

Draft Memorandum For Use With E.N.G.

1. Political and Economic Objectives

It is difficult to understand a number of E.N.I.'s policies, the pattern of its expansion overseas, or its willingness to undertake apparently non-economic activities, unless it is kept clearly in mind that E.N.I. is used to a considerable extent for other than commercial purposes.

Two statements by Italian Ministers make it plain what these non-commercial purposes are:

"I desire to state that E.N.I. represents an efficient instrument for Italian economic penetration in several countries and that, as such, E.N.I. must be utilised; it is clear ... that E.N.I.'s actions must be closely co-ordinated with the requirements of our foreign policy ..."

Signor Fella, then Foreign  
Minister, in the Italian  
Senate, October 9th, 1961.

"Perhaps, Signor Mattei, the greater part of your collaborators and personnel do not realise that during all the hours of their hard and serene work they are making a notable contribution to the development of a foreign policy worthy of a people of fifty millions ... And, on behalf of the government over which I have the honour of presiding, I must express the firm intentions of continuing the experiment which the democratic governments have commenced by standing side by side with you in your endeavours, upholding them and defending them in the internal and international field."

Signor Fanfani, Italian  
Prime Minister, at Metanopoli  
on December 4th, 1961

Again, Signor Mattei himself has stated (in an interview published in "L'Opinion Economique et Financiere" on June 1st, 1961):

"I follow a national policy, and not a commercial policy ..."

It is not the intention of this paper to criticise the Italian Government in any way for using E.N.I. to expand Italian political and economic influence abroad; that is a matter entirely for the Italian Government.

However, such a policy has a number of inevitable consequences for countries or companies which do business with E.N.I. and it is legitimate to draw attention to them. For instance:

- (a) countries chosen for oil and gas exploration may well be selected not so much for their commercial possibilities as for the opportunities they afford for "Italian economic penetration" or for furthering the objectives of Italian foreign policy;
- (b) the apparatus of the Italian State will be used to promote E.N.I.'s expansion and to defend it from competition;
- (c) thus it follows that political or politico-economic considerations are likely to prevail over commercial ones in the negotiation of any agreement with E.N.I. and that any difficulty or dispute will lead to the exercise of diplomatic pressure in support of E.N.I.

A good example of the use of political pressure occurred on October 18th, 1960, when Signor Deleo, the Italian Under-Secretary for Foreign Affairs, in a written answer to a Parliamentary question, stated:

"As soon as it had been expressed by the central management of E.N.I. about the difficulties the latter had encountered in Kenya and Rhodesia in carrying out its programme of activities in those countries, the Italian Government and in particular the Ministry of Foreign Affairs in agreement with the Ministry of State Participations and the Ministry of Foreign Trade, immediately instructed our consulates in Nairobi and Salisbury to contact the local governments in order to explain the particular interest the Italian Government attaches to the satisfying of E.N.I.'s legitimate expectations, since the company concerned is an Italian company and - what is more - a company controlled by the State."

## 2. Promotion of other Italian interests

Not only is E.N.I. employed to further Italian foreign and economic policies abroad, it is also used to promote the interests of Italian industry in general. It is often the case that E.N.I. oil agreements are enlarged to include contracts not only for E.N.I. subsidiaries but also for other Italian concerns in which the State has a controlling or part interest as well as for private firms. In E.N.I.'s Argentinian agreement provision was made for contracts for ENIPAL, ENIM and Nuovo Figgione (E.N.I. subsidiaries), Finisider and Irida (companies in which the State has interests) and the private companies Fiat, Italcantieri, and Italcantieri. In its agreement with the Egyptian Government contracts were made for Finisider, Fiat and Italcantieri amongst others. Again in connection with E.N.I.'s Moroccan agreement, it is understood that a series of contracts were also obtained for a considerable number of Italian firms; the projects involved are said to have included a fertilizer plant, an iron and

interview published in "Le Monde" on December 1st, 1961, when he stated:

"... I must help Italian industry. I am an Italian, don't forget that."

### 3. Areas Selected for Expansion

It appears that the main areas selected for E.I.I.'s expansion are Africa, the Middle East, the Indian subcontinent, Latin America and Europe. It is, of course, the case that the organization has also concluded substantial agreements with the Soviet Union and other Bloc members.

Developing countries appear to be a priority target; at a press conference in Rome on February 14th, 1962, Signor Mattai declared:

"As regards our relations with underdeveloped countries and with countries requiring industrial expansion, we believe that we have an industrial organization to offer which is equipped with all the staff and facilities needed to fulfil a large scale task of collaboration. This collaboration has already been set in motion."

Again in an interview with the French journal "L'Opinion Economique et Financiere", on June 1st, 1961, Signor Mattai stated:

"We are coming to Togoland, to Gabon, Senegal and the Cameroons and we shall expand even more in Africa ... over the whole of Africa as soon as it is possible to operate there in peace."

Paul Newman, writing from Rome in the "New York Times", of June 7th, 1962, discussed this aspect of the market and stated:

"A series of visits by Italian officials to Tunisia; Yugoslavia and the Soviet Union underlines what is termed here the new dynamism of Italian foreign policy. The approaches of Premier Amintore Fanfani's Centre-Left regime to non-aligned countries and to the Soviet Bloc are known to be in keeping with Italian economic interests. The politically influential head of the State-owned oil and gas enterprise, Enrico Mattai, is pioneering Italian economic expansion in Africa, the Middle East and Asia."

In this expansion in developing countries, special attention appears to be devoted to Commonwealth countries and countries presently or previously administered by the U.K. E.I.I. already has agreements with the governments of India, Ghana, Nigeria, Malta, Kenya, Tanganyika, Somalia and Sudan, for instance, and is currently showing interest in Pakistan, Ceylon, Sierra Leone and Mauritius. In view

is participating in the E.O.I. agreement with India.

As far as E.O.I.'s expansion in Europe is concerned, this is likely to lead to the increased use of Soviet oil, price weakness and political wrangling. Already E.O.I.'s policies have caused difficulties with Italy's partners in OPEC and the Common Market and these are likely to be intensified.

#### 4. Propaganda Campaign

In addition to existing diplomatic and other official support, E.O.I. customarily employs propaganda of a political nature to promote its expansion. This normally takes the following forms:

- (a) Accusations against Competitors. Signor Mettei, E.O.I. spokesman and certain publicity media controlled or influenced by the organization conduct a virulent campaign of abuse and misrepresentation against the policies and operations of the private oil companies; these are accused of being a cartel, of making excessive profits, of disregarding the interests of the countries in which they operate, etc. An unfortunate feature of this propaganda campaign is that the names used by E.O.I. are so similar to those used by Soviet propaganda that they add to the damage done by the latter to the reputation and interests of the Western international oil companies.
- (b) Charges of "neo-colonialism". As part of its efforts to establish itself in territories currently or previously administered by the U.K. and other developing countries, E.O.I. propaganda has made special efforts to persuade that the private oil companies' operations represent "economic imperialism" or "neo-colonialism" and that their interests are hostile to the interests of developing countries. Indeed this type of propaganda goes beyond attacks on private oil companies and on occasions is critical of governments which have colonial territories. (See Appendix A.) In fact the activities of a State-owned entity, particularly one following E.O.I.'s declared aims, are much more likely to lead to accusations of "neo-colonialism" on the part of the host or emerging countries than the purely commercial relationships existing with a private company which does not have all the requisites of power and pressure so conveniently at the disposal of E.O.I.

#### 5. Advocacy of State to State Trading in Oil

These propaganda charges are used not only to promote E.O.I.'s expansion by damaging the good name of its competitors, but also to further E.O.I.'s major campaign to persuade governments to replace

public and in private to governments (See Appendix B for examples). In developing countries this theme is propagated with particular assiduity. E.N.I. representatives go to considerable lengths in making their case to government officials. One document presented by an E.N.I. representative to the government of a developing country, for instance, suggested that the best way to demonstrate to other countries its economic and political awakening was to form a State oil company "as had the majority of modern states". The document went on to suggest that it was "necessary and urgent" that the government should entrust a national company under the direct control of the State with the exclusive right of searching, exploitation, transportation and distribution of all underground products, as well as the supplying of such products from abroad; that the formation of such a company would cause a vigorous revision of all existing concessions; that this national company should have the right to re-examine the legitimacy of the ownership of all installations, industrial and commercial plants, etc., belonging to foreign companies; if the rights of the foreign companies proved to be "unwarranted or questionable", the national company should have the right to take any action deemed necessary and it would therefore be necessary for the agreement between the government and the national company to have a clause stating that the national company would have the right to "recover" all the plants and properties belonging to foreign companies without payment or indemnity by the State.

## 6. Attacks on Prices

A consistent feature of E.N.I.'s propaganda in recent years has been sharp criticism of price levels and the normal mechanism of prices, and this continues to be the case.

This criticism has been accompanied by action in Italy and though there have been no more price reductions recently, E.N.I.'s price cutting campaign in 1960/61 (four reductions in six months) resulted in Italian product prices before tax becoming among the lowest in Europe. Indeed standard grade petrol is still sold at a loss. There are signs that Signor Mattei is considering further price reductions in Italy.

It is not possible to predict whether E.N.I. will indulge in similar price cutting in the U.K., but three statements by Signor Mattei in this connection are of interest. When interviewed on I.T.V. on January 25th, 1962, Signor Mattei was reminded that he had "a pet theory that countries like Britain and Italy need cheap power for their industries" and was asked how this could be done. He replied:

"That's very easy - by lowering prices"

and went on to say that this was a problem which the U.K. must look into. Again at a press conference in Rome on February 14th, 1962, Signor Mattei declared:

"We are in favour of energy prices being as low as possible ... and I think we for our part will endeavour to follow the same policy that we follow in Italy wherever we operate."

And in an interview with Alan Gardner of the "Daily Mail" published on February 7th, 1962, Signor Mattei said:

"Your industry pays far too much for its fuel."

## 7. Attitude towards Coal

This price cutting, and attacks on prices, cannot but have its effects on the business of European producers of indigenous energy. It is clear that the impact of these tactics on coal producing countries is understood but discounted. At the press conference in Rome reported in the previous paragraph, for instance, Signor

the interests of a particular industry ... it would be unrealistic to impose quotas on coal and to charge high prices for it and to levy customs duty on oil that I do not feel it can possibly be achieved. At any event, it would be extremely unfair and the consequences would be very unfavourable to Europe as a whole."

Again, in an interview with Alain Marchais, published in "Le Monde" on December 1st, 1961, discussing prices, stated:

"Italy cannot be ignored: She exists. You ought to speed up the re-direction of your miners. That would be easy with greater economic expansion. For that it is necessary to obtain cheap energy. Why don't your national oil companies initiate us and lower prices?"

The "Oil and Gas Journal", of October 16th, 1961, discussing support in Italy for E.C.C.I.'s policies stated:

"Perhaps the key to success, however, is the widely held theory that there are two groups in Europe staging a battle over oil prices. One group, as the theory goes, wants to keep oil prices at a level which will enable the coal industry to survive. The other group wants the lowest cost oil supplies possible.

Italy, without major coal supplies, rell by the advice as Germany, France and England - all of them with coal - became great powers. Coal is taking a beating today, but it still supplies half of Europe's over-all energy needs.

On the other hand, none of the major European countries has major domestic oil supplies.

Italy lies closest to the great oil fields, however, and many Italians believe their country's gains in economic power depend in how far it can pull the price from under coal."

Finally, the E.C.C.I. paper presented at the Third Arab Petroleum Congress, held in October 1961, stated:

"Supplies of cheap oil would hasten the change-over process from coal to oil now under way in the west (Western Europe) to an even greater extent."

#### 8. Use of Soviet Oil

~~It is a well known fact that the E.C.C.I. has pursued a consistent policy of maintaining independence~~  
It is sufficient to say here that E.C.C.I. has pursued a consistent policy of maintaining independence

that in 1961 E.O.I. relied on Soviet oil for 68% of its Italian inland trade and, as a consequence, Italy became the largest importer of Soviet oil in the world.

As for the future a Central Renter message from Rome on June 15th, 1962, reporting that two Soviet Ministers were to have talks with Signor Mattei, stated:

"Soviet sales of oil to Italy are likely to be stepped up if concrete agreements are reached in the Italian-Soviet trade negotiations which are being held this month. Soviet sales of oil to Italy have more than doubled over the past three years ..."

See Appendix C

### 9. Bilateral Barter Agreements

A number of the agreements that E.O.I. concludes with foreign governments are of this kind, for instance those with the Soviet Union and Egypt. Such practices are, of course, contrary to the liberal trading policies supported by Italy's partners in E.O.C.

### 10. Credits

A number of the contracts E.O.I. has obtained in the past few years have been granted as a result of the offer of long-term credits. It is estimated that these credits now amount to over \$1,000 million.

### 11. Repercussions on U.K. Interests

As stated previously, it is in no way the intention of this paper to criticise the Italian Government for employing political and other pressures to promote E.O.I.'s expansion, nor for using this expansion as a means of further Italian political and economic influence abroad.

However, it is legitimate to point out that a number of the unusual policies followed by E.O.I. may well have adverse effects not only on the oil companies against which they are - ostensibly at any rate - directed, but also on a wide range of other British interests.

Some of the likely repercussions on U.K. oil and other interests are the following:

- (a) if E.O.I.'s major aim of replacing the present system of free enterprise trading in oil by direct dealing between state oil companies were successful, or indeed only partially successful, the effects on the British oil industry - which is by far the U.K.'s largest overseas investment - would be delaying in the extreme and would

- (b) it could result in an extremely serious dislocation of the U.K.'s oil supply system - and that of Europe as a whole;
- (c) the inevitable repercussions in the Middle East would endanger British interests there;
- (d) it is clear from paragraphs 6 and 7 above that if E.N.I. establishes itself in the U.K. market to any considerable extent, the competitive difficulties of the coal industry could become intensified;
- (e) if the statement by Signor Russo given at the end of paragraph 1 is anything to go by, E.N.I.'s expansion in the U.K. and in British administered territories is likely to lead to more than a little friction between the U.K. and the Italian Governments;
- (f) further successes by E.N.I. in its campaign to build up an important position for itself in Commonwealth countries and countries presently or formerly administered by the U.K. may be at the expense of:
  - (i) the U.K.'s special position in these countries, bearing in mind that Italian Ministers have stated that E.N.I. is used to further Italian political and economic interests abroad, and
  - (ii) British firms doing business in these countries, particularly those in Africa and the Indian sub-continent;
- (g) these two possibilities are enhanced by E.N.I.'s "anti-colonial propaganda themes and its promotion of the interests of other Italian concerns."