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West Europe Report

(FOUO 8/81)

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WEST EUROPE REPORT

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COUNTRY SECTION

FRANCE

FRENCH FOREIGN POLICY: STATUS, DIRECTIONS, GOALS, PROBLEMS

Problems To Address

Paris PARADOXES in French Autumn 1980 pp 50-65

[Article by Bernard Adrien, diplomat and director of studies at the Institute of Political Studies]

[Excerpts] For several years the international community has been undergoing without doubt the most acute power struggle it has known since 1945. The post war order and the complex equilibrium which ensured its durability collapsed during the 1960's and the beginning of the 1970's under the combined effect of many factors. However it may have been criticized and attacked, the resulting disorder seemed tolerable and even controllable so long as wealth increased and the appearances respected of existing situations. However since 1974 the international situation as a whole, after having faltered in several directions, today seems to be going from disorder to a growing disequilibrium which more and more eludes all control. The major explanation of this phenomenon is surely to be sought in the importance, the novelty, and the rapidity of changes that have occurred. But above all it should be found in the odd and dangerous attitude adopted by certain large industrialized countries, particularly France, in their foreign policies.

Basically, it is that too much attention is paid to appearances in foreign policy. The implementing diplomacy thus acquires an unreal aspect. Since 1974 its practices have consisted in minimizing or denying the erosion and cracks heard in the domain of capital as well as of energy, money, commerce, and strategic relations. Since then control has progressively escaped into the hands of the sorcerer's apprentices. There could have been a reaction. But instead the foreign policies of numerous industrialized countries preferred to continue to ignore the dangerous and difficult reality. The spectacle provided by the "summits" or by the "Globe Trotters" diplomats has long occupied the center of a stage where everything ended in smiles. But what great international problem received even the beginning of a settlement? A deeply dangerous situation since it baffled its protagonists. A situation scarcely changed by the recent increase in international tension, marked by a genuine danger of slipping out of control, and people's becoming extraordinarily excited. Indeed how could people not become provoked when it was clear to everyone that the situation was completely out of control.

No doubt after the current crisis we will end in a brutal awakening. France, particularly vulnerable, is likely then to be taken aback by the mediocrity of its new deal.

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Let us note today the principal areas of confrontation.

• The energy question remains at the center of the stakes. What is it if not a merciless struggle over purchasing power? The industrialized countries pay the producers for the petroleum in paper money and those among them that dispose of hydrocarbons prefer to conserve them and buy abroad the quantities needed for their consumption. These same countries increase the price of their industrialized products, selling them in terms of the very same inflation prices that they continue to fuel.

In 1974 the industrialized countries withstood the increase; some wavered over a solution involving use of force. The majority hoped to find a response in the form of a "Western" cartel of rich countries against the OPEC. France then clearly stated the problem, asking the United States if it were ready to carry out its responsibilities as producer, and suggested that an international agency monitoring prices and purchasing power be established at the United Nations. These proposals were rejected. Refuge was then taken in appearances, and its first example was the idea of "dialog." Such has been the line of French proposals since 1975. This approach was and remains a failure since there is no time to dialogue, but only to negotiate over the purchasing power of energy materials.

What of the Third World? Here today, despite certain appearances and forecasts to the contrary, a solidarity is maintained among developing countries that is simply astonishing, considering all the cleavages and the increasing diversity of these countries' situations.

The realities of the developing world in fact today seem very far from the foreign policies of our principal partners and of France. Of course, the extraordinary general assemblies, CNUCED [UN Conference on Trade and Development], plenary committees and specialized conferences all note some limited progress, but most importantly they avoid mentioning, or reiterating before public opinion, that if the five richest countries of the globe devoted 0.7 percent perhaps 1.0 percent, of their GNP to development aid, the financing of the growth of these countries, above all the most deprived of them, would finally have a chance of being assured. However, it would be advisable for this aid to be financed not by paper money but by effective savings. Alas, to state this simple truth is to risk passing today for being out of touch with the new realities. Yet, what more timely objective is there than the increase of Foreign Assistance¹ and the organization of the raw materials markets as France suggested more than a decade ago? What a gulf still separates us from satisfactory solutions in these domains! France's effort for Foreign Assistance is diminishing to the point of being nearly caught up with by the most backward industrial country. Confronting the dominant religion of liberalism, our diplomacy urges the organization of markets with increasing timidity lest our unwilling partners be offended, and we hope that treating them tactfully will bring them around sooner to our way of thinking.

Let us consider the monetary field. There we have been witnessing for almost 20 years the certain and continuing decline in the situation.

A certain line was followed beginning in 1974. After the Rambouillet agreements during which France came close to the American positions concerning gold and

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floating exchanges, all that the international conferences on the subject did was to align law with the facts, that is, legalize the existing disorder. Revision of the statutes of the Monetary Fund so diluted the powers of that institution that now everything is allowed. The emission of international liquidity is less than ever controlled and its division is extremely unjust. In a period of hyperinflation the IMF found it necessary to issue DTA [special drawing rights]. Projects for the stabilization or consolidation of dollar balances are of absurdly limited extent, and at all events were rejected. Finally the timid discussions concerning control of the international capital market took place outside the IMF and achieved nothing, which only goes to show that it is merely desired to deal with this question in terms of special interests, that is the rivalry between New York and London as international financial capitals. Today the IMF is certainly one of the institutions that has sacrificed the most to the policy of appearances, even if during its annual meetings international officials continue the ritual of venerating the attributes of a power which has, in part, abandoned it.

In the commercial area, the present situation is marked by a considerable increase in competition coming from all categories of countries.

The realities of the question of commercial confrontation remain badly understood, especially by France. At the opening of multilateral commercial negotiations a prerequisite was advanced, according to which any tariff or nontariff reduction must not be put into question by monetary manipulations. Quite symptomatic of current bad practices, this prerequisite was immediately abandoned. And so since 1974 tariff and nontariff obstacles have been negotiated while the value of currencies has been fluctuating to an unparalleled extent, and unemployment has been increasing regularly. An exceptional attachment to appearances. Here, too, in a period of great economic difficulties, the European Community, whose protection level is the lowest in the world, follows the sole policy of reducing it still further. Without lapsing into protectionism, are there not other completely different and naturally dynamic ways?

Let us come to security questions. In this area the reign of appearances ended in bitter disappointments. First, in Afghanistan it was discovered that in letting things "go" during a coup d'etat perpetrated 2 years ago, the door was opened to such interpretations that a Russian military invasion became possible. And since appearances were clung to in the analysis of the situation, suddenly all international relations revolved around Afghanistan, which for awhile became the "navel of the world" to such an extent that South Vietnamese imperialism and the changes in South America or the Middle East became unimportant. No government was not ready to "die for Kabul." And we have seen the reality of these foolhardy resolutions.

As another example of the reign of appearances, one can cite what could be called the "European Illusion." It consists of thinking that faced with the American eclipse and the growing incomprehension between the superpowers Europe should take over and assume the qualities of the third great power. Europe's emergence, it is said, would be one of the outstanding characteristics of the present time. And indeed responsible Europeans of the highest rank saw fit to intervene in Warsaw

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or in Moscow in order to renew a contact which in their eyes was irremediably eroding. This ambition reflects a double paradox. An intervention in a strategic domain where, except France, all European countries are singularly lacking in means. An intervention taking place precisely when the only realities existing in Europe, that of the Community, are crumbling or are struck with weaknesses. Is this not a rather irresponsible evasion of the difficulties caused by the failure of a certain way of constructing Europe? The results of this effort showed how illusory is a policy lacking in means.

The important element in the last few months' developments is ultimately that never has the highest level of relations between the great powers ever been afflicted and that detente has basically not been challenged. More than the grave danger of confrontations, one must recognize the lack of stamina in the armaments race. Each one, small or large, suddenly became concerned about its real situation before resuming with a special frenzy this costly race. But during that period of concern each one suddenly felt the precariousness of the current balance. Let us wager that in view of the costs brought about by this race, there will soon be felt pressures to return to moderate practices.

This kind of foreign policy has a privileged diplomatic form characterized by dramatic entertainment and personal relations.

For some years this method, used particularly between the principal Western countries, has also been spreading to the "Europe of the Nine" level. The institution of European councils is no doubt one of the best indications of European solidarity. But it remains true that an institution is valued only by what it accomplishes. What a great surprise to find that despite the many conflicts in interest among the Nine, almost no European council since 1974 has revealed any real crisis or serious confrontations. While all the subjects have increased in seriousness and existing European achievements have been borne in pain, one starts to wonder about the spirit of compromise that suddenly has taken possession of our partners. One dares not suggest that this is because nobody wished to take up difficult problems with the firm intention of solving them. Results of the different European councils would tend to confirm this since one would seek in vain for new common policies or new developments added to the European structure. There is an exception, and it moreover is the only subject where any antagonism, quickly dissipated, could be detected. That is the European Monetary System. Finally, there has been for a year a calling into question to an unprecedented degree of the Community's common agricultural policy and Great Britain's contribution. Because of having let the CAP erode, and closed ones eyes to the inadmissible criticisms Great Britain levelled against the EE, it is natural that the crumbling away of the Edifice should now appear in broad daylight. But today the process has taken such a turn that one can doubt the abilities of the persons in charge to control it. And now the Germans, after the English, start to have doubts about the Common Market.²

In real life it is in the nature of things not to develop as statesmen would wish them to. In a human union difficulties and a rupture generally come as a consequence of mutual indifferences, of weakness too often accepted, in short, from a growing inability to solve problems together. To ignore the fact that life is

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made up of confrontations and difficulties with which one must live and try to resolve is to risk very painful awakenings. For Europe, we are at that point. The erosion is out of control.

But another way is open to French foreign policy. Experience shows that since 1945, under certain conditions our country can always influence in an essential way the international scene, certainly as a result of France's own weight and own work, but also because of its clear and original concept of international relations. Three directions are today open to this resumption of control of our foreign policy:

--Stop the uncontrolled slippage in the principal sectors of international activities.

In the monetary field it means that it is urgent to stop the laxness and disintegration of the system or at least avoid encouraging this.

In the commercial field it means it is necessary to return to a stricter concept of reciprocity in Europe. In the security domain it is well to criticize the extraordinary armaments race taking place before our eyes and which constitute a permanent threat to detente or what remains of it.

--Get to the heart of the problems of our time.

Energy ought to have priority. Today a real negotiation is needed with producers on the purchasing power of hydrocarbons. The establishment of periodic contacts permitting examination of this question and taking it into account within the framework of, if not contractual, at least foreseeable and more or less regular, price increases, would permit attenuation of one of the more serious elements of insecurity of this time.⁴ Monetary questions ought to be dealt with in concert inasmuch as they determine in large measure the current problems of oil producing countries. A radical reordering is required: organization of the international capital market, consolidation of dollar balances, return to more stable exchange rates with a direct or indirect reference to gold, effective universalization of the IMF and institution of machinery able to discourage a dangerous multiplication of reserve currencies. The current structure of international credit totally in private hands has become extremely fragile as a result of the second petroleum shock. Only the institution of means of public control and mechanisms of guarantee is capable of avoiding a possible crisis of confidence turning into a catastrophe. In the commercial field it would be preferable to have a real European market policy. It would encourage the adaptation of agricultural and industrial productive capacities, and of services, to harsh international competition. With its various instruments, tariffs would help certain leading "infant" industries to get a foothold in the market; rights which would have to disappear in a few years could be applied in areas where there is a strict reconversion policy.

Vis a vis the Third World the question of foreign aid is essential and in this domain France ought to undertake to increase considerably its current efforts. In the case of commerce, the opening up of industrialized markets is already broadly accomplished and will be more so. Finally there remains the organization and

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discipline of markets which are still starting out and could contribute importantly to the development of poor countries.

In the security field, it is appropriate to abandon the soothing concept of detente for an extremely vigilant attitude. In spite of talk, the only thing that really counts is defense capability. It is thus essential to translate our determination first into our military plans. In this domain these past few years France has fallen into uncertain attitudes.

Since 1974 one has only spoken of nonproliferation and disarmament plans in Europe and elsewhere, without planning to increase the too small number of our nuclear vectors and especially of submarines. The question of whether the country is satisfied with maintaining its established situation in the defense field, or was it preparing for the future, has long remained without clear response. A new resolve does seem to have developed under the pressure of events. But it is strangely coupled with an uncertainty regarding the strategies to adopt and the extent of our forces' field of action. In that regard the need cannot be over-emphasized for France to dispose of an effective peace keeping force, able to defend its vital interests where its adversaries seek to destabilize, in addition to its strategic capacities. The inhibitions which colonial conflicts or post colonial conflicts have created in all Western countries ought not make us submit to threats to our deepest interests.

But there is another domain where a country like France can exercise considerable influence in the security field. That is the assertion of basic truths concerning the frightful accumulation of stocks of arms or the use of intolerable methods. In brief it consists, for example, in defining the Afghan resistance guerrillas as legitimate and possibly recognizing them and not treating them as rebels. It consists, for example in calling the Vietnamese expansionist policy what it is, or indeed not to tolerate the sufferable inconsistencies of the Iranian leaders, received in Paris the very same time they tried to assassinate our political refugees, after having themselves benefitted from that status. It means finally that the whole truth be told as was the case in the past about the extraordinary will to power of the Soviet Union now arming itself and oppressing people beyond all measure.

Renew our relations with our allies and our neighbors.

France surely has fundamental interests in common with the United States of America. But its principal interest is that this great country should conduct a good policy. Never will France or any other country have interest in America's flooding the world with its dollars, suddenly change its security policy by 180 degrees, help increase oil prices, or show a retrograde egotism vis-a-vis the Third World. The voice of reason is to warn its friends when they err, it is not to let them go to their ruin without saying a word. For that it is necessary to consult together in ways other than insipid summits or sterile procedural confrontations. New formulas must be found as soon as possible.

The same is true for the field of Europe. It is henceforth up to us to present our partners with the choice of energy, financial, agricultural, commercial, and

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technological solidarity by going to the root of things. It is up to us to propose in each of the fields policies for the future and for example a hardnosed exporting agricultural policy.

But let us not through smugness, conservatism, and lack of imagination allow a structure to collapse that is important for the country and could be even more so. In this new context the attitude of our English and German partners will be much clearer. Each one will then be obliged to take positions on constructive measures and not on destructive measures or of hasty improvisation. Since when all is said and done the great experience of these past years is that the facts have clearly shown that Europe was not the obligatory passage point or the inevitable future necessity for France. If it is true that we gain in all areas from the European construction, we lose in every way with a mediocre and unsound Europe. Many have said this but not always convincingly. The recent movements of the Community or of the parliamentary assembly amply demonstrate there is neither a Europe-at-any-price or a Europe of miracles, and from seeking to be too European, France came to forget what today it possesses more than any of its partners--the independence of its defense.

Moreover this situation places it in a quite special position vis-a-vis its neighbors. Here one should recall that England must remain a privileged partner of France in the security field despite the fact that it recently decided to renew its strategic rockets in the United States.

Despite the very close links uniting us with Germany, and which it is of major importance to develop, one might wonder about France's interest today in continually assisting this country into the world's saddle, without any kind of return. In acting this way, flying in the face of German realities, which are and will remain those of a country having a "special statute," it is doing no one a favor to take it for something it is not. That is starting a change in the European status quo which could be dangerous in the long run.

But to take proper advantage of this turning point in our foreign relations our diplomacy should be inspired by several principles:

--the choice of a "Renault type strategy," the kind the Renault administration carried out in making "breakthroughs" in the social field, and particularly in adopting the 5th week of paid vacations. Once isolated, this great enterprise's policy soon gained ground. In the energy field, in that of aid to the Third World, France has great possibilities for action. In an "interdependent" world that is indeed the way to resume our freedom of action and to mark certain sectors of international relations with a positive dynamism.

--a better use of international public opinion. Without interfering in the internal politics of our partners it is our absolute right to try to make their public opinion comprehend what our positions are and what our judgment is on matters. But until now we have never seen that "diplomatic news" which would concentrate all our means in a great exercise of clarification in the more varied places. Mazarin and Richelieu flooded Europe with wording of formidable effectiveness. At a time of audio-visual media, we cannot yet conceive of a "diplomatic news" which is not merely an internal political maneuver. In the monetary

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field France once undertook a partial effort in this direction. Despite the isolation of its positions the results were not negligible. Henry Kissinger's memoirs are very instructive in that regard. The former secretary of state describes the respect the American authorities had for France's monetary positions under the presidency of General de Gaulle and of George Pompidou. That did not prevent the American government from devaluing the dollar. Henry Kissinger nevertheless recognized that Pompidou alone avoided a devaluation of the struggle.

--the return to less diplomatic "frenzy." No summit that has not been appropriately prepared and sure of getting to the bottom of one great subject. No visit without a relatively limited aim. No policy conducted simultaneously by three government departments inspired by divergent ambitions and concerns. Thus separated from the sound and fury, our authorities could have a greater chance of dominating a complex situation where success is determined by the correctness of the analysis. Thus, surely, with clarity of objectives, unity in implementation, the country's support--a condition of success--would be obtained without difficulty.

Clearly, France should leave the domain of appearances for the field of action. Before present difficulties the alternative should not be to change a given position in reaction to the two Greats and thus have the logic of their interests prevail in the real problems with which we are confronted. French foreign policy should be determined first and foremost in relation to our own national interests. And France's interest today is not in a policy of appearances. It is in the restoration of an international economic order, it is in the respect of the current territorial status quo, and against all the military adventures which seek to change it, it is in the struggle against poverty in the world.

FOOTNOTES

1. First subject mentioned by the Brandt Commission.
2. Mr Ertl recently declared the CAP cost too much and the GFR could get along with a national policy.
4. The oil producing countries have almost themselves come to propose such a solution, considered until recently as totally unrealistic.

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Power Balance Analysis

Bonn EUROPA ARCHIV in German No 23, 1980 pp 701-709

/Article by Walter Schuetze, secretary of study commission on Franco-German relations at French institute of international relations, Paris: "New Directions in French Foreign Policy - Basic Factors: External Dictates and Domestic Constraints"/

/Text/ The dramatic change in the climate of East-West relations since the Soviet invasion of Afghanistan a year ago, the intensification of conflicts in the Third World and, last but not least, the possibility that U.S. foreign policy may change under Ronald Reagan are forcing French political leaders to reassess their diplomatic assumptions and goals. Ever since the founding of the Fifth Republic, French policy has been one of national independence and concomitant autonomy in defense and security matters. This policy stands and falls with the preservation of approximate military balance between East and West and with the continuation of the detente process in Europe. If these two elements are called into question, French diplomacy's options are narrowed and as for the domestic consensus to which President Giscard d'Estaing has often, if somewhat euphemistically, referred as supporting foreign policy ventures, it would become fragile. How difficult it has become to protect the Gaullist heritage in a wholly new international arena is evidenced by Giscard's tactical maneuvers both vis-a-vis the Western alliance and the Soviet Union.

With respect to the NATO decision of 12 December 1979 on the modernization of medium-range nuclear weapons, France adopted an equivocal position. Officially, France announced it would not participate in potential negotiations limiting medium-range arsenals in Europe, since this touched on the independence of its own nuclear strike force and --most decisively-- since such a move would not gain the support of parliament or the public under any circumstances. But behind the scenes the allies were told that France welcomed modernization in that it contributed to re-establishing the "euro-strategic" balance. Giscard d'Estaing's initial reaction to the Soviet army marching into Kabul was scarcely different from General de Gaulle's at the time of the invasion of Czechoslovakia in 1968. But the thesis that this merely was one more minor mishap along the way to detente soon proved unsupportable with the Gaullists in particular sharply criticizing this type of "appeasement."

Both of these instances raise the question of what Giscard's real options are. To be sure, since his election in May 1974 it has become even more customary than under his predecessors for the President not only to assume responsibility for general policy guide-

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lines but also to exercise executive power which has frequently led to ministry experts turning to Presidential advisers for guidance even on minor matters. This personal leadership style does allow for lightning decisions such as in the case of the Shaba intervention or the one in Bangui and the Warsaw meeting with Brezhnev in May 1980 or the dispatch of naval units to the Persian Gulf; but it does have its very definite limitations where major new foreign policy directions are concerned, which is to say, the big picture.

The party alignments, which remained largely unaltered by the parliamentary elections of March 1978, do not permit joining forces with the Western alliance --which three-quarters of the parliamentary spectrum consisting of Gaullists, socialists and communists refer to as returning to one of the "blocs"-- nor do they permit a revision of eastern policies such as is advocated by these three major parties, albeit for different reasons and stressing different goals. The result is a blockage in domestic policy, an impasse and an absence of genuine, which is to say attainable options. There was significant evidence of this when even the members of parliament made no move to raise basic questions concerning the foreign policy and the defense budget during this year's deliberations.

Similarly, in looking ahead to the Presidential elections in April or May 1981, Giscard will hardly want to add to already existing strains between himself and Jacques Chirac's RPR by starting a debate on the "essential options" of Gaullism. It is not so much a question of taking time out to think things over as chancellor Schmidt suggests in view of developments in the United States, but a question of looking for additional options in the field of West European cooperation where some movement may be possible.

A Specifically French Answer to New Challenges - EC Europe as New Factor in World Politics

It is quite evident that Giscard d'Estaing has been casting the Europe of the Nine in a new role since early 1980 and has been trying to enlist the support of his partners for it. In the joint Franco-German communique on Afghanistan in early February there was talk of special (West) European responsibilities in view of the new tensions and conflicts in the world. During his state visit to the FRG last summer, the President once again called for a unified, strong Europe to act as a stabilizing factor in international affairs. He raised the point again in his statement at the close of his meeting with the chancellor in Paris last November. This "pronunciamento" does not seem to be based on any clear ideas about creating an autonomous West European power center. Is it merely rhetoric or does Giscard really believe in pursuing a "third way" in a zone of lessened tension in expectation of changes in the East-West picture? His political adversaries on the right and

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left are inclined to view it as a "gimmick;" the experts are trying to figure out the "whys and wherefors" of a West European power base or rather the political impotence of the European Community which is said to be stronger today than the United States-- an impotence which Giscard considers an "anomaly," as he told Helmut Schmidt. One thing is certain: by taking this position, the President has correctly gauged the mood of all democratic parties and large sections of the public and has outmaneuvered his Gaullist critics by pointing out that the "European Europe" concept was conceived by the grand old man himself.

Ever since he took office, Giscard has been working hard to strengthen the foreign policy component of the European Community both in the form of the European council of heads of state and government and the cooperation of the nine foreign ministries (the so-called European political cooperation). Furthermore, the need to retain the community as a sphere of operations made him adopt a conciliatory attitude in times of serious crisis (as in the case of the British budget contribution) and to resort to tactical maneuvering whenever there was a conflict of interests (as in the case of Spain and Portugal becoming members or the problem of basic reforms of EC agricultural policies.)

Seen in this light, the community is not merely a crisis management tool in the negative sense, that is to say the management of internal crises such as result from the differences in the economic structures and aims of the individual countries (the most recent example being the Luxembourg compromise which settled the institutional conflict centering on the application of the steel crisis regulations by the community authorities.) The positive aspect is exemplified by the prospects in the fields of economic policy and development policy as well as by diplomatic activities outside Europe, as stipulated in the Lome II agreement. Paris has come out strongly in favor of appropriate initiatives by European political cooperation as a result of Giscard d'Estaing's apparent realization based on his unhappy experiences in the budget controversy with Great Britain that the Council of Europe's summit meetings had been taxed beyond their decision-making capabilities.

French Near East Policy Dilemma: To Act Unilaterally or in Concert ?

Officially, Paris is saying that it was not until President Carter reacted unilaterally and exaggeratedly to the Soviet invasion of Afghanistan that the European partners, Great Britain and the smaller countries in particular, could be moved to act in concert. The offer to mediate put forward by the community foreign ministers in Rome last February may thus be viewed as a significant step on the way toward more independence in foreign policy matters in that the Europeans did adopt a position of their own for the first time, even if based on discreet consultations with Washington.

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The Near East declaration, prepared on the basis of European political cooperation and made public by the heads of government in Venice, was viewed by Paris as further proof of the desire --on the part of the other partners as well-- to play the role of bystanders in world affairs no longer and the finding was that the eight other countries had come significantly closer to the French view of how the Arab-Israeli conflict should be solved. To be sure, the nine foreign ministers had already adopted a guardedly positive position regarding Camp David, but the Venice declaration last June allowed of two different interpretations: the French interpretation according to which the Camp David process had ended in failure, creating the need for entirely new solutions which would include all the Arab countries involved plus the PLO, and the interpretation to which most other partners held according to which the European initiative was viewed as a supplement to the Camp David process which these countries were ready to continue supporting.

The controversy over this issue raised two important questions more sharply than ever before: Are West European initiatives justifiable within the context of individual countries or the alliance, if they touch directly on American interests? Is the "concert of nations" within the community a kind of re-insurance contract which provides immunity for purely national ventures, a safety net in other words to be used in case isolated activities or demands of one individual country do not attain the desired results? The French Near East initiative at least does indicate that there was no attempt to evade a confrontation with Washington and that European political cooperation is viewed as an instrument to be used to bring the other partners into the Paris line. There is a history to this; after the first oil shock in the spring of 1974 it led to the brink of a serious crisis with the Western allies. The then foreign minister Michel Jobert concluded bilateral agreements for oil deliveries with the Arab oil producers thereby weakening the bargaining position of the multinational corporations. This practice to which the OPEC countries adhered more and more as time went by has not undergone any change under Giscard d'Estaing. In fact, it has been expanded in all fields (commerce, arms sales, nuclear technology) up to and including the "exemplary" and privileged relationship France and Iraq have had (at least until the outbreak of the war with Iran.)

In the diplomatic field, Giscard anticipated the European political cooperation initiative by calling for inclusion of the PLO in any negotiations with Israel while on his trip through the Gulf states last March. A trenchant commentary on this was: "will trade Palestine for oil." The French government was no doubt motivated by the desire to secure oil deliveries over the long term by making political concessions and by approaching the position taken by the "rejection front." Until the end of 1979, economic considerations weighed most heavily, but once the power structure in the Gulf region shifted

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and the Soviet occupation of Afghanistan took place, French attention became focused on preventing the spread of a new East-West confrontation to this area. Giscard d'Estaing made an unequivocal point of this in the joint communique that was issued at the conclusion of his talks with Mme Gandhi in late January 1980 in New Delhi. With regard to the Kabul events, the communique stated that this "fait accompli" could not be tacitly accepted but should not at the same time lead to the formation of a new bloc.

French diplomats watched with great anxiety as Washington made an attempt to build up a military presence on the Arabian peninsula under cover of the Carter Doctrine. Ideally, the French felt, the members of the European Community should guarantee the non-aligned status of the countries in the area-- politically, by reopening the EC - Arab League dialogue interrupted by Egypt's 1978 withdrawal; economically, by making large-scale investments and even militarily, by increased arms deliveries and the provision of training personnel. In view of the American inability to control the revolutionary events in Iran, France went its own way by putting its money on Khomeini and, when this proved unsuccessful, by attempting to support Saddam Hussein's Iraq as a new power factor in the Arab world and a counterweight to the Islamic regime in Teheran. As far as can be judged, this strategy was not coordinated within the community or with the United States; beyond that, it underestimated the aggressiveness of the Baghdad regime.

At any rate, the Iraqi attack on Iran created a new situation, forcing France to do what she had meant to avoid which was to play a joint military role in the Persian Gulf with the United States and Great Britain and to try to prevent the closing of the vital Strait of Hormuz by assembling a Western "fleet in being." The subsequent call for concerted European action --Paris experts even discussed plans for a "European fleet" and deplored the fact that the FRG was unwilling to send ships to the Gulf-- seems to hold out little promise of success in the absence of prior coordination within the community-- the more so, since the French commitment to Iraq hardly appears likely to facilitate any attempts jointly to help negotiate an end to the Iraqi-Iranian war.

Progress of East-West Detente in Europe

The conclusion reached by the Elysee Palace that the unstable situation in the Near and Middle East made it necessary for the EC countries to compensate for weakness in American leadership as much as possible by pursuing an independent course influenced the reaction to the deterioration in U.S.-Soviet relations following the invasion of Afghanistan to an even greater extent. In his New Year's message, the President dramatized the dangers of war, at the same time presenting himself as a cool and level-headed crisis manager. Inside

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the cabinet, the opinion prevailed that the Soviet move did not signify a fundamental offensive shift in Soviet strategy but that it resulted from a gross miscalculation of the situation in Afghanistan itself as well as of the reaction to be expected in the United States and even more so among the Third World countries. But as yet there was no compelling reason why this should affect East-West relations in Europe, or as the Franco-German communique of early February 1980 said-- detente would survive unless a second blow similar to Afghanistan were struck.

In the American view, such statements from the President's inner circle seemed to indicate a trend toward neutralism which was of no danger to the Western alliance as long as it remained restricted to France and did not spread to the FRG or the other continental allies. In spite of the fact that the West European countries are in general agreement both on Soviet intentions and the risks of American overreaction, the EC partners certainly do not share the assumptions on which French diplomacy is based. Giscard views West Europe's role as that of a mediator between the two world powers. His coup de main of going off to Warsaw for a face-to-face conversation with Brezhnev last May (the preparations for which were kept secret from his own cabinet as well as the partners) was meant to dramatize the need for keeping the line to Moscow open. This is not only or even primarily part of Giscard's election strategy as the opposition and even his own coalition viewed it, although he may want to make it appear --it would not be the first time-- that Moscow would like France to continue playing the role of its privileged partner in Europe and would therefore exert enough pressure on the PCF to see to it that the President, who would guarantee continuity, is re-elected. But it would certainly be doing Giscard d'Estaing an injustice to accuse him of basing his diplomatic efforts solely on election campaign considerations. In his press conference of 26 June 1980, he declared that the Afghanistan crisis must be resolved by political means which presupposes that the East-West lines of communication remain open. Addressing himself to President Carter on that same occasion, he said he had explained to the President the reasons why "France's policy was and would remain independent." Paris had made a point of underlining this position earlier when the French ambassador to Moscow contrary to the ambassadors of the other Western powers took part in the May Day festivities and when official relations with the Soviet Union continued as before (consultations with foreign minister Gromyko taking place in Paris in late April 1980.)

Did this point to the pursuit of a separate course vis-a-vis the alliance, an experiment with "splendid isolation" for which France hoped to gain EC support? Both the preparatory phase and the actual circumstances of chancellor Schmidt's Moscow trip (close prior consultations within NATO, immediate report on results to Washington) could only lead to the conclusion that the FRG was not prepared to follow this path. And since the Kremlin gave no real indication as

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time passed of wanting to withdraw its troops from Afghanistan, any possibility of Giscard offering himself as an honest broker fell by the wayside.

Since last summer, French diplomacy has intensified its efforts toward achieving a consensus among the Western allies. This is necessary not only in view of events in Poland but also because of the current CSCE meeting in Madrid. There is a great deal of skepticism among French experts regarding the chances of the French plan for a disarmament conference in Europe becoming the main element of a group of experts to be decided upon by the Madrid meeting. (The plan had been taken over by European political cooperation in November 1979 and NATO-integrated, as it were, on 14 December 1979.) Mindful of what happened at the Belgrade CSCE follow-up meeting, Giscard's advisers sought to avoid having discussions on concrete measures with regard to lessening military tensions become enmeshed in the human rights debate. They had therefore proposed a separation of the three Helsinki final act baskets but then agreed as a result of a protest by the neutrals to tie the disarmament conference scheme to a mandate to be issued by the main Madrid conference. Inasmuch as the Madrid discussions were more and more likely to be dominated by human rights violations in the Soviet Union, the invasion of Afghanistan and the border controls in the GDR, Paris even toyed with the idea of proposing that the CSCE meeting be postponed, which was not well received by many Western partners and not only by the United States. On the surface, this getting-back-into-line on France's part is evidenced by the fact that her ambassador kept to the NATO agreement and did not attend the military parade commemorating the anniversary of the Soviet October revolution.

The problem of how France can best champion its own specific goals, above all that of continuing the East-West cooperation process in Europe, vis-a-vis the Washington government has become even more acute and urgent as a result of Ronald Reagan's election victory than it would have, if Carter had been re-elected. Going it alone is neither possible, nor desirable, as Giscard d'Estaing unequivocally emphasized on the occasion of his Paris meeting with chancellor Schmidt on 10 November. Is the "Franco-German twosome" to assume the role of vanguard? The genuine satisfaction with which the Elysee Palace reacted the chancellor Schmidt's re-election would seem to point in that direction and it was noteworthy to hear Giscard tell the chancellor that the FRG is France's "premier partner." How can this be reconciled with the vaunted independent stance taken by the community of nine? British foreign secretary Lord Carrington, at any rate, turned thumbs down on any idea of a Franco-German twosome by reviving the concept of an EC political secretariat, under discussion since 1969, and by simultaneously announcing that the "special relationship" of the English-speaking countries should be reactivated as a joint representation of interests vis-a-vis the Reagan administration.

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Official circles in Paris see little merit in the creation of a permanent diplomatic working group within the framework of European political cooperation --in the spring of 1980, a British proposal for the formation of a Near and Middle East crisis staff had been turned down-- and are calling instead for a kind of (informal) directorate to be staffed by the four leading European political cooperation countries whose effectiveness would not be restrained by the hesitancy and the objections of the smaller European partners. Other ideas being discussed are to have this worldwide crisis management mechanism developed in joint summit meetings along the lines of Guadeloupe (January 1979) between the United States and the three other leading Western powers.

Perspectives for a New Orientation

In view of the paramount position occupied by the President of the Republic, the outcome of the election in late April/early May 1981 is of great importance. If, as is generally assumed, Valery Giscard d'Estaing tries for a second 7-year term, his chances of winning are good. Public opinion polls give him a big lead over all his rivals, including Francois Mitterand who is running for President for the third time. Continuity of leadership of the Fifth Republic --which is being referred to as an "elective monarchy" these days-- is not synonymous, however, with continuing freedom of action in foreign affairs. To be sure, a substantial majority of the French people consider Giscard to be better qualified than Mitterand to preserve national independence, to maintain a strong position vis-a-vis the Soviet Union and to take a decisive position vis-a-vis the United States. But many Paris observers expect the new American government to press for closer French military cooperation not only outside the NATO treaty area and to ask all the allies for better coordination in the entire sphere of relations with the communist bloc, including the controversial issues of economic cooperation, the embargo of strategic goods and so on. Chances are it will be more difficult for French political leaders to assert their claim to an independent policy beyond the confines of mere rhetoric.

Insofar as Reagan's policies can be predicted at all, strengthening NATO defense capability and concerted action by all partners in foreign affairs within the NATO framework have already emerged as priority goals on the Republican agenda. The French military budget is expected to rise by about 4 percent in real terms next year which far exceeds the increases, adjusted for inflation, of all European members of the integrated NATO command but which cannot necessarily be construed as a relevant contribution to increased burden sharing, as requested by Washington, since France does not have a part in NATO defense and deterrent strategy.

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The statement by the French representative at the CSCE follow-up meeting in Madrid, on the other hand, makes it clear just how little room there is for independent action vis-a-vis the Soviet Union and that coordination of Western positions has priority status. The change of government affects French policy most of all in the Arab world inasmuch as the Elysee's persistent efforts to have the community take concrete steps to resolve the Israel conflict have met with mounting opposition by Great Britain and the Benelux countries since 4 November who first wish to ascertain the U.S. position before committing themselves to a new Near East initiative at the December meeting of the Council of Europe in Luxembourg. Domestically, Giscard d'Estaing's hands are tied on this issue, since most of the political parties and the public continue to make full PLO participation in any new negotiations contingent on that organization's recognizing Israel's right to statehood and security.

Any new orientation of French will thus be the result of external pressures and necessities in the first instance. Faced with a Gaullist coalition partner, who would hold fast to the principles of the past 20 years for campaign purposes if for no other reason, the President and his supporters will have a difficult time in pleading their case convincingly in the midst of a totally changed world situation.

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COUNTRY SECTION

FRANCE

BORDEAUX COMPOSITE MATERIALS INDUSTRY CALLED 'LEADER'

Paris AIR & COSMOS in French 20 Dec 80 pp 45-46

[Article by Pierre Langereux]

[Text] Problems posed by the development of French ballistic missiles have resulted in an original applied research process which today makes Bordeaux industry the "European leader in high-performance composite materials, according to a statement made by Jean Touton, president of the Bordeaux Chamber of Commerce and Industry, during a press conference on 12 December.

The administration (meaning the DGRST [General Delegation for Scientific and Technical Research]) has also confirmed the pilot role of Aquitaine in the development of high-performance composite materials, paralleling Lyon's role in the wide distribution composites sector, Senator Valade, dean of the Bordeaux Faculty of Sciences, recalled.

The Four Musketeers

Four Bordeaux companies, in 10 years, have acquired experience which places them in the forefront of Europe in the sector of research and manufacture of mechanical or thermal high-performance composite materials (carbon-carbon, Kevlar, boron, etc.). They are: AEROSPATIALE [National Industrial Aerospace Company] (at Issac), SEP [European Propellant Company] (Le Haillan), SNPE [National Powder and Explosives Company] (Saint-Medard) and Dassault (Merignac and Biarritz).

AEROSPATIALE (Aquitaine) has principally developed composites for use in reentry vehicles, wrapped structures and heat shields for ballistic missiles. AEROSPATIALE has developed over 650 glass fiber- or Kevlar fiber-wrapped components. It also mass-produces heat shields for stages (nose cones [feutres] of fibers and ceramics), structures (glass-nida-glass sandwich) of reentry vehicles equipped with heat shields of Orthostrasil (silica-resin), Orthostralon (silica-nylon-resin) or three-dimensional carbon-carbon, etc. AEROSPATIALE is associated with Carbone Lorraine in the development of "Aerolor" carbon-carbon composites, for reentry vehicles and missile nozzles, and it has also developed automatic, three-dimensional weaving machines whose (patented) process is at present of interest to the United States. AEROSPATIALE processes about 50 to 60 tons of composites per year in Aquitaine; however, its Mureaux plant, near Paris, works "cold" composite materials.

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The SEP employs half of its workforce (1,700 persons in Aquitaine) on composite materials. It now processes about 70 tons of composites per year, which makes it one of the leading plants in the world, according to Pierre Betin, SEP technical director in the field of powder propulsion. The SEP has made a specialty of high-performance composites, particularly "thermal" composites for applications in missile motors and nozzles. It mass-produces internal rubber heat shields for metal motors and "mechanical" rubber pieces for motor seats, which have given birth to laminated composites (rubber-metal) for the "flexible stops [butees]" of motor nozzles. It produces thermal composites (phenolic resin and silica, glass, carbon and graphite fibers for the manufacture of nozzle deflectors and collars: the collars of the Viking motors of the "Ariane" rocket are manufactured by the SEP in Bordeaux of phenolic silica (SEPHEM 301). The SEP has been associated with the CEM [Electromechanical Company] for several years in the GIE GEPEM [expansions unknown] in the production of carbon and graphite fabrics, particularly for the manufacture of multidimensional (3D, 4D and 6D) carbon-carbon composites, "SEPCARB" [SEP carbon] which are used in ballistic missiles (M4) and aeronautics.

Composites are now being used in the motors of ballistic missiles to replace steel, titanium, tungsten and light alloys. The weight percentage of composites in the inert parts of motors has increased from 20 percent to 80 percent in 15 years (the rest is metal), which has permitted a decrease in inert mass/active mass ratio (propergols) from 13-15 percent to only 5-8 percent, according to P. Betin.

This is a veritable "technological revolution" which has permitted France, with the United States and USSR, to be in the forefront of countries dominating the major part of the powder propellant sector. However, the SEP is also making plans for the use of composites in the motors of tactical missiles.

The SNPE, with its research center in Bouchet, near Paris, has the largest research and production potential in Europe, particularly in the resins for composites sector, as well as in the development of certain high-performance composites.

The SNPE manufactures polyester and phenolic resins, epoxy and PSP [expansion unknown] for different applications: missiles, airplanes, sports equipment, etc. PSP 6022 resin, which was developed by the SNPE with the ONERA [National Office for Aerospace Studies and Research], is in particular to be used for the radomes of missiles and for turboreactor pieces; the quality of this material enabled the SNPE in 1974 to obtain a NASA contract for the supplying of laminated sheets of carbon fibers in a PSP matrix.

The SNPE also manufactures epoxy resin compounds for the impregnation of Kevlar 40 fibers to be used for wrapping the casings of ballistic missile motors, the tubes of rocket launchers and armor plate castings.

Dassault was one of the first companies to manufacture structural elements for airplanes in its Bordeaux and Biarritz plants (wings, empennage, controls, etc.) from high-performance composite materials. Thus a rudder was made out of carbon fiber for the Mirage 3 which has been flying since 1975 and a horizontal empennage from boron fiber with a titanium edging has been tested on Mirage F1.

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Several parts made from carbon fiber composite have been flying in mass-produced Dassault airplanes. Mirage F1 ailerons, produced with an optimized profile, have permitted weight reduction of 26 percent with a manufacturing price equal to that of metal ailerons. Honeycomb ailerons covered with carbon fiber have been manufactured for the Falcon 50 and represent a world first in the civil aviation sector.

The Mirage 2000 is the first airplane, beginning with the planning stage, to use composite materials in its secondary and primary structures. Every aircraft has 17 parts of composites with carbon or boron fiber bases: fuselage doors, landing gear hatches, landing gear bay roof, radio bay door, elevators, vertical stabilizer casings, directional controls, etc.

The Super Mirage 4000 also has several parts made of composites. The duck empennage is a honeycomb covered with carbon fibers with a titanium fastener. The elevators pick up the Mirage 2000 concept; however, the vertical stabilizer with monolithic panels and built-in stiffeners manufactured by Dassault with AEROSPATIALE is a world first.

The application of composites to working parts has already permitted important savings in weight, said Mr Basque, director of the Dassault plant in Merignac; however, prices are still too uncertain; and large investments are still needed to improve the competitiveness of composite materials.

Markets Everywhere

The market for composite materials in the next 5 years will be characterized by strong growth--25 to 28 percent--in high-performance composites to the benefit of the aerospace industry but also to other industrial sectors: nuclear, automobile, oceanographic, offshore oil, energy, medicine, electrotechnology, sports, etc. From now to 1985, we predict in particular that the composites market will be multiplied 40-fold in the automobile sector and 50-fold in the medicine sector.

It is an "open" market into which we must "resolutely project ourselves," Mr Hugues, director of AEROSPATIALE (Aquitaine), feels.

Most of the Aquitaine companies have already oriented their research and manufacturing toward these new civil applications.

Thus AEROSPATIALE has studied and developed, with the IFP [French Petroleum Institute], composite structures of glass or carbon fibers for offshore purposes: pipes (risers, extenders, etc.), hulls of reservoirs or underwater vehicles for great depths (6,000 meters), helicopter pontoons and derrick structures, as well as water injection pipes for deep drilling (1,000 to 3,000 meters) which are to be utilized in an upcoming drilling program in the Mediterranean. It is also developing composite structures for AEC [Atomic Energy Commission] ultracentrifugation machines.

AEROSPATIALE has also developed a flywheel for the storage of kinetic energy in the 3 kWh range. This rotor with a metallic core, fiber spokes and carbon fiber outer ring, with an 800-mm diameter, can rotate at 630 m/s. It was shown for the first time to visitors to the Aquitaine plant on 12 December.

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AEROSPATIALE has decided to collaborate with Bordeaux companies in the manufacture of composites. It has taken a share (one-third, of the capital) in the new AMC [expansion unknown] company in Salannes (Medoc) which will manufacture metal bottles reinforced with composite for the storage of gas under pressure for Air Liquide in particular.

For its part, the SEP is mass-producing laminated rubber-metal composites (flexible SEPLAM [SEP laminates] stops) for the rotors of AEROSPATIALE Ecureuil helicopters, structural composites (Kevlar-epoxy) for CFM-56 turbojet fan casings of GE-SNECMA [National Company for Research and Construction of Aircraft Engines] and carbon-carbon composites (SEPCARB) for the Messier-Hispano brakes of the Mirage 2000.

Other applications of these materials are under development: laminates for mechanical joints (kneecaps, joints), offshore structures, carbon-carbon composites for vehicle brakes (automobiles, trucks and high-speed trains). The SEP is also developing a new family of ceramic composites reinforced with carbon in a matrix of silicon carbide, "CERASEP" [expansion unknown] for future aeronautical turbomachines and turbocompressors for land vehicles, as well as for metallurgy (crucibles for the refining of copper and aluminum). The SEP has also made a specialty of surgical applications of carbon-carbon composites.

The fallout use of composites in these various sectors could surpass--and by far--production for ballistic missile applications. According to P. Betin, "If the spirit of enterprise and the desire for conversion animates our future partners in the other industrial branches, if coordination of efforts and the support of the public authorities are suitable," Aquitaine industry, aided by Bordeaux University, could become "one of the world's centers for the rapid development of high-performance composites."

A kind of "composite valley" in Aquitaine!

Despite their present drawbacks--aging, shock resistance, cost--composites in fact now permit an important reduction in weight (energy economy) and a reduction in manufacturing steps and time involved in manufacture which compensates for the still high price of raw materials.

However, as justly noted by Mr Deplante, legal adviser to the Dassault Company, there is still one major hindrance to the massive development of composites in France as regards civil and commercial applications: it is the total dependence upon foreign countries for fibers, whether they be Kevlar fibers (an American monopoly of Dupont de Nemours) or carbon fibers (a monopoly of the British Courtaulds and Japanese Toray companies).

There is a serious supply problem, said Mr Hugues, who feels that national independence is not assured. Moreover, even the missiles of the Strike Force are dependent on composite fibers and raw materials furnished exclusively by foreign countries.

Then, why not launch a "Composites Plan" which would also cover the national manufacture of the fibers needed for the large-scale production of composites "Made in France"?

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COUNTRY SECTION

ITALY

PROBLEMS CONFRONTING SMALL, MEDIUM BUSINESSES DESCRIBED

Turin LA STAMPA in Italian 31 Dec 80, 3 Jan 81, 4 Jan 81

[Article by Marco Borsa: "A Report on the Italian Small and Medium Business System"]

[31 Dec 80 p 11]

[Text] Milan--The first to raise a cry of alarm publicly was the president of the CONFINDUSTRIA [General Confederation of Italian Industry], Vittorio Merloni, at the FEDEREXPORT [Italian Federation of Exporters] meeting, citing the disturbing trade balance results, which show that Italian products have lost substantial margins of competitiveness.

"The year 1981," said Merloni, "will be even more difficult." CONFINDUSTRIA's pessimism was confirmed less than a week later by the ISCO [Institute for the Study of Economic Trends], with a statement that "unless the export downturn can be halted, the outlook for 1981 is certain to be worse than can be forecast today."

The Italian trade balance will close this year, according to the ISCO forecast, with a negative gap of close to 19,000 billion lire, the largest deficit ever registered in our foreign accounts and virtually equal to the oil deficit, which this year rose by nearly 80 percent to around 20,000 billion lire, owing to the steep rise in crude prices last year.

This is the second "oil shock" to have dealt a powerful unbalancing blow to our balance of payments, following that of 1973-1974 when our oil bill went from 1,500 to 6,000 billion lire. On that occasion, however, Italy surprised all the international observers, the entire political and financial world, by performing a genuine miracle: Having become by 1975 one of if not the leading industrial nations, it succeeded in increasing its exports sufficiently to cover its oil gap, increasing its share of the world market during a year in which there occurred, for the first time in the postwar era, a downturn in international trade.

The producers of this miracle were the small and, above all, the medium industrialists (between 5 and 20 billion lire of that year in billings) of the so-called "mature" sectors, from textiles to clothing, from ceramics to furniture, from shoes to machine tools and to mechanical products in general.

In Piedmont, where the FIAT colossus was compelled to scale down its production from 1973 maximums (almost 1,6 million vehicles) to the minimums for the decade (just over 1 million in 1975), a whole region living on induced production, was able to convert to exporting in an extremely short time, without awaiting laws and without relying on government promises.

Can the miracle be duplicated today, to at least cover the 8,000-billion-lire increase in our oil costs? The enterprise world's response to this question is a categorical no, because, they say, there are at least three key factors that prevent it. Five years of inflation at a higher average rate than that of their competitors have driven Italian industries and products against the ropes.

This year, for the first time in the past 30 years--the ISCO pointed out--Italian exports have diminished substantially, not only in terms of value but also in volume. "Last June, for the first time," according to a spokesman for the ASSOPIASTRELLE [Italian Tile-Makers Association]--an association of 300 firms that exports 750 billion lire of products annually, the world's leader in this sector--"the prices of Italian tiles were higher than those of German tiles."

The loss of competitiveness of our products moreover coincides with the intensification of international competition, on the part both of the industrialized countries, all with unemployment and excess-productive-capacity problems, and of the so-called developing countries. Last year, the latter--according to GATT [General Agreement on Tariffs and Trade] statistics--attained a historic high: For the first time, exports of manufactured products from non-oil-producing areas exceeded in value the exports of raw materials as a whole, having totaled \$78.5 billion. Many of these products compete with Italian ones, as emerged from the most recent SNIA [National Company for Industrial Exploitation] survey, in the report by Giovanni Bianchini, professor of industrial and commercial techniques at the University of Modena.

And thirdly, tighter international competition has combined with an exchange situation that is unfavorable to Italy, unlike the one that followed the 1973 crisis, when the strengthening of the mark and weakening of the dollar enabled us, by letting the lira fluctuate together with the dollar, to realize increasingly higher margins for our exports, paying in dollars for our imports. Today, the situation is reversed, with a weak mark that penalizes our sales in markets that are our main outlets, while we pay increasingly higher prices in terms of dollars for our raw materials.

To sum up, the loss of competitiveness of our small and medium industries, as compared to their former liveliness, cannot even be offset by increased dynamism on the part of our large enterprises, which are undergoing an even worse crisis, as is clear from the trade balance in key sectors of our economy, from steel to chemicals, from electronics to automobiles, the latter being a sector in which thousands of billions have been invested over the past 10 years. CONFINDUSTRIA Vice president Guido Artom said to our newspaper: "Italy is threatened with industrial decline." The problems of the large enterprises could moreover spill dangerously over the medium ones, exacerbating the latter's in at least two fundamental aspects: energy costs and financing.

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[3 Jan 81 p 9]

[Text] Milan--"Dozens of firms, if not entire sectors, even small ones, are going bankrupt." Marco Vitale, partner in Bersani and Vitale, a consulting firm that does business mainly with medium firms, is convinced that the coming months hold many difficulties in store for those export firms that have grown up in the wake of the initiative shown by small and medium enterprises devoid of adequate structures and of effective financial backing from the Italian banking system. "What is lacking at times like these is the ability to find capital available for permanent investment in the firm, with which to guarantee its growth or defend over the medium-to-long term the positions acquired on the domestic and international markets."

The drop in exports is worrying entire sectors, which fear either permanent loss of their own competitiveness or an insidious erosion of their domestic markets by European competitors they had considered defeated. "The German producers," says a spokesman for the ASSOPIASTRELLE [Italian Tile-Makers Association]--300 firms, average billings of 7-8 billion lire, total exports of 800 billion lire--"are selling at lower prices than we and are managing to cover the added demand this is generating in their market, while outside of Europe we are beginning to feel the effects of competition from the Spaniards who are manufacturing a product of inferior quality at a much lower price." The result is that this year our tile exports are at a standstill, while, for the first time, imports from France and from Germany have doubled.

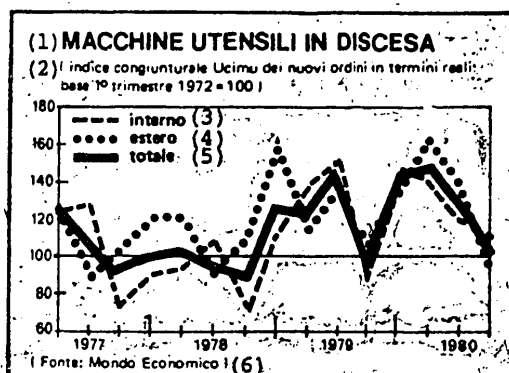
In another branch--that of sport clothing--French competition is making itself felt even more markedly. "Inflation," says Alfredo Maspes, general manager of SAMAS [expansion unknown]--billings of 12 billion lire in skis and parkas, supplier of the Italian national team--"is putting us out of business." If we keep our 1981 prices down, our costs will ruin us. If we raise them, we lose our markets." The French are exploiting these difficulties and are recovering ground they had lost, with a sizeable penetration into Germany, Austria, and even Italy. "They have guaranteed export financing, incentives, and billions of francs in subsidies," Maspes points out.

In the ski boots sector, where the Italians have heretofore been the undisputed leaders, with large firms like Nordica, it is now the Austrians who are rearing their heads at the expense of several small Italian producers who do not have the muscle to withstand the first gusts of a financial crisis.

The cost of money to one who does not have solid guarantees or very large size can be as much as 27 percent. This is a powerful deterrent for anyone wanting to produce for a while to lay in a stock, or for anyone seeking to resume the offensive with new technical or marketing initiatives. "If I try to sell abroad," a medium-business owner in textiles explains, "the banks tell me: 'Do not extend yourself. Go slowly.'" Financial ties not only do not support enterprises in difficult moments but even tend to constrain their growth.

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The machine tool producers--billings of 1,400 billion lire, a positive trade balance of 440 billion lire (+22 percent with respect to last year)--after underscoring their concern, at the recent assembly of their category, over the difficulties that are making themselves felt in international markets, requested "instruments supportive of small and medium enterprises and favoring investment," to enable them to maintain and consolidate the strong positions they have achieved in the domestic and foreign markets.



Key:

1. Decline in Machine Tools
2. (UCIMU trend index of new orders in real terms---base: 1st quarter 1972=100)
3. Domestic
4. Foreign
5. Total
6. (Source: MONDO ECONOMICO)

Maurizio Vitale, general manager of the Maglificio Calzaturificio firm in Turin--billings of 46 billion lire, "Jesus" brand blue jeans, which, after having established a beachhead in the Soviet Union, are now invading Libya--is convinced that, with intelligent and carefully aimed backing, the Italian knitwear and ready-made clothing industry can "corner all of Europe." "We are the Japanese in this sector."

The proper financial backing could also be decisive in sectors that are less "impoverished" than that of knitwear. "As suppliers of industrial plants," says Cecilia Danieli, general manager of the Danieli firm, which specializes in the building of mini-steelworks and sells them throughout the world after having prefabricated them in Brescia, "we are compelled to seek pre-financing of export contracts by credit institutions at current interest rates, and we are not always able to pass on these costs to the client."

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The Danieli firm is negotiating with China on the possible modernization of dozens of old small steel foundries, but before assuming any large commitments it must evaluate the financial constraints these would involve.

The problems of small and medium enterprises, however, could still be mitigated by two favorable circumstances: the ample profits realized in the 1978-1979 2-year period, which, according to the OECD [Organization for Economic Cooperation and Development], should help ameliorate the effects of the diminished competitiveness of our products because they offer an opportunity to lower prices without suffering too much hardship, and the greater propensity on the part of the banking system to financing small and medium enterprises after being burned by their experiences with the EGAM [Agency for the Management of Mineral and Metallurgical Concerns] and with the chemical industry.

"The market until now has been very receptive," says Sergio Cumani, deputy manager of the San Paolo Bank in Turin, one of the most active and most sensitive banks to the problems of small industry. "Short-term credit is available, therefore, even though it is costly. What is lacking, Cumani himself admits, is intermediate- and long-term credit with which firms can finance their longer-term programs.

"For medium firms," says Giancarlo Gloder, general manager of the Private Financing and Investment Company--the leading company in the intermediate-term banking pool sector, a new credit channel that has funneled to enterprises not less than 500-600 billion lire a year over the past several years--"there is not even a lira." "The market has stalled because of the ceiling," Gloder explains, "just when we were moving from the large over to the medium borrowers of money. "The demand for funds, however, is still strong," Gloder concluded, "above all, on the part of those medium and medium-large firms needing between 2 and 10 billion lire to finance the development of their programs."

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[Text] Milan--"The need is more pressing than ever to resolve the problems that, emanating from the external structure, are weighing down the enterprises, and that, in substance, boil down to the lack of an industrial policy based on clear choices and adequate instruments." In these words, Bruno Rambaudi, president of the UCIMU [Union of Machine Tool Manufacturers], which met in special session in Milan, expressed the requests issuing from the most efficient productive sectors on the eve of the very difficult challenge that awaits them in 1981.

Absent a national industrial policy that sets the objectives and provides the instruments needed by businessmen to attain them, the widespread fear among industrialists is that the entire enterprise structure will end up seeking cover as best it can, each one seeking to avoid ruin by negotiating his position individually, or at most by sector, with the government, the banks and the labor unions, with the object of eking out some advantage, some more or less minor privilege, to help offset his marketplace losses.

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The danger is making itself felt so acutely among the top CONFINDUSTRIA leaders that they have been trying to work out, over the past few weeks, a platform on which all Italian industry, large and small, can agree. "The problem today," Guido Artom, the vice president of CONFINDUSTRIA, stated to our newspaper recently, "is not one that calls for distinctions as to large, medium or small industry: The industrial decline threatens all of us."

To obviate "extended order" proceedings, CONFINDUSTRIA has launched two major debates: one with the banking system on credit and one with the government on energy. These could give birth to the embryo of an industrial policy that would provide enterprises with a framework in which they could move on a parity footing and with certainty as to their rights and responsibilities over the coming problematic years.

To date, however, this initiative has met with a somewhat cool reception. The banks, fearing they will become involved in the problems of industry, with financial reconstruction plans based on transferring losses from the enterprises to the credit institutions, have been highly circumspect in their response to the invitation to discuss the operation of the credit system with regard to enterprises. As for the government, it has for the time being flashed a number of signals pointing in the opposite direction.

Probably alarmed over the growing trade balance gap in base sectors of vital importance to the industrialization of the country, the government is tending to react to the crisis by resorting to a massive dose of internal protectionism, and of external protectionism centered on the large public and private enterprises, disregarding the consequences such a policy could have in regard to the nation's fabric of small and medium enterprises. The report on the state of industry just drawn up by the government experts affirms that "protectionist" measures at the Community level are indispensable, to give Europe the time it needs to extricate itself from the crisis it is currently undergoing and to restore adequate competitiveness in the marketplace. In Italy, meanwhile, solid effort will be deployed under Law 675 on industrial reconversion to sustain, above all, its key sectors, such as chemicals, metalworking and machinery, textiles, electronics, and the automobile sector.

The minister of state participation has published a white book requesting 13,000 billion lire, which has been criticized by CONFINDUSTRIA because it does not provide a precise evaluation of the compatibility of this figure with general commitments under the national economic policy, and because it does not address the question of whether such a vast sum should be directed toward large enterprise as a whole rather than to the public enterprises alone.

Steps have been taken in the area of energy policy that also discriminate between enterprise and enterprise, and between sector and sector. High-energy-consumer industries have already obtained ample ENEL [National Electric Power Agency] billing concessions from the minister of industry, which he will be compelled to make up for elsewhere.

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The breach opened by the first patrol of the privileged, however, has already brought forth legitimate new requests for special treatment on the part of steel, a heavy consumer of electricity. If also the steelmakers are accommodated by ENEL, they will have no further recourse but to penalize small- and medium-industry consumption--40,000 subscribers, approximately, who will pay more for their energy. Those with less clout will have higher costs.

The same phenomenon is taking place in regard to methane supplies. The SNAM [National Gas Pipeline Company], an ENI [National Hydrocarbons Agency] enterprise, is currently engaged in a dispute with CONFINDUSTRIA, which has advised its members not to pay the most recent rate increases, so that it may negotiate the energy issue as a whole. Meanwhile, however, talks have been opened at sectoral levels, so that if a general agreement is not reached, the prices of methane will depend on pressure the ENI can exert on the government and on that which the enterprises can exert on the ENI.

In the financial sector, distinctions, already acute, will be further sharpened, widening the moat that now separates the large enterprise, public and private, from the small and medium enterprise. The 500 billion lire which the minister of treasury, Nino Andreatta, has succeeded in furnishing to the Mediocredito to finance small- and medium-enterprise programs next year have been welcomed with undoubted relief; but they represent a sum equal to that of a single loan contracted by the ENEL or the ENI on the international market (\$500 million each).

"If we go on in this way," said an industrialist in a sector that is still competitive, "we industrialists will simply be reduced to requesting from the government one or more of the carrots it is offering us: financial aid, energy discounts or protection against imports. This is a dangerous road. Have we not already experienced a similar one during the 1930's?"

(Last of three articles. The preceding ones were published on 31 December 1980 and 3 January 1981. [Editor's note]).

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COUNTRY SECTION

ITALY

UNION LEADERS CARNITI, BENVENUTO INTERVIEWED

Carniti on New Labor Role

Turin LA STAMPA in Italian 3 Jan 81 pp 1,2

[Report of interview with Pierre Carniti, secretary general of the CISL [Italian Confederation of Labor Unions] by Mario Pirani: "Carniti: Conflict Now Political-- Unions Should Manage Economy"; date and place of interview not given]

[Text] Rome--The year 1981 has begun under an unmistakable sign: The production boom on which the Italian economy has been "floating" for 2 years has come to a halt. The hopes of recovery in the export sector have long since dimmed: Over the past 10 months, exports have dropped 25 percent and the competitiveness of our products has declined by another 5 percent. Despite this, Italy was again in 1980 the only country in the world where real wages increased, while the labor cost per unit product rose 15.4 percent. Can it therefore be impossible, in the face of these facts, to persuade the unions to assume a less "alternative" posture toward the system? We discussed this issue with Pierre Carniti, secretary general of the CISL.

"The fact must be recognized," affirms Carniti, who comes across immediately as the spokesman of the most extreme wing of the labor union triad, "that an era has come to an end. The democratic compromise that operated between the working classes and the groups that ruled during the postwar period, until the 1970's has been extinguished by the erosion, following the oil crisis, of the growth margins that had made it possible. The social conflict over income distribution has now become political."

[Question] In reality, this means you are refusing to align Union strategy with the oil price tag, which this year will be 21,000 billion lire. Do you not think that in this way you will be leading Italy to economic ruin?

[Answer] That is not the case. We, too, recognize the need to channel a certain quota of income from consumption into investments, but not from wages into profits. It is an approach, however, that implies priorly a new union say in the management of the economy.

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[Question] Does this line not appear to you at least "parallel" to that of the PCI Italian Communist Party?

[Answer] No political party, not even the PCI personifies the working class. The union movement is unquestionably its most representative force. It is not necessary, of course, to be part of the Council of Ministers, but rather to have a say in the councils where the process of accumulation is decided.

[Question] What difference is there between this new union presence in the councils of real government and the PCI's position?

[Answer] The PCI's so-called political shift appears, for the time being, very confused. It has made major strides forward internationally, but domestically it is infringing upon the autonomy of the labor movement. It is wishful thinking and inadequate because it ignores the real political relationships. It is outdated because it is based entirely on the preeminence of the state, disregarding the need for a changed pluralistic articulation of the social forces on which a new concept of the governability of the nation can be based. From this standpoint, the moralizing, renovating and liberating thrust the labor movement can exert is important, refusing, as it does, to become the draft horse of any political party, but demanding a new role of its own in the governing of the nation.

[Question] It may be as you say it is. To me it appears to be a condensation of the thinking of Pietro Ingrao mixed with a revival of the pan-unionism advocated by Sorel or by Corridoni.

[Answer] You are mistaken. We give much importance, for example, to the need for an underlying solidarity capable of bringing about a change in the power relationships bearing upon investments, giving these a character and a purpose they have not had heretofore, and making possible an intervention in the South, cooperation, and direct management by the masses [uncoordinated by any political or labor organization].

[Question] And how do you view your intervention as regards the 3-year plan?

[Answer] We either have a say in the distribution of resources--of the 50,000 billion lire that is being talked about--or we do not. If we do, we are prepared to channel a quota of labor income into investments, in the form of wage savings the determination of which can be studied. If, on the other hand, the idea is, as usual, to increase the tax on labor's wages, depriving them of any say whatever as to the use to be made of those funds, then we oppose it.

[Question] From everything you have said, it would appear that the CISL is attempting a major thrust forward. Is this also intended perhaps to mask the failure of egalitarianism?

[Answer] Egalitarianism was meant specifically to combat unfair inequities, but not to group all the various occupational categories, individual performances and other considerations under a single universal wage level--although our current

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concepts in these regards still require clarification, in that, experience, college degrees, a sense of responsibility toward the product or the work of others, leadership, but also willingness to accept necessary though socially downgraded labor (manual, onerous, etc) must all be accorded their due worth. The parametric wage scale, therefore, cannot have a perennial or sacred character.

[Question] Then, would you agree to a review of the unit value of the cost-of-living allowance, which is at the bottom of this inequity?

[Answer] If it were diminished as a result of a review, that would be extremely unjust. If on the other hand it were increased, that would be extremely costly. Each step in the latter case would cost 800 billion instead of 400 billion. February's 12 points would come to 5,000 billion: In two or three such increases we could absorb the entire multi-year earthquake fund.

[Question] Then, you are not open to any discussion whatever.

[Answer] Yes, everything can be discussed--Baffi's ideas, those of Monti, or Benvenuto's calculations. But if in the end the product unit cost dynamic remains unchanged, then we will have resolved nothing. What needs to be done is to reduce the inflation rate, which is not dependent on the sliding wage scale but rather on the usurious credit policy, on tax evasion, on the breakdown of state subsidies and on the collapse of agriculture.

[Question] You have not mentioned, however, the inflationary effect of the cost-of-living allowance.

[Answer] That would mean exchanging the effect for its cause, no matter how one looks at it. However, Benvenuto is also right when he maintains that wages must be distributed differently between base pay and automatic mechanisms such as wage-indexing. Together, they must represent a minimum social wage for all, but the base wage must become more substantial because it is foolish to think that at current levels of inflation rates the current levels of base pay increases can be maintained. This is also the way to approach a full-scale review of wage and salary ranges.

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Benvenuto on Labor Disunity

Milan IL SOLE-24 ORE in Italian 4 Jan 81 pp 1,2

[Interview with Giorgio Benvenuto, secretary general of the UIL [Italian Union of Labor], by Massimo Mascini: "Benvenuto: Agreement on Basics or New Labor Splits"; place and date of interview not given]

[Text] Rome--"I believe 1980 was a never-to-be-forgotten year. It was a significant one. For the first time, labor began to debate all its problems with no holds barred. It addressed its own crisis. It was a year of profound debate. But 1981 must be a year of decisions, because we cannot go on and on with self-criticism alone. Of course, it will not be easy, because within the labor

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leadership there are widely divergent opinions. But on some basic points, the first and foremost of which is that of basic solidarity, an agreement must be reached. Otherwise, there is no point in going to the Milan meeting in February."

Giorgio Benvenuto, secretary general of the UIL, makes no effort to gloss over the difficulties the labor union movement faces in the weeks ahead. He well knows that even tomorrow's meeting of the joint secretariat could be decisive, because the internal polemics within the movement, concerning basic solidarity, are growing dangerously and must be eliminated. It is the UIL, in fact, that in recent months has stressed the need for a top level meeting among the general executive councils of the three confederations. Benvenuto, however, is prepared to forgo the opportunity should it become necessary to call it off.

"The fact is," he explained to us, "that within the labor sphere today there is a conflict between two confederations whose views differ from each other. On the one hand there is a confederation that wants to explore new approaches, that realizes there is no longer the room for further demands that existed during the 1970's when--it must not be forgotten--the buying power of wages was defended and increased, a confederation that wants to explore the societal terrain, that is prepared to assume greater responsibilities, but that wants more power."

[Question] And on the other hand?

[Answer] On the other hand there is a confederation that does not want to address these problems. Not that it refuses categorically to do so--let us be clear about this--but simply that it limits itself to general statements on such issues, declining, however, to act along those lines. Practically speaking, there are coexistent within the labor movement today those who are willing to shoulder the burden of problems, and those who camouflage, behind a seeming consensus their preference for letting things stand as they are.

[Question] But is not the real problem of the labor movement that of its relations with the political forces, and particularly with the PCI [Italian Communist Party]?

[Answer] I do not wish to enter into a polemic with the CGIL [Italian General Confederation of Labor], but there is no question in my mind that the problem that needs to be addressed is that of the total divergence between the PCI and some of the labor movement's basic choices. And it is not solely the issue of the 50 percent, because, although not much has been said about it, the PCI's opposition to the Western choices made by the labor movement, and especially by the FLM [Federation of Metalworkers], in regard to the international developments is of extreme political relevance.

[Question] Is the labor front not united?

[Answer] The problem is precisely that of determining whether we will succeed in sticking together or whether our conflict with the political forces will bring about a nondecisional phase. But we must also clearly understand the issues. The

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withholding of the 50 percent, for example, has been portrayed as being in addition to the other sacrifices labor was being asked to make, whereas in fact it is an alternative. And that is the way it was born--as an alternative to the Cossiga government's authoritative maneuvers on wage-indexing.

[Question] In what sense is this an alternate maneuver?

[Answer] To control inflation, the resources must be found, and the roads open to us at this point are two: Either a control must be exercised by the workers through an instrumentality such as the fund, or traditional measures will inevitably have to be resorted to, such as relate to gasoline or taxes, which hurt the salaried workers. The latter road, however, is the one preferred by those who are seeking to confine labor action to mere general protest strikes. Of course, one of the problems is that of the political frame of reference, but I do not believe we can wait any longer because, among other things, during the period of national solidarity we also had the failure of the EUR policy.

[Question] There are many, however, in the CGIL who are asking that the decision on the fund be deferred.

[Answer] We cannot back away from the fund, as some authoritative voices in the CGIL would like. This union's policy shift is at stake--this union that is taking part in policy planning and wants to make sure that not a lira of the workers' sacrifices will be wasted. Lama is launching appeals for unity, which I believe are important; However, a clarification is now imperative. This is why I say it would be useless to go to Milan for a meeting that would decide nothing. If someone proposes a more roundabout route to the fund, he will not meet with a categorical refusal on our part; but it is necessary that positions be clear and that each of us assume our proper responsibilities.

[Question] As in the case of wage indexing?

[Answer] Yes, in regard to wage policy and wage indexing. It is useless to keep making agreements affecting only the cadres. The entire wage policy needs changing. Cognizance must be taken of the fact that the occupational problem is a serious one, that percentage increases are not sufficient to maintain parametric relationships.

[Question] But Carniti asserts that to touch the sliding scale would cost a great deal or would unleash a high level of confliction.

[Answer] Yes, but if we do nothing, it will all come down over our heads anyway. Carniti is right; but it is also true that if we continue as now until the next round of contract negotiations not even the skilled laborers will feel represented by us. This why I say we must debate the entire matter with no holds barred, even including stimulating proposals such as that advanced some time ago by economist Marco Monti. For, nationwide or enterprise-wide contract renewals are no longer adequate to maintain the distances between the various wage-scale categories while inflation triggers 12- or 14-point increases every quarter. The cost-of-living point values must be revised, without any qualms over upsetting labor union traditions.

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