

Fraenkel-Haeberle, Gioachino

Article — Digitized Version

IRI and ENI—Instruments of development policy

Intereconomics

Suggested Citation: Fraenkel-Haeberle, Gioachino (1967) : IRI and ENI—Instruments of development policy, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 02, Iss. 5, pp. 136-139, <https://doi.org/10.1007/BF02930367>

This Version is available at:

<https://hdl.handle.net/10419/137745>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

IRI and ENI - Instruments of Development Policy

By Dr Gioachino Fraenkel-Haeberle, Rome

Public participation in economic activities, as practised in Italy, is vested in a two-tier combine, whose upper storey is inhabited by the government holding company proper, whilst subsidiaries and associate companies are forming the basement and foundations.

According to its Articles of Incorporation, the typical government holding company, e.g. IRI (Istituto per la Ricostruzione Industriale), which, apart from ENI (Ente Nazionale Idrocarburi), is the most important organisation of this type, is a "corporation under public law, which administers the participations and assets entrusted to it in conformity with the guidelines worked out by the Government, and in the common interest". Putting it from a slightly different angle: the public combine follows economic policies that have been handed down by the Government in agreement with the "common interest", or the enterprises vested in a public combine are conceived as instruments of the State for direct intervention in the economic processes. The state-owned concern, in other words, has been entrusted with some of the fundamental tasks of government economic policy.

Carrying out such policies, in practice, will be the task of the subsidiaries and associated companies, as these are independent of the Government and compete with private enterprise on equal terms. Because these subsidiaries and associated companies are intended to operate under the rules of a free market economy, they have been given the legal form of joint-stock companies. Private investors are invited to acquire their shares and/or to subscribe to the loan bonds which are issued by all the components of the entire concern.

However, it would definitely be wrong to visualise such a concern structure as symbolising the attempt to harmonise, within the group, two mutually exclusive economic principles, that of public sector and the opposite one of private profit operations. On the contrary, this concern structure reflects the inner tensions represented by the two opposed poles of economic operation, and the constituent members of the various public concerns are perpetually vacillating, in their decisions, between the two extremes.

Since 1956, all the financial participations of the State have been handed over to a Special Ministry, the Ministero per le Partecipazioni Statali, which has been charged with coordinating planned investments, the supervision of their execution, and the control of managements of the State's industries.

There are the following public combines administering the holdings of the State:

□ IRI (Istituto per la Ricostruzione Industriale), whose shareholdings are shown in its balance sheet of 31 December, 1965, to have had a book value of Lire 677,000 million. IRI has operating companies, which are active in the following fields: banks, iron and steel works, engineering, precision engineering and instrument making, metal processing, shipbuilding, telecommunications, shipping, commercial airlines, construction of motorways, broadcasting, television, etc.;

□ ENI (Ente Nazionale Idrocarburi), whose participations had a book value on December 31, 1965, of Lire 172,000 million. ENI operates mainly in the following industries: exploration, development, production, transport and refining of crude oil and natural gas, chemicals and petrochemicals, textiles, metal processing, etc.

State Participations and Economic Programming

There is an Italian Five Year Plan (1966-1970), containing the grand guidelines for the economic policies of the Government, including a number of basic target figures (annual growth rates of investment, gross national product, etc.). The authors of Italian planning emphasise that these target figures are obligatory on all public sector enterprises, whilst they are to provide guidance only for private companies. This would mean that state-sponsored companies are expected to intervene wherever normal economic development would not lead to planned target figures being reached on time. State enterprise has thus been made responsible for contributing to harmonious economic growth.

For solving tasks allotted to them, they have been equipped with a number of suitable instruments:

□ Their structure and vast variety permits them to exert precisely measured and varied forms of influence on a multitude of industries, which they are able to adapt to local requirements and to special conditions, as they are found;

□ They are able—as the State's taxation policies and credit programmes are not—to limit their intervention to certain periods of time;

□ Their intervention can be used for carrying out big projects, whose expense transcends the financial capacities of private enterprise.

State-sponsored industries have developed, up to date, medium-term investment programmes, under the State's Five Year Plan, for the following totals:

- ☐ Firm investment projects, elaborated in detail, for 3,200 billion
- ☐ Investment projects in preparation 700 billion

These totals can be broken down, by economic sectors, as follows:

	(in 1,000 million Lira)
Iron and steel	570
Cement making	5
Crude oil and natural gas	680
Petrochemicals	103
Chemicals	9
Mechanical Engineering	144
Shipbuilding	38
Paper and textile mills	63
Mining and non-iron metal processing	126
Motorway construction	460
Shipping lines	7
Commercial air lines	140
Telecommunications	635
Broadcasting and television	51
Miscellaneous (automotive construction, railway permanent way material and rolling stock, etc.)	169
Total	3,200

Investment programmes are mainly focussed on extending the so-called infrastructure, as well as the key industries of Italy, which means: energy generation, petrochemicals, iron and steel making, motorway construction, spreading the national telephone network, etc.

State Participations and Economic Development of the Mezzogiorno

One of the main aims of the Five Year Plan is the vigorous promotion of South Italian economic developments. Present-day planners, however, do not seek a solution of this task in focussing aid on some individual branches of the southern economy—e.g. farming or industrial consumer goods production—as such a policy is now thought to be obsolete. When hammering out guidance for economic policies, planning is now based on the close and growing interdependence between the various branches of the economy, which suggests an "overall" or "global" procedure. The authorities believe that the economy of Southern Italy has now reached the "take-off" stage, where no further "pump-priming" is needed but rather an accelerated integration.

The "system" of State participations, in this framework, may serve as a useful tool of government intervention. The recent Annual Report of the Ministry of State Participations, however, points to the fact that the use of this tool is posing questions of principle. Thus, for example, the problem has already become topical whether future investment volumes should be kept as high as of to-day, even after "infrastructure" investments have been completed, and when market conditions do not yet call for an enlarged infrastructure or for its widening by creating additional plants and installations. In order to guarantee a well-balanced development, it might be advisable

to plan already now for a more vigorous expansion of processing and manufacturing industries. But this would create a big host of new problems: whilst investment objects can easily be found for purposes of creating an adequate infrastructure, industrial investment proper always presents a number of alternatives. For example, it might be considered necessary to meet international competition of European and non-European giant concerns by creating large enterprises also in Italy, or the Government could express a preference for the establishment of medium and small size enterprises, even though they may operate less efficiently but offer more individual jobs and, moreover, may prove more flexible in being integrated in the South Italian economy.

Present-day investment programmes of the state-sponsored concerns for the Mezzogiorno follow the line of primarily completing the projects that were started for improving the infrastructure and, at the same time, creating new manufacturing industries and improving existing ones. All the investment projects in hand are examined as to their economic profitability and their suitability for assisting overall promotion programmes. The following detailed guidelines have been evolved up to-date for developing Southern Italy:

☐ A major part of planned investment in the South is to be used for building up new basic, or key industries, either by completing production units which are now building, and by making existing plants more economical and giving them the benefit of the most advanced technology, or by calling into existence completely new industries, as soon as market conditions justify this. It is proposed to use two thirds of all the funds to be invested up to 1970 for enlarging the South's basic industries.

☐ Another centre of gravity for investments is to be the infrastructure of the service industries, especially the construction of motorways and the creation of a modern telephone network. The Annual Report of the Ministry of State Participations contains the proposal to enlarge this part of the infrastructure considerably in future.

☐ Moreover, it is intended to use new initiatives for strengthening and rationalising existing companies, and to favour the migration of small and medium size production plants to the South, including support for research work, e.g. by providing funds for the Istituto di Ricerca Breda (the Breda electrical engineering concern's research institute) and for the Centro Metallurgico Finsider (the iron and steel combine's research and development centre), and for the training and education of managerial skills and for trade and craft apprenticeships, etc.

☐ It is planned to close the "gaps" in the network of manufacturing industries, so that Southern Italian industries will operate more smoothly and in closer interdependence, because individual producers are dependent on each other and are therefore integrating themselves more or less automatically. Forming new

"auxiliary industries" will frequently provide a decisive fillip to overall profitability.

Estimates of investments in the South planned for 1967 are of at least Lire 290,000 million.

During the years of 1967-71, State-sponsored companies are to invest in the Mezzogiorno, according to the programmes worked out to-date, at least Lire 950,000 million. This will be about 42 % of all the localised investments of the State concerns (not all their investments are "localised", or tied to a local region.

Estimated Investments Analysed by Industries
(In Lire 1,000 million)

Industry	1965	1966	1967
Iron and steel making and processing	152.1	98.2	123.7
Cement making	4.1	0.9	0.5
Engineering, Precision Engineering, Instrument Making	6.0	11.7	8.7
Shipbuilding	0.8	1.6	1.5
Exploration, Development, Production, Distribution, Refining of Crude Oil and Natural Gas	24.2	35.4	27.1
Chemicals and Petrochemicals	8.9	13.6	17.5
Textiles	3.7	2.5	0.3
Telephone network	39.4	42.0	42.0
Broadcasting and T.V.	2.0	3.2	3.0
Motorway construction	13.6	32.0	36.5
Mineral water springs and spas	0.4	1.4	2.1
Film Industry	—	—	—
Miscellaneous	30.7	32.2	26.3
TOTAL	285.9	274.4	289.2

About 70 % of these totals have been, or will be invested, by IRI and its subsidiaries and associates, approximately 20 % by the ENI Group and the remaining 10 % by the other State sponsored companies.

State-Sponsored Groups' Foreign Development Policies

Policies on foreign development aid can assume different forms. One of these is direct action for improving the economies of underdeveloped countries by injecting financial or technical aid, or by training managerial staff and technicians; another one may take the form of indirect assistance by delivering capital goods, of complete production plants, or by drawing up and supervising and managing entire development programmes.

Both IRI and ENI have been used by the Italian governments as their executive instruments for a policy of economic assistance to the so-called "Third World".

According to the last Annual Report of the Ministry of State Participations, "the two concerns are taking part in concrete measures for promoting international activities to create social and technological infrastructures in the developing countries". Thus IRI is running annual training courses for young technicians, where nationals of the African, Asian, and Latin American development countries, but also some from the Soviet Bloc, are taught new skills. In October, 1966, already the fifth of these annual training courses commenced with 126 scholarship holders from 42

countries. Candidates for these training classes are proposed, not only by Italian embassies abroad, but also by the agencies of GATT and the EEC. In close cooperation with the international organisations that operate in this field, IRI is preparing, under UN sponsorship, or on behalf of the Industrial Development Centre, which is to be charged by the UN with drawing up pre-investment development programmes, special classes for training iron steel works technicians and also textile processing engineers.

A Technical College named after the deceased Enrico Mattei (the late Director General of ENI) is running training classes on three important subjects: crude oil production, petrochemical production, and management and administration work in crude production and processing. In 1965, about 40 foreign nationals from 16 countries have attended these classes. Other foreign nationals have worked as trainees of ENI subsidiaries and have attended specialist courses, or they have been sent by ENI, at its expense, to Italian universities.

Even the smallest country cannot afford to neglect the development of its energy industries and the safeguarding of its energy supplies in the present time. ENI companies therefore have found an immense field of operation. ENI's boss, the famed Enrico Mattei, during his lifetime had broken through the traditional limits of 40:60 profit sharing in oil production between host governments and oil companies, and had introduced the 50:50 principle. He has thereby brought the producing countries a formidable increase of revenue. This enabled him to set foot on Iranian and Egyptian soil, and elsewhere. However, ENI has hitherto not been favoured by a big bonanza in uncovering new oil, and it has failed to develop an adequate crude oil basis of its own. Most of the crude which ENI refineries are processing has to be bought from others, in part from the international majors. The latest annual report of ENI contains information about geological and geophysical exploration carried out by the Group's subsidiaries, not only in Egypt and Iran but also in Morocco, Libya, Nigeria, and Tunisia. In this context, ENI's reports always underline the fact that the funds employed by it can in no way be compared with the vast sums sunk into their operations by giant international concerns. This means that oil exploration carried out by ENI will always labour under the handicap of being restricted to the less prolific prospects, compared with the majors.

ENI is operating oil refineries in Morocco, Tunisia, Ghana, Tanzania, and marketing subsidiaries for its products in a number of North and Central African countries, but also in the Argentine, in the Lebanon, etc. ENI is also operating specialised subsidiaries for the construction of oil and gas pipelines. Pipelines at present building are situated in the Argentine (between Santa Cruz and Buenos Aires), in Pakistan (the line Multan-Lyallpore-Dandot-Gharibwal-Shahdra), in India (Haldi-Barauni-Cawnpore, and in the province of Gujerat), and in Brazil (between Rio de Janeiro and Belo

Horizonte). ENI subsidiaries are drilling on behalf of the Indian, Greek, and Argentine governments oil and gas. ENI has designed, supplied and set up refineries in Yugoslavia, Greece, Jordan, China and elsewhere.

Similar information is naturally also available on foreign activities of the IRI firms. IRI subsidiaries have supplied complete industrial plants, machinery, finished products but have also built and taken part

in constructing infrastructures. Among the plant and equipment delivered have been cement kilns, petrochemical plants, nitrogenous fertilizer works, electric power stations, etc., e.g. for India, South America, and others. The Alitalia commercial air line and Italy's shipping lines do not only ply from Italian terminals to a large number of overseas countries, they also operate on runs between different overseas countries, thus promoting international goods exchanges and human contacts.

World Business Trends

*Department for Business Trends Research,
The Hamburg Institute for International Economics*

Declining Expansion of the World Economy

The world economy's cyclical expansion has slowed down conspicuously since autumn 1966. In North America total demand increased but slightly during the current year, in Western Europe the factors retarding for some time already gained growing influence. The world economic contraction was reflected by a smaller growth rate of world trade and a continued decline of raw material prices. The decreasing utilisation of resources induced those responsible for economic policy to relax cautiously restrictive economic policies.

In the first quarter the United States' GNP adjusted for seasonal variation hardly changed in real terms. The strongest contractive effects started from cautious orders placed for additions to stocks, but also industrial investments in fixed assets have obviously been declining. On the other hand, the growth of private consumption has again accelerated somewhat and also public expenditure continued to expand vigorously. Government spendings will go on growing strongly. Although this development does not prevent a pronounced slowing down of overall economic growth, it nevertheless contributes to the cyclical support of total demand and is thus a prerequisite to overcoming the present downward tendencies of economic activity. Another decline in imports and an improvement of the net position on goods

and services are to be anticipated, but just the same it will not be possible to eliminate the balance of payments deficit.

In Western Europe the retarding influences have grown noticeably since autumn, 1966. In most national economies the production increase was lagging more or less behind the development of capacities. The authorities responsible for economic policies relaxed restrictions existing above all in the sphere of monetary and credit policies. The cooling of the economic climate could be observed clearly in the labour markets. In the winter-months the increase in unemployment surpassed almost generally the usual seasonal movement. The rising trend in prices has continued to abate since autumn, 1966. In almost all countries the decline in business activities was mainly caused by private capital expenditure on equipment. The exceptions are Italy and France. The increase of private consumption also slowed down noticeably in most countries. In contrast to private demand, public demand expanded as before or even more so.

In the second and third quarters of 1967, too, the growth of the West European GNP at a rate of approx. 2.5 % (in real terms, on an annual basis) will be as small as before. The unfavourable development in the Federal Republic of Germany remains the decisive

factor for this trend, but also in other countries—apart from Italy—expansion will go on at a retarded rate. Braking influences are exercised mainly by private investment activities, whose volume will remain below the previous year's level in a number of countries. Moreover, the Federal Republic's declining demand for imports has impeding effects on the economic growth of its trade partners.

The development of demand in international commodity markets, that on the whole is not as favourable as it used to be, impaired exports of industrial nations as well as those of developing countries. Due to the unsatisfactory development of demand and declining prices in raw material markets, the growth rate of the developing countries' exports declined from 8.5 % in the first half-year to 3.5 % in the second half of 1966. Here particularly their one-sided export structure (share of raw materials approx. 90 %) and the insignificant price elasticity of their supplies had disadvantageous effects. The developing countries' share in world exports declined. Hitherto their export proceeds—growing at a smaller rate—did not cause them to cut down the growth of their imports correspondingly. Since currently their foreign exchange position is somewhat better than in previous years, an almost unchanged growth rate of their imports should be anticipated.

The economy of the Western industrial countries is marked by