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9 September 1981

# West Europe Report

(FOUO 45/81)



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WEST EUROPE REPORT

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ENERGY ECONOMICS

ITALY

INDUSTRY MINISTER SUBMITS NATIONAL ENERGY PLAN

PM250803 Turin LA STAMPA in Italian 8 Aug 81 p 8

[Report by Marco Borsa: "Nuclear, Coal Power Plants at Once to Prevent 'Energy Bankruptcy'"]

[Excerpt] Milan--After years of discussions and projects the national energy plan based on the need to construct several new coal- or nuclear-powered electricity generating plants over the next 10 years was at last submitted yesterday for approval by the CIPE (Interministerial Economic Planning Committee) by new Industry Minister Giovanni Marcora, which will make it binding for the public administration and set in motion a complex series of consultations with all the sides concerned (regional governments, trade unions, enterprises, and so forth).

The plan, which envisages investments in the order of several dozen trillion lire, is aimed at the construction of several power plants by 1990, in accordance with a precise scale of priorities. First, by the end of 1981 both the nuclear plant at Caorso and the oil-fired plant at Porto Tolle must be working to avoid a serious energy deficit as early as next winter, when the highest consumption occurs.

Also by the end of the year locations will have to be found for coal-fired power plants with a total output of 6 gigawatts (the standard unit output is 640 megawatts) and locations suggested for producing at least another 6 gigawatts of nuclear power, that is, for three power plants each housing two standard 1 gigawatt units.

Whereas coal-fired plants are quicker to construct (3-4 years) nuclear plants take longer, but according to the plan by the end of this year two sites must be found for plants in northern Italy (with a total output of 4 gigawatts) and one in southern Italy, for a third 2-gigawatt plant.

Apart from the power plants, the plan also envisages a substantial effort in the infrastructures field, connected especially with the growing use of coal, which demands adequate river ports where possible. In particular, the plan states, "logistic and economic considerations suggest that it would be advisable to construct a first transshipment terminal on the Adriatic and a subsequent one on the central southern Tyrrhenian coast. Trieste is a possibility for the former, while for the latter, the choice, in accordance with the National Electric Power Agency, could be among Milazzo, Gioia Tauro and Piombino.

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"Additionally, the port of Savona-Vado will have to be developed."

This updated and complete version of the national energy plan could fare better than previous plans since among the parties, especially on the left, and trade unions there is now a widespread awareness that an energy plan is indispensable for tackling the country's economic difficulties. At their latest congress the Socials abandoned their reservations concerning the nuclear option, thus eliminating one of the obstacles to the approval of the plan.

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ECONOMIC

ITALY

CONFINDUSTRIA DOCUMENT ON PROPOSALS FOR INDUSTRIAL POLICY

Milan IL SOLE-24 ORE in Italian 24 Jul 81 p 8

[Text] We publish herewith the full text of the closing portion of a document entitled "Industry's Proposals for an Industrial Policy," which was debated yesterday by the Council of the presidents of the 200 industry associations belonging to Confindustria. Industry Minister Giovanni Marcora was present at the discussion.

Don't Get Us Shut Out of the Advanced Nations' Club

"Italy, which now stands on the threshold -- but has yet to cross it -- of the exclusive club of advanced industrial nations, may find itself irrevocably blackballed by the end of the decade, or even before then." This was the pessimistic prophecy as to the outlook for this country through the Eighties that triggered the drafting of Confindustria's industrial policy document, which embodies a suggested formulation of guidelines for a complicated fresh start operation for Italian industry. Its basic assumption is that, in spite of everything, there are "fairly good chances for Italian industry's recovery," provided that adequate structural measures be taken in time.

After an initial portion devoted to "industry spokesmen's frame of reference and their assumptions," the document goes on to analyze the current and future scenario as laid down for Italian industry. In the decade from 1969 to 1979, industry "managed, albeit with difficulty, to cope with the gravest series of crises it had ever encountered." Once the more critical phase of the first 5 years was over, industry on the whole showed a remarkable capacity for "spontaneous adaptation" to the new internal and international constraints in the second half of the decade: that capacity was manifest in a strong upsurge in exports (up from 14.8 percent of the GIP in 1973 to 20.2 percent in 1979), due primarily to the more traditional sectors "which base their competitive posture on the price factor."

That recovery, however, was built upon very frail foundations, and left substantially unchanged "the permanent structural weakness of the Italian productive apparatus." To deal with the challenge of the Eighties, we need an overall industrial policy, which, without covering the whole sphere of economic policy, would nevertheless constitute "its central core."

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The conditions under which it can succeed are that the four great nooses that are strangling industrial growth be untied: they are inflation, public finances, energy, and industrial relations.

The Confindustria proposal (addressed to all corporations, privately owned or partially state-owned) starts with identification of a role clearly articulated within the international division of labor (with the main thrust left to the established sectors and heightened initiative in the more advanced ones), and with a call for three-pronged intervention (development, internationalization, and a stringent health regimen).

From there, the document reviews the overall factors affecting business activity in every sector. These factors -- or areas of intervention -- essentially boil down to eight: labor productivity, development and technological innovation; energy availability; raw materials; reduction of the balance of payments deficit and development of services for industry; internationalization of the economy; and siting of new industrial facilities, with special attention to the Mezzogiorno.

1. Cut Finance Capital Costs

Objectives: Reduce excessive costs and channel family savings into productive businesses. At the same time, lay the foundations for recapitalization of the industrial system.

These particular shortcomings have both a short-term and a structural impact, and hence generate an increase in industry costs and a squeeze on profit margins; they have a negative effect on capital accumulation, whose growth is tied to the level of interest rates.

Action: There must be some easing of regulations governing corporate stock and bond issues and, more generally, those affecting all forms of direct raising of capital through changes in current legislative and administrative discipline, including changes to simplify the excessive regulations imposed under existing corporate law.

Available tools for improving the conditions under which corporations must try to raise capital would seem to be these:

- a. improve relations between the banks and corporations, both with respect to general cooperation (exchange of information, joint lobbying efforts on behalf of better legislation, and the like) and to specific action (at points of crisis);
- b. approve a reassessment of the non-monetary assets of corporations (Visentini-bis) to offset the effects of inflation on corporate budgets;
- c. encourage patterns of financing that back up the traditional ones (leasing, factoring, etc.), which are still woefully underdeveloped here in Italy;



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- d. pass a "reference law" for incentives, which would eliminate the contradictions and confusion inherent in the present laws;
  - e. and, on the fiscal level:
    - introduce systems that would provide tax exemption for investments in stock (along the lines of the Monory Act in France);
    - provide fair tax relief for savings deposits;
    - curtail the areas of discretion now enjoyed by government agencies.
2. Boost Labor's Input into the Production Process

Objective: Bring the quantitative and qualitative contribution of the labor factor up to the requirements of industrial growth in the changing domestic and international context.

Action:

It is possible to reach this goal if we have better performance, qualitatively and quantitatively, by labor on the job, perhaps through some mechanism for pegging paychecks to performance, lowering absentee rates, allowing flexibility in work assignments, making it possible to adjust personnel loads, and cutting back on the non-productive labor load resulting from laws designed to protect certain categories of workers.

Doing anything about the whole aspect of labor costs will require an examination in depth of the wage pattern and its indexing machinery, and hence a reconsideration of the currently skewed ratio of direct and indirect wages, and between direct wages and deferred wages.

Equally imperative will be steps toward structural modifications, such as a move to remedy the heavy social burden placed on industry in this country, which is far greater than the average in the Community. This disparity in employer contributions is to a great extent the consequence of the transfer of the burden of the costs of welfare intervention financing to corporate pension and benefit management, which ought by rights to be borne by the State.

As for labor productivity, it will be necessary:

- a. to restore direct job incentives, so as to peg take-home pay to the quality and quantity of work done;
- b. to enable employers, in response to market conditions, to reorganize job assignments on shifts whenever so doing can allow a higher level of utilization of plant at lower production costs;
- c. to make in-house worker mobility a feasible option;
- d. to increase the actual number of working hours per year, while keeping within the current contract limits or hours per diem, making use of adequate regulations to reduce the rate of excessive absenteeism;

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As for labor-factor elasticity, though, what is needed is this:

e. regulations covering inter-company mobility so as to permit changes in work-force dimensions within each corporation, along with suitable provisions for placement of excess manpower elsewhere;

f. incentives for part-time work, eliminating additional costs and regulatory uncertainties under welfare and benefit laws;

g. expansion of the areas in which term-contract labor is permitted;

h. allowing the broadest possible scope for resort to overtime work, coupled with elimination, in any case, of union recalcitrance toward application of existing contract rules;

i. prod the Regions to action in the area of legislation on vocational training through intervention designed to break such training down by sector and by territory so as to take into account the fact that industry -- but not only industry -- needs ever larger numbers of workers with skills adequate to modern production processes;

l. consequently to increase the funds available to the Regions for vocational training, and to do so in such a way as to obtain broader and more widespread support from the European Fund, but at the same time placing private enterprise on an equal footing with others, so that they can have access to these funds to finance vocational, technical, and managerial training courses for which the corporations now foot the bill.

### 3. Expand Research and Technological Innovation

#### Objectives:

step up investments aimed at the areas of production which allow companies to maintain and upgrade their positions in international specialization.

Provide support out of existing public funds for highly innovative development plans with a high potential for fallout.

#### Action:

We urgently need to get additional appropriations for the Applied Research Fund at a level adequate to the requirements of swift recovery on the part of Italian industry, also bearing in mind the fact that, unlike other countries, our public-sector input into research is minimal.

We need to endow a fund for innovation, in line with the initial approach which called for it to be earmarked predominantly for major programs in a few clearly stipulated areas of production, so as to encourage a prompt response to similar undertakings on behalf of our strongest international competitors.

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We need to set up a single policy-making center in the field of research and development, endowed with institutional powers suitable to encourage, coordinate, and orient the process of technological innovation and to facilitate its transfer into the productive system.

Lastly, we need a technology transfer policy designed to reach small and medium industry, either through specific sector-wide policies or through a direct commitment from the public centers for specific research, or again through establishment and funding of specific initiatives for technical and organizational assistance to small companies.

4. Energy: Cut Cost and Improve Supplies

Objective:

insure energy supplies adequate to the nation's economic growth, remedy the instability of energy supply costs, and take steps to insure the requisite support for source diversification.

Action:

We must push on with:

- i. development of alternative and ancillary sources;
- ii. our continuing active commitment to energy saving and conservation.

To this end, we must:

- a. get started at once on the nuclear energy program already approved by Parliament, under conditions of complete safety to the population and to workers engaged in the operation of such plants. The target must be immediate startup of four nuclear power plants;
- b. hasten completion of ENEL's program for thermal and coal-fired installations (prompt approval of Bill 702 of 5 February 1980 and possible amendment of PL 339 of 5 August 1975), as well as of an infrastructure plan for more widespread use of coal as a replacement for oil in some sectors of industry (cement, steel, plant-generated electricity, etc.);
- c. exploit our domestic national resources in the area of hydrocarbons and geothermal energy, through a policy that will stimulate research and exploitation and allow the broadest possible participation by applicants with the necessary qualifications;
- d. pass Bill 2383 of 24 February 1981 on government intervention in the area of energy conservation and renewable energy sources;
- e. work out a development program for both research and applications of renewable energy sources which identifies and coordinates the missions, agencies, and participating industries involved.

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Furthermore, we must:

- f. expand in-plant generation of electric power, with particular emphasis on cogeneration of energy and heat, by removing all legislative, administrative, and bureaucratic obstacles thereto;
- g. provide incentives for expansion of hydroelectric installations run by private companies and municipal utilities, through speedy approval of Bill 2057 which encourages redesign of existing hydroelectric plants;
- h. facilitate the gradual adjustment of industry structure so as to tailor the weight of those sectors which, although their contribution to the GIP is relatively modest, are highly energy-intensive, more suitably to the national requirements.

To achieve these objectives it is vital to assure the most thorough coordination at the administrative level through the establishment of a special Interministerial Committee (or some similar structure) which would be responsible for the coordination and monitoring of the actual implementation of the foregoing measures.

5. Improve Conditions for Raw Materials Supply

Objective:

Diversify sources to obtain more favorable supply terms. In this context the supply problem must be approached from the three-fold aspect of quantities, prices, and economies.

Action:

On the quantity count there should be little difficulty, since there is a supply of non-renewable raw materials adequate to cover all predicted requirements for many years to come.

The essential problem is that of maintaining conditions that will ensure free access to supply sources.

To this end, we must devote the utmost attention to developments in the now irreversible process of the international division of labor, so as to adapt our productive structure to the new demands of international trade and to the current shifts in the context of world production.

As for prices, the problem takes on more immediacy under the impact of price swings on our balance of payments, on our domestic price system, and on the cost structures of the processing companies. The means we have toward this end are these:

- a. work toward an efficacious regulation of markets through international agreements on a product-by-product basis;
- b. encourage, through adequate promotion and information on the part of the government as to conditions and outlook for the various markets,

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conclusion of long-term purchasing contracts at the corporate level, or a start at joint ventures in the exploitation of profitable resources.

Along with such action which should be undertaken at the international level and which might do better in a Community context, we should set about encouraging the likeliest efforts at the domestic level to reduce our dependence on foreign purchases.

Such initiatives can be broken down into two substantial approaches:

a. raw materials conservation (making more efficient use of raw materials in the production process; recycling industrial by-products and wastes);

b. more efficient exploitation of our domestic resources wherever it is technically feasible and economically justified (mineral research, reforestation, agricultural and livestock intensification and expansion). This implies public intervention at the legislative and administrative levels, through suitable incentive policies that will encourage adequate exploitation of all economically rewarding domestic resources.

6. Rectify Our Foreign Trade Diseconomy

Objective:

Cut the penalties constituted by our handicap in dealings with other countries, all of which weigh heavily on Italian industry.

Action:

To this end, intervention will be required in a number of specific areas:

Telecommunications. In this field -- to whose strategic importance in industrial policy we have already referred -- what is most urgently needed is intervention in the public sector, specifically by orienting the government toward microelectronics and transmission of computer data, and generally expanding data transmission and development of data banks. To this end, the following moves are required:

a. subject management of individual services to sound business criteria, with respect to correlation between costs and profits;

b. upgrade the national Telex system by completing the changeover from mechanical to electronic exchanges;

c. speed up implementation of the overall telecommunications plan, partly to put some order into the handling of public demand and to assure industry in the sector of some continuity in orders; meanwhile, give prompt attention to the management agencies' investment plans;

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d. plan for phasing in new services (dry copying, telex, videotex, nationwide data transfer system, etc.);

e. devise a final solution for the crisis in the Italian Telephone Company [Sip Concessionaria];

f. take drastic measures to straighten out the postal service, enforcing the approved steps toward streamlining its bureaucratic procedures and updating (automation) its distribution system.

Transport. Any policy for this sector will call for carefully planned intervention at the overall level, as well as legislative action to bring Italy into line with the rest of the European nations in terms of streamlining and simplifying regulations over individual modes of travel.

To this end, we shall need to do the following:

a. hasten elaboration of the national transport plan, including orderly provisions for providing services to the public and for ensuring a steady flow of orders to the companies involved; at the same time, implement investment plans for the operating companies (supplementary plan for the National Railroads, the National Road Board (ANAS), subways, and PL 483 on ports);

b. gradually get rid of bureaucratic red tape (customs and border services; economic management of commercial railroad and port services); consider permanent solutions to the crisis in the national railroad system (Ff.Ss. reform bill);

c. start rail freight system rolling again -- altering the present 80/20 ratio between road and rail freight shipments to 60/40 -- including upgrading of roadbeds, expansion of locomotive availability, with special cars and one-cargo trains;

d. seek competitive patterns for intermodal transport among all modes of transport, but concentrating on highway/rail and highway/maritime, through establishment of an interport system and expansion of coastal shipping;

e. encourage operating autonomy for the ports (industrial ports and small-scale specialized cargo handling facilities).

Environment. Industry has every intention of mounting an all-out commitment in planning, technology, and financing to action toward reducing and controlling pollution. However, the environmental policy must be integrated into the overall national economic and industrial policy, so that priorities, objectives, resources, and institutional machinery can be ordered. More specifically, we need to do the following:

a. as soon as possible, finalize the regulatory picture which is still largely inadequate to provide firm legislative references for industry and takes little or no account of industry's technological and economic limitations;

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b. provide public financing for corporate investments along the lines of what is being done in the other EEC countries, and immediately phase in the instruments for that purpose already approved (PL 675 and 650).

Government Regulation. Deregulatory measures should be adopted forthwith, eliminating the arbitrary power of local and regional bureaucracies, abolishing all procedures not strictly necessary to insure the reliability of operations, simplifying procedures through extensive use of computers, reducing the jurisdiction of price-setting agencies to monopoly rates alone, and adopting technical standards in line with standards currently used internationally.

At the regulatory level, it is clearly necessary to introduce the principle which holds that government agencies, too, be subject to sanctions when they violate terms. For example, late payments must include payment of interest at current market rates; where control and audit procedures are involved, there must be strict adherence to the principle that silence implies consent.

Distribution. In the distribution sector, which, like governmental regulation, has a direct impact on industry's operations, we need:

- a. to speed up the elimination of trade monopolies;
- b. to amend PL 426/71 and its successors for planning of market distribution systems, which thus far have been only partially implemented and hence give rise to contradictory results;
- c. to use legislation to encourage modern distribution practices (large-scale distribution and associate distribution, supports for marketing logistics via central warehouses, refrigerator and freezer chains, etc.), centered around operating units endowed with adequate operating capital and equipped with the logistical and operational machinery requisite for present-day domestic and international marketing conditions.

7. Stimulate the Process of  
Internationalizing Italian Industry

Objective

The general problem is that of internationalizing the Italian economy, in a context of supply-side policy which will reduce business uncertainty and stimulate and channel investment. In any case, we must keep Italy's exports strongly competitive and encourage the process of production decentralization internationally. /The problem for Italian industry is, in other words, to stay in the international market and stay there under sound competitive conditions./

Action

Support the process of internationalization, which can no longer be viewed merely as a function of marketing products acquired within our

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boundaries -- an end which will in any event be pursued through upgrading our sales structures abroad -- but also as expanding the acquisition by Italian companies of controlling interests in plants located abroad, this latter as a function of:

- a. acquiring technological know-how;
- b. in the developing countries, providing the now indispensable ancillary production facilities in plants with low labor costs;
- c. finding ways of getting around obstacles to direct penetration of certain markets.

The Ossola Act (PL 227) must be enforced down the line.

Our currency regulations must be updated and brought into line with EEC legislation in the area of capital circulation into and out of Italy.

Equally necessary are the following:

- a. step up the Foreign Trade Institute (ICE) activity and presence abroad, on the assumption that ICE will be pulling out of the government-controlled system;
- b. encourage formation of specialized export units, such as voluntary consortia, with particular attention to small and medium businesses;
- c. mount closer guard over reciprocity conditions in international trade for Italian products, implementing effective quality control over imported products, laying down more rigid domestic regulations and not failing to apply countermeasures against trade partners who engage in protectionist practices;
- d. make the system of financial incentives for exports more aggressive and competitive, and in particular extend the support already available for medium- and long-term export operations to short-term operations as well;
- e. expand the "made in Italy" campaigns.

8. Siting Industrial Plants  
in the Mezzogiorno

Objectives

The central objective is to get action under way to remedy or at least offset our territorial imbalances. In contemplating the peculiar nature of the Southern question as it relates to the Italian industrial system, pursuit of this goal must be analyzed from two different angles: one looking at /plant-siting programs in general, and the other at those specifically keyed to the Mezzogiorno/.



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Insofar as concerns /siting in general/, it is well to bear in mind the fact that land management nowadays is increasingly coming under the jurisdiction of regional governments. National industrial policy must therefore be confined in this respect primarily to matters of coordination and incentive.

Action

As for the /political impact of land use/ on industry, the Regions should channel their intervention primarily in these directions:

- a. avoid allowing urban planning or land-use policy to take on a punitive attitude toward industry, and go on favoring residential building or other aspects of land management, as has happened up to now;
- b. speedily and clearly designate areas destined for industrial installations;
- c. with all deliberate speed, come up with programs for the technical infrastructures required in such areas, making use, wherever possible, of consortia patterns which will take the place of current practices under the extraordinary intervention act, and within which public ownership and planning policy would be backed by managerial competence and capabilities, and by active participation on the part of the user companies.

As for the Mezzogiorno itself, the redefinition of the content and procedures for financial support for investments should be based upon several assumptions that would guarantee greater effectiveness:

- a. Financial support should be aimed primarily at the company rather than at the plant. The consequence of this would be that assistance with interest payments would have comparatively greater impact than would sinking-fund contributions to corporate capital.

- b. As a consequence, it would be best to launch practical programs of real incentives, which should be based essentially on the following:

-- financial and real estate leasing techniques;

-- intervention designed to expand and improve real services outside the company (facilities for study, consultation, help with marketing policies, insurance, etc.), but stimulating the demand of Southern concerns upon the specific sector, perhaps with suitable assistance;

-- preplanning and provision of services outside of the productive activity proper, which involve a significant increase in investment costs (communication and transportation services, water and sewage plants, social services);

-- encouragement of consortial initiative, with the object of bringing down the initial financial commitment for individual participants in the enterprise, and bringing about a significant broadening of the potential base for investment choices.

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c. The procedures and machinery for financial assistance must be simplified and brought together in a single revised compendium just for Mezzogiorno (but including all national legislation that may be relevant), and which approaches the Mezzogiorno as a strategic variable.

d. The machinery for application must be as automatic and comprehensible as possible, reducing the scope of discretionary authority over selection criteria and cutting down preliminary investigation times. Such investigation must be left to the lending institutions themselves, with a check on legal compliance made a posteriori by the institute responsible for extraordinary intervention.

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Table 1. Exports and Imports (as % of GIP)

Countries	1960	1970	1979
<b>EXPORTS</b>			
Italy	14.1	17.7	28.1
Japan	11.1	10.7	11.8
U.S.A.	5.1	5.7	9.1
Germany	19.0	21.1	25.5
France	15.0	16.3	22.0
United Kingdom	21.3	23.5	29.2
Spain	11.2	13.5	14.5
<b>IMPORTS</b>			
Italy	14.3	17.2	26.7
Japan	10.6	9.5	12.6
U.S.A.	4.4	5.5	10.4
Germany	16.5	19.0	24.9
France	12.9	15.8	21.8
United Kingdom	22.6	22.5	29.0
Spain	8.2	14.4	14.6

Table 2. Financial Structure of Italian Industrial Corporations

(in billions of lire)	1968	1979
Ratio of assets to total indebtedness (a)	0.45%	0.26%
New capital (theoretically) required to regain 0.45 ratio		16,400
Total indebtedness (a)	13,885	87,088
Impact of financial costs on gross volume of business (a)	3.9%	5.7%
Total indebtedness of Italian corporations (b)	32,664	154,094

SOURCES: (a) Mediobanca survey (b) Bank of Italy

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Table 3. Employment by Economic Areas (in %)

Countries	1960			1970			1979		
	A	I	S	A	I	S	A	I	S
Italy (*)	(Data unavailable)			18.5	39.4	42.1	13.4	36.9	49.7
Japan	30.2	28.5	41.3	17.4	35.7	46.9	11.7	35.0	53.3
U.S.A.	8.3	33.6	58.1	4.5	34.4	61.1	3.7	31.2	65.1
Germany	14.0	48.8	37.3	9.0	50.3	40.7	6.5	45.0	48.5
France	22.4	37.8	39.8	14.0	38.8	47.2	9.1	37.1	53.8
United Kingdom	4.1	48.8	47.0	3.9	54.7	41.4	2.7	39.6	57.8

(\*) 1980 figures, not 1979

A = Agriculture, forestry, fisheries

I = Industry

S = Services

Table 4. Italy's Foreign Trade (in %)

Geographical Areas	Imports			Exports		
	1938	1960	1980	1938	1960	1980
Europe	62.7	54.7	59.1	51.7	62.3	66.5
EEC (the Nine)	38.6	34.4	43.8	31.1	37.4	47.5
Africa	7.7	6.8	11.0	27.4	6.7	10.3
North America	n.d.	15.6	8.0	n.d.	11.6	5.9
U.S.A.	20.1	14.2	7.0	15.7	10.5	5.3
South America	11.9	6.0	4.3	7.5	7.6	3.7
Asia	7.2	13.4	16.9	4.1	8.7	11.4
Japan	0.3	0.7	1.3	0.2	0.4	0.9
Oceania	1.9	3.0	0.7	0.7	1.1	0.7
Others	0.4	0.5	-	0.4	2.0	1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

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ECONOMIC

UNITED KINGDOM

UK-USSR TRADE TIED TO IMPROVED RELATIONS

PM241455 London FINANCIAL TIMES in English 24 Aug 81 p 1, 24

[Report by David Tonge: "Contracts May Depend On Improved UK-Soviet Relations"]

[Text] The Soviet Union warned leading British companies this weekend that major contracts could depend on improved Anglo-Soviet relations.

Mr Vladimir Sushkov, the deputy minister of foreign trade, emphasised that the Soviet Union was interested in long-term contracts with BP, British Steel Corporation and Shell. He also held out the possibility of increased co-operation in power, light industry, agriculture and the food industries.

But he linked economic co-operation with "the problems of curbing the arms race, disarmament and the strengthening of nations' security."

While favouring wider co-operation he added: "It is only natural that the Soviet Union will promote more active economic relations... with the countries which are its regular and reliable partners.

His statement was given by Novosti, the Soviet press agency, to the FINANCIAL TIMES in London.

It is a mixture of carrot and stick. British officials suggest that Moscow is keen to underline the commercial disadvantages for Britain of following the tough stance which the Reagan administration has adopted on both weapons and trade.

Mr Sushkov apparently wishes to discourage Britain from backing U.S. attempts to limit the transfer of technology to the Soviet Union. The carrot in the Soviet approach to the UK has been shown in a series of recent minor orders for ships repair.

He referred implicitly to the relatively strict British application of the Western security embargo on technology transfer when he said the British market "has erected many barriers" causing British companies often to lose large-scale contracts.

Equipment contracts now under negotiation with the West totalled about roubles 2BN (1,4BN pounds). He said British chances depended on the competitive abilities of proposals, "on technological, commercial and other conditions."

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The companies mentioned by Mr Sushkov refused yesterday to comment on the political side of his speech but confirmed their interest in Soviet business.

The deputy minister said that the Soviets were discussing a BSC proposal for a long-term contract; BSC imports much of its iron ore from the Soviet Union and exports its products such as strip for its South Wales works.

Mr Sushkov said: "It would be useful to form long-term economic relations with the Shell Company." Shell is involved in high-level talks with the Soviet Union on oil technology, exploration and production.

He also described as "important" the present negotiations with BP on oil exploration in the Barents Sea and on possible British participation in the massive gas line planned from West Siberia. He referred to a major agreement signed with ICI, and contracts won by John Brown and Davy Corporation.

But he made clear Soviet anxieties about signing long-term contracts with countries where there is a lack of common ground on international questions.

Three months ago, Mr Sushkov visited London for the first ministerial contacts between the two countries since the Soviet invasion of Afghanistan.

Last year, British exports to the Soviet Union rose by 8 percent to 453M pounds while imports fell by 5 percent to 786M pounds.

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POLITICAL

ITALY

SPADOLINI HAILS 'SOLID' TIES WITH YUGOSLAVIA

PM251352 Milan CORRIERE DELLA SERA in Italian 9 Aug 81 p 4

[Report on Prime Minister Giovanni Spadolini 8 August speech in Gorizia: "Italy and Yugoslavia An Example for East and West"]

[Excerpt] Gorizia--Taking as his starting point the anniversary on which he was speaking (it was on 8 August 1916 that the first Italian troops entered Gorizia), Spadolini discussed the problems of the area. He said that he believed that "the correct method is to include the completion of the Osimo agreement, together with other development initiatives, within the broader blueprint for inserting the whole of the upper Adriatic area into the European economic integration process. Among other things, this process implies the rational utilization of the ports of Trieste and Monfalcone."

Within this context Spadolini said that special emphasis must be given to improving communicating routes (and the relative structure of border crossings) between the Adriatic cities and the neighboring countries.

"We are not unaware," he added, "that a great deal still remains to be done to achieve the essential objective of the Osimo agreements: To make the border areas the subject and instrument of increased exchanges and more intensive cooperation between the two countries. The government is committed to continuing to act in this direction, taking into account the expectations and suggestions of the population of Gorizia and its province and acting in close consultation with the local authorities."

Next Spadolini pointed out that "cooperation and friendship between Italy and Yugoslavia, which are certainly open to increasingly varied forms of expression, are regularly confirmed and put to good use in the fruitful exchanges of views and consultations that are held between our countries, not only on bilateral matters but also on subjects of general interest."

Having established this premise, the prime minister stated that "it is with sincere satisfaction that the government again views the results achieved in terms of strengthening mutual trust and extending mutual acquaintance with another state, which constitute a worthy example on our continent of the possibility of countries with differing political and social systems and differing international positions building solid relations of cooperation based on mutual advantage and everyone's benefit."

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MILITARY

INTERNATIONAL AFFAIRS

'THE TIMES' ON BENEFITS OF SPAIN'S JOINING NATO

PM 241454 London THE TIMES in English 24 Aug 81 p 9

[Editorial: "Spain Prepares To Join NATO"]

[Text] The Spanish government is carefully and deliberately going through the motions of preparing to join NATO. It announced over a year ago that it intended to apply, with the aim of completing the process by 1983. Since then it has carried out sounding with the 15 countries which now make up the alliance; and this autumn it intends to put the proposal to join before the Spanish Parliament. A cabinet meeting last week decided to ask for the opinion of the Council of State before submitting the question to parliament. This deliberate approach is partly because of the importance of the issue, both for Spain and for NATO, and partly because of its great sensitivity. Spanish entry to NATO is being opposed by the Spanish Communist Party, and by the Socialists, the largest of the opposition parties. The Soviet Union is also strongly opposed, and threats from Moscow are playing a part in the debate which is already under way.

A number of reasons have prompted the Spanish government to decide to join. The main one is the desire to return to the mainstream of Western and European diplomatic activity after years of absence. Once democracy had been reestablished after Franco's death, the first priority was membership of the European community; but that has been temporarily stalled by objections from France. So now attention is being focused on NATO. The hope, not necessarily well-founded, is that once Spain has proved its Western credentials in that way, it will be harder to prevent it from becoming a member of the community.

Another, less publicized, reason is that membership of NATO would keep the Spanish armed forces busy and distract them from interference in Spanish internal affairs. Spanish officers who met officers from other NATO countries would find a very different attitude to public life. It can certainly not be guaranteed that membership would deter them altogether from planning coup d'etat. It has not prevented coups in Greece and Turkey in the past. But it would be a factor which would weigh in the balance against future military coups. In addition, membership would open the way to NATO assistance in modernizing the Spanish armed forces, something that the army, in particular, badly needs.

For NATO, Spanish entry would bring definite advantages. Deriving largely from the country's geographical situation, Spain is in a position to command much of the Western Mediterranean and the Eastern Atlantic, by sea or by air. The Canary Islands

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lie on one of the West's main shipping lanes, by which some 65 percent of Western Europe's oil arrives. For some years now, Madrid has had a treaty with the United States which allows the Americans to maintain certain important military bases in Spain, and has provided a link with Western defence. The treaty is just about to expire, and negotiations are under way for its renewal, but membership of NATO would establish a more comprehensive framework in which Spanish defence efforts could be coordinated with those of the rest of the alliance.

It is opposed by the Socialist Party because of a belief that Spain should follow a more neutralist policy. Greater emphasis should be given, the Socialist believe, to links with Latin America and the Arab world. They play on anti-Americanism, fostered by the belief that the United States gave too much backing to the Franco regime; and on the fear that membership of NATO would involve Spain in global conflicts which now pass it by. This fear has been reinforced by statements from Moscow that joining NATO would immediately put Spain in the firing line--and also by recent actions of the Reagan administration such as the decision to produce the neutron bomb and the clash last week with Libya. In response the Spanish government has said that no nuclear weapons would be allowed on Spanish soil.

For the Spanish right, there is another factor, the issue of Gibraltar. Most Spaniards consider that Gibraltar should be returned to Spain, but there are military officers who feel that it would be impossible for them to sit down in Brussels with representatives of Britain. Last year the previous Spanish government made an agreement with Britain in Lisbon by which the Spanish blockade would be lifted and at the same time negotiations begin between London and Madrid on Gibraltar's future. But this was blocked by rightist pressure, and never put into effect. The need now is to find some sort of formula--one, for instance, by which Gibraltar becomes a NATO, rather than a British, base--which would satisfy the objections of the Spanish right without infringing the principle that it is for the Gibraltarians to decide whether or not they want to join Spain.

For NATO as a whole, it is important not to put any pressure on Spain to join, or even to seem to be doing do. It is a Spanish decision, and any attempt to interfere could well produce a backlash that would be more damaging than a decision not to join. NATO should simply make it clear that Spain will be very welcome if it does decide to join.

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**GENERAL**

**FRANCE**

**SOLARIS UNMANNED ORBITAL SPACE STATION UNDER STUDY.**

Paris AIR & COSMOS in French 20 Jun 81 p 87

[Article by Pierre Langereux: "Solaris, First French Orbital Space Station"]

[Text] At the recent Paris Air Show, Aerospatiale unveiled plans for the Solaris orbital automated space station developed for the CNES [National Center for Space Studies].

The Solaris (Orbital Station and Automated Laboratory for Space Rendezvous and Support Activities) project is the end product of studies conducted these past few years by the French industrial firms Aerospatiale and Matra, studies of an original French orbital space station concept that has produced the Minos and Trisat projects.

This highly complex Solaris space system project is designed to demonstrate the capability of conducting ambitious operational and industrial missions in space by using the future Ariane 4 (nonrecoverable) launch vehicle and unmanned automated spacecraft.

The goal of Aerospatiale's feasibility study is to permit CNES to offer this Solaris project to its European partners as a major Community space program for the 1990-2005 period. The project's magnitude is such that it cannot be conducted on a strictly national level. The Aerospatiale study has also served to orient the CNES research and development effort for the next few years.

The Solaris project is directed toward three missions of equal importance:

- a. Fabrication of materials at microgravity (less than  $10^{-5}$  G's), for the processing of a large amount of materials (up to 2 tons) in an orbital station and returning the finished products to earth;
- b. Earth observation mission by fitting the station with a very high-performance observation instrument (synthetic aperture radar);
- c. Construction of large structures in orbit. This mission involves deploying and assembling in space the sections of a large satellite that could not be placed in orbit directly by a launch vehicle.

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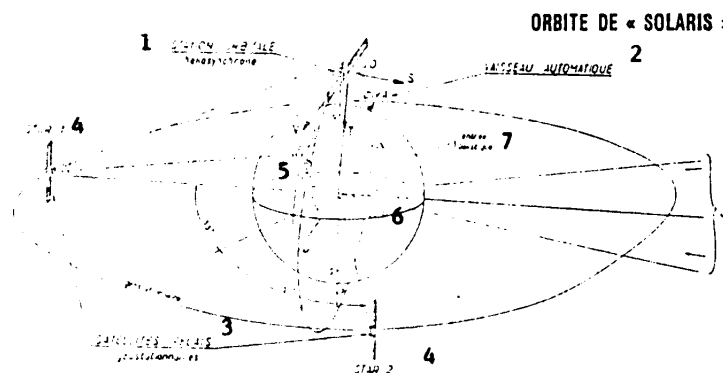
The Solaris system actually consists of several associated satellites:

- a. An orbital station in low circular helio-synchronous orbit as the central element of the system, to hold and maintain payloads for each of the planned missions;
- b. An automated mini-shuttle formed by the launch vehicle's orbital stage, to bring supplies up to the station, return processed materials (or various pieces of equipment) to earth and remove waste products from the station;
- c. Two geostationary data-relay satellites to provide almost continuous data-relay transmission to the ground station and operations control center that would be located in Europe.

However, these two satellites are not specific to the Solaris system. They could also serve as data relays for numerous other space missions, functioning like the NASA TDRSS data-relay satellites that are to replace tracking stations in the 1980's.

The orbital station will have a design lifetime of 15 years and be equipped with a large high-powered (10 kilowatt) solar generator and a complex remote manipulator system (a minimum of four arms) controlled from the ground. The station's stabilization system will limit residual acceleration to less than  $10^{-5}G$ 's in the oven during the entire materials processing period (4 months). The station will also direct operations involving rendezvous with the mini-shuttle as well as any possible loading and unloading of the spacecraft. For earth observation missions, the station will also maintain accurate control of the orbit (with the capability of limited excursions in nearby orbits). It will have a high-speed information transmission capability--600 Mbits per second--for transmission of data from the SAR [synthetic aperture radar].

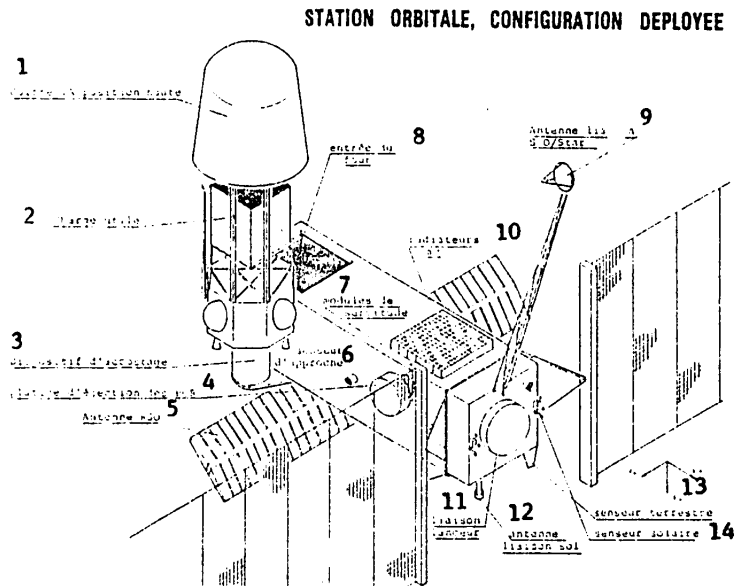
The automated mini-shuttle will be capable of making two flights per year for a period of 15 years. It will be used to deliver operational equipment, materials for processing and observation instruments (radar, etc), as well as structures to be deployed in space. The shuttle system will be designed to rendezvous with the station at a very low docking speed of 1 centimeter per second, and then return recoverable materials to earth by means of a reentry vehicle to be recovered at sea in the territorial waters of French Guiana, South America, within an area of about 300 kilometers by 360 kilometers located in waters off the city of Cayenne.



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Solaris Orbit

1. Helio=synchronous orbital space station
2. Automated spacecraft (VA) or mini-shuttle
3. Two geosynchronous data-relay satellites: STAR 1 and STAR 2
4. Geosynchronous [path]
5. Helio=synchronous
6. Equator
7. Ballistic reentry



Orbital Space Station in Deployed Configuration

1. Shroud of VA [automated spacecraft or mini-shuttle in raised position]
2. Payload
3. Docking device
4. PCR [expansion unknown] ejection plate
5. RSO [Rotating solar array] antenna
6. Docking approach sensor
7. Service or utility modules
8. Opening into oven
9. Antenna for communications between orbital space station and STAR data-relay satellites
10. High [low?]-temperature radiators
11. Communications with launch vehicle
12. Antenna for communications with ground
13. Earth sensor
14. Sun sensor

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GENERAL

ITALY

PARLIAMENTARIANS DISCUSS SECURITY SERVICES

Franco Mazzola Speaks Out

Milan IL MONDO in Italian 31 Jul 81 pp 12-14

[Interview with Franco Mazzola, Christian democrat from Cuneo, formerly in charge of coordinating the security services, by Renzo Rosati]

[Text] Franco Mazzola, 45 years old, a Christian democrat from Cuneo, was under secretary in the prime minister's office responsible for coordinating the security services. Therefore, under Giulio Andreotti, Francesco Cossiga and Arnaldo Forlani, he served as a political and operational supervisor of the security services. Now Giovanni Spadolini has decided not to delegate authority. According to many, this is a sign of criticism of past administrations. Mazzola leaves the scene with some bitterness (he was not even confirmed as under secretary), while controversial and almost judicial discussions are woven around his office. Finally, the accusations by the Rome Attorney's Office against Prefect Walter Pelosi, head of CESIS [Executive Committee for Intelligence and Security Services] and supposedly a member of P2, for having requested the Finance Guard to spy on the minister of State Participations, Gianni De Michelis and for having then forwarded the file to Licio Gelli.

Question: How could Pelosi take steps like that avoiding your supervision?

Answer: But I am not entirely convinced that Pelosi had De Michelis spied upon. I am unaware that any CESIS document has been found in this connection.

Question: Because a blackmail attempt is involved, it is plausible that letter-head paper was avoided.

Answer: Of course, Pelosi may also have acted in an entirely personal way. However, I repeat, I am of the opinion that the truth is something else. I, and not only I, had been aware of the De Michelis and the finance story for over 2 months.

Question: And what did you find out?

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Answer: Two months ago, precisely, the then Finance minister, Franco Reviglio, informed me that De Michelis had learned that he was being subjected to an investigation by Office I of the Finance Guard. Office I, in turn, maintained that it had received an order from Pelosi on behalf of CESIS. An oral order, and already this seemed strange to me. Orders like that are not given or received orally. I carried out an investigation in CESIS, a thorough investigation. I found nothing proving that Pelosi had given that order to the Finance Guard, and, less so, I found no copy of that file. At this point, it seems to me that it is a question of the word of the Finance officers against Pelosi's word. At any rate, I should like to add a detail. Reviglio told me that Finance stated that he had received the famous order in the middle of April 1980. At that time, I was temporarily out of the government, because the under secretaries in the the second Cossiga government were appointed on 5 April, while I was appointed a month later, on 6 May.

Question: Did Reviglio tell you from what source De Michelis had learned that he was being spied on?

Answer: No. I believe that Reviglio did not even know it.

Question: In any case, Finance compiled that file. And then the file ended up with Gelli. Does this Office I, then, operate as a separate secret service?

Answer: It is undoubtedly a question of departures. In order to prevent their repetition, Law 801 on security services must be applied entirely to everyone. This law specifies that intelligence tasks are limited to SISMI [Intelligence Service for Military Security] and SISDE [Intelligence Service for Democratic Security]. Finance can concern itself solely with tax and currency fraud. If it has any other kind of intelligence center, that center must be dismantled. I repeat, it suffices to apply the law.

Question: But also top-level personnel in the regular secret services--SISMI, SISDE and CESIS, appear on the P2 lists. And P2 has evaded political supervision.

Answer: And how could we know who was on Gelli's lists? As far as I am aware, the heads of the services were reliable and prepared from a technical and personal point of view. Moreover, my position was strange. My sources of information, the heads of the services, were, at the same time, also subjected to my investigations. They have obviously always denied belonging to P2. To whom should I turn for an investigation? I repeat, however, that I have nothing with which to take exception on Pelosi. He has always seemed to me very proper. It also seems to me that of the prominent persons on the P2 list he was one of the few who did not even have a card number, a payment receipt, in short, not the slightest objective evidence.

Question: Your personal secretary, Massimiliano Cencelli, is also on that list. Did you not suspect that he was on it to spy on you?

Answer: No, Cencelli had no knowledge of the services. He was always concerned with my constituency and with arranging my appointments.

Question: Falco Accame states that Cencelli appears on the CESIS payroll.

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Answer: I am not aware of that.

Question: Have you ever become acquainted with Gelli?

Answer: Yes, I have met him. I met him once. And because I do not belong to any lodge, this is no crime.

Question: Under what circumstances did you meet Gelli?

Answer: A year and a half ago, in the buffet of the Grand Hotel.

Question: And do you remember why you went there?

Answer: It seems to me that it was a reception, a diplomatic cocktail party or something like that. I was a guest among others. Gelli was also there precisely. I gave so little importance to the thing, that I have not thought about it again until those lists came out.

Question: No one talked to you about the P2?

Answer: No, no one offered me membership. At any rate, I would have refused it, if for no other reason than that I am an individualist. I have not even joined the Rotary Club or the Lions.

Question: Do you not feel a little left to one side?

Answer: No, I am content with not having reentered the government in that role. A person should be in government rather long, but not too long. Otherwise one becomes a prisoner of being a prominent person. Moreover, one leads a harrowing life: no privacy at all, escorted everywhere, armored automobiles. All these things finally weighed down on me a lot. And, then, I like active politics.

Question: Do you not have some self-criticism to make?

Answer: At any rate, I should criticize the law. The 1977 reform, which was good on paper, turned out to be defective when actually put to a test. The services, which were thus split into civilian and military fields of interest, make coordination very difficult, and it is almost impossible to avoid internal conflicts. The reform should be revised. Certainly not to return to a single system, dangerous without doubt, but rather to a different division of sectors. That is to say a domestic service and an international intelligence service. After all, this is the system preferred in almost every Western, democratic country in which there is a consolidated tradition of security services.

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Pennacchini Interviewed

Milan IL MONDO in Italian 31 Jul 81 pp 12-13

[Interview with Erminio Pennacchini, Christian democrat, chairman of the parliamentary Intelligence and Security Committee; time and place not given]

[Text] It is called the parliamentary Committee for Intelligence and Security Services and for State Secrecy and it is responsible for supervising the government so that the principles of the reform of the secret services are not violated. It consists of eight members, between deputies and senators: four DC [Christian Democratic Party, three PCI and one socialist. IL MONDO has interviewed the committee chairman, Erminio Pennacchini, Christian democrat, and Raimondo Ricci, communist, who is also one of the authors of the reform.

"Let us make it clear immediately," Pennacchini said, "that we have no power of decision on what the services do or undo. We do not even have any say in appointments. We can only summon the government representatives a posteriori or appeal to parliament."

Question: Are you aware that many candidates for top posts in the secret services have withdrawn?

Answer: Yes, I am aware. And, unfortunately, they are not wrong. Abroad, these are posts with enormous prestige. Here, they are either removed from office or end up in prison at hard labor.

Question: Perhaps this would not happen, if the persons concerned did their duty.

Answer: As far as I know, up to now there have been no deviations. Not even by those who appear on the P2 lists. I have found them to be very competent and proper in their work.

Question: Even the former head of CESIS [Executive Committee for Intelligence and Security Services]?

Answer: I still regard Walter Pelosi as an upright man. At any rate, we are going to hear him in the next few days.

Question: The socialist Falco Accame also talks about padded payrolls, of hiring of family members or of patronage hiring.

Answer: What Accame says is not always pure gold. At any rate, we have to be clear. We cannot go look into the internal mechanisms of the services. Much less in the payrolls. That would be the limit.

Question: There also are some who say that Finance Office I is actually a third secret service, autonomous and illegal.



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[Answer] Then I shall add that there are a fourth, a fifth and a sixth service: Carabinieri, police, other public and private organizations have intelligence centers. We must make up our minds to apply the law. Espionage, always for legitimate purposes, must be permitted only to SISMI [Intelligence Service for Military Security] and SISDE [Intelligence Service for Democratic Security].

Question: And why is this law not applied?

Answer: There is a problem of ill will and also of incompetence. I should say, however, that the spotlights cannot always be aimed at the services. I understand criticisms, but not unsound insinuations.

Question: Are insinuations to blame?

Answer: I say that the secret services are the only state sector that cannot be a glass house. There are people here who are risking their life.

Question: What about the P2 affair? Were you not warned of anything?

Answer: How could we be? I read in the newspapers that this P2 existed, but the newspapers talk about so many things, also about pygmies in East Africa.

Question: Is it true that your relations with Under Secretary Francesco Mazzola were not of the best?

Answer: I do not say that they were bad. We might have wanted more courtesy, however.

Question: Giovanni Spadolini has decided to concern himself personally with the services. What do you think of that?

Answer: He is merely applying the letter of the law. We have to see if he will be successful. Giulio Andreotti also tried it at first and then had to appoint an under secretary.

Ricci on Corruption

Milan IL MONDO In Italian 31 Jul 81 p 13

[Interview with Raimondo Ricci, communist, member of the parliamentary Intelligence and Security Committee; time and place not given]

[Text] According to Raimondo Ricci, Spadolini's decision, on the other hand, is positive. "The prime minister seems to have realized two things: that there must not be shadow areas in the state apparatus and that the ~~problem~~ deserves political attention at the highest level."

Question: Is P2 an alarm signal?

Answer: Corruption has been considerable. Not only at the top, but precisely in the operational departments, among intermediate level officials. I do not believe that personal acts can be spoken of. The problem is institutional.

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Question: What observations are suggested by the Pelosi-De Michelis-Finance affair?

Answer: At first sight, it makes one think a lot of the old SIFAR [Armed Forces Intelligence Service] systems. Yet Finance should concern itself only with fiscal and currency matters. If it has a secret service, it must dismantle it.

Question: How are things going in SISMI [Intelligence Service for Military Security] and SISDE [Intelligence Service for Democratic Security]?

Answer: We have found much difficulty in the organization of SISDE. It has grown too slowly. For SISMI, there was the problem of getting rid of the deadweight of the old services. It cannot be said yet that the revamping is complete.

Then from the technical point of view, the Bologna massacre, for example, revealed rather scant intelligence on rightist subversion. But, on the whole, the services have functioned. There have also been some important successful achievements.

Question: Then, the reform has finally proven to be truly effective?

Answer: The reform is correct and should be supported, if not developed. Its principles are thoroughly innovative. Formerly, the services were under the Defense Staff. Regulations were issued time after time with secret circular letters. There was no political responsibility whatsoever. A situation in which the law of might makes right could easily find favor.

Question: You said, however, that P2 has revealed an institutional corruption.

Answer: This is a very critical phase. Temptations to turn back might develop. On the other hand, the individuals in the services are for the most part good and valid with a desire to act. The important thing is for the clean forces to prevail. The example of the heads, the climate that they will create will count much.

Question: What should be done politically?

Answer: The law necessarily has loopholes. Therefore, choice of the men is fundamental. It must be made with criteria of competence, honesty and loyalty to the constitution. I believe that the government can be asked to motivate the choices made, although without participating in the responsibility for appointments.

Question: Has Spadolini done well in proceeding so rapidly in revamping posts, even though the matter of SISMI is still open?

Answer: I cannot evaluate the individual selections. But Spadolini has done well in acting fast. Risks of unlawful acts are multiplied precisely in the interregnum phase. SIFAR and SID [Defense Intelligence Service] files disappeared, while an attempt was being made to prepare the new services and there was no political and operational supervision and responsibility.

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GENERAL

ITALY

CARLI INTERVIEWED ON WAGE INDEXATION

Milan IL MONDO in Italian 31 Jul 81 pp 16-17

[Interview with Guido Carli, president of the European Community Industrial Union, former governor of the Bank of Italy, former president of the General Confederation of Italian Industry; time and place not given]

[Text] With the start of meetings in the prime minister's office between government and labor unions, on Friday 17 July, the negotiation for the anti-inflation pact, proposed by Giovanni Spadolini to the social parties on the evening of 28 June, entered an active stage. Wage indexation, on which controversial discussions had been put on the back burner only momentarily, is once more on the table, among the floating mines that may explode from one minute to the next. IL MONDO talked, on this issue, which was also indirectly the cause of splits between the employers, with the former governor of the Bank of Italy and former president of the General Confederation of Italian Industry, Guido Carli, who agreed to answer questions, although he admitted "with embarrassment, because I am convinced that the argument is beginning to become oppressive." Carli is still president of UNICE, the European Community Industrial Union.

Question: Cancellation of the agreement on wage indexation by the CONFINDUSTRIA [General Confederation of Italian Industry] was avoided at the last minute, owing primarily to intervention by the prime minister. According to the labor unions, it would, in fact, have been a kind of declaration of war. According to the industrialists, who were pushing for this solution (the first to move was the president of FIAT, Giovanni Agnelli), it was only a way of discussing the cost of labor again. Who was right?

Answer: In an interpretation of the attitudes of CONFINDUSTRIA it is necessary to differentiate between objective and instruments. Concerning objectives, I believe that there is agreement of opinions on the need for modifying the present arrangement of wage indexation. This means that it is urgent to renegotiate the agreements. The labor unions have constantly refused to agree to negotiate on this matter. Confirmation of this had led to singling out in the denunciation of the February 1975 agreement an instrument with which the labor unions would be compelled to negotiate. But the truth is distorted, when intentions of humiliating the labor unions are attributed to the supporters of cancellation.

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Question: The employer front proved to be divided in the whole wage indexation affair, not only on whether or not it is advisable to cancel the 1975 agreement, but also on opinions on the relation between wage indexation and inflation. What is your opinion on the subject?

Answer: Every triggering of wage indexation causes a partial or total adjustment in the workers' income depending on inflation. If companies can do so, they transfer the increased costs stemming from this to prices. This process gives rise to a sequence of actions and reactions that stops at a price level far higher than the original one at which it was intended to adjust income. Wage indexation is a cause of an increase in inflation. The use of mathematics makes it possible to measure the multiplying effects of inflation caused by the present mechanism based on a quarterly automatic increase. But recourse to mathematics entails agreement to use logical arguments. I am aware of the difficulty of introducing these arguments in mass discussions. If monetary restriction prevents companies from transferring increased costs to prices, the process stops before reaching the maximum, but the companies' profit and loss statements suffer from it and their capability for investing and maintaining employment is decreased.

If the cost-income-price spiral is not broken, the monetary policy does not and cannot attain the objective of putting an end to the inflationary process. It is necessary to be resigned to the resultant loss of competitiveness and to entrust correction to an exchange devaluation, but this rekindles the inflationary process.

Question: Are there also other criticisms to be made of the wage indexation system?

Answer: Yes. Wage indexation decreases earnings, restricts the bargaining margin, takes away bargaining power. The more this power is taken away from the labor unions, the more they try to strengthen it, occupying new areas and thus strengthening the bonds that restrict the companies' capability of running their plants. Labor productivity suffers from it.

An attempt to restore instantaneously the buying power eaten away by price increases produces the effect of accelerating inflation, cancelling the effectiveness of the monetary policy and pushing it toward excesses.

It is not important that the present wage indexation mechanism protects only 66 lire of every 100 lire of wages against inflation. This proportion would remain constant, even if the nominal wage should increase 300 percent. In this case, wage indexation would cover 198 lire of 300 lire nominal wage. Prices push income upwards and income pushes prices upwards and the proportions between these amounts do not change, but rather are expressed in constantly higher nominal values.

Question: But if that is the way things are, why, finally, did the industrialists reverse course? Only to please Spadolini and his new government?

Answer: The great majority of the rank-and-file of CONFINDUSTRIA had invoked cancellation of the 1975 agreement. Because cancellation would have occurred while the prime minister designate was trying to form the government, CONFINDUSTRIA leaders decided to assume a prudent wait-and-see attitude. The prime minister had stated that he was inclined to promote a meeting between the social parties and

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he was right in deciding after learning the results. The cautious behavior of CONFINDUSTRIA helped convince public opinion that it intended to attain an objective--opening up negotiation--and that, in order to overcome the obstacles in its way, it could not fail to propose cancellation of the agreement. It was acting out of necessity. Spadolini's intervention achieved the result of inducing the labor unions to agree to overall negotiation on wage structure without ruling out wage indexation. In spite of the fact that I have no direct information, I doubt that this calmed the concerns of the confederation rank-and-file, because experience leads to mistrust.

Question: Concretely, what might be an alternative to the present wage indexation system? Are you aware if the industrialists have a proposal of their own to put forward?

Answer: I do not believe that when the rank-and-file demanded cancellation of the agreement, it was clearly aware of the features of what might replace it, but it perceived that there was an urgent need for a change and it wanted a change and it was confident that it would bring about a different order, more consistent with the interests of production. A series of proposals for replacing the present system emerged with the help of some of the best economists. Some industrial countries have already shown that it is possible to adjust wage indexation to the need for holding back inflation. In our case, in spite of signs of an easing off that showed up in June, the current inflation makes it necessary today, no less than yesterday, for protection of the real wage not to give rise of itself to effects of diffusion of inflationary stimuli. But correction would be impossible, if a broader margin should not be restored to collective bargaining by limiting the area occupied by automatic increases.

Question: There have been many controversial discussions on the form of the negotiations between the government, the employers and the labor unions. Are you or are you not in favor of three-way negotiations?

Answer: I do not believe that trilateral meetings are indispensable. The parties can learn the government's objectives separately and can comply with them by conducting bilateral negotiations.

Question: In spite of the reported distortions of wage indexation, especially with regard to labor cost, many companies have made and still are making substantial profits in recent years. How do you explain that?

Answer: To the objection that, in spite of the distortion caused by wage indexation, small businesses, a large number of medium-sized companies and some large companies have obtained profits, I reply that this shows that the amount of money injected in the economy has kept demand up to a level at which companies have marketed their products by raising prices to an extent sufficient for covering costs and for acquiring abundant profits. That confirms the fact that the adjustment was made in an atmosphere of inflationary expectations.

Question: In your opinion, how much did these inflationary expectations contribute also to causing the recent stock market shakeup?

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Answer: Inflationary expectations led the public to buy shares at rising prices without paying any or very little attention to yields. The monetary restriction seemed not to have been heeded. It seems that recently it has been heeded and that does not seem to me to be a negative sign. The authorities reacted faultlessly by giving priority to the need for disciplining the stock market operation in ways suitable for giving the public the maximum amount of information and by refusing to turn it into a subsidized institution. The more behaviors distorting the formation of quotations are limited and the more this reflects expectations of earnings by companies, the more the employment of savings in shares will protect against the consequences of inflation. Therefore, the decision not to exceed in granting tax relief to investors who have the actual advantage of indexation of their investment seems wise to me. If relief judged to be excessive were granted, the demand for protecting dependent labor income by relieving it from the consequences of the tax drain would have better grounds.

Question: In short, would it not be fair to make two weights and two measures?

Answer: It would seem to me unfair to facilitate indexation of profits and to reject indexation of wages.

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GENERAL

ITALY

MEDICAL CARE AT ROME POLICLINICO HOSPITAL DEPLORABLE

Milan PANORAMA in Italian 20 Jul 81 p 59

[Article by Silvana Bevione: "That Hospital Is Ready to Be Condemned."]

[Text] By night the police preside and sometimes even search it. By day it is a constant scene of thefts, purse-snatchings and assaults. From one's first glimpse it presents a spectacle of neglect, filth, poverty and misery.

It is not a slum in Naples or a red-light district. It is the Rome Policlinico, the city's largest and most important hospital, the symbol of all the evils afflicting Italian hospitals.

A study of the Policlinico done recently by Axel (an information agency founded a few months ago by a group of young people who have declared themselves resolved to "finally take the lid off the pot of Italian decadence") has brought to light a dismaying and disgraceful situation. "The emergency room is like the plague house described by Manzoni, only Brother Cristoforo isn't even there," Francesco Santoro, director of Axel, says bitterly and ironically.

"Beds piled up, patients even put two to a bed."

Two nurses must care for at least 60 patients without gauze, hypodermics or medicines. Their dressing room is near the garbage room. Their lavatory (two toilets for everyone) is also used by the patients. The doctors just run back and forth sorting out the patients, who stream in only to wait for up to a week in the corridors on mattresses lacking even sheets.

Axel decries one fact above all: a year after the introduction of the health reform the only noticeable change in the Policlinico is its name. The hospital, formerly named after Umberto I, is now called Usl Rm3, for Unita sanitaria locale Roma 3 (Local health unit Rome 3). Everything else has remained unchanged.

In 1973 the Policlinico staff complained: "The elevators don't work and the patients are transported at the risk of the orderlies. The chimney flue fills the hospital with dirt. Babies in the pediatric ward miss meals because of the lack of staff. Dead newborn babies are stacked up in the refrigerators because there is no one to record their deaths. Ants and cockroaches infest even the incubators."

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In 1980, 7 years later, a patient was literally attacked by ants in his bed, and one morning in April a dumbfounded orderly found an enormous dead rat reposing on the kitchen dumbwaiter in place of the dinner to be distributed to the patients.

Reports coming from the hospital from day to day now are anything but reassuring. Antonio Fara, a 70-year-old man living on a pension, died of perforation of the intestines and peritonitis without the doctors even noticing it, while the medical director, Mario Leoni, was indicted for felony. The ward heads of fourteen divisions, in a letter addressed to the administration of the hospital, "Declined all responsibility for patient care and sanitary conditions in their divisions."

But it is above all the stark data, in their dramatic simplicity, which show how far down the drain the Rome Policlinico has gone. Four thousand beds in a building built at the beginning of the century for one thousand at the most. Fifty or sixty patients, usually, in wards designed for thirty and having no showers and only three bathrooms. Six bedpans must make do for everyone, and there are only two or three hypodermics. The staff is very small and is obliged to do killing shifts, often undertaking duties for which it is neither competent nor prepared. Whenever possible, patients pay a private nurse (called a "badante") costing up to 50,000 lire per night, and it is customary by now to send for hypodermics, sheets and food from home.

Violence is the rule rather than the exception at the Policlinico, and is both cause and effect of a situation which is getting more explosive every day. Savage strikes endanger the patients' lives. Juvenile delinquents raid the wards and attack the medical directors and doctors. There are daily fights among opposing political factions, drug addicts, enraged relatives and nurses. To top it all off the hospital is deluged with communiques purported to be from the Red Brigades threatening bloody retaliations.

"It's heart-breaking to see all this vileness and filth here," says Guido Chidichimo, a heart surgeon who resigned from Rome's San Camillo Hospital on the fifth of May in protest. "It's incredible how far the deterioration of Rome's hospitals has gone. In my opinion the medical directors are to blame. It isn't enough to ask for help and complain verbally. It is their precise job, as defined by law, to guarantee the sanitary facilities of the hospital. If they can't do it, let them follow my example and resign en masse."

Axel feels that the blame lies higher up, with the politicians. Others feel it is more diffuse, rooted in society itself. Francesco Marabotto, national secretary of the Tribunal for the Rights of the Patient, feels that people's apathy is to blame. "We have to learn to protest, to check up on things, to reject illegal acts which have become habitual," he says. "Things that have been taken for granted so far must become a source of indignation and scandal tomorrow."

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