises producing railroad equipment, machine tools, precision instruments, electro-mechanical products, and cement. IRI has a complete monopoly in Radio-Televisione Italiana (RAI-TV) and in the national telephone system and airline. IRI's control over Italy's three largest banks and its substantial stock interests in many others facilitate implementation of a national credit policy.

Although the government had been criticized in the past for subsidizing IRI projects that turned out to be uneconomic, the company's performance in this respect appears to have improved markedly since 1957. The precise path by which government funds flow into state enterprises is very difficult to chart because of the complex methods employed in extending financial aid and because "write-offs" have been fairly common. According to the minister for state holdings, state contributions to the various capital endowments of all state firms (including ENI) probably amount to about 8 percent of their total financial requirements for 1962.

National Hydrocarbons Agency

ENI, under the leadership of the late Enrico Mattei, de-

veloped, with the full support of the government, into one of the most dynamic and controversial enterprises in Europe. The agency has been a major factor in the national economic recovery, and most Italians regard Mattei as a national hero who enhanced the country's prestige. Through its five subsidiary holding companies, ENI manages government firms concerned with the exploration, production, and marketing of petrochemical products as well as many firms which produce equipment related to this industry. ENI operating companies and their subsidiaries have worldwide interests representing a multibillion-dollar industrial and commercial empire.

Mattei's death in October posed questions as yet unresolved regarding the course of future Italian petroleum policies. The situation is further complicated by the fact that many aspects of ENI operations were known only to Mattei. On several recent occasions, the government has expressed its firm intention of continuing Mattei's international oil policies in full. Certain of these policies, including a trade agreement with the Soviet Union, have generated considerable criticism outside of Italy. Moreover, his financial arrangements granting oil-producing countries a larger share of oil profits than had been customary in international practice elicited the animosity of other companies.

A recent indication of the government's determination to follow Mattei policies was the agreement signed last month between the government of the Congo and ENI's subsidiary AGIP for the construction and operation there of a 600,000-ton refinery. Mattei's innovation, the 50-50 capital provision arrangement, is provided for in the agreement.

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Despite the government's intentions, it seems unlikely that ENI's activities can be maintained in the long run as aggressively and as brilliantly under the leadership of another individual.

Although Marcello Boldrini was promptly appointed to succeed as ENI president, there was apparently considerable wrangling between Christian Democratic leaders over the selection, and his appointment, which expires on 31 March, will probably not be renewed. It is doubtful in any event that the ultimate successor will be able to reconstitute the political influence wielded by Mattei, who-- as a financial angel to various political parties and newspapers-- probably was the most powerful individual in Italy.

Extent of Government Control

The government asserts that the state firms have performed a "fundamental function in the field of programmed economic development." As provided by law, since 1957 they have funneled close to 40 percent of their new investments into the economically depressed south, which private capital has tended to shun. It is planned that state firms will allocate \$1.7 billion to this area between 1962 and 1965.

In most respects, however, the government does not exert executive control over the state-owned enterprises, the large IRI subsidiaries and ENI have enjoyed almost complete latitude in running their corporate affairs, and the criteria for their activities have normally been strictly business considerations rather than the national interest. Although financial reports on each of the state enterprises are submitted to Parliament as required by law, these are usually fragmentary and apparently often deliberately distorted.

A recent example of the near-complete independence which state enterprises have is shown by the proposal for Italian assistance through the state-owned Alitalia airline in the development of a Somali airline-- a project considered to be of considerable political importance to Rome. The government, although it did not know either the details of Alitalia's offer to the Somalis or its negotiating position, was prepared to make up any deficit "if Alitalia decided" to participate in the project.

Industrialists in the state sector--like major private economic interests--constitute a significant political force. Although this derives partly from the patronage and financial resources available to them, more significantly it comes through default. The government-- an "absentee landlord"--does not normally intervene to control those business activities of state-owned firms which might have international political implications and, in fact, supports these as contributing to the general economic welfare.

Pressures for Change

For purposes of national reconstruction and reform, however, the government is trying to assert a greater degree of direction over the state-owned enterprises. Public planning functions, in which state firms will play a key role, have been brought under the recently established National Economic Planning Board, which is scheduled to submit its preliminary recommendation this month. The government also plans "some reorganization" of the Ministry of State Holdings. This reorganization has been billed as a move to get more efficient management of the various state-owned companies and to "assure that their activities conform with the objectives of the government's economic program."

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The government's efforts to gain increased control will be resisted by the entrenched state managers and others who argue that this will stifle entrepreneurial initiative. The lack of an expert staff to investigate the activities of the state firms will also be a handicap.

This resistance was illustrated during a top-level conference last month on the role of state-owned firms in attaining the objectives of an economic plan. IRI's president, while conceding the value of over-all planning, emphasized that public organizations must continue to operate on the same business basis as private firms. Socialist Party (PSI) Deputy Riccardo Lombardi, who is considered the probable successor to party leader Pietro Nenni and is the party's expert on economic matters, responded that the time has come for state firms to modify their operating methods. He asserted they might be assigned objectives within a general development plan which might not permit profitable operations.

Opposition to change also comes partly from private monopolies which control several of the most important fields of the economy, such as the chemical and automotive industries. Conservative opinion generally is opposed primarily out of fear of increased public intervention in the private sector, which they feel would adversely affect their business interests. There is real concern among some conservatives that any extension of government control is fundamentally harmful to the democratic conception of private enterprise.

However, there is no evidence that these groups are exerting any serious pressure to return government enterprises

to private ownership. Instead, they are concentrating on efforts to bring down the government in the belief that it is the proponent of policies inimical to their interests.

The issue was drawn still more sharply by the nationalization in December of most of the firms producing electric energy. The firms affected, together with those already owned by the government, produce roughly three quarters of the country's total output of electric energy. The measure was bitterly opposed by private industrialists and business circles generally on the ground that it lacks economic or social justification. Right-wing circles are also alarmed because passage of this bill was the principal requirement laid down by the PSI as part of the price of its acquiescence in the formation of the present government.

Except for that from the Communists, who recently issued a call for nationalization of the sugar, cement, and chemical industries, there are no pressures at present for additional nationalization measures, and the Fanfani government has no plans for any.

Fanfani's Christian Democrats, at their national council meeting last summer, passed a resolution that they would not consider any further nationalization proposals, and the parties to the right of the Christian Democrats are also opposed. Although the backbone of the PSI's economic program is state supervision and regulation of all phases of economic activity and the party's long-range objective is the eventual extension of state control over industry, party secretary Nenni and other PSI leaders have indicated that the party does not intend to propose further nationalization "for a long time." (CONFIDENTIAL)