The oil companies' decision to resist Giscard's energy austerity was made explicit in the editorial of last month's CFP publication, *Les Nouvelles*. According to this article, the CFP "is instituting a method and already obtaining results, aware of participating in this fashion with the developing countries in the building of new international economic relations based on confidence and co-operation." CFP has proceeded to negotiate deals for prospecting and joint oil development of natural gas resources with the Algerian state-controlled Sonatrach, deep-sea oil exploration in Angola, technical aid for a Mozambique refinery and negotiations with the Vietnamese government for oil exploration to aid in the economic reconstruction of that country. Following the visit to France two weeks ago by Soviet Communist Party Politburo member Boris Ponomarev, three billion francs worth of oil and chemical related agreements for the construction of plants in the Soviet Union were concluded. The work on these plants call for the combined efforts of French and Italian firms.

Italians Prepared to Accept Transfer Ruble Proposal

Italian economic and financial spokesmen have greeted the Dec. 8 Soviet Narodny Bank announcement of the Comecon's extension of the transferable ruble to non-Comecon countries with overwhelming enthusiasm. These forces realize that the transferable ruble for the financing of bilateral and trilateral trade arrangements is a sound alternative monetary system. The transferable ruble represents an alternative monetary system based on production and on a gold-backed currency rather than the hyperinflated dollar and illiquid dollar.

The prospects for industrial economic growth have prompted top-level financiers to support the transferable ruble as a feasible alternative.

On Dec. 22 NSIPS interviewed one of the top policymakers at the Bank of Italy. In part, he stated: "I am not fully familiar with the details of the Narodny proposal, but in principle it seems to be a very good thing. It means using rubles for credit and people have been talking about this as a key way of facilitating credits for some time now. It would not mean opening up the Soviet economy to capitalism. Let us speak specifically of when Kamarov (a Soviet envoy) came to Italy. The question of the credit lines came up then and we did not have credits to extend. These credit lines are what we are trying to organize presently. That is, to mobilize Soviet credits as letters of credit but first we need guarantees.

"These guarantees must be provided by the Soviet Union itself or by a first-contracting country. In this context the proposal of a European bank for East-West (Europe Ex-Im bank) trade comes forth. There are many opponents to this proposal but Italy is most committed to its realization as is Great Britain. West German financiers as well are favorable but the Bundesbank and the Bonn government oppose it because they fear they would have to provide the reserve fund for such a bank to operate. But this is nonsense. We at the Bank of Italy are already engaged in gathering these reserves. Venezuela will be sending a large deposit to the Bank of Italy soon. We are moving in this direction with Arab countries...Libya, Iran and Saudi Arabia. If the Soviet Union decides to go for the transferable ruble and the Comecon is disposed to do so, the Bank of Italy is standing ready...It would be an opening without precedent."

Andreotti's top economic advisor informed NSIPS Dec. 21 that the Italian government was preparing now to dump the dollar to go for the alternative monetary system. He condemned the hegemonic role of the dollar: "I am not in agreement with an international monetary system which is based only on the force of one currency — the way the dollar has hegemonized the international markets. I think now is the time to stop it."

The Bank of Italy official responsible for East-West relations stated: "Obviously Italy is very open on this front and even more than Italy there are West Germans who are even more favorable. Like Italy, West Germany has granted many credits to the Comecon...We and the West Germans are pressing now for this kind of deal (Narodny bank proposal - ed.) but the U.S. makes no moves in this direction."

Il Fiorino Dec. 23 carried a front-page article elaborating how the ruble can be used to facilitate credit. *Il Fiorino* journalsit Giorgio Vitangeli headlined his lead article, "A move which can have consequences in the currency markets; Soviets try to play ruble card."

Reporting to Parliament Dec. 21 at the conclusion of his trip to Libya, Italian Foreign Trade Minister Reinaldo Ossola laid out the government's political-economical strategy: consolidation of Arab and Venezuelan reserves in the Italian central bank. Ossola further stated Italy's commitment to secure the steady increment of triangular trade agreements between Italy, the socialist sector, and the Arabs on a development policy basis. This policy, he said, is being extended to Latin America as well.

According to a high-ranking official of Italy's central bank, the bank's explicit policy is to pile up as much Arab reserves as possible in order to transform the Banca d'Italia into the immediately required institution for the rediscount of Soviet commercial paper.

Italian developments in this direction are part of British-Italian organizing for an "East-West European Bank" to act as a stepping stone towards a new world monetary system based on the transferable ruble. The East-West bank, as proposed by Italy and Great Britain, is aimed at pooling Arab and West European reserves into a common fund which will be used to finance triangular deals, to handle trade financed by the transferable ruble, and to open up credit lines for the Comecon sector.

Moves for Euro East-West Bank

The Italian financial paper *Il Fiorino* confirmed Dec. 21 previous reports that Libyan reserves will be deposited in the Banca d'Italia. *Il Fiorino* announced that during his up-coming trip to Saudi Arabia next January, Ossola will discuss Saudi withdrawal of reserves from international institutions to be transferred to Italy's Central Bank. Commenting on the operation, the West German *Frankfurter Rundschau* reported Dec. 21 that Iran will be depositing its reserves in Italy, while Venezuela has already started the process of pulling reserves out of New York banks and transferring them to Italy.

The key aspect of Italy's combined economic and political offensive is that all triangular trade arrangements, as exemplified by the FIAT-Libya-Soviet deal of last month, are aimed at bringing about a new world monetary system and defusing the Middle East war danger. Italian Foreign Minister Arnaldo Forlani, who has repeatedly in the past called for a negotiated peace agreement in the Middle East and recognition of the Palestinian Liberation Organization, announced, as reported by *Il Giorno* Dec. 23, that his upcoming visit to Moscow Jan. 10 is not a mere "protocol trip" and hinted that it should be seen, rather, in the context of Soviet requests for closer cooperation with Italy.

Italian Socialist Party Secretary General Bettino Craxi is now in Israel meeting with former Premier Rabin and representatives from the Mapam pro-peace faction. When at Tripoli, Ossola stated the "need to arrive at a better international order," and his report to the Italian Parliament asserted his intention of making his statement good for his January 1977 tour in the Middle East.

Italian Steel Production Slated for Expansions

While worldwide steel production has collapsed, Italy's steel sector will drastically expand in the coming year. The key determining factor responsible for Italy's expansion are the major trade deals signed with the Soviet Union and the Third World.

Italian steel production, according to yesterday's *Journal of Commerce*, is expected to increase in 1977 to a total production output of 27.8 million metric tons, up from a total production in 1976 of 20 million tons. In 1977, 9.4 million tons are expected to be exported in various forms, while 22.7 million tons are to be consumed domestically (including an import of 4.3 million tons).

The Andreotti government is now planning renovation of Italian steel plants — particularly of the state-owned complexes to increase industrial production and capacities. To realized this increase, the Italian Parliament has just passed measures to renovate Italian industries, and are negotiating to obtain at least part of the necessary liquidity from such countries as Venezuela and Libya who have deposited some of their reserves in the Italian central bank.

The *Journal of Commerce* also stated that the new quotas set by the European Economic Community (EEC) Commission on the delivery of steel products to countries serviced by Italy should increase the demand in countries where the demand is now low, at the expense of countries where the demand is now great (such as France and West Germany), improving Italy's possibilities for export. As to the actual production, the FIAT-owned Teksid has increased its output of special steel by 90 per cent in 1976, to reach production of 1 million tons by 1978. The state-owned Italsider is reaching full capacity production at its Taranto complex, and in August 1976 poured a record 754,000 tons of steel. The entire Italian steel industry poured 5.9 per cent more steel in 1976 than in 1975, while hot rolled steel in Sept. 1976 was 13.1 per cent greater than in Sept. 1975. However, Italsider's mill at Bagnoli, near Naples, has had annual losses of $125 million due to only 50 per cent utilization of obsolete machinery.

Obviously, Italsider must modernize and expand, and the Italian government is not now in a position to finance such expansion. However, the series of deals signed in the past few months with, especially, Middle East and Third World countries makes the prospects for expansion most encouraging. For example, Dalmine Montubi, Italsider's pipeline manufacturing subsidiary, has signed this past week a $150 million contract with Nigeria to construct and install oil pipeline on the Warrikaduna-Maigururi oil line, making their total foreign contracts in 1975 and 1976 worth $700 million.

Italian Deals, Dec. 22 – 30

12-22 CTIP contract of $3.4 million with Iraq for stockpiling of oil (source: *Corriere della Sera*).

12-23 Italy-Turkey three-year deal as part of the Turkish five-year plan for the immediate construction of FIAT tractor plant, fertilizer plant, and a highway in Anatolia (source: *La Stampa*).

12-28 Sogene of Rome (construction company) to build a dam in Algeria. The dam will be an earthfilled dam 55 meters high. The projects includes a prefabricated village for 500 inhabitants. The deal is $81 million (source: *Journal of Commerce*).

12-28 SNAM Progetti (ENI) agreement with Nigeria for 63 kilometer pipeline to transport 20,600,000 cubic meters of oil per year for $150 million.

12-28 Fidenza Vetrarie (Montedison) state-linked petrochemical complex contract with Iraq for electric isolators for $2 million *under discussion* (as reported in *Journal of Commerce*).

12-29 FIAT (through IVECO, vehicle consortium of Italy, West Germany, Holland, France) discussing with Libyan government for the construction of auto plant in Tajura, Libya. Production capacity would be 4000 vehicles-year. Libyans would be investing $50 million.

12-29 Deals under discussion which Venezuelan president Carlos Andres Perez discussed with the Italian government during his mid-November trip to Rome.

IRI (steel-machinery state sector) has already received orders from Venezuela totalling $1-2 billion for Venezuela's navy and merchant marine.

ENI and Montedison are discussing the building of petrochemical and petroleum refining plants in Venezuela.

FIAT has begun discussions with Venezuela to build a FIAT plant which would completely provide Venezuela with all its diesel engine needs.