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19 February 1981

West Europe Report

(FOUO 9/81)

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WEST EUROPE REPORT

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CONTENTS

THEATER FORCES FRANCE

BRIEFS

DEFENSE SYSTEM TEST--France is going to brandish its sword in no uncertain way. Giscard will attend the momentous maneuvers in Provence between 16 and 22 March which will involve 20,000 to 30,000 troops landing between Toulong and Cavaliere. The 2nd marine infantry regiment (Rima), supported by the 2nd overseas infantry regiment from Corte and Bonifacio, will try to advance up the Rhone Valley and attack the Albion Plateau [missile silos].. The 18 nuclear missile silos there will be defended by the 27th alpine division (plus some Spanish mountain regiments). The objective is twofold: to test the French defense system and the foreign intervention units of the famous 31st demibrigade (the prime weapon in Giscard's Africa policy). [Text] [Paris L'EXPRESS in French 24 Jan 81 p 92]

CSO: 3100

ENERGY ECONOMICS ITALY

OVERVIEW OF NATION'S ENERGY SITUATION

Rome ENERGIA in Italian Sep 80 pp 48-58

[Article by Albert Clo, of the Institute of Business Economics, University of Modena: "The Italian Energy Situation: Problems Old and New"]

[Text] 1. Prefatory Note

For the reasons that we set out in the introductory note to this first issue of ENERGIA, any analysis of our country's energy situation, and particularly of its oil situation, runs the risk of arriving at evaluations that are sometimes partial, if not simply wrong, because of the absolute scarcity and the fragmentary nature of timely statistical information to which to refer.

From the necessity of making use of information sources of various origins, and therefore often not homogeneous and congruent with one another, we draw the methodological guideline that we must give major emphasis, in our analysis, to aspects of a structural character vis-a-vis other more typically situational aspects, from which, moreover, the latter largely derive their relevance.

In view of the difficult situation in which our country has found itself in recent years (squeezed, abroad, by the crisis in the markets from which we traditionally get our supplies, and domestically, by the impossibility of getting any energy-policy choice under way), we consider that the aspect to which most attention must be given nas to be that of energy supplies.

Although we do not wish to disregard the interest of analyzing other variables, such as prices or demand--checking, for example, the results achieved with the demand-control policies recently put into practice--we consider that, especially on the supply side, there have been manifested in Italy strong concerns and serious limits in the capacities and possibilities of intervention. This is all the more important if one considers the fact that in Italy, in contrast with foreign countries, the structure of supply for the 1980's can be said to be substantially given, if one excludes shifts, not of great relative importance, toward natural gas and coal.

Maximum dependence on imported oil will therefore remain the underlying characteristic of the entire Italian energy situation in the near future, since nuclear power will not show any important changes.

2. The Sources of Reference

It seems necessary to us to devote a few words at the beginning to the statistical sources to which reference has been and will be made, distinguishing the quantity situation from the situation relative to prices.

To a certain extent, the latter appears more reassuring than the former, even if, as regards amny aspects of the problem, we are still at information levels that are far inferior to those to be found in most other countries.

With reference to the oil sector in particular, to which we shall devote greatest attention, the price-control regime to which this sector is tied makes it possible, if nothing else, to know, through publication of the Interministerial Price Committee (CIP) Provisions in the GAZZETTA UFFICIALE, the maximum prices of those petroleum products that are fixed administratively and which, all together, constitute about half of total consumption.

However, the lists of petroleum products subject to a "surveillance" regime are not officially divulged. For most of them (fuel oil), though, there is official diffusion through the STAFFETTA PETROLIFERA QUOTIDIANA, which periodically reports the lists relating to each distributing enterprise and to the principal categories of consumers.

With regard to the effective consumer prices, since fixing of prices occurs at such level only for the products for automotive use and for domestic LPG [Liquid Petroleum Gas], the periodic reports of information made by the Chambers of Commerce relative to several major Italian markets can be of some help.

But the information situation as regards the national petroleum quantity balance-sheet is quite different and far unhappier.

Officially, the only situation data available on a monthly basis are the petroleum producers' releases for consumption (although they are not divulged through public sources) and those on foreign trade published by the ISTAT [Central Statistics Institute]. No data are officially released--except, in some cases, partially, and in any case, with tremendous delays--on the other basic components of the petroleum balance-sheet: that is, national production of crude (however unimportant it may be), and especially, the variation of the primary reserves in the production system and of secondary reserves in the distribution and consumer system.

In the absence of these elements, and also by reason of certain delays and incongruencies in the ISTAT information reports on foreign trade, the difficulties one faces in formulating a meaningful petroleum balance-sheet from the points of view of both availability and uses emerge clearly.

Because of these limitations, it has therefore been necessary to make use of estimates, sometimes partial, on the basis of data widely available from the operators in the sector and especially from the ministerial offices to which the enterprises are obliged to send all sorts of information monthly.[1]

However, the greater part of this information is available to few, and in any case, is almost always qualified by "maximum reservation." Even in the rare cases in which it was available to us, it was therefore not possible for us to refer to it except indirectly and sporadically.

Other statistical sources of some interest (regarding both quantities and prices) are the situation reports periodically released--officially--by the organisms of the European Community and by those of the International Energy Agency (IEA) of Paris. Even for such reports, though, it should be stressed that the data-gathering criteria are not always clear, while their frame of reference often does not cover all of the operators in each individual market.[2]

Nevertheless, the homogeneity of the methodologies used in the EEC and the IEA make it possible to have information elements by which to compare the oil situation in almost all of the Western countries.

To complicate matters, a surprising decision was recently made by the Community organisms of Brussels to suspend, if only temporarily, the collection and diffusion of a series of statistical data, for the purpose--it was written in the report on the matter--to "ensure effective management of the data" themselves (!).[3]

3. Consumption Slowing Down

Despite the fact that in the first half of the year the Gross Domestic Product [GDP] showed considerable expansion (+6.2 percent over the corresponding period of 1979), energy demand, expressed in primary sources, underwent a notable deceleration of its rates of growth (+0.8 percent over the first half of 1979) as compared with the rates of the preceding 3-year period (average of +1.7 percent per year).

The dynamic of the consumption in the first half-year confirms the tendency--under way for a decade now--toward a reduction of the energy/output ratio in Italy.

From relative coefficient of elasticity value higher than 1.5 in the 1960's we went to values of around 0.8 in the succeeding decade, while values even considerably lower have been noted in the last 3-year period (0.4), and especially in the first half of 1980 (0.13).

The complexity of the phenomena that may have led to such a result, certainly not foreseen in these terms, does not make it possible to draw facile and necessarily positive conclusions about the reactivity of our system to the variations in relative energy prices that occurred in the 1970's. It has certainly been high, and such, at least, as to contradict the obsessive pretext of those who continue to depict the Italian consumer as a tenacious devourer of energy, but we would not like part of the results achieved to be due to a negative substitution of imported goods for goods earlier produced domestically (something that might have happened in the chemical industry): this would certainly not counterbalance the "positive" effects achieved in reduction of the direct uses of energy. If one could, hypothetically, produce an accounting of the indirect uses of energy implicit in imported goods (earlier produced domestically), we would probably find a smaller reduction of energy uses per unit of output than what has been registered.

The substantial stability of energy consumption in the first half of 1980 resulted from a 2-percent contraction of private domestic consumption[4] and from the even greater contraction by the petroleum industry (because of the sharp reduction in activity, especially vis-a-vis foreign countries), while the other sectors of consumption--industry, transport and thermoelectric power generation--registered increases --again, over the corresponding period of 1979--of between 4 percent and 5 percent.

The drop in demand in the domestic sector is concentrated entirely on oil uses (essentially for heating) (-8 percent), while there was stability for natural gas and an increase of about 4 percent for electrical energy. The lower demand for petroleum products for heating (which represents about 15 percent of total energy demand in the country) may be attributable in part to the good climatic conditions, but also to the increase of about 60 percent in the real prices of gas-oil.[5]

Italy: Energy Consumption (1,000's of tons of oil-equivalent)

- By primary sources -

	1st half 1979	1st half 1980	Variation (%)
Coal	5.1	6.0	+17.2
Natural gas	12.1	12.3	+ 0.8
Oil	52.3	51.4	- 1.7
Electrical energy	6.3	6.9	+ 8.2
Total for primary sources:	75.9	76.5	+ 0.8
Consumption and losses	(8.1)	(1.8)	- 3.0
Energy used	67.8	68.7	+ 1.2

- By sectors -

	1st half 1979	1st half 1980	Variation (%)
Industry	26.2	27.3	+ 4.2
Other commercial uses	22.5	22.0	- 2.1
Non-energy uses	4,5	4.7	+ 4.5
Transport	12.0	12.5	+ 4.2
Bunkering	2.6	2.2	-17.7
Totals	67.8	68.7	+ 1.2

Source: ENI [National Hydrocarbons Agency]-AGIP [National Italian Oil Company]

A certain contribution--and a difficult one to quantify--may also be derived from the troubled "Dispositions for Containment of Energy Consumption" approved the first time with decree-law No 438 of 14 September 1979. While something has been achieved by means of these "dispositions," it is nevertheless attributable more to the psychological pressure exerted on consumers (by the fear of sanctions, which, however, were not applied) than to technical articulation of the "dispositions" themselves, which have been judged by the experts to be entirely improvised and insufficient.

In the first part of the year, the national transport sector absorbed about 12.5 million tep [tons of oil-equivalent]--a little more than 16 percent of total demand. Of the increase of slightly more than 4 percent over 1979, 60 percent is attributable to the greater volume of highway freight (powered almost totally by gas-oil), and the remaining 40 percent is due to increased passenger-auto transport, consumption for which went up by 2.7 percent over the preceding year.

In evaluating the significance of the further growth of consumption in these areas, despite the increase, at the beginning of last year, of 55 percent in the real prices of automotive gas-oil and 14 percent in that of gasoline, it is necessary to take into account the dynamic of the other explanatory variables, among which, in particular, is the fact that the automotive fleet in use increased to 700,000 last year to reach a total of 17.6 million units--4.2 million more than in 1973.

But the average mileage put on automotive vehicles is about 30 percent lower than what was recorded in the early 1960's and lower to the same extent than what is being recorded today for the drivers of the other European countries.[6]

The sharp reduction in average mileage (induced also by the increase in the other costs associated with automobile use[7]) has inevitably lowered consumers' reactivity to the upward variations in prices--this being a policy likewise conducted tenaciously by our governmental authorities, even if, most of the time, it is from motives that go beyond policies of demand control, which can be achieved far more effectively by rationalization of traffic in urban areas.

Variation of Real Consumer Prices for the Principal Petroleum Products in Italy as Compared with 1 January 1979

	Super Gasoline	Automotive Gas-Oil	Gas-Oil for Heating	Dense ATZ Fuel Oil	CIF Cost of Crude
1 January 1980	+ 9.5	+50	+56	+56	+47
20 March 1980	+ 9	+53	+59	+54	+64
15 July 1980	+14	+55	+56	+55	+77

Although the consumer taxes on petroleum products have not been increased in proportion to the dynamic of industrial prices (being for the most part specific taxes and not ad-valorem taxes), they still represent close to 40 percent of the final (average) price to the consumer for petroleum products. This level is among the highest within the framework of the industrialized countries. In addition, the greater part of these taxes, as is known, hits consumption for automotive use, gasoline in particular, in whose price the percentage represented by taxes is close to 63 percent (it was 71 percent at the beginning of last year), as against 58 percent in France and 48 percent in Great Britain and in the FRG. At the end of last June, in a ranking of gasoline prices in the 13 major Western capitals, Rome held first place with a price 2.5 times that of Washington and 10 percent more, on the average, than in the major European capitals. If we do not count the taxes, we plummet to next-to-last place in the ranking, just ahead of the American capital.

Going on to analyze the structure of energy consumption by sources, we can note only a slight shift from oil to coal: the drop of oil consumption by about 1 million tons (-1.7 percent) was paralleled by a nearly equal increase in uses of coal (+17 percent [as published]). Use of natural gas remained almost constant, while there was a considerable increase--close to 8 percent--for primary electrical energy, because of the sharp rise of imports.

About half of the increased use of coal as a substitute for oil has been in the electric-power sector--which in the course of 2 years has seen the supplying of its plants from this source increase from 5 percent to 10 percent--and the other half has been in the industrial sector, especially in the working of nonmetallic minerals (cement), production of which has stayed particularly high in the first part of the year.

The structure of petroleum consumption by type of product has undergone slight shifts only: positive for the light and medium fractions (gasolines and gas-oils) and negative for the heavy fractions. The distancing between the various fractions in the other European countries is far more marked, though; and in them, petroleum consumption underwent a sharper decrease (-7 percent) in the first half of 1980 than in Italy. Along with a 15-percent reduction for fuel oil and 8 percent for gas-oil there was an average increase of about 3 percent for gasoline consumption. There is thus a firming of the tendency within Europe (but far more in other countries than in Italy) toward "lightening" of the barrel of oil consumed, which is gradually getting closer--though still far away--to the typical structure of the North American markets, where the light and medium fractions together are in a ratio of 4.5 to 1 with the heavy fractions, as against a 2-to-1 ratio in Europe and as close a one as 1.3 to 1 in Italy.

4. Haphazardness of Our Oil Supplies

While in the area of domestic energy demand the first part of the year does not present any substantially new elements--if we exclude the manifestations of its first symptoms of slowdown--changes of greater scope have occurred in the other components of the energy balance-sheet as regards in particular the flows of supplies of crude and petroleum products from abroad, the export flows of products, and the peroleum reserve stocks.

These changes, by comparison of the first half of 1980 with the corresponding period of the year before, can be summarized as follows:[8]

(a) a considerable contraction--about 20 percent--of crude-oil importation, which went from more than 57 million tons to 46.6 million tons. However, about half of this reduction of availability of crude was compensated for by:

(b) a strong increase (+112 percent) of importations of refined products, which went from about 4.0 million to more than 8.2 million tons[9], thus bringing to 10 percent the drop in imports of petroleum and petroleum products, which was induced entirely by:

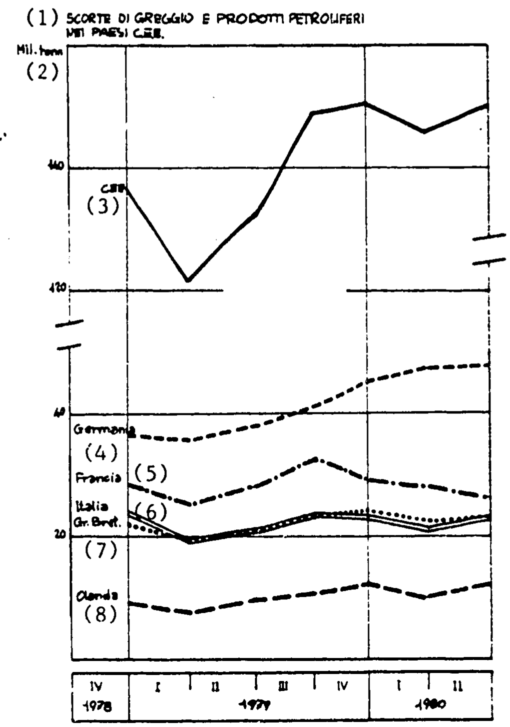
(c) the vertical fall of petroleum exports (-55 percent), which plummeted from 14.3 million tons in the first half of last year to barely 6.5 million tons this year;

(d) substantial stability of the (primary) reserves of crude and products, which, after a sizable reduction (7 percent) in the first quarter of the year, underwent a corresponding revival in the second quarter, thus maintaining the same levels as the beginning of 1980, but proving 3 percent lower than those of the beginning of 1979.

Our country, despite the great overabundance of supply at the international level and the relatively advantageous prices of this period, is therefore one of the very few countries in the world in which the process of buildup of primary reserves--under way for more than 18 months now--has not occurred. In this time span, our European partners, for example, have increased their primary reserves by 13 percent.

At this point in our analysis, it is useful to call attention to the tendencies implicit in the changes cited above and to their significance within the Italian oil market.

There are two elements that it seems we should stress:



Key:

1. Reserves of Crude and Petroleum Products in the EEC Countries
2. 1,000's of tons
3. EEC
4. FRG
5. France
6. Italy
7. Great Britain
8. The Netherlands

Evolution of Primary Petroleum Reserves in Italy (1,000's of tons)

	Crude	Products	Total	Index
31 December 1980	6.5	17.4	23.9	100
31 March 1979	5.1	14.3	19.4	81
30 June 1979	6.0	15.1	21.1	98
30 September 1979	6.1	17,6	23.7	99
31 December 1979	7.1	16.0	23.1	97
31 March 1980	6.8	14.6	21.4	90
30 June 1980	7.2	16.1	23.3	97

--the extreme sensitivity--demonstrated once again--of our supplies to everything that happens in the international situation, to the point that our system seems completely lacking in any mechanism capable of attenuating the tensions coming in from the outside;

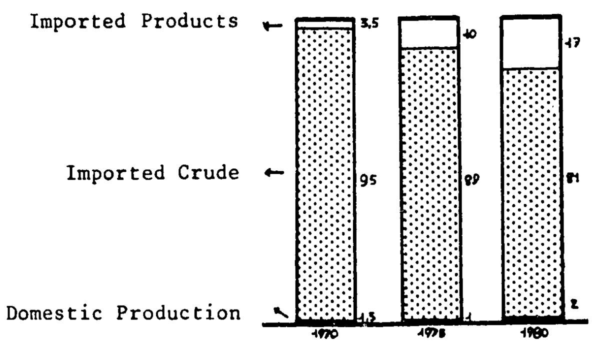
--the tendency--existing for more than a decade now--to increase, in our oil supplies, the proportion of importation of refined products, which went from 3.5 percent in 1970 to 17 percent for the first quarter of 1980, to the detriment of the proportion of crude oil.[10]

Both of these elements constitute, in our judgment, factors of further vulnerability of our energy market, which in itself is already heavily penalized vis-a-vis the situation in most of the other industrialized countries.

But while the domestic scarcity of energy resources (and therefore the obligatory recourse to importation) and the relatively greater energy-intensity of our productive system are structural facts that are very difficult to modify or tackle in a brief space of time, the same cannot be said about the elements of distrubance that almost continually characterize every situational phase of our energy picture.

They are, indeed, solely the consequence of the nearly total absence of any market "guide" whatsoever (despite the legislation in force), and more generally, of the lack of a policy of sectorial programming adequate to the structural problems to be solved and capable of coping with the particular difficulties that might be envisioned at any moment.

Italy: Structure of Oil Supplies



Source: BUROSTAT

5. Interests of Enterprises and National Interests

The result of the failure to apply standards for supervision of the most important decisions taken by the petroleum enterprises is that they very often direct their behavior toward requirements and interests of an entrepreneurial type, and there is no check beforehand, at the central level, of their congruence with the general interests of the country.

Although it cannot be maintained that the overall result of the decisions taken by the enterprises is necessarily always in contradiction with the country's interests, it is nonetheless true that in recent years, behavior without forethought by some operators has had serious repercussions on the entire national oil market, reducing, on quite a few occasions, the entire country's credibility and trustworthiness vis-a-vis certain exporting countries.

Thus, in our judgment, there could be conflict with national interests in the relative preference granted by some operators this year to importation of refined products rather than to continuity of importation of crude oil. This situation is quite similar to the one that occurred in 1977-78, but entirely the opposite of what happened last year. Then, as will be recalled, many enterprises, left absolutely free to adhere or not to the commitments taken on at the time of the preparation of the National Supply Plan, preferred to devote part of their increased petroleum availability to the more remunerative foreign markets, thus causing artificial tensions in the domestic supply, for the purpose of achieving--as, in effect, did happen at the end of the year--a general price increase well beyond the full cost of the products sold domestically.

The average recovery on raw material was then increased from 23.4 to 29.5 dollars per barrel (+26 percent): an increase of which one-third was due to recovery of the differential of the average ex-refinery proceeds as compared with those of the other European countries, with the remaining two-thirds due to earlier-than-expected increases in the costs of imported raw material.

All in all, the price increase appears to have entailed, on an annual basis, a higher consumer cost of 3.8 trillion lire, although this figure was considered by a large part of the industrial, political and even governmental forces to be insufficient for coping with the necessity of resupply which, in groundless panic, was at that time anticipated[11], notwithstanding the fact that the unit profit acknowledged for the petroleum sector was, on the average, aournd 11,000 to 12,000 lire per ton (see Table 14 in the Statistical Section) in the months of January and February.

The situation for the international free market in 1980 is radically different from what it was a year ago.

The Rotterdam quotations--earlier taken improperly as a reference for the "lost earnings" of the enterprises that were supposed to have supplied the national market[12]--showed, starting last December, a steady decline, calculable last August at about 15 percent for fuel oil and between 20 and 25 percent for gasoline, gas-oil, kerosene and virgin naphtha. On the other hand, the considerable and continual increase in domestic prices (the level of which is tied to the average of those charged in the principal European countries) starting just at the time when the international prices were getting past the turning-point (Figure 3) had the result that some of them were lower than the free international prices, even if, on the average, the same cannot be said for the prices charged within the other European countries.

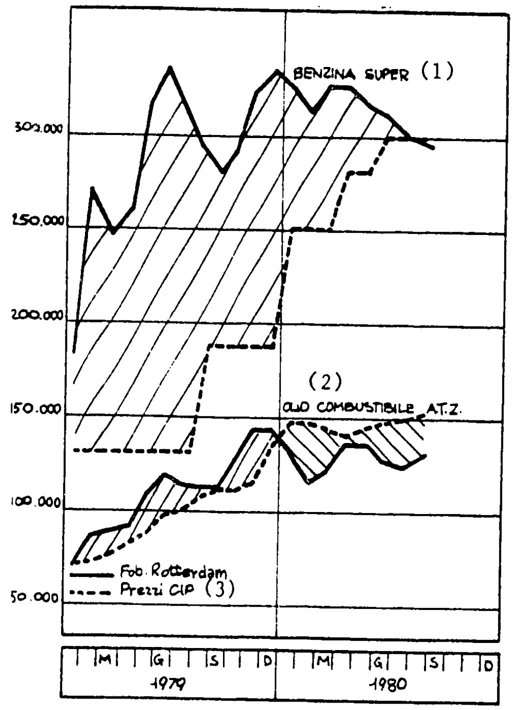
The most obvious case is that of dense fuel oil with high sulfur content, which by itself represents about 36 percent of the total domestic demand for petroleum products.

In the first 7 months of this year, the domestic list prices of fuel oil proved, on the average, 15-percent higher than the Rotterdam fob quotations, up to peaks of $40 per ton [as published] at the beginning of the year. Considering the higher list prices, then, these differentials proved to be 35 percent in the first months of the year and between 20 and 25 percent toward the middle of the year.

In the face of such a situation, it is entirely clear that some petroleum enterprises and perhaps certain big consumers such as ENEL [National Electric Power

Agency] (though it has not been possible to confirm this) have found it more convenient to import refined products than to refine crude themselves or buy refined products directly in the domestic market. Indeed, there has been an increase in importation--as can be seen from the related tables in the Statistical Section--for almost all the principal petroleum products, a particularly obvious case being the imports of fuel oil (+70 percent), which in the first half of the year reached a level close to 30 percent of total releases of this product for consumption.

Comparison of CIP [Interministerial Price Committee] Prices and FOB-Rotterdam Prices for Super Gasoline and ATZ Fuel Oil



Key:
1. Super [high-octane] gasoline
2. ATZ [Low Sulfur Content] fuel oil
3. CIP Prices

While for refined products in general the increase in importation appears to be justified by factors of a situational nature (that is, the relative advantageousness of the international prices), in the case of fuel oil there are, in addition to these, others of a structural nature, and in particular, the interest of the operators (just a few of them for now, but that is not likely to be the case in future) in minimizing refinings of crude and therefore the yield of its quantitatively more important fraction (fuel oil, precisely) because of the forecast surplus, on the international scale, of the supply of this product.

This surplus is brought about mainly by the market penetration of energy sources alternative to oil (uranium and coal in particular) that will progressively take the place of the fuel oil used in the electric-power plants or in some industrial applications. Any eventual imbalances within our country between availability of and domestic demand for fuel oil will thus be covered by importation. This trend toward a relative abundance of heavy fractions and relative scarcity of the light and medium ones will, on the other hand, be paralleled by the change in the relative prices of these products that has been under way for a decade at the international level. The ratio of the prices of gasoline and gas-oil to those of fuel oil has indeed increased from a ratio of about 1.5 at the beginning of the 1960's to a ratio close to 2.5 in 1979-80 (see Table 4-5 in the Statistical Section).

In any case, recourse to more advantageous importation of refined products has not brought with it--especially in the first quarter of the year--a corresponding beneficial effect on the level of domestic prices or on the prices/tariffs of other energy products derived from petroleum products.

The particular configuration of our petroleum industry--which is certainly not inclined toward behavior of a competitive type--and the full freedom of maneuver left to the enterprises as regards the modes of covering domestic demand have had the result that, once again, our country has had to pay the costs of the international market when it was under tension (as in 1979) but without later enjoying the timely benefits when it came to be in a reversed situation of depression (as in 1980). Whereas, in fact, the quotations for petroleum products continued in our country to increase--albeit with decreasing intensity--throughout 1980, in other countries, such as Belgium, the FRG, The Netherlands and Great Britain, domestic-price dips, sometimes of notable magnitude, have begun to occur, from the second quarter on.

In the Italian case, it has to be said that the economic benefits for some enterprises and, to a certain extent, to the country's currency accounts, from greater recourse to importation of refined products do not compensate for the distortions that such behavior may have caused in the market as a whole, and especially, for the damage that could in future derive from it against the country's stability and for the burdensomeness of its oil supplies.

6. The Critical Condition of the National Refining Industry

The technical, economic and commercial deterioration that has progressively characterized our oversized refining industry for more than a decade has finally reduced it from the strong point of our petroleum system (and strong on the international scale too) to a factor of burdensome economic inefficiencies and a constant cause of instability in the domestic market.

The very strong oscillations that have occurred in the past in export flows, the dynamic of which appears to be directly connected to the variations on the international prices (more than to shifts in foreign demand), have in every instance caused the international tensions to reverberate on domestic prices, through the process of rarefaction of domestic supply that we described above.

Entirely to the contrary, at a time of depression of international prices--such as the one we are presnetly going through--the sharp drop in exports and the preference given to refined products from foreign sources have caused a very strong contraction of the rates of use of the refining plants, with a consequent disproportionate increase in the unit fixed costs for them, an increase which the enterprises obviously try to unload onto the domestic prices, especially for the refined products subject to a simple surveillance regime.

In the first half of 1980, the Italian refineries worked at barely 53 percent of their total technical-commercial capacity, as against 63 percent, on the average, last year.

But the extreme instability of the conditions of operation of our refining plants--far exceeding the modest oscillations of domestic demand--has been paralleled, in recent years, by a continual strengthening, both technical and commercial, of the other refining industries in Europe, whose presence is gradually taking the place of the Italian presence in foreign markets.

Typical, in this context, is the case of the French industry, which at the beginning of the 1970's was exporting barely one-third of the volume of the Italian exports, going on to about 80 percent last year, and finally exceeding our exports for the first time in the first half of the current year.

In the light of the whole of these considerations, it seems even more paradoxical that with a refining capacity more than twice the magnitude of domestic consumption and still holding third place in the world, it is decided to strengthen the position of our direct competitors by increasing their penetration in Italy itself.

The increase in refined-product importation thus constitutes, in our judgment, grounds ofr serious concern as regards the security of our country's oil supplies.

In the face of an international-market situation that appears to offer very little reassurance for the future, a shrewd supply policy should have favored the making of contracts for purchase of crude--guaranteeing their long-term continuity, within the limits of our payment possibilities--rather than tending toward haphazard importation of petroleum products. If, indeed, the international situation should, unluckily, turn critical again, refined-product imports would reach very high levels, and it would at that time be very difficult to switch over to purchases of crude oil.

In any case, in order to express a complete and well-founded judgment in this regard, it would be necessary to have all the elements of information about the modalities for purchase of such products, so as to ascertain what types of crude-oil contract they may have taken the place of.

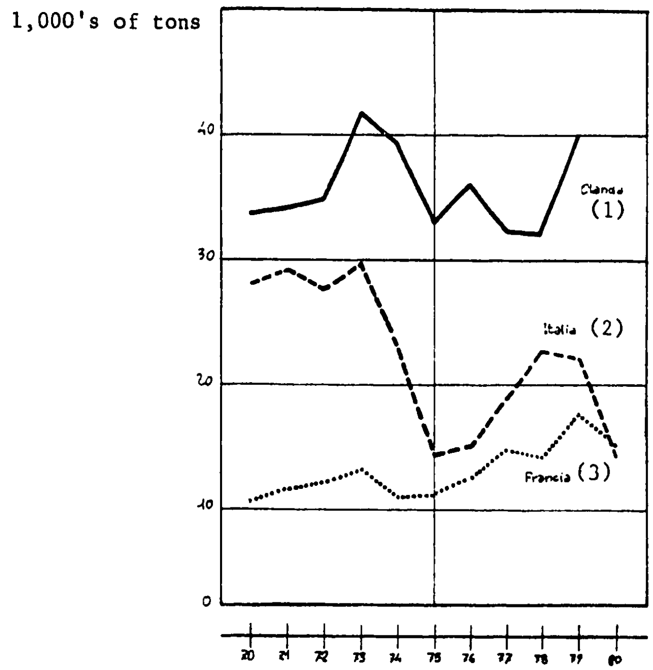
The impossibility of having such data available prevents us from doing anything more than underlining the risk to which we could incautiously be exposing ourselves. In any case, the observation that importation of finished products--notwithstanding the price advantages they offered--has increased only in Italy, while all other countries have registered reductions, even some sizable ones, confirms our preoccupations.

Import-Export of Petroleum Products in Several European Countries (1,000's of tons)*

	Imports			Exports		
	1st half-1979	1st half-1980	Diff.	1st half-1979	1st half-1980	Diff.
Italy	3.9	8.2	+4.3	14.3	6.5	- 7.8
France	5.9	6.2	+0.3	7.7	7.6	- 0.1
FRG	19.4	19.2	-0.2	3.6	3.3	- 0.3
The Netherlands	13.7	9.8	-3.9	24.8	18.2	- 6.6
Great Britain	6.7	5.6	-1.1	6.4	7.7	+ 1.3
EEC 9	62.4	60.0	-2.4	64.8	51.6	-13.2

* Bunkering is included in exports.

Exportation of Petroleum Products



Key: 1. The Netherlands 2. Italy 3. France

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7. An Opportunity Missed

Although the strengthening of the contractual position of purchasers of crude in the international markets does not betoken an overturning of the previous positions vis-a-vis the exporting countries, it has nonetheless offered the large consumer countries the opportunity to adopt measures to consolidate the national security of their oil and energy supplies. The lines which most countries have taken to pursue this objective have been essentially two:

(a) making long term crude-oil purchase contracts directly with the governments of the exporting countries;

(b) increasing the size of the "obligatory" energy reserves held by the enterprises or managed directly by governmental organisms.

With regard with the direct state-to-state agreements, which are fully discussed in another part of this review, their total magnitude should reach about 8.0 million abrrels of crude this year as aginst about 6.0 million last year and barely 1 million barrels in 1973.

It is interesting to note that this strategy has recently been adopted not only by countries traditionally committed in this direction (such as France, Spain, Brazil, etc) but also, and even with particular intensity, by countries that have heretofore shunned this type of "interference" in the oil market. Among these, it is worthwile to cite the case of Japan in particular, which in a short space of time has raised the proportion of its total crude-oil imports (which exceed 200 million tons per year) covered by direct state-to-state agreements to 45 percent.[14]

Looking at our country, we can see that no results of any importance have been achieved as regards either supplies or reserves, and that on the other hand, there are no signs of action of any other nature to be perceived either.

The sole positive result obtained in 1980, though quantitatively modest, seems to be the increase in supplies of oil from Venezuela (up from 3.5 million to 5.0 million tons per year)[15], within the framework of the only "development agreement" that our country has so far been capable of concluding with an oil-exporting country.

The satisfaction on account of the firming-up of this agreement is countered, however, by the concern over the failure to reactivate the supplying of oil by Saudi Arabia to the ENI--interrupted, as is known, since last December--in the amount of 5.0 million tons per year.[16]

The total for the oil-supply agreements in Italy in which there has been state intervention, directly or indirectly, can be estimated at around 25 million tons, equal to about 25 percent of our total net imports of oil and petroleum products. In France, this proportion still amounted to 40 percent last year, to 55 percent in Spain, and about 50 percent in Greece.

As regards reserves policy, it has already been seen above that in Italy their size, instead of increasing, as in most other major consumer countries, has instead experienced substantial stability at the beginning-of-the-year levels and a reduction from the beginning of 1979.

In order to evaluate the full import of the greater vulnerability in which our country finds itself as compared with the rest of Europe, we must also take account, in the first place, of the fact that the proportion of oil in national energy consumption is about 68 percent in Italy as against the 50 percent of the other European countries; and in the second place, of the fact that domestic production of energy sources in Italy does not amount to even 17 percent of consumption, as against 49 percent in the rest of the European countries; and finally, of the fact that in other countries, the greater relative size of oil reserves is accompanied by reserves of other energy sources (among which coal is of special importance) that are practically nonexistent in Italy.

The problem of the absolute insufficiency of energy reserves in Italy appeared to be among the Italian government's concerns when, at the end of last year, it proposed draft bill No 655, which provided for an increase of the level of petroleum reserves to 25 days' consumption of crude and 90 days' consumption of petroleum products (calculated, in both cases, on the basis of the preceding year); the setting-up, with the ENI, of a "strategic oil reserve" for coping with particular emergency situations; and finally, an initial financial appropriation of 300 billion lire for achieving these objectives. Our Parliament's troublous vicissitudes have not yet permitted any significant advance in the legislative procedural journey of this draft bill, which contained useful innovations in the matter of reserves, even if the passage of time has by now made the financial appropriations earmarked for that purpose entirely insufficient.

8. What Price Policy?

While little or nothing new has been done in the matter of oil supplies and reserves, the uncertainty remains regarding the other element that more directly conditions the security of oil availability in the long term--that is, price policy.

Even though the scope of operational discretion permitted to the enterprises in the matter of prices has been considerably broadened with the introduction of the "new criteria for determination of the maximum prices of petroleum prices,"[17] the contradiction that permeates all national oil policy remains unresolved: the contradiction between "price control and freedom of quantity."

The absence of any restriction regarding the commitments, now only theoretically made by the petroleum enterprises, at the time of the preparation for the Annual Supply Plan, has had the result of "unloading" onto price policy alone the responsibility for ensuring continuity of supplies.

The restrictions set on the average level of the industrial prices (which could not, on the basis of the preceding method, exceed the full costs of importation and processing, and, on the basis of the new method, could not exceed the average ex-refinery proceeds of the other European countries) can only cause--even if to an extent certainly lower than in the past--diversions of domestic supply abroad if the international prices should start rising again.

In itself, then, the most realistic price policy initiated in Italy cannot be considered capable of solving the problems of supply if it is not paralleled by an effective policy on the quantity side.

For the purposes of the enterprises' decision to allocate available stocks to a specific market or not, even more than for the purposes of the price-setting criteria applied to them, the factor of certainty about their modalities and continuity of application, once they have been adopted in one direction or another, appears to have priority of importance.

Nothing, that is to say, can cause the enterprises more trouble, in the matter of prices, than the uncertainty and the wide scope of policy discretion heretofore experimented with in the Italian petroleum sector. The step forward taken with the new CIP Method--the CIP having introduced a serious of automatic mechanisms for variation of prices in function of the shifts taken by the reference variables--has not seemed entirely satisfactory in the first months of its application.

Sometimes, indeed, the old tradition of preferring a discretionary "contraction" between the parties as regards modes and times of price variation to adherence to the "objective" criteria adopted in the method has seemed to prevail still, even if the phase of experimentation in which the Method presently finds itself could in theory justify a viscous quality in its modalities of application.

Equal uncertainties also remain regarding the price-setting system considered most functional for our oil market, in view of the fact that the system presently in force, in the opinion of a large segment of the governmental authorities and in the hope of the enterprises, should be understood as an intermediate phase of a process --already started--of gradual liberalization of prices, while on the contrary, in the Resolution of the 12th Industry Committee of the Chamber of Deputies (of 12 March 1980), "the government commits itself to not taking up the problem (of surveillance--Editor's Note) before an organic reform of the CIP and implementation of the instruments necessary for full control of the oil market."

Even at the beginning of July, in the Parliamentary debate held on energy policy, the Industry department official manifested his own open preference for a solution of this type, with the full support of the private entrepreneurs in the sector, and to a certainly excessive extent, with the support of the state agency.

The confirmed intention to "proceed to transferring gas-oil from an administered price to a monitored price" implies, in fact, the intention--voluntary or not--to simply eliminate all control over petroleum prices.

This is for two substantial reasons:

(a) the first lies in the impossibility of actually carrying out the monitoring of a product such as gas-oil that is distributed by thousands of operators, in view of the disintegrating situation of the peripheral state administrative structures who would have to be asked to conduct the monitoring;

(b) the second reason lies in the impossibility--even in the hypothetical case of gas-oil monitoring being successful--of "compensating" by means of gasoline alone (12 percent of consumption)--the only product up to that point subject to an administered-price regime--for the upward or downward shifts of the variables to which the average gross receipts of the operators would also have to be tied.

The proposal to extend the monitoring system, as it is usually presented, to gas-oil presents such contradictions--between the objectives postulated and the means by which it would be desired to achieve them--as to signify in fact, in our judgment, a "surreptitious liberalization" of prices, and without any beneficial result for the size and regularity of oil supplies necessarily following from such a decision.

An incautious startup of monitoring of gas-oil prices would therefore present the risk of the same unhappy experimental period recently experienced with two other basic products, bread and meat, recently returned to an administered-price regime after a 1-year experiment with a monitoring system.

The system was not really put into practice, and it meant such an increase in the consumer prices of both bread and meat that just in the first half of the current year it produced a jump of a good 7-8 points in the cost-of-living index--these two products, like gas-oil, being inc luded in the basket of goods on which the cost-of-living index is calculated.

July 1980

FOOTNOTES

1. The General Directorate of Energy Sources of the Ministry of Industry prepares monthly, on the basis of the analytical data furnished by the enterprises, a crude-oil and refined-products balance sheet for a 5-month period, running from

the "definitive consumption" of the last month available to the "provisional forecast" of the 5th month to come. These data, in any case, are "solely for internal use within the Administration."

2. EEC regulations 3254/74 and 388/75, relative to the collection of data on importation and exportation of petroleum products, apply, for example, solely to those companies that move at least 100,000 tons of product per year.

3. EEC, NOTE on suspension of certain information to the Commission, 6 June 1980.

4. The data available group the residential-consumption data with the commercial-consumption data, but this does not alter the result obtained for the former.

5. Data as of 20 March 1980 (the time when the winter season normally ends) as compared with 1 January 1979.

6. We went from figures higher than 13,000 km per year in 1973 to a little more than 9,600 km per year in 1979 (-28 percent).

7. The incidence of the cost of fuel--calculated on the basis of a FIAT 128 with mileage of 20,000 km per year--on total operating cost came to 36 percent in 1979 as against 44 percent in 1975. Data taken from "Esso Data 1979."

8. EEC, "Recent Information on Oil Supply" (provisional), 15 July 1980.

9. Because of the delays in ISTAT publication of data, we have had to make use of the data released by the EEC, which, however, do not always coincide with the ISTAT data because of differences both in the collection criteria (the ISTAT data also include bunkering, which is not considered by the EEC) and in collection times (which are perhaps closer to reality in the case of the EEC).

10. The structure of supplies is given by the sum total of domestic production of crude, plus net imports of crude after deducting reexport of petroleum products, plus imports of petroleum products. The variations in primary reserves are not considered for each year.

11. It should perhaps be recalled that the increases decided on by the Council of Ministers on 29 December 1979 were granted in an atmosphere that it would not be exaggerating to describe as one of panic about the country's imminent oil-supply "shortfall," estimated by some ministries at 20 million tons for all of 1980 and by others at 30-35 million tons. To cover this "shortfall," it was planned to make massive use of the more expensive spot market, thus transferring to the domestic prices raw-material costs far higher than those normally paid. There was agreement on this position even between the industrial associations and the trade-union associations, which, in the face of the feared risk of a sizable reduction in the number of jobs and production from the beginning of the year because of a 25-percent shortage of oil supplies, signed a joint energy-policy document sent to the government on 28 December 1979. For the reporting of those days, see: IL SOLE-24 ORE of 15 November 1979, "Better Expensive Than Nothing" and "Threat of a Shortfall in the Petroleum Balance-Sheet"; IL CORRIERE DELLA SERA of 17 November 1979, "The Oil Shortfall Could Cost 2 Trillion Lire"; and the year-end issue of IL SOLE-24 ORE.

12. Improperly because the fob-Rotterdam and fob-Genoa prices are indicative or trend prices and almost never reflect the real selling prices that transpire, as is demonstrated by the importation prices of Rotterdam's biggest buyer--that is, the FRG--which are considerably lower than the quotations reported by Platt's.

13. This has to be done in any case by enterprises or big consumers that have sufficient capacity for storage of imported stocks.

14. PETROLEUM INTELLIGENCE WEEKLY, 9 June 1980.

15. There are no official communications to which one can refer with regard to this extension of the agreement with Venezuela; therefore we used the press reports.

16. The suspension of supplies from Saudi Arabia, in view of their lower cost as compared with the average for the crude imported into Italy, has so far cost at least 50 billion lire, calculating this cost on the basis of the differential between Saudi Arabian crude's CIF cost and the average of the CIF import costs in the first half of the current year.

17. CIP Provision No 8/1980 - GAZZETTA UFFICIALE No 79 of 20 March 1980.

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COUNTRY SECTION FRANCE

BRIEFS

PCF SPECIAL ASSESSMENT--The rich will pay. Based on that principle, [Georges] Gosnat, PCF treasurer, has decided to assess all the well-to-do members of the PCF. This special tax will come to 1,000 francs. The number of "rich" members is 20,000. The money collected will come to 20 million francs, and woe unto those who are reluctant to pay up. [Text] [Paris LA LETTRE DE L'EXPANSION in French 2 Feb 81 p 3]

QADHDHAFI ON TV--[Libya's] Qadhdhafi is doing all he can to appear as a friend of France. His minister of information has been made responsible for seeing Qadhdhafi is invited to appear on several big radio and TV broadcasts (Cartes sur table [Cards on the Table], Face au public [Face the Public], Le Club de la presse d'Europe 1 [Europe 1 Press Club] and so on). [Text] [Paris LA LETTRE DE L'EXPANSION in French 26 Jan 81 p 6]

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COUNTRY SECTION SPAIN

POLITICAL BIOGRAPHIC PROFILES OF HIGH-RANKING UCD LEADERS

Madrid LA OTRA HISTORIA DE UCD in Spanish 1980 signed to press 2 Dec 80 pp 222, 223, 247, 248, 270, 271

[Excerpts from chapter entitled "Quien Es Quien en el Congreso" of Part IV ("Rebelion en las Camaras") from the book "La Otra Historia de UCD" by Fernando Jauregui and Manuel Soriano, Emiliano Escolar Editor, Juan de Mena, 19-21, Madrid-14, 308 pages]

[Excerpts] Leopoldo CALVO-SOTELO Bustelo

Deputy representing Madrid; entrepreneurial technocrat; second vice president of the government for economic affairs; member of the UCD [Democratic Center Union] National Executive Committee; promoter of the centrist party.

A native of Madrid, aged 54, he is married and has eight children. He is an engineer specializing in roads, canals and ports, and has engaged in professional activity in both public and private enterprise: chairman of the RENFE [Spanish National Railroads] Council of Administration; general director of Perlofil, SA; executive adviser of La Seda de Barcelona, SA; board member of SA Ferrovial; adviser to the Urquijo Bank; and adviser to the Rio Tinto Explosives Union. He has assets amounting to nearly 38 million pesetas, and an annual income of over 5 million, according to his latest financial statement.

During the dictatorship, he had technical responsibilities in the economic growth period, participating for some time on the staffs of Federico Silva Munoz. He was chairman of the Basic Chemical Industries Subcommittee of the Second Development Plan; directed the task force on industrial location in the Third Development Plan; and, in 1972, headed the Association for Industrial Development of Galicia (SODIGA). In 1975, he was a voting member in the Plenum of the Higher Council of Chambers of Commerce, Industry and Navigation.

His political concerns began in 1942, when he joined the Monarchist Youth organization, headed by Joaquin Satrustegui. His Catholic background also prompted him to join the youth group of the National Catholic Association of Propagandists (ACNP). In 1957, he was a founder of the Spanish Union, which made an abortive attempt to participate in politics as a group. From October 1971 until December 1975, he was a member of Parliament, representing owners of chemical industries.

In 1975, with the political personages favoring openness at the time (Fraga, Areilza, Pio Cabanillas and Jose Luis Alvarez), he founded FEDISA [Federation of Independent

Studies, Inc], for the purpose of setting up a conservative party which would guide the progress from the dictatorship to a democratic monarchy. A few days after Franco's death, President Arias Navarro appointed him minister of commerce. Suarez, Fraga and Areilza also joined this government, the latter two as genuine "protagonists" of reformism.

Calvo-Sotelo is one of the reformist politicians who did not refuse to cooperate with Suarez when the latter was named president of the government by the king in July 1976. He joined Suarez' first cabinet as public works minister. At the order of Suarez, he left the ministry post to handle the formation of UCD, to assert the president's interests in the coalition and to lead the centrist campaign during the first democratic elections, which brought victory to Suarez. He was a deputy representing Madrid in the constituent legislature, and spokesman-chairman of the centrist parliamentary group in the Congress until February 1978, when he was appointed minister for relations with the European Communities, a position that he left in September 1980, to replace Fernando Abril Martorell as second vice president for economic affairs.

Landelino LAVILLA Alsina

Deputy representing Jaen; a Christian Democrat; member of the UCD Executive Committee and of its Standing Commission; president of the Congress of Deputies.

A native of Lerida, aged 46, he is married and has four children. Holder of a law degree and a certificate from the Leo XIII Social Institute, he served as a professor of administrative law at the University of Alcala de Henares, and as a counselor for the Council of State and counselor auditor for the Controller of Currency (number one of both oppositions).

During the Franco era, he monitored political events very closely from the important positions that he held in public and private enterprise, as well as in circles with Christian Democratic influence associated with the National Catholic Association of Propagandists, the heir of the group formed around Cardinal Herrera Oria that gave rise to the Catholic-national component of the dictatorship. The influence of Vatican Council II and the perspective of the monarchy caused this major pressure group to move toward reformism.

From this new perspective, Lavilla was a leader of ACNP, president of the San Pablo-CEU Major College and founder of the "Tacito" * group, whose doctrine was published in the newspaper YA, and in four regional newspapers, and disseminated to the subscribers of the "Logos" agency, all affiliates of Editorial Catolica, SA, in which he served as chairman of the Council of Administration. His other economic sources and privileged political monitoring posts were: CAMPSA [Leasing Company of the Petroleum Monopoly], on the Council of Administration; UNINSA as adviser; Acerinox, SA, as adviser; and the Spanish Bank of Credit, as assistant general director.

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*A group composed of lawyers and middle-class bureaucrats who occasionally voice their opinions; there are Social Democrats, Christian Democrats or liberals in this group.

After he had collaborated in the Technical General Secretariat of the Presidency of the Government, occupied by Carrero, he held his only political post during the previous regime at its end: as undersecretary of industry, in the government of Carlos Arias Navarro (1974). While serving as president of Editorial Catolica, in 1976 he was called upon by Suarez to take over the Ministry of Justice, and became the juridical alchemist of the president's political desires aimed at dismantling Francoism and laying the foundations for democracy. From the legalization of the parties and trade unions, and including an attempt to guarantee liberties, to the provisional "mini-Constitution" which was the Law for Political Reform, and the electoral decree-law which opened the horizon for the new, de facto constituent Cortes, Lavilla made complete laws.

Devoted to this immense task, he did not appear for the 1977 elections, but was a senator at the king's appointment. He took over the leadership for preparing the Constitution, defending the centrist positions so vigorously that the Socialist, Peces-Barba, gave up the chairmanship and charged that the privileges of private education were being constitutionalized. During the Commission phase, the draft Constitution came out ahead only with the backing of UCD and Fraga's Popular Alliance, because all the proposals from the left and from nationalists were rejected. The educational issue, that of divorce and the regulations for representation in the Cortes, brought up very advantageously for UCD, stalled the debates again, and the opposition threatened to leave. It was then that the political vice president, Abril Martorell, removed Lavilla from the leadership for preparing the Constitution, and made an agreement on it with the opposition.

Learning from the experience of this skirmish, and not emerging as a man for "hand to hand" political battle, after having been elected a deputy in 1979 he opted for another privileged political monitoring post, the presidency of the Congress of Deputies, a niche affording protection from the partisan blows, to which the government and the opposition must have recourse to obtain its mediation. After the bind in which Suarez had placed him, having to deny the opposition the prior debate that it was requesting in the investiture of the president, Lavilla soon gained the recognition of the entire Chamber as an unbiased, exacting president, orderly in the debates and unappealable in the fair interpretation of rules and regulations. During recent months, the thorn of preparing the Constitution has been removed, freeing parliamentary issues, and allowing the opposition's proposals to be heeded.

Agustin RODRIGUEZ Sahagun

Deputy representing Vizcaya; a Suarez follower; a relative of the president by marriage; member of the UCD's National Executive Committee; minister of defense.

He was born in Avila, is 48 years of age, and is married with six children. A brother of his is married to a sister of Aurelio Delgado, Suarez' brother-in-law and private secretary. His main professional activity has been that of an entrepreneur, organizing the Spanish employers association in the CEOE [Spanish Confederation of Business Organizations] and the CEPYME [Spanish Confederation of Small and Medium-Sized Businesses], in which he served as vice president and president, respectively. He is one of the wealthiest men in UCD, according to the latest financial statement, which recorded assets amounting to over 152 million, and an annual income of 5 million pesetas.

He has an extensive academic record: a degree in economic sciences from the University of Deusto, and in law from the University of Valladolid; a certificate in politics and economics from the University of Caen (France); a certificate in business management and organization from an institute in Milan; a fellowship from the Turin Institute of Economic Studies; and courses in computer science at the IBM main office in Blaricum (the Netherlands). He is a founder of, and has been an instructor at the International Institute of Business Management (INSIDE).

His record as a businessman is even more extensive: founder and member of the Council of Administration of Ediciones Deusto, SA; general secretary of promotion for the Bank of Bilbao; board member of Laurak, SA; of the Latin American Petroleum Company, SA, in Caracas, where he set up his own business; of Procex Internacional (Luxembourg); of Lemon, SA; Of Iberfrio; of Ibero-Europea de Ediciones, SA, etc. He has been a promoter of institutions for the protection of the interests of business owners (who were disorganized under the state's protection during the dictatorship), for the purpose of opposing the trade unions in the new democratic system. He participated in the establishment of the Spanish Confederation of Business Organizations (CEOE) and the Spanish Confederation of Small and Medium-Sized Businesses (CEPYME).

While serving in the presidency of the latter organization, he distinguished himself by harshly criticizing the economic policy directed by Prof Fuentes Quintana, marked by a social tendency, in the government resulting from the 1977 elections. When Fuentes resigned and Abril Martorell took over the economic vice presidency, Rodriguez Sahagun was named minister of industry and energy in 1978. He did not come from any of the groups and parties which comrpised UCD, and had only maintained a certain relationship with the Popular Party. He became affiliated with UCD shortly after entering the government.

After the last general and municipal elections, in April 1979, Rodriguez Sahagun became the first civilian defense minister, after the government defense responsibilities had been in the hands of the military for over 40 years. With great circumspection he undertook the restructuring of the Armed Forces, the combining of its upper echelons and the reform of the military justice system. He has had to cope with serious tension on the part of the generals, caused by the heavy terrorist attacks, which also upset the Army's high-ranking authorities.

During the cabinet crisis of September 1980, he was willing to accept the vice-presidency for economic affairs, with a program for the reactivation of business, but Suarez chose Calvo-Sotelo and the Fuentes Quintana team, again in the shadows.

He is in the habit of remarking that, when the president does not need his services, he will engage in establishing a great newspaper in Madrid, with the conviction that the press is business.

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