requirements is at present being met by oil.... We need nuclear energy ... even though President Carter has his own reservations in respect to non-proliferation....

The third major task of Western security policy in economic terms is to establish balanced and stable economic relations with the state trading countries of the East. Since 1970 East-West trade has practically quadrupled.... This strong intensification of trade and cooperation is the result of political detente and also of the economic interests of both sides. The economies of the communists have reached a stage of development where they also depend more and more on increases in productivity for their growth. That is why the East has a strong and lasting interest in importing Western technology....

Who, then, derives the greater benefit from East-West trade? There are critics in the West who say that the West, by its exports of technology, indirectly helps the Soviet military build-up. Critical voices in the East will probably object to helping the West preserve jobs as supporting the capitalist system. I believe that these conflicting arguments in themselves indicate that East-West trade benefits both sides. And so, after all, it should be and must be. If the Western countries act jointly, the development of trade relations and of industrial cooperation with the East can, I am convinced, be essential for both our own economic security and the safeguarding of peace.

How Cuccia Destroyed Montedison

The name Enrico Cuccia is not known at all outside of Italy, unlike for example, the famous Agnelli brothers of FIAT or Mr. Olivetti. Yet, in Italy, Cuccia is known to be at the pinnacle of economic power, the chief among what Italians term the "razza padrona," the race of bosses. Cuccia's power is located, in part, in his directorship of

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Mediobanca. This gives him a degree of control over the entire Italian banking system, since Mediobanca is an interbank lending institution upon which all other Italian institutions of credit depend for investment banking functions.

The deeper reality of the matter, however, is that Cuccia, through Mediobanca, exercises power over the Italian economy on behalf of those London-centered financiers whose chief political connections are to the British crown and its independent intelligence services and financial capabilities. These are the real resources at Cuccia's disposal.

In this connection, Cuccia's Mediobanca was in fact specifically created for him by André Meyer, the principal in the international investment group called Lazard Brothers in London, Lazard Freres in New York, LF, Inc. in Paris—but in Rome, Mediobanca. Meyer's Lazard faction is chief among the monetarist forces of London actually dominant in Italy. And Cuccia, the financial and black operations power behind the well known Agnellis and others, is Meyer's flunky — Her Majesty's Italian Viceroy.

At present, because of Meyer's Cuccia, Italy's giant petrochemical-based conglomerate, Montedison, which controls key sectors of Italian heavy industry including steel, is on the verge of bankruptcy. How this came to be exemplifies Cuccia's character.

Montedison's is not a story of "mismanagement," but mismanagement for a purpose, deliberate mismanagement as a powerplay by London through Cuccia, and Cuccia's mask for this purpose, Eugenio Cefis, to achieve an unchallengeable position in Italy's chemical industry and on that basis, the critical state-owned Italian industrial sectors.

Montedison's central corporate position in Italy's private sector also makes this a story of how the basic industrial strength of the Italian economy has been significantly weakened. Cuccia has damaged Montedison, and through it, is damaging several state-owned sectors.

In Montedison's case, Cuccia has launched crippling attacks against the concern's "competitors" while pyramiding the concern's debt-service. Funds allocable for maintenance of infrastructure, modernization of productive plant, and research and development have been diverted into the apparently speculative but actually political purchase of equity in other concerns and sectors, including such transparent investments for power as newspapers and magazines. Similar monetarist policy interest has come to be exerted by Cuccia on state-owned concerns in several industrial sectors through the incestuous ties Cuccia has developed between these and Montedison.

The outcome is that since 1971, Montedison's short term debts have doubled from 928 billion lire to a total in 1976 of 1900 billion lire. The total number of employees has dropped from 174,000 in 1971 to 145,000 at the end of 1976. Various profitable sectors have been sold to pay off back debts. Cuccia's latest scheme is the so-called "pax chimica," a bailout plan that gives Montedison and the rest of the chemical sector some ready cash, but primarily gives Cuccia the means to consolidate his control over the entire sector.

Montedison's History

It is useful to look at the history of Montedison to see just how the typical operation of Meyer's Cuccia is run.

Montedison was founded in the spring of 1966 in a merger of the Montecatini and Edison companies. Montecatini was a chemicals company founded in 1888 as a Tuscan mining concern and expanded into chemicals, textiles and pharmaceuticals after World

War I. Edison, as the name implies, was an electrical power company founded in 1884, which by 1960 supplied about 20 percent of Italy's electrical power needs. In 1963, Italy nationalized the electrical power industry, and Edison recieved a large indemnity which it hoped to invest in some other industry. Montecatini had infrastructure, but little liquidity. Edison's president, Giorgio Valerio, spearheaded the operations to buy up Montecatini under the aegis of Enrico Cuccia.

Negotiations were begun to merge the two operations in 1964, under the green light from the Italian government. By January of 1966, Valerio had formed a cartel comprising 14 percent of the stock, representing 86 percent of the small shareholders, sufficient for partial control. The cartel included such important industries as Agnelli's FIAT (auto); Pirelli (tires); the Cuccia-controlled private investment corporation, Bastogi; and Cuccia's Mediobanca.

Valerio, Cuccia's first president of Montedison, went on an equity-purchase spending spree, buying up often failing companies, many not in the petrochemical sector. Montedison's investment policy ceased to include upgrading of infrastructure at its many small plants, and was noted as well for low wages and bad working conditions. Montedison's growth rate for 1966-68 was 7.9 percent — for comparison, Austria's average was 11.5 percent, Japan's 12.8 percent.

In 1968, Valerio was forced to resign, watergated by a political corruption scandal involving the use of "fondi neri" — slush funds for political payoffs. Cuccia's objective was to install Eugenio Cefis. Cefis had been the head of the state oil sector, ENI, soon to become part of Montedison. Cefis' takeover of Montedison was justified as corporate peacemaking, signalling an end to attempts by Montedison to steal ENI's oil exploration rights in Libya, and its stalling of exploration rights to be granted off the Adriatic coast.

During the period from 1968-70, Cefis busied himself buying up supporters in the Christian Democracy, the neo-fascist MSI party, and several newspapers, such as the right-wing *Il Resto del Carlino*, *Il Telegrapho*, and *Il Messaggero*. He also installed a hand-picked substitute to head up ENI, and keep it under his control so he could move over to Montedison.

Cuccia lined up support from FIAT, Pirelli and the Bank of Italy, to acquire 20 percent of the stock, using ENI and IRI monies.

This was enough to give Cefis and Cuccia complete control over Montedison's Board of Directors, with almost half of the solid block of stock held by ENI and IRI. After various caretaker administrations, Cefis was finally appointed Cuccia's president of Montedison in 1970.

The takeover created a flap in financial circles, but the government remained silent, except for Giulio Andreotti. In testimony before the Industiral Commission of the Chamber of Deputies, the future premier argued that if public money (ENI's) was to be spent to acquire equity in existing companies, why not create new ones, and new employment opportunities as well?

By controlling a substancial part of the press, Cefis was able to effectively silence his most principled opposition, including that of the Socialist Party (PSI) leader Giacomo Mancini. Mancini's opposition to Cefis was based on the incestuous ties that had developed between ENI, a part of the public sector, and Montedison, a part of the private sector. Cefis, however, had bought up a scandal sheet, *Il Candido*, whose editor, Pisanò, was in the fascist MSI; *Il Candido* suddenly began publishing slanders against Mancini. Cefis also used such dirty tricks as phone tapping and spying, to discredit his opposition.

By any standards, Montedison engaged in shady financial dealings, with one prime example being a typical Lazard "Big Mac" type of scheme that used pension funds held by the Bank of Italy to prevent a U.S.-based Italian banker from buying up the controlling interest in Bastogi (private investment) in 1971. Cefis has

Montedison Balance Sheet 1971-76
(in billions of lire)

	Total Production	Short-Term Debt	Medium/Long-Term Debt	Service Charges	Losses (+ or —)	Employees*
1971	2,017	928	863	115	—271	
1972	2,100	991	867	120	—455	174,197
1973	2,590	889	935	132	+ 33	170,508
1974	4,029	1,066	1,067	194	+123	155,362
1975	3,535	1,480	1,295	267	—163	149,164
1976	4,815	1,902	1,199	397	—172	144,545

*at year end
Source: *La Repubblica*

also been accused of using ENI and IRI credits to finance Montedison investments, of price control violations in the textile sector, and of substantially overlapping ENI and Montedison oil concessions in the Adriatic Sea and the Po Valley.

Montedison's Operations

If Montedison under Valerio suffered from underinvestment, under Cefis it has undergone systematic dismantling. When Cefis took over in 1971, Montedison's losses were $465 million. Cefis sold off 300 subsidiaries for $565 million, curtailing the fiber and fertilizer sectors, and coupled this with an investment program into Northern Europe and the U.S., which was a failure. With the "oil crisis" in 1973-74, that resulted in the European Economic Community's declarations of "overcapacity" in fiber and fertilizer, two of Montedison's biggest sellers, Montedison's debt burden began to skyrocket.

In 1975, Cuccia's Cefis began to borrow short-term — sometimes as short as 24 hours — at rates of 20 percent interest. Polypropylene plants from Spain, the U.S., and Belgium were scrapped. Research and development funds were cut heavily; Montedison, which had invented polypropylene in 1971, has received no new patents for industrial processes since then. Currently, its debt-to-equity ratio is 80 percent, as compared with the average U.S. corporate ratio of 37 percent, or the West German ratio of 51 percent.

At the end of 1976, Montedison's losses stood at 60 billion lire, with 1,900 billion lire total debt, 900 of that short term; in July of 1977, the interest *alone* amounted to 1 billion lire per day. Beginning in early 1977, negotiations were underway to sell some of the "family jewels" to raise capital. The "jewels" included the profitable Banco Lariano, the La Standa retail chain, and parts of the pharmaceutical sector, Farmitalia and Carlo Erba, along with several insurance enterprises. The total netted was about 400 billion lire.

But selling off profitable enterprises has not been sufficient. Beginning in 1975, when Montedison's financial troubles began to peak, Cuccia capped this operation by advancing a scheme for obtaining state capital at very little cost to himself. It was entitled, appropriately enough, the "Cuccia plan."

Cuccia and Cefis were working towards a state bailout of Montedison. Politically, this has had a lot of leverage, because the loss of 150,000 jobs in a country in deep financial trouble, and with powerful trade unions, especially the largest union, the Italian Communist Party linked CGIL, could easily provoke a political upheaval.

First, Cuccia's bank began buying up private stocks in Montedison, despite the fact that Mediobanca is nominally a public bank; the small shareholders remained loyal to Cefis and his promises of dividends in the future. Cefis made a proposal to issue 45 million shares to be held by a consortium of public and private banks, the stock to be bought up by small shareholders. In addition, all public holdings (ENI and IRI) would be consolidated under one entity. Cuccia proposed to graft the bailout onto the industrial reconversion law being debated before the Parliament in late 1976. He proposed that the State should bail out worthy companies which had previously received state monies. Montedison stood to gain up to 2,000 billion lire, for an investment of 600 billion; small, private stockholders would underwrite the capital increase, with loans guaranteed by the State, which would also pay the low interest rates to make the plan more palatable to the bankers.

However, the scheme did not pass Parliament as Cuccia had envisioned, but in a weakened version that had ENI and IRI kicking in 150 billion lire, and the State guaranteeing 6 percent of the 14 percent interest rate charged.

Part of Cuccia's failure was a result of opposition from the Andreotti wing of the Christian Democrats, and from the Communist Party of Italy, which insisted that any bailout be only a first step towards nationalization of Montedison — and its removal from Cuccia's direct control.

The first four months of 1977 were financially disastrous for Montedison. The textile sector fibre) and the fertilizer sectors were named as most in need of restructuring in a government-issued report. Cefis resigned as president in April, having failed to arrange for the financing of Cuccia's Montedison operations. Meanwhile Cuccia brought SIR, the second largest chemical company in Italy, into the fold.

With Cefis sent off to Zurich to manage the Montedison International Holding Co., the battle over Cefis' successor has raged for three months. Cuccia has tried to have his and Lazard Freres' personal choice installed as president,but a definite compromise in favor of Prime Minister Andreotti's choice is the probable outcome.

Over the 1977 summer, financial pressure increased, with Montefibre bearing the brunt. Over 6000 jobs are threatened by Montefibre plant closings; EEC support has been withdrawn, and the unions have struck.

Cuccia, has made another largely successful attempt to not only get a bailout, but to consolidate his control over the entire chemical sector, with the recently passed "pax chimica." In recent weeks, the Montedison Board of Directors had announced its inability to pay salaries past the end of November; its only hope would be to use previously negotiated loans destined for capital investment to pay salaries instead. Two plans were floated, the "Carli plan" and the "Baffi plan," to turn industrial debt into equity for a banking consortium. The chief difference between the two plans is that the Baffi plan has Mediobanca as the centerpiece of the consortium.

In opposition to the schemes, Industries Minister Donat-Cattin had called for a partial debt moratorium for the chemical sector. But Cuccia has made it threateningly clear that if Montedison collapses, the entire Italian economy will quickly follow suit. Cuccia got his "pax chimica," cash for rollovers, and tightened control over SIR. And another damaging feature of the deal is that the Liquigas chemical company of Cuccia opponent Raffaele Ursini has been forced to bear the brunt of the chemical sector's debt-burden, and is itself very close to bankruptcy.

Liquigas, thanks to Cuccia, has had to borrow money at short-term, high interest rates because its planned building of plants to produce bioprotein (a cattle feed) has been stalled for months. It has had a supply contract with the Soviet Union that it has therefore been unable to fulfill, leaving it with a severe income shortfall.

This operation, to destroy the productive capability of Liquigas, however, has not yet succeeded, partly because the Soviet Union has just offered to buy the bioprotein plants directly. This would be a direct blow against Cuccia's empire.

— Margaret Bardwell

SOURCES: Giuseppe Turani, Montedison, il grande saccheggio, Mondadori, 1977; Angiolo Silvio Ori, L'affare Montedison Settedidenari, 1974; Ori, I faroni di Milano, Settedidenari, 1971.

Blumenthal Demands Humphrey-Hawkins For Italy — Or Else

Italy must set up labor-intensive pilot projects as model for all OECD countries to solve unemployment or it may find U.S. investments cut to a trickle. This was the threat issued Nov. 2 to the Italian population by U.S. Treasury Secretary Werner Blumenthal, who has been in Italy since Oct. 22.

After a week spent in a flurry of meetings with the Italian cabinet members and Prime Minister Andreotti, Blumenthal issued his ultimatum on Rome television. Interviewed by a colleague from the London Institute of Strategic Studies (IISS), member Arrigo Levi, the editor of the Turin daily *La Stampa*, the U.S. Treasury Secretary called for increased taxation to raise 2 trillion lire for "make work" projects for unemployed youth.

In a Rome press conference Oct. 31, according to *Il Tempo*, Blumenthal made the point clear: "We are happy for the positive situation shown in the Italian balance of payments, but this doesn't mean that massive investments can immediately flow into Italy. Slashing of public expenses must occur first."

The embryonic Italian-U.S. collaboration for development, particularly of Italy's southern Mezzogiorno, is already endangered. The sale of a massive bankrupt Italian construction firm, Condotte d'Aqua, to U.S. industrialists allied to former Texas governor John Connally has been sabotaged — threatening insolvency to one of the leading Italian banks, Banco di Roma, as well as thousands of jobs lost.