JPRS L/9875

29 July 1981

# West Europe Report

(FOUO 35/81)

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# WEST EUROPE REPORT

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## CONTENTS

ECONOMIC BELGIUM

ECONOMICS MINISTER ON STRUCTURAL PROBLEMS, THIRD WORLD RELATIONS

Paris JEUNE AFRIQUE in French 3 Jun 81 pp 88-90

/Interview with Willy Claes, Vice-Premier and Minister of Economics by JEUNE AFRIQUE; date and place not specified/

/Text/ Willy Claes: A north-south dialogue must become the instrument of a new but equitably shared growth.

What is the situation of present day Belgium? Vice-Premier and Minister of Economics, Willy Claes gives a frank discussion of the realities of the situation. But the internal difficulties are not a pretext to shirk the obligations of the Western countries towards the developing countries. In this regard, his proposals cannot fail to attract attention.

JEUNE AFRIQUE: Mr. Vice-Premier, what is the position of the Belgian economy in regard to economic cycles and structure?

Willy Claes: First let me say this: for an international journal as prestigious as JEUNE AFRIQUE to open wide its columns to a developed country, while its bent is to treat the problems of developing countries, shows emphatically the will and the necessity to reinforce the dialogue between the industralized countries and those of the Third World. You are to be thanked for this.

The central location of Belgium at the heart of the EEC has a favorable effect on its foreign trade: with a population representing about .25 percent of the earth's inhabitants, Belgium has 3 percent of world trade. Except for coal, sand, and clay our country possesses hardly any raw materials; we must therefore buy abroad the raw materials necessary for our industries. Consequently, its exports are vital but, at the same time, make it dependent on worldwide economic cycles and structural movements. About two-thirds of Belgium's foreign trade is realized with EEC countries and, among those, essentially West Germany (22 percent of the total), France (19 percent), the Netherlands (15 percent). The portion attributable to the developing countries in the total of Belgium's exports remains too small, especially in comparison to the share they have of our imports (about 16 percent). Nearly half of the GNP is exported. The areas of activity which are the most oriented towards overseas trade are areas such as mineral products, metal and electronic products, chemicals, and certain other industries such as the gold jewelry trade. With the goal in mind of consolidating its exterior position, Belgium actively participates in the endeavors of international organizations such as the UN--notably the United Nations Conference on Commerce and Development--GATT and OCDE. In addition, the Belgium-Luxembourg Economic Union (BLEU), founded in 1921 and recently renewed for 10 years, Benelux, created in 1948 and reinforced thereafter, and the EEC make possible a more harmonious development of the constituent parts which these economically oriented entities comprise.

Since the beginning of the worldwide economic crisis, growth of the GNP has slowed down. After experiencing an average annual growth rate of 4 to 6 percent from 1969 to 1974, the GNP fell back in 1975 (-1.8 percent) and except in 1976 when it recovered a part of its slowdown, it has grown only feebly since (2.1 percent in 1980 according to certain estimates). The results for 1979 show that the rise of 2.1 percent of the GNP in constant prices is due to the branches of the following activities: chemical and allied industries, iron, steel and non-ferrous metals, financial services and insurance, transport and communications, and the textile industry. Other branches, like the extractive industries, clothing and shoes, pottery, ceramics, and glass, as well as construction are declining.

JEUNE AFRIQUE: What is true the situation of the economy in the present climate of international crisis?

Willy Claes: In 1980, the Belgian economy was influenced by two factors: the high level of interest rates in the United States on the one hand, and the ever more significant depletion brought about through the gasoline prices in the importing countries on the other hand. Market conditions in Belgium have shared in the depressed international economic climate which has continued all this past year. Largely positive in the first quarter of 1980, the growth rate of the industrial production index, without including the building industry, (in seasonally adjusted and polished data) later became negative. The intervening deterioration appeared principally in such sectors as the chemical and rubber industry, the basic metal industry, and the construction industries. Ultimately, demand remained weak throughout 1980. Private consumption as well as exports registered lower growth rates. Only investments were able to keep up, but this evolution touches only certain branches such as energy and metal fabrication.

JEUNE AFRIQUE: And the effect of unemployment?

Willy Claes: In that area we were confronted with difficulties of a wide nature. On the one hand, the ever increasing mass of unemployed weighs directly on the weakening of private consumption; the growing weight of unemployment is a direct result not only of demographic change, but also of industrial stagnation as well as a rationalization process in production which has speeded up in recent years. On the one hand, the disequilibrium of the current balance of trade--due in large measure to the primitive structure of exports--and that of public finances restricts the margin of action of the authorities. The most favorable element remains the evolution of prices: their rise is largely below that which exists in many countries, all of which offers important competitive advantages. The present situation thus appears difficult and the short term prospects appear somber and almost inescapable.

Industrial policy is, more than ever, at the center of government deliberations. All the more so as the secondary sector is, and will remain in the future, confronted with profound mutations, among which are the progress of newly-industrialized countries and the very considerable transfer of buying power to the oil-producing countries. That is why what has come to be called the "new industrial policy," as well as the agreement which founded the current government, are oriented towards industrial reconversion and renovation of methods, procedures, materials, and products in order to guarantee a lasting economic recovery by the indispensable adaptation of industrial structures.

JEUNE AFRIQUE: What are the major options in this new industrial policy?

Willy Claes: They are five in number.

1. Restructure and modernize the traditional branches of activity while taking into account worldwide economic reorganization;

2. Diversify production; manufacture more products of a high added value and of high technology;

3. Reach a degree of sufficient specialization in these types of products, and here also;

4. Limit dependence on foreign decision centers. That implies therefore a net growth, at the heart of industrial activity, of national, private, and public initiative.

5. Enlarge exterior outlets, without at the same time neglecting the necessary favorable working of the domestic market.

To all that can be added two factors which should be kept in mind: the promotion and reorientation of industrial research as well as the interest shown in labor intensive activities.

JEUNE AFRIQUE: What are the goals of this policy?

Willy Claes: Firstly, restructuring aims at branches such as textiles, the iron and steel industry, construction materials, food products, lumber, hides, paper, maritime construction, and certain sub-branches of the chemical and metal industries. These areas must increase their competitiveness by increasing productivity and ameliorating the commercialization of products; they must direct their production towards high level goods and integrate even more the different stages of production. Moreover, the social effects of rationalizations must be supported by everyone.

The strategy of specialization must lead industry towards the benefits detailed above which incorporate a high added value and a great effort at research. The market for these products is that of the industrialized countries and of the Third World countries which are industrializing rapidly. With the goal in mind of reducing the risks connected with too strong a dependence on investors and foreign decision centers, at the same time preserving their positive aspects, it seems necessary to address oneself preferably to European enterprises, to give more attention to medium-sized businesses and to promote the formula of "joint venture," an association of foreign and Belgian businesses, at the heart of which the partners are equal.

What's more, we must preserve and enlarge the acquired experience formed by foreign investments, which have been factors in the industrial renovation, by means of the new technologies they have introduced. Finally, enlarging our foreign outlets implies an accompanying growth in the size of a certain number of businesses in order to allow them to better withstand the competition, to look after the marketing of their products and the canvassing of foreign markets, as well as augmenting the share which equipment holds in the total of Belgian goods exported.

JEUNE AFRIQUE: What are the basic fundamentals of your policy concerning north-south relations?

Willy Claes: Our new industrial policy is directed equally at the questions raised by the current weakness of development of certain Third World countries. Today, one fourth of the world's population consumes 80 percent of its essential manufactured goods while the other three quarters, living in the developing countries, must be satisfied with 20 percent. This relationship must change, and it will change, whatever the eventual will of the industrialized countries might be to oppose it. Thus, if one wishes to avoid any serious tensions of a worldwide nature, it is necessary to see to it that there is a balanced development between the north and the south, from which will result a new international distribution of work. The industrialized countries, by reason of their experience, will be called upon to act in favor of the general infrastructures (transportation, energy, housing, etc.) as well as to be responsible for the engineering and realization of industrial projects. Belgium intends to be even more of a presence on the supposed battlefield of large exports, but this process must be brought about by stimulating the complementarities and appropriate forms of collaboration, notably by sub-contracting, between Belgium companies and those of the developing countries. If Belgium wishes to carve out a more important place in world markets for industrial equipment, we are, at the same time, aware that we must guarantee imports, on a permanent basis, of industrial products originating from the Third World countries.

In the same vein, the Belgian government proposes, conjointly with the other industrialized countries, to set forth a broad program whose goal will be to obtain capital for the "poor" nations among the developing countries. It is a matter, therefore, of a "marshall plan" for development /in boldface/. In effect, more and more numerous are those who, in Belgium as in other European countries, are aware that the current economic crisis will be overcome only if a more narrow collaboration is created between the developed and the developing countries, in order to confront present-day difficulties. Then, the north-south dialogue, so often demanded by the Third World, will become the instrument of a new growth, but one that is shared more equitably than that of the sixties.



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DEVELOPMENT OF ITALY'S RELATIONS WITH ARABS REVIEWED

Increased Contact

Paris AL-WATAN AL-'ARABI in Arabic No 224, 29 May-4 Jun 81 pp 65, 66

[Article: "Historical and Geographic Facts in Italian-Arab Relations; European Italy Positively Inclined Toward Arabs"]

[Text] The recent years have witnessed considerable development in relations between Italy and the Arab world. This development has included the political, economic and cultural spheres. Until recent times, the 1950's and 1960's for example, the relationship binding these two sides was an unclear and incomprehensible foggy relationship or, let us say, a relationship with no clearcut dimensions and features. This despite the fact that Italy, next to Greece, is considered the closest European country to the Arab world and there is a rich history of the relations with this country which shares with the Arab countries its location in the Mediterranean Basin. Moreover, there is a strong similarity between many of the customs and traditions of the Italian people, especially the southern Italians, and the peoples of the Arab Mediterranean countries, i.e. the countries located on the Mediterranean coast. Despite all these common denominators, the relations tying Italy to the Arabs were not, as we have already pointed out, compatible with the facts, especially the political relations, considering that Italy has been one of the last European countries to show understanding toward the Arab-Zionist conflict. This may have been due to the strong relations established by the successive Italian governments with the United States, especially in the sphere of foreign policy where there was evident coordination between the Italian and U.S. governments on many of the positions taken by the two governments vis-a-vis international events, especially the Middle East issue.

Disengagement With America

However, this fact began to disappear in Italian foreign policy, in the late 1970's and with the onset of the 1980's specifically. The United States can no longer use Italy as a launching point for its activities against the Mideastern countries. One of the distinguishing marks indicating the extent of the transformation in the Italian policy and this policy's liberation from the shackles of the U.S. policy in the area is found in Italy's condemnation of the United States in the wake of the failure of the latter's attempt to free the U.S. hostages in Tehran [By military force]. It has also become evident in Italy now that there has been a more positive inclination in the interest of the Arab countries, especially when Francisco Cossiga was prime minister and Emilio Colombo minister of foreign affairs. There has been a large increase in the number of visits made by Italian officials to the various Arab countries in recent years and certainly the Italian politicians have begun to realize that Italy, with its geographic location and on the basis of historical and cultural reality, must interact to a greater extent and more positively with the hot political events and the influential economic developments that take place [in the Arab world]. Moreover, Italy is, by virtue of all of the above-mentioned, among the Western countries most strongly affected by the Middle East crisis. Italy relies on Arab oil to meet 68 percent of its energy needs. Local [oil] production is very meager and can be disregarded, considering that it doesn't exceed 1.5 million tons annually whereas the country needs more than 100 million tons a year.

Look for Oil

In addition to the oil which represents an important factor in the consideration of Italian foreign policy, there is another factor which has influenced modifying the course of Italian policy vis-a-vis the Middle East generally and the Arab countries in particular. This inclination appeared in the first half of 1980 when it was Italy's turn to head the EEC Council in the first 6 months of 1980. Therefore, Rome took the leadership of managing the EEC affairs in an important period during which the EEC member states were finalizing their views and preparing themselves for a role in the Middle East--to be specific, for a role in settling the Arab-Zionist conflict generally. Consequently, Italy found itself interested, perhaps for the first time in this concerted manner, with whatever was happening in the Middle East politically, economically and culturally. We even notice that this interest did not end or terminate with the termination of Italy's chairmanship of the EEC Council in the second half of 1980. Therefore, this period witnessed numerous visits by Italian officials to the Arab countries and the conclusion of bilateral agreements between Italy and many of the Arab countries. However, the impact of this positive turn in Italian policy diminished quickly. An official of the Italian Ministry of Foreign Affairs attributes this change to the eruption of the Iraqi-Iranian war and the resignation of Cossiga's cabinet at the end of September 1980. Cossiga was the man who headed the EEC meeting which was held in Vienna on 13 June 1980 and in which the nine EEC member states issued their joint declaration on peace in the Middle East. In this declaration, these states expressed their readiness to participate in the efforts to bring about a comprehensive settlement acknowledging the Palestinian people's legitimate rights to their land and their right to self-determination. While recognizing Israel's right to survival and security, the EEC member states condemned the Israeli settlement policy in the occupied territories. They also declared their rejection of the Israeli attempts to change the status of Jerusalem unilaterally. For the first time, the EEC member states also stressed that the PLO should have a part in any peaceful settlement.

This may not include all that the majority of the Arab countries want from Europe. However, the Italian Ministry of Foreign Affairs considered this declaration by the EEC member states to be considerable progress, the credit for which goes to Italian diplomacy which played an effective role in changing the political direction concerning the Middle East in the Netherlands and Denmark both of which had been known for their positions of full support for Israel. For the first time ever, we saw the West European countries not [only] binding themselves to the declaration issued but [also] laying down the foundations for an active diplomary embodied in the mission which toured the Arab countries and Israel to familiarize itself with the points of agreement and disagreement between the parties to the conflict. This mission was known as the (Thorn) mission, Thorn being the chairman of the EEC Council for the second half of 1980. One of the most important results of the tours, contacts and talks of the mission was the declaration by the European countries of their readiness to offer international guarantees binding to both sides in the area within the framework of a comprehensive peaceful settlement. In July 1980, when Italy handed over chairmanship of the EEC Council to the Luxembourg, Italian Minister of Foreign Affairs Colombo was planning to underline the bilateral relations between Italy and the Arab countries. He paid an official visit to Tunisia during which he held talks with Chedli Klibi, the Arab League secretary general. Shortly afterward, "Izzat Ibrahim, the Iraqi vice president, visited Rome with 3 Iraqi ministers in response to an official invitation from the Italian Government. Meanwhile, active preparations were underway to receive Prince Saud al Faysal, the Saudi minister of foreign affairs. But suddenly the Iraqi-Iranian war erupted and the Italian cabinet fell. According to an Italian diplomat, Italy had attached big importance to the Saudi minister's visit and was looking forward to restoring Italian-Saudi relations to the conditions that prevailed before the ban on the exportation of Saudi oil to Italy. In any case, this problem has recently been solved satisfactorily to both sides.

Generally, it can be said that the relations between Italy and the Arab homeland are constantly developing in a positive direction at the various political, economic and cultural levels. Insofar as each individual Arab country is concerned, it is evident so far that Italy is trying not to interfere in the political axes that emerge between some countries of the Arab homeland. Italy's interest lies, according to the statements of more than one Italian official on more than one occasion, in the disappearance of the petty conflicts among the Arab states so that Europe, including Italy, may be able to deal with an Arab world that has unified positions on both the foreign and the domestic policies.

## Growth in Trade Relations

Paris AL-WATAN AL-'ARABI in Arabic No 224, 29 May-4 Jun 81 pp 69-72

[Article: "Italy: Economic Artery Between Europe and Africa; Italian Exports to Arab World Triple in 4 Years"]

[Text] There is the following famous statement by a prominent Italian businessman in which he describes the necessary guarantees for the survival, growth and development of the Italian economy and industry: The only solution before Italy is to develop its economic relations with the Arab world, especially with the Arab oil countries, to the utmost degree possible. From them we acquire oil, which is the energy necessary to run the factories, and to them we export the largest volume possible of the production of these factories at prices and on conditions unmatched in other countries.

It seems that the Italian businessmen and the Italian Government have fully realized this fact or taken this advice, as they describe it in Italy. A single glance at the development of the Italian exports to the Arab countries shows us the extent of the stunning growth in the economic relations between the two sides in a short period not over 4 years. Whereas the value of the Italian exports to the entire Arab world did not exceed $3,746,831 in 1976, we find that the figure rose to $5,237,347 in 1977 and to $6,219,446 in 1978. In 1979, the figure reached $8,668,837. All signs indicate that the 1980 figures will exceed all the preceding figures and all the expectations following them. [All figures as published]

Italy is the biggest industrial state in the Mediterranean Basin. Like all the industrial countries that lack local energy resources, Italy has been strongly affected by the rise of oil prices in recent years, especially when we learn that it depends on oil to meet 68 percent of its energy needs. Despite the efforts it is exerting to increase its imports from other sources, such as Nigeria, Venezuela and Mexico, the largest part of Italy's oil imports comes from the Middle East. Thus, crude oil represents the burden that saddles its balance of payments. This burden grew heavier in 1979 in particular when the deficit in Italy's balance of payments amounted in the first 8 months of 1979 to 11,182,000,000,000 liras--$12,912,000,000.

Energy Problems and Their Local Causes

Thus, the Italian economy, like the economies of the other industrial countries, has to shoulder the weight of the rising prices of crude oil and of the interruption of some oil supplies because of the Iraqi-Iranian war. The quantity of oil supplied by Iran to Italy has dropped by a large amount since the Iranian revolution whereas under the shah, Iran was the second largest supplier of oil to Italy after Saudi Arabia. Iraq then replaced Iran as the second largest supplier and this situation continued until the outbreak of the Iraqi-Iranian war.

However, many political observers and economic analysts believe that the blame for the interruption of oil supplies from some sources falls on the shoulder of Italy itself. The government-controlled Italian Hydrocarbons Organization, known as ENI, has failed to implement the direct importation deal for 12.4 million tons of oil concluded with the Saudi Petromin Organization because the Saudis stopped delivery of the oil when the political scandal concerning the $114 million agreed upon as "commission" spread in Rome. The governmental and parliamentary investigations have reached no conclusive result and have found no evidence of any payments to certain Italians. However, this has not prevented Italy from importing Saudi oil via the international oil companies.

There is another story with Kuwait, the gist of it being that Kuwait has stopped delivering oil to two Italian importers who have not been able to pay what they owe it, namely the SIR Company and the Atilio-Italiana Group. Kuwait was also annoyed when the Pont Oil Company, headquartered in Genoa, sold a shipment of Kuwaiti oil on the high seas and this shipment was unloaded in South Africa. The situation has also been affected by the financial difficulties faced by the Italian consulting and contracting firms. The major shareholder of the (Itaxat) Company, a company which had an excellent reputation in the Third World, liquidated the company. However, the labor unions and the company employees protested very strongly and so the government appointed a representative to take charge of running the company. Exactly the same thing was repeated in the case of the group of construction companies supervised by Mario (Gingini) which had important contracts in Saudi Arabia and Iraq. The courts are still looking into the affair of these companies and no decision has been made yet.

It is evident from the above-mentioned examples that the curtailment of the oil relationship between Italy and the world's oil countries, especially the Arab countries, is due fundamentally to some domestic Italian actions which have nothing to do with the other side, meaning the oil source.

Arabs and Economy

As for Italy's economic relationship with the Arab countries, it is, as we have already mentioned, generally good and developing, especially with the countries close to Italy, such as Libya, Tunisia and Egypt. Italy [presumably meaning Libya] is considered among the best markets for the Italian exports. Perhaps this is due to the old historical relations binding the two countries, in addition to the geographic proximity. Nearly 15,000 Italians work in Libya at present. As for Saudi Arabia and the Arab Gulf States, Italy is exerting urgent efforts to develop the relations with them. It has now become familiar to see Italian firms implementing large, medium and small projects in the Arab countries. Perhaps one of the most important projects entrusted to an Italian firm to implement in the Arab world is the pipeline which will carry Algerian methane gas to Italy via the Strait of Sicily. The first real and permanent link between Africa and Europe was completed in 1980. This link or this pipeline will go into operation by the end of 1981 to carry gas to Italy, and maybe to other European countries. The length of this pipeline which crosses the Mediterranean is 2,498 kms and its costs amounts to $3.5 billion. It will transport gas from (Hasi Raml) in the Greater Sahara to the European pipeline network which extends to (Akonisk) in the North Sea, the gasfields in the Soviet Union and the Atlantic coast of France.

The observers liken this ambitious project, which is a record figure in laying pipeline in deep water, to a secret rope linking North Africa with Europe. The Italian firms taking part in laying down the pipeline prefer to call it the artery pipeline because an artery is a living thing that stands as a symbol and as a testimony to the two-way cooperation and communication across the Mediterranean. In any case, this pipeline is capable of turning Algeria into the biggest exporter of the gas to Italy because the pipeline will carry 30 percent of Italy's needs in 1985. The other suppliers, besides the local Italian production, are the Soviet Union, the Netherlands and Libya.

Special Relations With Gulf States

This covers Italy's efforts in the biggest project of its kind being implemented in one of the Arab countries is concerned. If we continue to review the activities of the Italian firms in the Arab world, we will find that the Italian (Acoli Marilli) Firm, along with an Italian consortium, is implementing a contract valued at 400 million dinars to supply power production equipment and plants for waste treatment, air conditioning and power distribution.

In Kuwait, the Italian (Technit) group of companies has won a contract to design a system for loading oil truck tankers capable of controlling weight, flow and delivery, of recording the value [of deliveries] and of preparing the bills. This project will cost in its entirety $115 million and work on it started in 1981.

These are just examples of the projects the Italian firms are implementing in a number of Arab countries. It is worth noting here that the economic and industrial relations between Italy and the Arab homeland are not confined to such projects but go beyond to other spheres, such as the exportation of consumer goods. There is, for example, the ICE [Foreign Trade Institute] which has branches in nearly all parts of the world, including 12 branches in the Middle East. They all work to enhance trade between Italy and the Arab homeland. At present, these offices are engaged in campaigns to improve the sales of Italian home appliances in Saudi Arabia, the UAE and Kuwait. There is also the Italian Industry and Commerce Fair which is held in Sharjah every year and which displays Italian foodstuffs, cooking ware, light machinery and construction materials, in addition to kitchen utensils and sinks.

Future...

We thus find that the Italian firms have a broad market in the Arab world. If we continue citing examples, we find that an Italian firm is currently busy implementing a $20 million contract to improve Benghazi's sewers. But one of the things for which Italy is best known is its production of marble, porcelain and granite. From Italy or by way of Italy come three quarters of the world's marble and granite production and 82 percent of the machinery used in cutting and polishing rock. There was a stunning increase in Italy's marble and granite exports from 1975-77 due to flourishing construction activity in the Arab countries. Saudi Arabia became the fourth largest importer of Italian marble whereas it had previously occupied 14th place. The value of the exports to Kuwait has risen by 500 percent. In 1978, Saudi Arabia occupied second position among importers of Italian marble even though there are similar good-quality materials in some Mideastern countries. But the Italian products are different in quantity and quality from the similar materials found in Iraq and the UAE, for example. In Saudi Arabia, the locally available marble is suitable for limited purposes, such as floors. Thus, Italian marble finds a broad market in the Arab countries, especially in Saudi Arabia and the Gulf states where huge construction projects have been going on for years and will continue for many years to come. This fact is taken into consideration by the Italian firms and government which seek to take part in these projects that open broad spheres before the Italian economy, industries and labor.

Italy's Heavy Equipment and Machinery Exports
to the Arab Countries
(In millions of Italian Liras)

| Name of Country | 1977 | 1978 | 1979 |
|---|---|---|---|
| Saudi Arabia | 12.8 | 12.8 | 12.4 |
| UAE | 4.6 | 2.6 | 0.3 |
| Jordan | 0.8 | 0.8 | 1.3 |
| Kuwait | 6.8 | 4.1 | 2.7 |
| Grand Total | 25.00 | 20.30 | 16.70 |

Italy's Arab Oil Imports in 1978
(In Millions of Tons)

| Name of Country | Volume in Million Tons | Percentage |
|---|---|---|
| Abu Dhabi | 1.979 | 1.8% |
| Algeria | 4.052 | 3.8% |
| Dubai | 0.876 | 0.8% |
| Egypt | 6.348 | 6.8% |
| Iraq | 18.950 | 17.5% |
| Kuwait | 9.577 | 8.9% |

| | | |
|---|---|---|
| Libya | 14.899 | 13.8% |
| Qatar | 0.854 | 0.8% |
| Saudi Arabia | 22.394 | 20.7% |
| Syria | 2.123 | 2.0% |
| Tunisia | 0.912 | 0.7% |

Italy's Marble Exports to the World

| | 1978 | | 1979 | |
|---|---|---|---|---|
| Country | Volume In Tons | Value In Million Italian Liras | Volume In Tons | Value In Million Italian Liras |
| West Germany | 691,151 | 169,381 | 590,759 | 122,073 |
| Saudi Arabia | 258,900 | 70,310 | 171,433 | 45,920 |
| France | 185,235 | 42,919 | 212,409 | 38,059 |
| United States | 130,798 | 42,344 | 106,202 | 32,484 |
| Kuwait | 126,828 | 15,676 | 92,994 | 12,025 |
| Japan | 42,962 | 15,101 | 35,122 | 8,810 |
| Libya | 72,648 | 14,163 | 77,070 | 8,294 |
| Switzerland | 139,026 | 14,017 | 122,760 | 9,656 |
| Spain | 68,378 | 13,571 | 58,963 | 9,023 |
| Belgium | 59,420 | 13,521 | 58,452 | 10,192 |
| Britain | 155,499 | 13,405 | 256,824 | 10,496 |
| Austria | (79,670) | 13,325 | 67,839 | 9,723 |
| Netherlands | 46,877 | 11,826 | 46,412 | 9,035 |
| Grand Total | 2,056,825 | 499,559 | 1,897,239 | 325,790 |

Italy's Exports to the Arab Countries (In Million Italian Liras)

| Country | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|
| Algeria | 354,180 | 579,168 | 804,155 | 892,567 |
| Bahrain | 15,324 | 26,493 | 26,007 | 28,904 |
| Djibouti | - | - | - | 8,081 |

| | | | | |
|---|---|---|---|---|
| Egypt | 243,692 | 300,181 | 345,590 | 431,338 |
| Iraq | 206,297 | 202,315 | 274,035 | 558,050 |
| Jordan | 49,376 | 60,407 | 75,854 | 101,667 |
| Kuwati | 151,888 | 229,756 | 243,896 | 270,237 |
| Lebanon | 27,332 | 176,751 | 197,424 | 294,788 |
| Libya | 835,280 | 1,810,035 | 1,106,860 | 1,597,869 |
| Mauritania | 4,120 | 5,972 | 5,560 | 9,350 |
| Morocco | 117,880 | 185,945 | 181,925 | 216,861 |
| Oman | 9,808 | 16,248 | 16,643 | 22,921 |
| Qatar | 22,288 | 37,132 | 56,566 | 50,238 |
| Saudi Arabia | 55,635 | 953,612 | 1,242,889 | 1,563,153 |
| Somalia | 26,279 | 64,722 | 79,565 | 112,351 |
| Sudan | 56,612 | 63,823 | 50,662 | 37,384 |
| Syria | 189,950 | 192,102 | 201,275 | 376,004 |
| Tunisia | 109,572 | 163,858 | 167,655 | 281,356 |
| UAE | 115,446 | 170,240 | 213,148 | 280,402 |
| Yemen (Aden) | 9,803 | 16,349 | 15,157 | 21,135 |
| Yemen (San'a') | 16,601 | 34,621 | 37,638 | 57,816 |
| Grand Total (In Liras) | 3,117,363 | 4,561,730 | 5,342,504 | 7,212,472 |
| Grand Total (In Dollars) | 3,746,831 | 5,237,347 | 6,219,446 | 8,668,837 |

[Box on page 71] Constant Growth in Italian Exports

Italian exports to the OPEC countries, and also to the Arab countries, registered considerable progress in 1979 and 1980. The increase rate in the 1980 exports to the OPEC countries, which include Arab countries, amounted to 31.3 percent over 1979.

The increase rate realized by the Italian exports to the Arab countries amounted to 10.84 percent in 1979 and 12.76 percent in 1980.

[Box on page 71] ITalian Trade Representation Offices in Middle East

Offices of the Italian ICE in the Middle East:

Algeria

Office Italien pour le Commerce Exterieur, 8 Rue Hamani, Algiers, tel 635889/635896, telex 52148.

Egypt

Italian Trade Centere, Shari Tahrir, Al-Dokki, Cairo, tel 705631, telex 92676.

Ethiopia

Italian Institute for Foreign Trade, Eresco Building, PO Box 3185, Addis Ababa, tel 444043, telex 21233.

Iran

Italian Trade Commissioner, 145 Shah Abbas Kabir, Tehran, tel 831001/832727, telex 213300.

Iraq

Trade Promotion Section (ICE), 2/B/3/3 Zuqaq 4, Mahala 601, Mansur, PO Box 13006, Baghdad.

Kuwait

Italian Trade Commissioner, Al-Salhia Commercial Complex, 1/3rd floor, Kuwait, tel 447582, telex 3483.

Lebanon

Institut Italien pour le Commerce Exterieur, Centre Sabbagh, Bureau 406, 4th floor, Hamra, Beirut, tel 342607/8.

Libya

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CIAMPI'S ANNUAL REPORT TO BANK OF ITALY

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[Verbatim transcript of concluding remarks by Carlo Azeglio Ciampi, Governor of the Bank of Italy on 30 May 1981, published by the Bank of Rome as an insert to IL MONDO for its 12 June 1981 edition]

/Text/ Honored Guests,

Going back to recount events that, even though they are as recent as those of 1980, tend to be driven from one's mind by subsequent occurrences, is always necessary not only out of respect for the Bank's traditional duty to this annual assembly, but out of the conviction that a detailed knowledge of those events stimulates and sustains the act of will that leads to action.

I should like first of all to emphasize the long-standing continuity of the Bank's determination to pursue efficiency, through innovations in its internal arrangements, the contribution of a thoroughly renovated and skilled staff through advances in training processes, and our awareness of the essential bond between the institution and the interest of the public to be served.

Interaction between our activity as central bank and guardian and economic and juridical research has intensified. Getting down deeper into everyday activities, research is beginning to come up with more helpful suggestions as to procedures and insights which are its specialty, and in return getting some very fruitful and stimulating feedback.

Over the course of the current fiscal year our budget machinery has been improved, and we have gone ahead with our review and revision of operating procedures, particularly for the provisioncial treasuries and for the monetary and financial markets; now nearing completion is the project which will give the bank new and more complex electronic systems; further innovations are in the advanced planning stages which will improve cashier services and speed decentralization of responsibilities to branches.

Improvements have also been sought in staff organization. Partly as a followup to the agreements reached last year with union representatives, we have worked out a complete format for union and public relations, and some changes have been made in career advancement policies, so as to upgrade relevant skill levels for individual positions and establish closer correlation between rank, responsibility, and salary.

Developments in these management aspects have suggested alterations in the central office tables of organization, making due allowances for the growing importance of planning and training procedures.

To the Bank's staff, to whom I am bound by working relationships developed over all my professional career, I express my deep and affectionate thanks for the commitment and dedication they have displayed. That commitment expresses a style that is part of the heritage of the Bank and of our nation, which tells us that the soundness of what we do in our governance of the currency draws much of its strength from discretion.

The International Economy

In the course of 1980 the international economy at first showed very slight gains, followed by a modest decline. Everywhere the recessionary effects of the second oil shock were compounded by the impact of restrictive economic policies.

Growth in the gross domestic product in the OECD countries dropped from 3.6 percent in 1979 to 1.3 percent. Unemployment, which affected 5.1 percent of the labor force in the final quarter of 1979, topped 6 percent at the close of last year to hit 23 million, and that figure has risen still higher in the first part of 1981.

The crude oil price explosion of 1973-1974 was followed by sharp rises in base pay and an increase in personal savings rates. Business reacted to the squeeze on profits and consumption with sharp reductions in inventories and in fixed investments. Expansive tax measures were taken to cushion the negative impact on production of the rise in oil prices.

In this second crisis, the wage response was moderate; it was accompanied by a decline in savings rates, while economic policies concentrated their efforts on containing the secondary repercussions on costs and prices.

Helping to keep wage gains modest was the conviction gaining ground in business and labor circles of the need for accepting the real transfer connected with the mounting cost of oil, refraining from asking for higher prices to offset the mounting costs of energy. In some countries where there are escalator mechanisms available, income controls partially neutralized their operation.

Containment of domestic costs made it possible, throughout the OECD area, despite the impact of oil prices, to get the decline in consumption, after reaching a peak of 12 percent in the first half of 1980, back down to 10.5 percent in the second half. Before the latest oil crisis the average wage per employee was growing by 9 percent per year and the decline in buying by 7 percent; in the second half of 1980, wages rose 11 percent, as did consumer prices.

Costs in terms of unemployment and inflation were lower in those countries where policies designed to slow the growth of the money and credit supplies worked in harmony with positions taken in concert by labor and management and with more centralized collective bargaining.

The steadiness of consumption and productive investment, along with the fact that the inventory cycle was not nearly so spread-out as it was during the first oil crisis, made the production slump less acute than it was in 1974 and 1975, despite the lesser degree of economic phase slippage among the several countries.

As early as the opening months of 1980 the United Kingdom, Canada, and the United States were moving toward recession; in the United States, however, the cyclical change came almost a year later than the majority of forecasters had predicted. In Japan, Italy, France, and Federal Germany expansion continued through the first half of the year. In the second half, all the decline affected all the principal countries, with the exception of Japan and Canada. In the opening months of this year the world economy has shown some growth recovery, felt mainly in the United States and Japan.

Equally uncertain is the short-term impact of American economic policy. The new administration has laid down short-term guidelines on the basis of which a diminished role for the public sector should stimulate private initiative and savings and cut back existing patterns of regulation. This was designed to encourage profitable accumulation and development, simultaneously reducing the urgency of public intervention to rescue troubled sectors of the economy. On the monetary front, the slowdown in aggregate demand would insure a steady decline in inflation.

In the short term, the burden of stabilization falls primarily on monetary policy. Since the demand for credit is hardly slowing at all, the quantitative goals of the Federal Reserve System continue to require high and still climbing interest rates. This is forcing the European countries into the unattractive choice between accepting higher inflation rates via the exchange rates, and pursuing monetary policies more restrictive than required for domestic purposes.

Even if economic policies prove to be aware of the need to avoid any further decline in production, the outlook reveals, even more than in recent years, very slender margins for growth in domestic demand and employment in heavily energy-dependent countries. Those constraints will become far more stringent upon those economies that delay their quest for greater efficiency, higher productivity, and expansion and upgrading of their productive capacities.

International trade in 1980 shifted into lower gear, rather than acting to expand the cycle. The deceleration from 6.5 to 1.5 percent, in the volume of goods traded can be imputed in large measure to the drop of 10 percent or so in oil exports, which had increased 3.5 in 1979. Most significantly, crude oil imports by the industrial countries shrank by 14 percent on the average, with a peak of 20 percent in the U.S.

Declines in volume of overall imports running between 5 and 8 percent were recorded in the United States, Japan, Canada, and the United Kingdom. The United States and Japan, as a result of earlier depreciation in their own currencies, also showed remarkably energetic growth in exports, with increases of 8 and 18 percent, respectively. The United Kingdom, while suffering losses in exports of manufactured goods, derived some advantage from its increased oil production. Principally in the wake of these developments, the UK and US recovered to a position of current surpluses; Canada climbed back to parity, while the growth of the deficit balance in Japan proved to be relatively moderate.

Deterioration in the trade balances of the major industrial countries was concentrated in Federal Germany, in France, and most of all in Italy, where it hit $15 billion, triple what it was in 1979. In France the deficit was $7 billion by comparison with 41 billion in 1979.

These shifts occurred although the most painful increases in overall energy spending were recorded in the United States and Japan, where the deficit swelled by $15 and $20 billion respectively, and in both cases reach totals of around $70 million. The growth in the energy deficit was on the order of $10 billion in Federal Germany and France, and about $8 billion in our country.

The worsening of the German deficit, the continuation of a surplus in the United States and the United Kingdom, and the new direction in monetary policy in the latter two countries have had some impact on the standings of the principal currencies, on recycling patterns, and on the channels for creation and absorption of international liquidity.

The upward spiral in interest rates began in 1979 in Federal Germany: in 1980 and thus far in the current year the Federal Reserve Board's rigid controls over the money supply has led to unheard-of and giddily variable prime rates for all credit operations in dollars. Along with this went high real interest rates as well; the latter ran even higher on transactions in marks than on those in dollars, despite a steadily softening economy.

In short-term international capital movements, operators were keeping a sharp eye on exchange rate differentials and their variations, keenly mindful of the behavior of exchange rates over the period of fund withholding. In 1980 the relative positions, current and projected, of money supplies in the United States and Federal Germany lent scant plausibility to the notion of a depreciation of the dollar vis-a-vis the Deutschmark. The finance market therefore chose to favor investments in dollars, thus pushing up their value abroad. The general approval greeting the new President's economic policies has further accentuated the rise of the dollar.

The decline of the mark vis-a-vis the U.S. dollar, but also against the Canadian dollar, the pound, and the yen, may have been perceived by the Federal German authorities, at least to some degree, as a price to be paid for regaining its competitive margin; in relation to these four currencies, as of the start of 1980 up to the present, the variation has run from 25 to 30 percent, and most inevitably have very marked impact on current balances.

Last February, the urgency of combating this imported inflation moved the German monetary authorities to assign priority to defense of the value of the mark abroad over support for productive activities. A spreading dearth of spot money triggered noticeable increases in interest rates, and the exchange rate between the mark and the dollar settled down temporarily. With the rise of the German rates similar trends set in in all the principal industrial countries with the exception of Japan. Over the most recent period, despite some slowing in the rise of inflation, which today stands at around 10 percent measured by the consumer price index, rates in the United States have begun to rise again: the prime rate has hit 20.5 percent. This has brought still further strengthening of the dollar, and a stiffening of restrictive attitudes in the other countries.

Rocketing interest rates cannot but delay recovery and render it still more fragile: even from this angle the present preeminent reliance on monetary policies to whip inflation is showing its heavy costs.

Notwithstanding the huge OPEC surplus, up from $65 to $120 billion, the recycling process has moved along without any serious tensions, partly following the distribution of deficits among the industrial countries. Specifically, recourse to forms of direct financing by OPEC countries. for a total equivalent of more than $10 billion, on the part of Federal Germany, Japan, and to a lesser extent Switzerland has eased the pressure on private international markets, simultaneously hardening the trend toward a system with more reserve currencies, which includes as well such composite units as the DSP and ECU. This new stance is not necessarily unstable. The management problems it entails, however, will be more demanding and will call for a more complex process of coordination among the monetary policies of the major countries.

Net financing of balance of payments deficits by official agencies has swollen from the 1979 level of $13 billion to $20 billion in 1980, mainly because of the International Monetary Fund's action on behalf of the developing countries. The total net credit flow through the markets, though, stayed substantially unchanged at around $150 billion.

The developing countries continued to increase their indebtedness, even through recourse to the market; however, they have had to resort increasingly to direct relations with single lending institutes, rather than with consortia of banks, and to accept price hikes and increases in commissions; some have agreed to a contraction in gross reserves held in the European markets. All of these are clear signals of tension, and they counsel closer surveillance over international banking operations so as to forestall excessive concentration of risks.

The difficulties loom formidable particularly when we look ahead: the the troubles due to rising oil prices come on top of those deriving from the strength of the dollar itself and from the prohibitive interest rates. In 1979 and 1980 the twelve major developing countries saw their total oil bills rise from $14 to $39 billion and their interest payments from $7 to $18 billion. In some major economies interest on indebtedness vis-a-vis exports have reached levels ranging from 20 to 35 percent.

It is vital to keep the costs of financing from becoming unbearable. It is up to the less prosperous countries themselves, first of all, to set about putting their own houses in order, partly through assuring more attractive conditions for direct investments. A basic role must perforce go to the OPEC countries, which are, for that matter, greatly expanding their aid and financial relief to countries with far lower incomes. That same responsibility is incumbent, albeit with some time-lag, upon the industrial countries themselves, specifically through maintaining an adequate volume of aid designed to speed up the process of strengthening economic structures, either directly or through the multilateral institutions.

The international agencies have already struck out along the road that leads to more trenchant, more lasting support, better attuned to the evolution of supply capacity, particularly in the energy field, while deepening their commitment to cling to their primary calling, which in the case of the IMF is that of keeping watch over the economic policies and outside imbalances of all its member nations, as well as on the processes by which international liquidity is generated.

While occasional resort to the market on the part of the Fund must not be ruled out, it is wise to keep it within proportions that will not distort the structure of its quota-based resources. It is preferable to take the road of direct Fund financing by the member nations: the recent agreement with the Saudi monetary authorities and with a group of central banks in the industrial countries are a significant step in the right direction.

In the second year of the EMS the currencies bound by the intervention machinery have shown remarkable consistency, encouraged by the mark's weakening trend vis-a-vis the dollar. Furthermore, the effect of convergence on price advances has been suppressed by the disparate propensities toward inflation in the individual countries and shifts in competitive standings have been significant. Changes such as these have been accentuated by the equally disparate content in foreign currencies in the exchanges of individual countries.

The pound sterling, which is part of the EMS but is not bound by the exchange agreement, buoyed up by the differential in interest rates and the current surplus, appreciated by 30 percent between the end of 1979 and January 1981 by comparison with the other Community currencies; subsequently, with the reversal in the rate differential, it declined, although retaining a 30-percent edge over the end of 1979. Since inflation, although slowing, is still above the average for the other industrial countries, the United Kingdom's loss of competitive standing proved too serious to be offset by the appreciation of the pound.

Among the currencies bound by the exchange agreement, the lira showed the sharpest alterations, in terms of nominal exchange rates, in a direction opposite to that of the pound.

Beginning on 20 February, on the heels of the DBB's decisive move to tighten its restrictions, the mark began gaining strength, floating back up to the top strata of the system, and in so doing pushed the lira beyond the bottom threshold of divergence, thereby whittling its bilateral margins available vis-a-vis the mark and the French franc down to around 1.5 percent. Our currency thus became vulnerable to speculative onslaught. Since the performance of the basic variables did not lend credence to its bouncing back from the divergence threshold, the necessary elbow room was restored by reducing the central exchange rates within the EMS by 6 percent. The lira's depreciation on the market, followed by the adjustment to parity, was thus contained with respect to the currencies bound by the exchange agreement: as of yesterday, it stood at less than 2 percent.

All the other currencies in the system showed modest bilateral fluctuations and improvements, albeit diversified, in competitive standings. Until spring of this year, the French franc stayed comfortably within the upper portion of the oscillation range, while the Belgian franc stayed stubbornly in its lower reaches: frequently the two currencies touched the opposite bilateral limits, giving rise to massive intervention. The German mark reacted spectacularly to the shows of strength by the dollar: heavy support buying ensured both against the dollar and against other Community currencies. In the past few weeks, concomitantly with the elections in France, the franc has been under heavy pressure, which led to stringent currency and monetary restrictions: short-term interest rates, for instance, soared to 22 percent. The mark, while weak against the dollar, is still the only currency in the exchange machinery that is steadily running out in front of the field.

On the whole, over the first 5 months of this year, the cumulative effect of outside pressures plus troubles at home has brought strong tensions within the EMS.

Above and beyond the need for closer coordination among the economic policies of member nations and for more efficacious support both for the budget and for the Communities' other financing machinery, which would be expanded in both role and dimension, the system's cohesion suffers from the lack of a common policy toward the dollar ans of agreed-upon approaches toward the United States monetary authorities. They have, as a matter of fact, just recently manifested a willingness to refrain, as part of the new orientation of U.S. economic policy, from intervention in the exchange markets, save in truly exceptional circumstances.

The European Council resolution establishing the EMS posited the necessity, subsequently reaffirmed by the heads of state and government, for consolidating the initial designs on the basis of a specific institutional stance, via the creation of a European Monetary Fund capable of sustaining the process of monetary stabilization.

Holding the EMS together and strengthening it can hardly be done without establishment of a fund capable of upgrading the ECU as a medium for reserves and regulation, for assuring its existence in some less precarious form, and for providing it with an endowment tailored to our actual liquidity requirements. All this implies a qualitative leap which will be possible only with the support of a determined political will. That political will must be directed not only, nor so much, at the solution of institutional problems as primarily at evoking behavior consonant with the commitments made when the System was launched. Our primary need is for greater determination in reining in domestic inflationary thrusts on the part of countries, like our own, that are furthest away from stability.

## The Situation in Italy

The moderate expansion of the Italian economy following the 1977 recession erupted between June 1979 and April 1980 into an explosion in domestic demand the like of which had not been seen in the last 20 years. The subsequent turnabout ushered in a brief phase of decline in production toward levels higher than those before the expansion phase.

Inflation, too, showed a spurt in the 6 months prior to the peak of the cycle; helping to fuel it were rising costs (particularly energy costs), demand pressures, and the tightening bottlenecks in sector supply. Upon the slowdown in the middle quarters of 1980 followed yet another hot spell, with a rate of increase of more than 20 percent per year.

The reversal of our country's economic situation came about several months later than expected, lagging behind that in the other major industrial economies; the vigor of domestic demand was far greater. In a very short time we had gone from a fat surplus to an even fatter deficit in our current balance of payments.

What got us out of the recession during 1978 was, first of all, our exports, and second consumer demand. Consumer demand continued to grow through the first half of 1979, buoyed up by the rise in discretionary income, which later topped the growth rate. The twin performances of exports and consumer buying triggered a strong upswing in investments in the second half of 1979, mainly in machinery and equipment. In first-quarter 1980, the rate of utilization of plant capacity was pointing to a widespread condition of excess demand. For 9 months from the start of the acceleration into the expansive phase, the gross internal product went on rising at an annual rate of 10 percent. Internal demand was still at its peak during the second quarter: the increase over the preceding year came to 10 percent in all -- 6 percent in private consumption and 26 percent in investment in plant machinery and equipment.

The first signs of an inversion of the cycle came with the first-quarter decline in export volume. By reason of the delays with which the relative price adjustments acted on the flow of trade, the effects of the loss of competitive standing that had been uninterrupted since the middle of 1979 were particularly intense during the expansion phase and, beyond it, right into the summer. Our reduced success at pushing into foreign markets was reflected in the declining share of Italian goods in world trade in manufactured goods, which had itself been on the downswing since spring. On top of the initial recessionary push from the foreign factor came the slowdown in consumer buying caused by the automatic tax siphoning and the deterioration in the terms of trade. Fixed investments held relatively steady, until a mild 3-percent decline showed up in the third quarter. Accumulation of inventories of fnished products underwent an interruption that summer: the decline of production over that period might betoken greater readiness on the part of industry to take advantage of the chance to extend the summer vacation period to pare down their production plans to match the slackening in demand, probably feeling an additional nudge in that direction from the shrinking availability of credit and its rising real cost.

During the second and third quarters, despite some easing of pressure on productive capacity and the momentary plateau in the international spiral of price increases for raw materials, inflation and the trade deficit persisted at high levels, though they did taper off slightly. The intention to correct the demand structure and encourage the emergence of a trend toward stabilization suggested the measures taken on 3 July, which increased the tax bite on consumption, reduced the fringe-benefit burden on corporations, and exempted interest on new bond issues from taxation. Those measures had to be withdrawn and submitted anew, with some modifications, in August; they lapsed at the end of September; they were submitted once more and finally won passage in the 3 months that followed.

In June and August, the Bank of Italy fought off assaults on the lira's value abroad. At the end of September restrictive monetary and currency measures warded off the chance that destabilizing expectations might take root in the current budget deficit and in a government crisis precipitated over the issue of the way the economy was being run.

Inflation began to heat up again. The last quarter thus brought full awareness, thanks to the performance of the economy, of the abrupt halt in the wake of the reversing cycle: we were moving into a phase of stagnation with renewed inflation.

Also helping to keep prices from turning onto the desired path was the autumn rise of the dollar. Above all, the new wave of government spending and the mounting budget deficit, above and beyond their direct effects, projected a permissive image that aroused expectations of yet another round of price increases and an unrestrained rise in incomes. However, measures designed to put the lid on any increase in the budget deficit and to contain the areas of waste and leakage, such as increases in utility rates, controlled prices, and indirect taxes also concentrated their immediate inflationary impact in those same months.

So ended a 2-year period during which the growth of the gross internal product and in private consumption, in real terms, touched 10 percent, investments in machinery and plant equipment hit 30 percent, and domestic demand rose by 13 percent: these rates are twice or three times those reported within the OECD area. The Italian economy outdistanced the other countries in the rate of income growth and even in employment growth, but it paid the price in terms of the balance of trade deficit and of inflation.

The hike in imported oil prices -- 175 percent by December 1980 over the November 1978 level, did not blunt the tip of the cycle, though it did have untoward effects on inflation and on the balance of trade. To both the initial shock effect and the indirect impact of the increased oil costs we can attribute about a third of the intensified decline in industrial value added and about a quarter of that in private consumption, which, in mid-1980, were running at 18 and 20 percent, respectively.

The deterioration in the current balance of payments, begun in third-quarter 1979, amounted within 2 years to 5 percent of the gross product; about two thirds of it can be written down to the rise in the oil deficit, which in turn is totally due to prices, since the quantities imported actually declined. On top of the higher cost of crude, and more generally the unfavorable development of the terms of trade, 1980 brought a 5-percent drop in quantities exported and a 7-percent climb in those imported. Both processes were generated primarily by the persistent exuberance of domestic demand by comparison both with external demand and with available production capacity, and the loss of competitive standing; that last figure was 2 percent in 1979 and 4 percent in 1980.

Even before the close of last year, the relatively sustained level of internal demand, the recessionary trend in the world economy, the rise of the dollar and the continuing deterioration in the terms of trade had, in the absence of significant support to keep prices competitive, effectively prevented any easing of the trade deficit. Demand for credit had risen again and had been met, albeit at rising costs, by stretching the elasticity of the ceilings and above all, among the exemptions, that of commitments in foreign currencies. In response to such factors, the Bank announced at the end of January 1981 the restoration of the ceiling in advance and with more restrictive conditions.

In the opening months of this year the situation gave no signs of improvement. The spiral that had been fed during 1980 by price policies in many cases concerned only with short-term profit margins, by indexation mechanisms that transmit and amplify the inflationary push, and by expanding government spending, gave every indication of a tailspin into the proliferation of sectorial demands for more income, of speculative behavior on the exchange, securities, and commodity markets. The lira's position in the EMS was sinking close to the divergence threshold.

This dismal picture, depressing as it was and ominous for the future, was enough to call for a carefully crafted body of stabilizing measures that would work in three directions: on current government spending, on the soaring monetary return rates, and on the credit supply.

And so the 22 March decisions were reached. The government declared its commitment to cut the deficit, suspended wage negotiations with civil servants for a cooling-off time, and called for moderation in incomes in the private sector. The discount rate was boosted from 16.5 to 19 percent, and the mandatory marginal reserve from 15.75 to 20 percent. The lira's parity in the EMS was modified to protect our currency against speculation, and lowering it to a position around the middle of the fluctuation strata.

The translation of avowed intent into action was delayed, thereby eating up the margin of time gained with the emergency currency and monetary measures, which implied speedy follow-up with a broader and more decisive economic maneuver. It was not until the latest government crisis that provisions to reduce the deficit were approved in a decree law. We had to resort to yet another emergency measure: we imposed a 30-percent, non-interest-bearing, 90-day deposit in advance of all payments to foreign countries.

The trade balance, already showing a deficit of 19,000 billion lire in 1980, and weighted down in 1981 by the additional load of some $4 billion for increases already made in oil prices alone, cannot trigger the requisite compensation process. Overall imports show a decline in quantity, but that modest improvement is more than wiped out by the rise in the strength of the dollar. Exports can hardly be expected to expand in an international atmosphere of flagging demand. The trade deficit for the first quarter was about 5,000 billion, as compared with 3,800 billion for the same period last year. In the first 4 months hard currency payments reached a deficit more than half that chalked up for the whole of 1980.

These figures give some rough idea of the scope of the change in the ratio of internal and external demand it will take to start a process of restoration of equilibrium through net exports of resources to make up for the loss, already incurred and now taking place, in the terms of trade.

At the internal demand level we find continuing influence from the Treasury's cash requirements, which for months has hovered at around 4,000 billion, thwarting the effects and the expectations placed in the monetary maneuver and forcing it into unremitting efforts to mop up the excessive liquidity. The survey conducted among corporations at the beginning of April shows some recovery in the flow figures along with expectations that production will not slow down, while demand for bank loans shows no sign of easing. Inflation is still with us at around 20 percent, widening the gap between us and the other countries. In manufacturing, growth in unit prices on product is tending to exceed that in prices to end consumer.

This alarming development is partially attributable to a worsening in external causes; this observation alone, however, ought to make us keenly aware of the stringent necessity for more decisive behavior insofar as concerns those economic variables which the nation has the power to control.

The speed with which expanding demand bumped against the ceiling on production in the early months of 1980; the sustained levels of economic activity that prevailed even past that point in spite of credit restrictions; the persistently high deficit in foreign accounts, even after the peak of the cycle: all of this becomes easier to understand if we stop concentrating on temporary glitches and externally begotten domestic and international factors, we begin looking at a few of the basic conditions of our productive apparatus.

Growth and modernization of plant capacity had been suffering since 1974 from the slump in fixed investments, which delayed the structural alterations required in response to sweeping changes in related costs and in the distribution of earnings and wealth. Given such a situation, the expansive phase of investment, when it came, was very intense indeed: companies soon ran into the ceiling on full utilization of available plant capacity and, along with the pressure to increase capacity, came the need to adopt techniques more consistent with the new price and cost structure.

When investments began to stir again, they awoke to financial structures that had seriously deteriorated. Over the 1969-1978 decade, indebtedness had risen to almost 60 percent of funds managed, and the short-term debt service costs had risen from 37 to 44 percent of the total. The share of return earmarked for financing cost payments, which was 3 percent in 1973, had doubled by 1978, with peaks as high as 12 percent in some areas.

Starting from a position like this, the requirements for accumulation could be met only by turning the worsening trend in the financial budget relationship around. Superimposed upon the normal and prevalent ratio, which tied profits into investments according to a causal bond running from profits toward investments was a different relationship dictated by necessity, for companies feeling the urgent need for restructuring, to win back sufficient profit margin to contain the financial risk.

It is quite likely that anticipation of a declining exchange rate had dulled the alertness of companies exposed to the dangers of a loss of market shares, and working on the assumption that they could swiftly compensate for their lowered competitive positions.

In the manufacturing industries gross profits benefited both by expanding sales and by a 19-percent rate of increase in production prices, only a hair above those of combined unit costs. Within the combined unit cost figure, the labor cost per unit of product rose in mid-year by 14 percent, allowing for the effects of additional financing for the debt burden: the cost per employee had risen by 21 percent, while labor productivity had risen by only 6 percent.

The compelling urgency of restructuring investments already put off far too long, coupled with the greater proportion of in-house financing required to make them, dulled corporate sensitivity to the high cost of credit imposed by the government's monetary policy.

The intensifying flow of investments coincided with the emergence of ominous consumerist phenomena antipathetical to chances of somehow breaking free of current difficulties. The prolonged decline in the purchasing power of the lira at home, accompanied by what was in many ways a distorted structure of relative prices for products and of fixed assets and by a recovery in the lagging replacement of durable consumer goods, was reflected in the growing readiness of families to spend: consumer purchases climbed 4.5 percent from 1978 to 1980. The spurt in value of the real component of wealth may have more than made up for the devaluation of the financial component, thus providing an incentive to consumption. Most significantly, the traditional times required for the processes of consumer education and reaction, when confronted with steadily rising inflation, were markedly shortened. As inflation settles in for a prolonged stay, it may well undermine the hitherto high average propensity for savings on the part of the Italian family.

The intimate interrelationship between the short-term behavior of the economy and built-in shortfalls was apparent not only in the accumulation process, but also in foreign trade in manufactured goods.

Imports' share of spending on investment goods, traditionally high in our country, was accentuated by the slowing growth in productive potential in the 1975-1978 period, and it had involved primarily the capital goods sector. Furthermore, demand worldwide was shifting in the direction of investment goods, rather than consumer goods and, among the latter, toward products other than the so-called mature sort such as textiles and apparel, the traditional fiefdom of Italian exporters. Then, too, in these last sectors, there was mounting competition from the developing countries, particularly in the Far East.

The trend data show that, unlike other industrial countries, Italy increased its specialization in the mature sectors, precisely where competitive pricing is most important. This attitude gives rise to the peril of sliding back into the ranks of second-rate economies, few of which are to be found in the vanguard sectors, and most of which are among the newly industrialized countries which can exploit a cheap labor pool not protected by extensive social legislation.

The intensive capital accumulation that marked the expanding cycle of the past 2 years is its greatest heritage as well as the sine qua non for recovery of our competitive potential, whose emergence is tied in with greater flexibility in the utilization of such factors as the fruit of improvements in industrial relations and in economic policy intervention.

Managing the Money Supply and Exchange Rates

In a situation where both the spontaneous development of the international cycle and the economic policies of the principal countries combined to generate a decline in trade, containment of domestic demand and maintaining substantial stability in the value of the lira abroad became the mandatory path for resisting the upward thrust on prices. The determination to roll back inflation; the awareness that it would become harder to hold the line on the exchange rate, while the running balance of trade deficit was taking on frightening dimensions; the intention to deal summarily with short-term difficulties so as to concentrate the nation's resources on strengthening the productive structures: these were the coordinates from which economic policy took its bearings.

The goals of containing aggregate demand, protecting investments and exports, should by rights have suggested measures to trim the deficit in the public sector, thereby compounding the automatic effects of the continuing growth in nominal income, and should have bridled the growth in the cost of doing business and in the discretionary portion of family incomes.

Contrariwise, as increased yields tended to offset the deficit, what came were decisions to increase spending and cut revenues, which to a great degree cancelled out the effect of automatic stabilization. In December 1979 the quarterly cost-of-living increase for civil servants went into effect; in February 1980 pension payments were increased; in April deductions for family income tax [IRPEF] and family allocations were increased; approved was a concentration over the year of payments of arrears and advances connected with the newly negotiated contracts for government workers. Over the entire year spending rose by 26 percent and the overall requirements of the expanded public sector, as against its gross product, stayed at 1979 levels.

The fiscal maneuver mounted in early July was moving in the right direction, but the events that accompanied it partially vitiated its aims, with untoward impact on prices.

The provisions planned in 1980 were beginning to take effect on the budget, bringing the net load to around 6,000 billion in the second half-year, while the public-sector deficit-to-product ratio touched the highest levels in the last 5 years. By year's end and in the opening months of 1981, in addition to completion of the government workers' contract for 1979-1981, decisions were taken or reached with the labor organizations on further actions whose impact was expansionary: among them, the shift to quarterly revision of pension cost-of-living changes, new deductions and quotas for IRPEF, and a renewal of the contract with health workers. The problems of the balance of payment and inflation thereby grew still more acute, partly in response to the negative effects of the announcement.

Monetary policy had already taken on restrictive features as early as fourth-quarter 1979 with the 4.5-percent increase in the discount rate and the reimposition of the ceiling, which put a lid of 11 percent on annual-basis growth in bank loans subject to control as of July 1980.

Interest rates were rising, and rising very briskly indeed in the short-term market. Bank rates rose from 17.5 to 22 percent between the beginning of October 1979 and April 1980. Any swifter rise might very well have provoked imbalances in the financial system, particularly in its corporate section, the main features of which were high indebtedness and highly diversified credit sources.

Removal of the ceilings on loan expansion in the fall of 1979 and the early months of 1980, and letting them float as high as 4,000 billion in January, encouraged both production and investments, but it also helped fuel inflation and fed the balance of payments deficit. Meanwhile the indirect control exercised through bank reserves and rising interest rates was adopted as a backup to direct controls with the introduction in March of the non-interest-bearing deposit prior to approval of payments abroad beyond the ceiling.

Around midyear the troubles on the exchange market made the task of stabilizing harder to do via monetary policy. At the end of May the lira went all the way through the restricted EMS bundle. In June came the first attack on our currency: the breadth of the margin for ups and downs was enough to absorb part of the pressure through a further drop of almost 2 percent in the exchange rate against other Community currencies. The wave of speculation was turned aside by the signal of firmness sent to the market with the early renewal of the credit ceiling and the tightening of the measures implementing it. The flow of short-term credit abated in July, allowing us to regain some reserves. In August, though, new rumors of impending devaluation called for massive support, which continued, albeit in reduced proportions, well into September.

Once the crisis had passed, and faced with the conflicting needs to finance the foreign deficit and keep the lid on credit, we felt it incumbent upon us to reduce the alarming dimensions of the foreign deficit and so, in December, the currency restrictions imposed in late September were lifted.

Partly because of the way these restraints worked, bank foreign indebtedness rose by 4,000 billion lire in the final quarter, making it possible to finance the total deficit in the balance of payments (1,900 lire), and to increase our reserves. The banking system's net indebtedness to foreign creditors hit 15,000 billion lire, more than double what it had been at the close of 1979.

For the year as a whole, a reading of the combined data on aggregate loans and interest rates in relation to the picture in incomes and prices reveals the pervalence of restricted liquidity conditions in the system and on the credit markets, particularly in the second and third quarters.

The growth rate in the monetary base was 13.6 percent, just about what it was in the previous year despite the pressure from the Treasury's requirements. The better than 3-point increase in the mean interest rate on Treasury Bills helped modify the public's portfolio preferences in favor of short-term paper and reduced the banks' basic demands for currency.

In midyear the economy's financial activity, as against gross product, fell off by 5 percent from the 1979 level; corporate liquidity declined by about the same amount; interest rates on bank loans rose by more than 4 points, and by year's end they had reached 23.5 percent.

The ratio between the growth in total internal credit and gross product, which had dropped in 1978 and 1979 from 22.2 to 19.6 percent, fell still further to 18.8. Containment was particularly intense until the third quarter: over the 12 months ending in September the ratio had dropped to 16.2 percent. In the final quarter the growth in the public deficit, which at that time was equal to half the total revenues for the entire year, and in hard-currency financing almost doubled the credit growth rate over the pace set in the 9 previous months.

Even when we adopt a broader concept of financing, which will include Medium-term loans from abroad, bank acceptances, and stocks, we still see the shrinkage in the ratio right up through September, although it was almost entirely soaked up by the speedup of overall credit in the fourth quarter.

The New Year dawned upon still greater difficulties; as early as the fall of 1980, while the statistics reported the worsening of the foreign trade balance and the renewed intensity of the price push, we saw the need for tightening credit restrictions. To regulate bank reserves we made massive use of temporary bond auctions and short-term offers of new issues.

At the end of January the reimposition of ceilings on loans was announced, with a freeze on hard-currency financing for imports and extension of the constraints on exposures below 130 million lire. Exemptions were allowed in proportions greater than predicted, permitting an increase in bank loans to include medium-large companies; this had come about through a spread in the practice of granting multiple loans far beyond healthy levels, which threatened to strip the banks of responsibility for the selection and screening of loans.

In the first 3 months of 1981 government requirements reached 12,000 billion lire, and meanwhile the variation in total internal credit topped 17,000 billion; over the same period of the previous year the deficit had been 4,000 billion, and overall credit expansion just a little over 7,000 billion. The state requirement remained very high even in the last 2 months.

To deal with the expansive effect on liquidity and confront the difficulties that had arisen on the exchange market, partly in response to international tensions, it became necessary in March to increase the discount rate and raise the mandatory reserve coefficient, and, on 27 May, to introduce the non-interest-bearing deposit on payments abroad.

Greater control over the creation of the monetary base and more rigorous pursuit of the quantitative targets for that variable, and for bank reserves in particular, might be gained through adjustments in the Treasury's financing system. With that, the Bank of Italy will stop buying back all the Treasury Bills not sold at auctions, but it will go on buying them only in amounts consistent with the objectives of monetary policy. Thereupon the Treasury will try by every means, including more frequent auctions, to find counterpart financing on the market.

We are aware of the problems posed by the coexistence of direct and indirect methods of control: we have made changes in both over the past year designed to protect the efficacity of their combined operation in this phase. Administrative constraints yield maximum results when they are introduced or when they are modified; subsequently they tend to be undermined by various evasive procedures which are costly to those involved, tend to distort the economic system, and are hard for the authorities to counter.

Even so, the present state of the economy and particularly the persistent expectation of continued high and unpredictable inflation, the inadequacy of monetary policies, and the wisdom of containing the rise in interest rates do not point, for the time being, in the direction of a lightening of administrative controls.

The modest rise in interest rates on bank deposits, partly connected with the ceiling on loans, has contributed greatly to the squeeze on nominal return on financial operations, driving it well below the rate of inflatiion: the shift in the composition of wealth toward acquisition of commodity interests has been only partially offset by the level of interest rates. One encouraging development has been the return of savings to direct financing on the part of corporationsm and in particular into risk capital, but the volume of spending and the demand for shelter assets have mounted.

A more clear-cut differentiation among categories of deposit as a function of stability and duration might mitigate the penalization of financial savings and assure greater market clarity. Encouragement will be provided for changes in bank policy of a sort to achieve these aims.

The experience gained in 1980 has proved that, when there is great uncertainty in the market as to the future behavior of interest rates, it is difficult and may actually prove unwise to try to stem the flow into short-term paper. By offering it, the public debt may be covered while containing expansion of the money base, even though the degree of liquidity in financial activity remains high. Whereas a repetition of periods of instability heightens investors' aversion to very long-term obligations, the range of short-term options broadens, expanding the opportunity to replace one kind of investment with another and reducing the significance of the growth in means for payment as an indicator of availability of funds.

Under circumstances of this kind policies calling for non-monetary financing of public requirements and extension in the term of indebtedness take on particular importance.

The changes in the features of CCTs offered in 1981, including higher rates of return for short-term money, are designed to foster this process, and also to reduce the cost of debt service during the price slowdown period. It is advisable to move on in this direction, particularly in view of being able to count on a broad and elastic money market: financial indexing can satisfy the demands of lenders and borrowers alike in today's state of uncertainty in the markets as to when inflation will be tamed, witness the growth in variable-rate returns in the special credit institutes in 1980.

Clearly it would be unwise for the state to resort to the traditional technique of fixed-rate issues beyond the medium term. The very high yield that would have to be offered to overcome public reluctance could have untoward effects on expectations of any lasting reduction in inflation. And then, when such a decline finally did appear, service on the debt at retirement would prove excessively burdensome.

Furthermore, generalized indexation of the public debt to prices might look like a surrender to the deterioration of the currency and like a confession of our inability to eliminate or at least attenuate within our system the mechanisms that perpetuate and intensify the inflationary thrusts. In the case of capital value indexing, there would arise the fear that the government, by further immediate easing of the ceiling of the current budget, risked encountering still greater difficulty in resisting pressures for more spending.

In the past we have spoken out in favor of bond issues by the financial institutions, tied to the ECU in capital value, consistent with hopes for monetary convergence in Europe and for consolidation of the lira as a component of the EMS. But should it be the state that moves to do it, full cognizance must be taken of the risk that this would look like abdication of its determination to seek stability for its own currency. Not even utilizing the auction technique on indexed issues of this sort could avoid distorting the domestic financial market, unless the bonds were confined to clearly specified buyers.

It would be a different story if the introduction of public securities tied to the ECU came about along with economic policy measures agreed upon by government, labor, and management and designed to deal with the structural roots of inflation. The link with the ECU could put the seal on a challenge by the nation and the government to inflation, and on our commitment to behave in ways fully consistent with membership in the EMS.

In this same context we also come upon the matter of rationalizing the disparate modes of taxation to be levied on financial transactions. With inflation that eats away at them, their nominal return often provides no real compensation, but rather represents an early repayment of capital. Changes in the tax system, sound though they be under stable conditions, would undermine investor confidence, which we need instead to restore.

For 1981, expansion in the total internal credit is programmed at 64,500 billion lire; in relation to product it should drop to 16.5 percent. Financing for the economy, too, including funds recevied from the public sector and from abroad, should drop by 2 percentage points in relation to product. These targets are based on the commitment, cited in recent government documents, that the internal requirements of the expanded public sector will not exceed 37,500 billion: in other words, it means, in view of the record for the first 5 months, a very strong subsequent cutback.

Pursuit of these credit objectives is vital to the restoration of price stability; but, if it is to succeed, it must be written into a whole body of government action on the public budget, on resource allocations, and on incomes.

The monetary and credit maneuver can stem and slow inflation, but it cannot cut it off at the root without the help of far-reaching changes in collective behavior patterns. If it is to have a meaningful effect, it will not be that of dispensing with such alterations, but of hastening them in a society that is at last aware and convinced of their necessity.

The complement to this restrictive monetary conduct is action aimed at bringing down imported inflation via the exchange strategy, which for that matter encounters limitations in phases, like the present one, in which the dollar is very strong.

Our having withstood the downward pressures on the lira in the EMS in the climate which surrounded their onset in 1980, in addition to contributing directly to the containment of inflation, triggered reactions and behavior within the system which were themselves conducive to greater price stability. With the easy road of devaluation barred, in many companies, with participation by labor and management, there was improvement in production organization to stand up to the cost push.

This does not mean that we ought to rule out, under any and all conditions, formal procedures to alter parity within the EMS. Resort to such remedies is consistent with the regulations and the spirit of the system. It is what happened this last 22 March. It was a necessary act, thrust upon us by reality; but it is the bitter reality of a failure, which an efficient economy and an efficient society could have spared itself; we regained some room for maneuver thereby, but it was late in coming. Devaluation day was a day of realism; it was certainly not a lucky day, nor a time for rejoicing.

Aspects of Public Intervention in the Economy

The last decade witnessed still further growth in the mass of social demands addressed to government. A point of tension was reached in the movement that began with the Depression of the Thirties, and which led in every country to assigning to economic and social policy a central and permanent role in the pursuit of development and prosperity. Lost sight of was the intent, albeit implicit in that movement, to reinforce and stabilize the system's accumulative capacities, and the mission it was to perform often declined into mere passive support. In a great many cases family allocations took on the nature of permanent subsidies rather than temporary replacement of income cut off; subsidies to corporations redistributed value added rather than channeling investments and directing them to where they were needed; the increase in employment in government was used to absorb labor forces rather than to expand the capacity to produce services.

The rapidity with which the ratio between public spending and revenue rose and the very high levels -- in some countries close to 50 percent -- which it reached, are evidence of the stresses to which government agencies were subjected, giving rise to expectations which, given the rising tide of demands, could not but prove excessive.

Awareness of the critical importance which resource reallocation takes on amid the current crisis has made hardly any headway at all. It has made some impact recently, though, along with the conviction that today the primary task of economic policy is to hasten the unfolding of that process, through action that will not make the presence of the state still more pervasive in the economy. The wisdom of getting citizens to shun voluntarily, or of deterring them by positive measures from expecting the state to be the first court of appeal for any and every need; the need to prevent hypertrophy in government operations, beyond expansion necessary to the functioning of society; favoring measures that point out solutions to the private sphere, with respect for a balanced relationship to the public one: these are the bricks and straw for an approach designed to attack the crisis at its roots rather than trying to soften the impact of its consequences.

In our country, public spending has grown with extreme rapidity, along lines dictated by the process of layering often disparate and even conflicting measures one atop the other. The scope of interventions necessary to foster indispensable changes in the production structure and in the makeup of demand calls for immediate choices as to the commitment of the public portion of our national resources, which are finite and already stretched to their limits. The fact that sometimes such intervention must perforce take on a direct character imposes moderation in the other demands society places upon the state, as well as real effort aimed at augmenting the performance of the structures and the efficacity of public action.

Pursuit of this last aim will call for both an organizational review of the public stewardship in its function as a purveyor of services to the community, and for higher capital endowments. The investment share of overall public spending in Italy is one of the lowest, and it is utterly inadequate to fuel technical advance within the public agencies or to support accumulation in the other sectors, thereby raising their productivity.

Bigger investments, though, would not be enough, unless accompanied by a binding commitment to minimize costs and improve performance.

From the strictly economic aspect, the basic criterion remains that of heightening competitive incentives outside the public sector and finding ways to provide the same sort of incentives within the sector. One essential condition if this is to come about is that the budget constraint be made to work again as a disciplinary factor, both at the regulatory level and as a matter of moral and ethical öbligation. There is a long tradition that had made such discipline the linchpin that held a heterogeneous society together and stiffened the resolve of an economy chronically tempted to take refuge in subsidy.

Clear-cut priorities among open options are necessary not only for the efficiency of government in providing essential services, but even more so for its capacity to channel the flow of resources into the rest of the system.

The interrelatedness of all economic activities as well as the nature and peculiar urgency of the problems combine to assign the top rung on the priority ladder to energy and to food and agriculture. It is mainly in these two sectors that we have flagging supply, which helps slow development and weight down the balance of payments. This has been a fact of life all through the seventies; over the past decade the constraints have emerged in levels steadily more distant from full utilization of the economy's productive potential.

Our country cannot, unless it is willing to slide down the ramp of protectionism, go on tolerating deficits in these two portions of its balance of payments. In agriculture, the problems demonstrably have very grave social implications, when you remember that a good tenth of the Italian population makes its living by farming, as well as highly complex social interrelations: from relations within an expanded EEC to those with the processing industries; from product distribution and marketing to the dimensions of the basic production unit and the spread of technical advances. It will take a concerted and well-coordinated attack on all these fronts to make even a start at remedying the problems that beset the sector.

In the energy field the policies to be adopted are mapped out by the technologies and cost structures of the various sources. Despite the declining elasticity in energy consumption as a function of income over recent years, there is still considerable room for substantial economy. Some saving can still be achieved without cost; other economies will call for very large investments, along with sweeping reconversion in both production practices and in consumer patterns. Both kinds of conservation must be encouraged and supported by means of specific incentives, proper regulation, adjustments in rates where appropriate, and better consumer information.

The outlook for increases in per capita consumption, now relatively low, and the need to reduce our dependency on foreign sources allow of no lag or limits on our conservation efforts, but call upon us to expand them to include a broadening of domestic supplies. The road we must follow is pointed out by our need to diversify our energy sources, among which crude oil still covers two thirds of the overall requirement, and by the production cost of energy from oil-fired plants, which is half again the cost of energy from coal-fired plants and more than twice that of power from nuclear plants.

In other basic sectors, including chemicals and steel, an international recession complicates the specific problems besetting the big corporations in Italy: problems of management, of industrial relations, of finance, and of their role as dictated by their public or private nature.

In chemicals these factors have brought disruptive effects, including the breakup of several major conglomerates. Regrouping installations according to their specialties assumes a rigorous assessment of the likelihood that they will be managed economically. The new arrangement may be rendered sounder by the emergence of a more clearcut distinction in relation to the nature -- public or private -- of the two major production complexes. Internal problems have rendered the Italian steel industry, particularly the portion of it which is partially state-owned, more vulnerable to the current market crisis, despite the essential soundness of a good share of its plant.

For both sectors financial measures which would absorb huge resources and divert them to other uses, must be intimately tied in with rigorous streamlining of the productive apparatus and with renovation of their working conditions which will make it possible to get rid of the rigidity in their utilization of labor and to subject their economic efficiency to severe scrutiny.

More generally, the whole question of troubled corporations, which has for years been the subject of keen concern among political parties, labor unions, management, and financial circles, has seen little progress toward solution thus far, by comparison with the money that has been spent on it, partly because of the unconscionable time it takes to shake off paralyzing preconceptions, such as the one that automatically equates the rescue of an enterprise with its nationalization.

Government intervention on behalf of an enterprise which the market would doom to failure can be justified on the basis of general interests and is something in common use even in strongly market-oriented economies. Transition into public ownership is not the necessary concomitant of such an operation. That is not the only way to ward off the scattering of resources which are deemed worth holding together, while respecting the principle that the inept or dishonest entrepreneur leave the company, and that the owner and creditors, according to their respective positions, be left to suffer the consequences of the risks they freely undertook to run. Public money is there to rescue neither the owner nor his creditors, but whatever can be saved of the company's good will and its plant. Government intervention can be limited to restoring the conditions necessary to attract a buyer ready to shoulder a new risk. If none is forthcoming, that will mean that more decisive action is required to restore the company to health, or else a decision to cut back its capacity.

These remarks spring from an attitude stemming from two assumptions: one is that our productive system's outstanding feature is a public presence unequaled in the ranks of Western nations and which brings us right up to the threshold beyond which it would cease to be a market system; the other is that there is a growing need for collective decisions which will affect the behavior of individuals and corporations.

Italy's own experience, and that of other countries, drive us to the conclusion that, once the essential priorities are in place, the efficiency of our intervention is generally greater if it is designed to affect the supply structure indirectly, rather than by direct means. Rather than using administrative command and control apparatus to coerce managers into making desired decisions, it is better to concentrate on information flows, on institutional attitudes, and on the deterrent/incentive system that governs them.

Upgrading the inner efficiency of government administration, setting clearcut priorities in allocation policy, and perfecting the instrumentalities through which it operates are all lines we should pursue, keeping ever-present before us the fact that, alone among the major industrial nations, Italy still has, for a substantial portion of its own territory, a crying need for development. The issue of the Mezzogiorno is still the central problem for Italian society. The 23 November earthquake restated the problem for us in tragic terms. Reconstruction and economic development of the stricken areas of Campania and the Basilicata may well trigger a new trend, in which government action will not be confined to further expansion of the welfare rolls. By standing fast against the wholly understandable pressures from economic and municipal interests, the financial requirement must be calculated with extreme rigor, drawing a clear distinction between what is needed for compensation for material damages and what is needed for development. Reconstruction, furthermore, must be coordinated with industrial siting strategy, in relation to existing infrastructures, and must be able to rely on a healthy entrepreneurial community, which is to be protected.

The ideas and principles cited here have not been sufficiently implemented over the past year, considering the urgency of the problems still unsolved. The 3-year plan specifically states a determination to turn the situation around. In a macroeconomic/structural context which from the procedural point of view leaves the cyclical evolution of demand out of consideration, it reasserts the need for reevaluation of the public budget, aimed at reducing the burden of the present deficit and at increasing the quotas for capital expenditures. Both these objectives are intermediate goals to be pursued separately, within a preset budget ceiling, excluding any and all compensation. These requirements coincide fairly well with the other one for modifying the very institutional and decision-making machinery which, inside the government, generate the least essential or least productive expenditures. Changes of this sort imply a policy of resource allocation consonant in its clear definition of priorities and in direct, firsthand verification of the suitability of individual programs for achieving the objectives they are designed to meet.

Better Deployment for the Credit System

In the makeup of the overall financial debit and credit picture, 1980 saw an intensification of pressures toward reduction of the quota entered in the budgets of the lending agencies, particularly the banks, and toward an increase in the portion consisting of direct relations between the end users of funds and the depositors.

In a financial system that has historically been typefied by a marked leaning toward the lending agencies rather than toward the capital markets in the strict sense of the term, a growth trend in the relative importance of the latter can help make our entire credit stance permanently better balanced, more efficient, and sounder overall. The reduction in the share of the lending institutions, particularly the savings and loan agencies, must be made gradually so that their overall volume of business, their management performance, and their capitalization levels all benefit thereby, so that the process can take place in conditions of complete stability.

During the year just ended and in the opening months of 1981 the phenomenon at times moved too fast, under the spur of factors which where partly transitory and, in some respects, cause for concern. From what might be called the unsuitable dealings of the public sector pressures continued to build toward a takeover of the whole business of the lending agencies, often with untoward consequences to the allocation of resources. The growth of special credit institutions ran up against the obstacles which high and unpredictable inflation raised again .. against issues of medium- and long-term bonds, from the delicate phase of reorganization and management shifts, and from expectations of clarification in their institutional and legal status. Partly in response to the greater opportunities for profit which marked a year in which the peak of the economic cycle coincided with restrictive monetary policy, the lending agencies' interest rates started to rise again after 4 years, thus contributing to their ouster from the loan market.

There was a consequent flareup of the bitter argument over the so-called bank revenues, fueled by diametrically opposite opinions. While the Italian banking system is not particularly concentrated, in the various divisions of its activity and from one area of the country to another, there are conditions of competition which are by no means uniform, as indicated by service prices and samplings of disparate profits. On the other hand, bank interest margins are affected by the makeup of their budget surpluses, frozen into rigidity by administrative red tape which the monetary authorities are still required to maintain: lowering the ceiling on investments combined with the portfolio constraint and with the low and unvarying yield on mandatory reserves. This last requirement, particularly when the rate structure is rising, gives rise, through the banks, to a transfer of family and corporate savings into the coffers of the state. Even the dynamics of operating costs, in a sector which although still highly labor-intensive, cannot help reacting to an inflationary phenomenon in which the wage component is very large and still growing. Last year, a sharp increase in bank costs per employee produced no significant or widespread gains in productivity.

The process of getting the banks out of the loan business was also affected by some salutary and non-transitory factors. The competition to which the loan business in Italy is exposed has grown hotter: the money markets have broadened and gained in strength, both in the area of government securities and in that of acceptances and commercial loans; the stock market has shown a significant gain in volume; relations with the international financial system have intensified and the volume of foreign capital flowing into Italian businesses was particularly ample. Even the increased return on management to the lending agencies was partly attributable to the spread of the practice of maximizing profits while weighing the risk, rather than trying for dimensional growth at all costs. This phenomenon must be looked on with favor from the point of view of more careful selection of loans; furthermore, even reserve funds and amortizations had been shrinking over recent years, while the rate of capitalization among Italian lending agencies is still below the international average.

Strengthening of their non-trading positions was pursued in timely fashion by the special credit institutes; particularly among those whose primary commitment was to cover their exposure toward sectors of the economy in structural difficulties. Favorable results were achieved through efficient management, inputs of new capital, expansion of loan opportunities, differentiation among sources of revenue and the definition in 1980 under the terms of PL 784 of the processes for credit transformation for companies holding too much government paper, even non-interest-bearing.

In 1980, according to their fiduciary holdings, capitalization rose from 8.4 to 9.3 percent for the special credit institutes and from 4.1 to 4.6 percent for the lending companies. Specifically, last February's PL 23 called for bestowals of some 500 billion lire.

The government's decision to recapitalize the public lenders meant confirmation of the soundness of a differentiation among lending bodies and responded to the need for upgrading a factor for development in the financial system in a plurality of competing brokers. Observing this institutional dictum, the structure of the public credit agencies will be brought up to the mark, in the awareness that autonomy presupposes and fuels efficiency, and that this must find expression in operating and organizational standards that will protect and reinforce their fiduciary status.

The lenders' action is at one with the Bank of Italy's commitment to single out those factors, including the organizational ones, which increase the costs of loan brokerage. In the pursuit of this task it was stated last year in this office that action must be taken to correct the imbalance between private and public lenders, and changes made in the statutory discipline which would enrich the spirit of enterprise in the latter and bring their management practices more into line with the principles of profitability. This approach was the subject of very deep reflection in the light of the debate over doctrine, intended to bring together all the day-to-day implications and the juridical nexus of the possible organizational solutions.

The orientation which emerged has already been adopted by the Vigilanza in the exercise of its authority in statutory matters and thus welcomed by some of the public lending agencies, which grasped its favorable potnetial. On the legislative level, too, recapitalization for major public banking agencies was written into PL 23 as part of the review of their statutory orders, out of concern, in restoring confidence in business, with drawing on past experience for guidance in future behavior.

The nature of the business, discipline over revenues apart from capital assets, and the configuration of internal controls over management: these are the three aspects in a bank which is a public corporation that most require improvement.

The corporate goal cannot be other than that of acting as intermediary in matters of credit, and this essential task must be graven into the statutes: to eliminate, in the definition of the sphere of operations of our public banking agencies, those restrictions that hark back to situations long a thing of the past and hamper their activity serves to make it clear that only behavior consonant with the principles of profitability and competition is permissible.

The public institutes should also be given access to the market in order to attract the kind of investments that will share the bank's risk, according to procedures that do not exempt the agency from public majority control, exercised under the present patterns of participation, and hence from its institutional position. In some cases resort to organizational models quite similar to corporations, already part of the banking regulations, make it possible to enter the market , with suitable limiting clauses, and to solve the problems of providing a voice for risk capital in management bodies. Retention of differentiated models, like that in effect for the Savings Funds, demands a quest for

for devices which will allow input aside from the capital endowments by means of negotiable securities which also incorporate some sort of sharing in the agency's profits and risk, but not in its management.

The organization must compel the public bank to comply with such requirements as are expressed in its internal assessments of propriety as to management attitudes and as to individual deals. The overall efficacity of the auditors' function is correlated in an essential way with the smooth and timely performance of such assessments on the part of the corporate bodies.

We cannot dismiss proper distribution of powers among the governance and management organs of the lending agencies. Public appointment procedures, where the balloting is done among people who are professionally expert in the loan business, are designed to make that proper distribution of powers effective.

During 1980 we did away with the anomalous situation existing in a great many savings banks, which had nobody in their highest office. Called upon, in compliance with the interpretation of the rules concurred in by Parliament, I submitted lists of nominees, chosen according to predominantly technical criteria, to the treasury minister, who took them as the basis for his own decisions after hearing the opinions of the Credit Committee. In the few instances where the government authorities preferred other candidates, we avoided any mingling of procedures and a different one was followed, under which the office of the Governor consisted in providing, as he does for the private lending agencies [Monti] his technical opinion as an expert, which was binding should it be negative. Once the appointments had been made, after approval by Parliament, they straightened out tangles that had been building up for years, and restored full powers to the boards of directors.

In a market situation where, particularly at the international level, there is mounting pressure to broaden the array of instrumentalities for financing the economy, the organ of surveillance must support the healthy evolution of the credit brokers, private and public, while protecting their stability. The problem, from the point of view of what participation the banks can assume, was the object of a recent decision of the Credit Committee, in which it spelled out the boundaries of possible acquisitions, laying down as a guiding principle the rule that investments in securities could be made only when they were such as to foster sounder structures in the credit system and to improve its efficiency and its cost effectiveness. Within this framework, the lending agencies can assume shares in other credit agencies or in companies that manage collateral services for the banking business. To the same end of strengthening the confines within which this must be contained, any shares acquired in settlement of loans must be disposed of within stipulated time limits.

More complex and risky conditions on the international markets, coupled with demand for open dealing, also advised, in the same opinion, forbidding Italian lending agencies to acquire shares in foreign financial institutions. With reference to the fact that all agencies of a bank with international ramifications are required to tailor their own conduct to disparate regulations, it was also ruled that any authorization for the establishment of facilities abroad through affiliates must also reckon with the various degrees of access to information as to the operating requirements as well as the surveillance structures in other countries.

For ascertaining corporate solvency, the soundest procedure is that of consolidating accounts, the use of which assumes the circulation of information back and forth across national boundaries between affiliates and parent houses, and will be encouraged by understandings among the surveillance bodies concerned. Pending the passage of legislation providing for consolidated reports, there must be collaboration by the banks from now on in the regular and systematic supply of information on their financial dealings with their agents abroad.

In the special credit sector the aim of restructuring was pursued beyond the provision of additional capital to expand the sphere of operations for such lenders along with their ability to engage in risk-sharing, and ordering the incorporation of the Credit Institute for public interest corporations into Crediop, which was vested with institutional authority in the area of credit to industry as well. Most significantly, there was a review of audit practices in the sector, subjecting all institutes equally to the audit authorities, to those authorized in matters of domestic territorial organization, and those dealing with administrative sanctions and liquidation.

The ongoing debate in many forums produced helpful insights into the limits of loan assistance standards and into the wisdom of giving the government direct authority to manage incentives designed to encourage industrial investments and to correct the uneven development of our economy. What actually came out, though, when we got down to formulating new guidelines, were some new ideas that in fact increase the responsibility of the lending agencies for management of government contributions. So it is with the proposal that the Cassa per il Mezzogiorno must rule on requests for credit solely on the basis of the factors inherent in the loan contract. In this way there is only an apparent rescission of the link between credit and subsidy, and the fact that the subsidy is by no means certain will have an impact on the assessment of the profitability of the undertaking and hence on the selection of lenders.

One idea that takes a more respectful approach to the distinct and separate roles of the government and the lending agencies was embodied in the law governing intervention for reconstruction and development in the Southern regions stricken by the earthquake. It provided that contributions to 'quake-damaged companies be determined by the competent local offices so that any possible loan agreements embody ordinary interest rates.

The higher levels of capitalization in the credit agencies, the legislative changes made regarding the special credit institutes, and the appointments of presiding officers for the public lending agencies, like the innovations in statutory matters all improve the lending process in a delicate economic situation which requires, in the interests of the entire economic system, greater soundness and efficiency in our financial structures.

Ladies and Gentlemen:

My intention to give you a complete and detailed picture of recent economic events and to report to you on the conduct of the Bank cannot have concealed the anxiety with which we went through those events, or our concern as we faced the vicissitudes of our economy, which international events have made still more complex.

In 1980, along with the positive legacy of a growth in investments the like of which has not been seen for years, and with signs of a renewed commitment on the part of labor and management, we wound up with a very grave state of affairs for the currency, which belongs to all of us, and is the indispensable vehicle for the economic and civil bonds that join us together into a society.

We can no longer tolerate an inflation whose basic component is still rising and pulling us away from the countries with which we are united by history and culture.

An inflation which has not run below 10 percent for 9 years now, and which has hovered at around 20 percent for 2 years, has generated not only enormous dead-end transfers of wealth and the inefficiencies that always come with uncertainty and the volatility of prices; it has affected the very essence of our currency, stripping it in large measure of its function as a reserve asset and leaving it only the humble function of a counting system and a means of payment.

No complex trading economy can survive without a yardstick of value that can be relied on now and in the future. To escape the snare of a currency that melts away at a rate as swift as it is unpredictable, the economy takes as its own yardstick, through a multiplicity of procedures and institutes, the very sum total of goods and services it produces. Under conditions like these, even the successes of the conventional monetary maneuver are in danger of degenerating into tactical fixes which cannot ward off strategic defeat in the form of even worse inflation.

When this process has been under way for a number of years, you cannot restore monetary balance by attrition through scant liquidity or by offering an unalluring exchange rate. The road back to a stable currency calls for a genuine change in monetary constitution, which involves the function of the central bank, as well as the decision-making processes for public spending and income distribution.

The first condition is that the power to create money be exercised in complete autonomy by the same centers that decide on spending. There was a time when this requirement arose with respect to the productive system, and it was then that the public-interest nature of the central bank and the separation of bank and business were clearly spelled out. Today that requirement must be met above all in relation to the public sector, freeing the central bank from a condition which allows cash shortages to press for expansive creation of liquidity inconsistent with policy objectives on money growth.

This necessitates a reexamination of the means by which, under our current statutes, the issuing institution finances the Treasury: the overdrafts in the Treasury account, the practice of buying up remaindered bonds after auctions, underwriting other government-issued securities. Particularly urgent is calling a halt to the Bank of Italy's picking up all BOTs not sold at auction.

And yet, in a rapidly changing democratic society, where there is keen aspiration to a higher standard of living, intense social dialectic, persistent and widespread inequities -- pressures for the creation of still more liquidity are pushing our currency almost irresistibly over the threshold of stability, unless we throw up defenses in the very places where demand originates.

The second condition, therefore, is a set of rules for procedure that will place the major decisions on spending squarely in the context of monetary stability policy. A basic principle of economic and political freedom forbids taking the content of those decisions out of the reach of decisions by families, by businesses, by the entire collectivity as expressed in Parliament and in the Government. And the very existence of a currency, of unused purchasing power, is an expression of that freedom. But society must organize to keep spending decisions from being made at the cost of the common heritage that is monetary stability. To do this, it must discipline the ways in which choices are made, without dictating any of the content of those choices, just as other rules establish the manner, and thereby the possibility of taking action without in any way commanding it.

There are of course individual decisions which govern the division of income between savings and consumption, and these are defined in their structure. The tax instrument can provide the necessary guidance for those choices to make them part of a consistently compatible whole. But to a far greater degree than in family budgets, the breach in mone tary stability is caused by spending decisions in the public sector and in decisions on distribution of income within businesses. It is there that the relation between spending and resources is stretched so far as to make price increases and debt devaluation a necessary perverse instrument for balancing the books.

Rules must be put in place to govern public spending decisions that will compel them to substantive respect for the obligation of solvency. Once there was a time when the harmony between spending as the prerogative of the sovereign and taxes paid by the people was assured by the dialectic between the executive and parliament. When the people became sovereign, the budget constraint worked for a long time under the rigid rule of balance. The disappearance of that constraint led public finance into a situation where economic equilibrium has no other anchorage than the capacity for self-control of the collectivity. Article 18 of the Constitution was supposed to strengthen that guarantee, but the way it has been administered has all too frequently proved incapable of preventing spending from acting as a sensitive force for stability, and instead has let it slip free of the solvency constraint. We need to look for, officially define, and solemnly impose forms, such for instance as mandatory balance between current revenues and expenditures, with which to ensure practical application of the principle spelled out in the Constitution.

Procedures and guidelines are equally necessary in corporate decisions on spending. A transformation-based economy, which imports raw materials and exports finished products at international prices, has labor as its principal cost factor to be contained, in the twofold component of wages and productivity. And that containment is entrusted, in our way of doing things, to labor and management through the collective bargaining system.

By virtue of its economic and monetary effects, of the vast magnitude of interests involved, and of the representative and delegatory institutions involved in it, collective bargaining, national and corporate, is a genuine force in economic policy, comparable to the one through which public-sector spending is determined, and like that, it stands in need of standards that will keep it from drifting toward monetary instability.

Like any other exercise of economic freedom of initiative, the freedom to bargain for contracts cannot claim exemption from the constraint of the general interest. As things stand today, the very machinery for negotiation, its fragmentation onto different levels, its failure to accept macroeconomic indicators which might act as a binding requirement for overall compatibility, all make it exceedingly difficult for labor and management to arrive at decisions which simultaneously involve both a demand for fair distribution of incomes and respect for monetary stability. We need to seek out and define institutional procedures through which collective bargaining can get back again to being an instrument for governance of income dynamics and working conditions, rather than for the destruction of the currency.

We must stop putting so much faith in automatic devices which degrade the ability of both parties to work out their differences and which are insensitive to changing economic as well as social conditions. Just when the inflationary push was heating up fastest, some believed that a surrogate for stability had been found in indexation; it is precisely the spread of that practice that sanctions and hastens the ruin of our currency.

Monetary stability is too precious and too fragile an asset to allow the lines thrown up to defend it to be undermined by issuing lifetime passes to individuals or groups guaranteeing them automatic protection, especially when such protection is frequent and indifferent to the origin of inflationary pressures.

In the one member nation of the EEC that,more than any other, has held the line on prices of recent years, it is expressly forbidden to use any form of indexing, not only in collective bargaining contracts but also in the form of clauses in individual contracts that link the pecuniary obligations of either party to any index whatsoever. In that same country monetary stability, affirmed and defended, finds further expression in the ease with which its currency is permitted to cross its boundaries.

Autonomy for the central bank, increased rigor in budget procedures, and collective bargaining codes are the preconditions for a return to monetary stability.

For 10 years now, with even the indirect link to gold through convertibility of the dollar and the fixed exchange rate gone, the lira, like the other currencies, has become an even more immaterial and abstract commodity, whose value is guaranteed by nothing more than the strength of the economy and the capacity of the society as a whole for organizing itself and for governing.

A currency law is indispensable for giving us back a stable yardstick for all present and future assets and to protect us from the risk of backsliding toward positions which did not help us fight inflation, when they were not actually fostering it.

These are the issues which the gravity and urgency of the economic situation demand that we deal with in all their complexity and entirety. The recent debate indicates that decisions have been ripening in our minds and that even now, today, we can take practical steps in the right directions. If its efficacy is not to be dissipated, that debate must be translated today, right now, into a will to action. What it needed far more than technical tinkering is the ability to shake off our prejudices, our mistrust, and our short-sighted defense of narrow individual interests. And the strength to do that is rooted in our civic consciousness, the last, the irreplaceable bastion of a stable currency, as it is of every other pillar of a free and just society.



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MILITARY FRANCE

NEW SHORT-RANGE GROUND-TO-AIR MISSILE PRESENTED

Paris AIR & COSMOS in French 27 Jun 81 p 41

[Article by Pierre Langereux: "Presentation of the Very Short-Range Ground-to-Air SATCP Missile"]

[Text] The SATCP [Very Short-Range Ground-to-Air] weapon system was presented in its basic version at Satory for the first time. This is a portable missile slated for the French army and the French air force for the defense of sensitive points and combat units. The various elements of this basic version were presented by MATRA [General Mechanical Aeronautics Company], the contractor, as well as by SEP [European Propellant Company] and SAT [Telecommunications Company, Inc.], responsible for the propulsive unit and the self-directional device of the missile, respectively. Thomson-CSF [Thomson-General Radio Company] also made a presentation of the TRS 2600 radar intended for the version of the SATCP missile mounted on a light armored vehicle for the army. In all, five versions of the SATCP missile are planned. In addition to the two just mentioned, a ground-to-air version which can be carried on the shoulder of an infantryman and an air-to-air version mounted on the army's helicopters as well as a sea-to-air version for the principal defense of small craft and as complementary armament for the French navy's battle class vessels are also envisioned.

The SATCP is an antiaircraft missile slated for the interception of both planes and helicopters flying at low or very low altitutes. The missile is guided by an infrared device of very great sensitivity capable of detecting a helicopter at a distance of 4 km. The explosive charge of nearly 3 kg triggered by a proximity fuse gives the missile great effectiveness. The two powder propellants (for ejection and cruising) drive the missile to a distance of 4 km in about 6 seconds with great maneuverability enabling its interception of aircraft flying at less than 8 G's.

The TRS 2600 surveillance and target identification radar unit built by Thomson-CSF is especially designed, in conjunction with the SATCP missile system, for hitting planes and helicopters flying at low and very low altitudes. The radar makes it possible to detect helicopters, planes that fly alone or in patrols, missiles, and drones (RPV's [Remotely Piloted Vehicles]) moving in a hostile environment (natural or man-made clouds). This radar unit can locate a helicopter more than 6 km away and a plane more than 10 km away with a precision in targeting closer than 0.6° on the horizontal plane and 60 meters in distance (on a helicopter).

Involved is a Doppler radar unit with impulses operating on the S band with a mobile antenna (40 revolutions per minute) placed under a radome. The transmitter with phased amplification and variable frequency is entirely "solid state," and the low-sound receiver with double change of frequency has a high level of fixed echo screening (+55 decibels). The microprogramed computer has a special track for the detection of partially concealed helicopters at the request of French technical departments. The numerical resolution, at a speed of 32 frames, is complemented by an automatic pursuit device (TNS) [Timed Wire Service]) which can be activated manually or automatically, making it possible to lock in four targets simultaneously (or more if desired). The entire radar unit weighs about 80 kg and can be integrated into light armored vehicles.



2662
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MILITARY FRANCE

FIRST MILITARY TELECOMMUNICATIONS SATELLITES DESCRIBED

Paris AIR & COSMOS in French 27 Jun 81 pp 63, 65

[Article by Pierre Langereux]

[Text] In the military use of space, the French army has finally given priority to telecommunications over earth observation. This is obviously for reasons of expediency. Actually, the Forces will be able to use the P&T [Postal and Telecommunications Administration] Telecom 1 satellites, which will be in service beginning around year-end 1983, whereas the construction of an earth observation satellite for the French Armed Forces has not yet been decided. The French SAMRO [Military Optical Reconnaissance Satellite] project, which has been under study since the 1970's, is however beginning to take on a concrete form that goes well beyond the mere "technical lookout" concept that has governed it until now.

The decision to build a SAMRO satellite observation network could be made next year, enabling the system to be put into service by the end of 1986.

France will thus be the fifth power possessing military telecommunications satellites, after the United States, the USSR, the United Kingdom and NATO. If the SAMRO program is launched, France will be the third power having military earth observation satellites, after the United States and the USSR (and possibly China).

SYRACUSE System in Service By End of 1983 with Telecom 1

The Armed Forces' need for space telecommunications was realized as a result of the Kolwesi (Zaire) affair, when the need for direct and reliable communications links to monitor and direct the operations of intervention forces abroad was brought home to the government and the Armed Forces. The United States and more recently the USSR have already provided the examples. During the (ill-fated) American raid on Teheran, the president of the United States was kept informed "in real time" of the development of events, thanks to the American military telecommunications satellite network that covers the entire world.

In view of France's smaller "sphere of influence" abroad, her ambitions are more limited.

They are principally to ensure "long distance communications with her ships and interventional forces" by means of a "communications network consisting of transmitting and receiving stations owned and operated by the Armed Forces," thanks to "two repeaters exclusively for the Armed Forces," with which Telecom 1 satellites are being equipped, according to the DTEn [Missile Technology Directorate]. This military telecommunications network will also be able to provide long distance government links with embassies, DOM-TOM [Overseas Departments-Overseas Territories], etc.

The use of two telecommunications satellites is based on the need to cover principally a priority zone extending from Panama on the west to Reunion Island and the high seas off the east coast of Africa on the east, as well as from Disko Island (75° N) on the north to the open seas off the Cape of Good Hope on the south. This zone covers a large portion of South America, a strip of North America and the western edge of the Indian Ocean.

The Navy is especially interested in establishing permanent and reliable links with its ships navigating in the Atlantic, the Mediterranean and the Indian Ocean [...] French [...] abroad" [as published] and above all, to protect our oil and other strategic materials supply routes.

Pending the availability of a satellite dedicated specifically to military and government telecommunications, the Defense Ministry has therefore decided to use (in part) the P&T's civilian Telecom 1 satellites, the first of which will be launched in July 1983 by an Ariane rocket. This military use of Telecom 1 is covered by the SYRACUSE [Radiocommunications System Using Satellites] program, ultrasecretely decided on 17 January 1980 by the then defense minister, Yvon Bourges, according to the REVUE DE DEFENSE NATIONALE.

The SYRACUSE program is under the direction of the SCTI [Central Aeronautical Telecommunications and Equipment Service] with assistance from the CELAR [Ordnance Electronics Center] and in cooperation with the Armed Forces General Staff, and in particular the Navy General Staff.

Three Telecom 1 satellites are being built under the prime contractorship of MATRA [Mechanics, Aviation, Traction and Missiles Company], with Thomson-CSF for the civilian and military payloads. The Defense Ministry has financed specifically the addition, to the civilian payload, of supplementary equipment to be reserved exclusively for military links. This equipment consists essentially of two repeaters operating at 7.25 and 8.4 GHz, in the frequency band reserved for military telecommunications. Since this equipment was not available in France, it was ordered from the United States where it is manufactured in California by Ford Aerospace, which specializes in the manufacture of American military space telecommunications satellites.

These military telephone and telegraph (coded) links will provide a traffic handling capacity equivalent to 60 telephone communications channels simultaneously. They will use spectrum-staggered multiple access (AMRC/SSMA) techniques developed notably by CELAR and full-scale tested over the past several years under the SEXTIUS [expansion unknown] program.

This experimental program, drawn up by the SCTI and DTCAN [Technical Directorate for Aeronautical Construction], was designed to "test the feasibility of military use of satellite communications using a small antenna (2.2 m) and different types of modulation and multiple access."

The SEXTIUS tests were run first on land, from October 1977 to June 1978, then at sea, from September 1978 to 1980. Successful digital links (at 4-6 GHz) were established between a Navy ship and the Pleumeur-Bodou (Brittainy) station, via one of the Franco-German Symphonie experimental telecommunications satellites. The advantage of a geostationary satellite for military telecommunications is that it provides links between fixed or mobile stations and headquarters command posts using a simple infrastructure and guaranteeing excellent availability and vast geographic coverage.

Two of the three Telecom 1 satellites will be launched into geostationary orbit, by 7 and 10° west [as published], over the Gulf of Guinea (Africa), from which they will cover Europe, Africa, the Mediterranean, the Middle East, the Indian Ocean and the Atlantic Ocean, as well as the east coasts of the Americas. The Telecom 1 satellites will be controlled by the CNES [National Center for Space Studies]/P&T earth station at Aussaguel, near Toulouse.

The SYRACUSE network, the installation of which is being prepared by the SYRACUSE operations group, will consist of not less than 25 earth and naval, fixed and mobile stations. These stations, designed by Thomson-CSF, will be of four types: fixed or air-transportable (heavy or light) earth stations, and shipborne stations.

The three principal stations of the SYRACUSE network will be installed as fixed stations near Paris, Brest(Brittainy), and in Southern France. These synchronous stations will be equipped with 8-m diameter parabolic antennas.

The nine heavy transportable stations (in air-transportable shelters requiring two Transall planes) will be distributed. Four stations will be installed at the OMIT [Military Interforces Communications Organization] centers at DAKAR (Senegal), Djibouti, La Reunion and Martinique. The other five will be used by the Armed Forces General Staff for its links with the 1st Army and for priority government links.

The three light transportable stations (on air-transportable vehicles via one Transall per station) will be available to intervention forces abroad for their links with the Armed Forces General Staff and the government.

Lastly, some 10 naval stations (in shelters with 1.5-m antennas) will be installed aboard large surface ships of the Navy (corvettes, frigates, helicopter carriers, aircraft carriers) for their links with OMIT Headquarters or fixed stations in the metropole.

The total cost of the SYRACUSE program is estimated at around Fr 1 billion. This includes participation in the Telecom 1 satellite development costs (Fr 50 million), operating costs (Fr 45 million/year) and construction of the terrestrial network.

The DTEn, besides being involved in the development of the SYRACUSE program, is also conducting preliminary design studies on military telecommunications satellites that will take over from the Telecom 1 satellites when these are retired from service in 1990.

Decision on SAMRO Satellite Expected in 1982

The SAMRO project has to do with a "strategic reconnaissance satellite" designed to provide the Armed Forces with objective knowledge of the infrastructures in countries being overflown, based on "a periodic observation of military, road and waterways complexes" that can furnish "indications of preparations," avoiding possible surprises to our Armed Forces. But the SAMRO satellite, generally speaking, will not be able to furnish the information needed to maneuver forces and conduct tactical operations, which must still depend upon aerial reconnaissance.

The SAMRO system will consist of a panning satellite and a terrestrial network that includes an operations center, a control center, a terrestrial transmitting and receiving station and an image operations center, all located in metropolitan France.

The satellite will consist of a platform, which reuses the SPOT [Earth Observation Probe System] auxiliary platform, and a payload consisting of a set of cameras and an adapter frame, all designed to respond to military needs. The satellite will be stabilized on three axes by an attitude control system based on sensors, gyro wheels and gas jets (hydrazine). An on-board calculator-programmer will control the recording of data and their restoral by the telemetering transmitter, in association with a memory and an ultrastable clock.

The SAMRO satellite's camera mode will differ from that of the SPOT satellite and its resolution will exceed that of the civilian satellite (10 m visually). Its (digitized) image transmission rate will also be higher and its transmissions will be secured against jamming or interception. It is also planned to secure the satellite itself against laser weapons that could blind its sensors or even destroy it. The satellite will gravitate in a lower orbit than SPOT's (832 km).

The DTEn is responsible for the overall SAMRO system design, assisted by the CNES for the satellite, the camera set, and the conceptual and definitional work. Work is currently concentrated on high-prioritied basic problems to be resolved in connection with the camera set and the on-board recording system for storing images until passage of the satellite within view of the earth station located in France. Only after the completion of this work can the development of the SAMRO satellite be commenced.

Recently, the industrial organization for the system was drawn up, which confirms that the project is already at an advanced stage. The industrial structure for the complete system--space and terrestrial segments--has been entrusted to the Ballistics and Space Systems Division of AEROSPATIALE [National Industrial Aerospace Company].

The industrial prime contractorship for the satellite and the responsibility for the platform and the adapter frame have been entrusted to MATRA, while AEROSPATIALE (Cannes establishment) has assumed responsibility for the structure, thermal control, the solar generator and the camera set. Image telemetering and remote control have been entrusted to Thomson-CSF.

Industrial prime contractorship for the earth segment as well as responsibility for the operations center and control center have been assumed by AEROSPATIALE. Thomson-CSF is responsible for the transmitting and receiving station, and MATRA and SEP [European Propellant Company] for the imaging operations center.

The principal subcontractors for the system are Crouzet, Enertec, Reosc and Sodern.

The total cost of the SAMRO system was estimated in 1980 at around Fr 6 billion. Through 1980, Fr 236 million were spent on SAMRO project studies; Fr 136 million were allocated to the project in the 1981 budget. This does not take into account the participation by the Armed Forces (Fr 60 million through 1980 and Fr 84 million in 1981) in the SPOT satellite which is to serve as a testing bench for the military satellite.



9399
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MILITARY FRANCE

BRIEFS

SEP DISPLAYS ANTITANK MISSILE--A new entrant into the domain of antitank weaponry, the SEP [European Propellant Company] presented for the first time at Satory its DARD antitank missile developed in the context of the invitation to bid issued by the DTAT [Technical Directorate of Ground Armaments] for the future ACCP [Short-Range Antitank] missile launcher. This antitank weapon has a range of 600 meters with a high probability of disabiling heavy tanks built in the late 1980's. It consists of two parts: One of them, nonreusable (in the rear), which is mainly made up of ammunition, and the other reusable (in front), consisting of the trigger mechanism and the sighting piece. The nonreusable barrel fits into the reusable tube up to the level of the front trigger. The weapon is designed for firing from the shoulder with the help of curved sholder piece integrated into the reusable part. The barrel containing the ammunition is equipped in fixed position with a gas generator (with powder) which propels the missile, whose stabilizer projects outside the barrel. For building the missile, whose stabilizer projects outside the barrel. For building this light infantry weapon, the SEP has used composite materials with which it has had experience thanks to the ballistic and space programs. [Text] [Paris AIR & COSMOS in French 27 Jun 81 p 42] [COPYRIGHT: A. & C. 1981] 2662

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