ITALY

Kickback scandal threatens direct oil purchases

By Diana Johnstone

PARIS

FRANCE—AT LEAST THAT PART of the nation referred to as "the political class"—is not easily shocked. Scandals that would ruin political careers in other western countries are shrugged off in Paris as scarcely worth mentioning. Was the French president showered with diamonds by an African tyrant supported by France? German, Dutch, British and Italian journalists churn out excited stories, waiting for the government to totter under the impact of the scandalous accusations. But nothing really happens.

For one thing, the French readily assume that since virtually every politician in high office is probably guilty of some shenanigans, the only reason to bring such misdeeds into public view is to topple one leader in favor of another. The question that interests the political sophisticates is not whether the president took home a certain number of diamonds, but rather, who would profit from making a fuss about it. His right-wing rivals fear the left would profit, the left fears his right-wing rivals would profit, the Communists fear the Socialists would profit.

"We French are not moralistic and puritanical like you Anglo-Saxons," a top labor leader replied when asked to explain his indifference to the diamond story. "This government should be defeated because of its record of unemployment, which is really serious, not because of personal scandals." Much of the French left considers scandal a diversion from real issues and a way of manipulating public opinion to serve obscure political designs.

The French cynics could, if they felt the need, point to Italy to justify their attitude. Italians never cease getting worked up over scandals. Their latest exercise in righteous indignation seems to have cost the country twelve million tons of Arabian oil, with no discernable improvement in public morality.

Left: Prime Minister Cossiga lights up from the AGIP trademark. Right: ENI chairman Claudio Mozzanti.

Last June, the Italian state petroleum company ENI concluded its first deal to buy oil directly from Saudi Arabia, Italy's biggest supplier, without having to go through the American-controlled majors. The contract crowned a decade of Italian efforts to deal directly with Saudi Arabia. ENI's subsidiary AGIP was promised delivery of about five million tons of crude per year over the next two and a half years at a price of $18 per barrel, plus a commission of 7 percent of $1.26 per barrel to be paid to an unnamed intermediary. The total fixed price of $19.26 per barrel is a good bargain as oil prices on the Rotterdam free spot market at hitting $40 per barrel.

But the seven percent commission immediatley aroused suspicions. Not about the Saudis; anyone not born yesterday knows that no Saudi deal is closed without big baksheesh, although the recipients must remain anonymous. Italian suspicions centered on the possibility that the seven percent commission, paid through the Geneva bank Pictet to the Panamanian brokerage firm Sophilau, was not all going to grease Arab palms but was in part returning as kickbacks to Italian political groups associated with closing the deals. Who might these be? The prime minister at the time was Christian Democrat Giulio Andreotti, and the Chairman of ENI was Claudio Mazzanti, a Socialist appointed a year ago in a departure from the usual practice of putting Christian Democrats in charge of Italy's numerous state enterprises. With memories of Lockheed bribes and other such scandals, it was obvious to Italy's political classs that Andreotti and Mazzanti *might have* taken advantage of mysterious Arabian customs to finance, if not themselves or their parties, their particular factions within those parties. This hypothesis was most alarming to rival factions in those same parties.

The ENI deal coincided with a deepening bitter feud between Socialist Party (PSI) leader Bettino Craxi and his chief lieutenant, Claudio Signorile. Getting a Socialist in to head ENI fit with Craxi's strategy of moving towards a "center-left" coalition with the Christian Democrats. But Mazzanti allied with Signorile, and Craxi was furious at the idea that Saudi Arabian kickbacks might be bankrolling his main rival for PSI leadership.

According to the weekly *Espresso*, this idea was diligently planted by a group of disgruntled businessmen with connections in the Arab world who had wanted to serve as middlemen but had been turned down by Mazzanti in favor of other channels. Craxi repeated these rumors to Christian Democratic leaders, including the new prime minister, Francesco Cossiga. After the right-wing weekly *Mondo* brought the rumors into the open, the far left and especially the Radical Party deputies in Parliament began to clamor for an investigation. Questioned in Parliament, Christian Democratic government spokesmen answered so evasively as to raise more suspicions than ever. State Participation Minister Siro Lombardini, responsible for nationalized industries, said he had no proof nor even clues of any irregularities, but that the nature of the Saudi contract made it impossible for him to rule out corruption. Members of Parliament had no political choice but to keep demanding clarification or look like accomplices.

On Dec. 4, Prime Minister Cossiga ordered Lombardini to investigate the ENI contract and to suspend Mazzanti as ENI Chairman until the investigation was over. The next day came the bombshell. Saudi Arabia cut off oil deliveries to AGIP since "rumors and insinuations appearing in the Italian press and reproduced in the international press concerning our agreement...have taken on the dimensions of a huge scandal that has direct and indirect consequences on Petromin and Saudi Arabia..." With Islamic puritans capturing the great Mosque at Mecca to denounce the turpitude of Saudi princes, the latter are in no mood to star in one of Italy's long-playing bribe scandals.

Signorile said the Saudi reaction was no surprise. "That's an atypical market where it's the seller who chooses the consumer. Either you learn to play the game or you're out in the cold." He suggested sarcastically that Italy continue its search for "the guilty party" and if he's found, "let's burn him at the stake. That way we'll have something to keep up warm when our oil runs out."

Business and labor leaders viewed cancellation of the Saudi Arabian contract as a disaster for the Italian economy, which had managed recently to achieve a favorable balance of payments despite heavy dependence on oil imports. The Saudi deal covered only about five percent of Italy's projected annual oil import quota of 105 million tons, but it was considered an important first step towards other direct deals with Arab gulf producers. Italy already doesn't know where it will find 22 percent of its oil next year, and now the percentage is up to 27 percent. The bill could be whopping if Italy is forced to buy all that on the spot market. Signorile said he saw a "plot that leads to the free market, to spot prices in Rotterdam." In the past year, spot purchases have increased from less than five percent to nearly 20 percent of world transactions, to the greater profit of the private companies that play that market. Moreover, vexing the Saudis could be double costly to Italy, since Saudi Arabia is its best export customer outside the European Common Market and the U.S.

One labor leader complained that "this latest political operation in the name of morality has managed in one fell swoop to threaten the country's survival, wreck ENI's credibility and clear the way for the multinationals to reassert their supremacy."

Craxi seemed happy with the outcome of his crusade. But most of the left suspected that the Christian Democrats had skillfully used the Craxi-Signorile feud to get rid of Mazzanti and regain their control of ENI. *La Repubblica* reported a fresh rumor: that Cossiga agreed to oust Mazzanti in return for Craxi's crucial support in the vote on stationing Pershing and Cruise missles in NATO countries. ■

ENERGY

Carter joins OPEC/ oil company cartel

U.S. policy and the structure of the world oil market guarantee higher prices, regardless of supply and demand.

By Alexander Cockburn and James Ridgeway

IN THE DAYS AFTER THE ONSLAUGHT of the "Mahdists" on the Great Mosque in Mecca, an American businessman recently returned from Jeddah reports, every airfield in the Kingdom of Saudi Arabia was white with the robes of Saudi princes, poised by their jets and ready to flee if it turned out that the invasion of the Mosque presaged a wider uprising.

It is now clear that just such a serious upsurge was only narrowly aborted. The princes stayed, but only last week London bankers discussing the dramatic fall in Saudi reserves concluded that panic money was leaving the country, while consoling themselves with the thought that, as one put it, "it does not matter which prince steals what in the end, so long as the fucking money stays in the banking system."

Judgement day is, for now, postponed against the House of Saud. Sheikh Ahmed Zaki Yamani, Saudi Arabia's oil minister, recently quit a meeting of the Arab Petroleum Exporting Countries in Kuwait. It was thought at that time that he stamped out in protest against Iran's actions amid the hostage crisis. It turns out that Yamani had a less principled motive for his exit. He was hastening back to Riyadh to defend himself against charges recently aired in Italy that Yamani and other Saudi associates were taking a 7 percent kickback on every barrel of oil sold to ENI, the Italian state company.

Observers of the Italian imbroglio speculate that there is no reason to assume that such kickbacks are limited to ENI, and that indeed the kickback system may contribute to Saudi Arabia's tendency toward self-restraint within the OPEC pricing structure.

The probability that the Italian scandal forms only the tip of an iceberg also helps explain the profound Saudi reticence concerning any real investigation of the relationships between OPEC and the major international oil companies.

A month ago a Pentagon official concluded that in a couple of years the Saudi Royal Family would be joining the Shah in exile. No doubt the account books of the house of Saud will be read with much interest then by the mullahs, which is why the princes are eager to postpone that day of accounting as long as possible.

On Nov. 7, a memo on White House stationary dropped upon the desk of Alfred E. Kahn, the so-called anti-inflation czar, more formally known as the chairman of the Council on Wage and Price Stability. The memorandum had been prepared by Terence L. O'Rourke.

In simple language, O'Rourke outlines the causes of inflation in the oil industry, elaborates a policy for reducing it, and, most significantly, lays bare the structure of the industry itself.

"The bulk of foreign oil traded in international markets and imported into the United States," O'Rourke writes, "is controlled by a handful of major international companies. Other companies buy all or most of their foreign oil from them. In recent months, as the world oil supply became tight, these major companies reduced their third-party sales to other companies in order to meet their own needs and/or divert supplies to take advantage of high spot market prices. At the same time, they greatly expanded their mark-ups on remaining third-party sales. The customers who were cut back were driven into very thin spot markets for oil where they bid up prices to extraordinary levels. They imported this oil at vastly inflated prices into the United States where it has had the double impact of driving up prices for both domestic crude oil and refined products.

"In past months," O'Rourke continued, "those few major companies who control the bulk of foreign oil moving in world commerce were able to reap immense profits, because: (1) They were assured of adequate supplies as a result of the control they exercised; (2) They purchased their crude oil supplies at the lowest prices and often resold a portion of it at vastly inflated mark-ups in the limbo of international markets; and (3) They sold their refined products at market prices which reflected the costs of refiners who were buying crude oil at the highest prices."

After this exemplary description, O'Rourke discussed the consequences: "Due to the inelasticity of demand for petroleum, the cost of oil to the second tier companies (those with scarce or nonexistent foreign supplies) generally establishes the price for refined products, creating a wide margin for immense profits for the major companies. The oil-producing countries point to the high prices and profits of these oil companies as justification for further increases in their oil prices, creating a vicious spiral of ever-inflating oil prices."

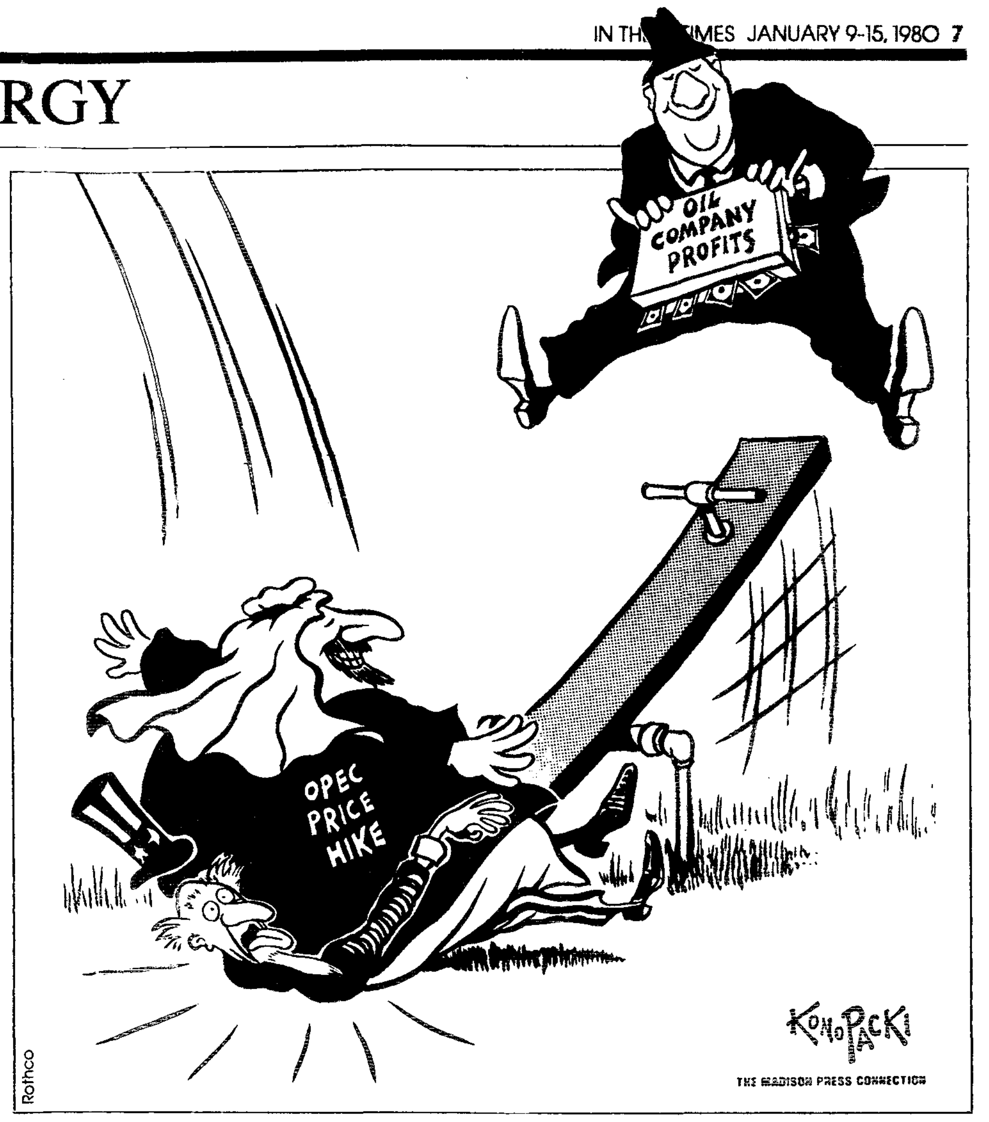
This straightforward assessment will come as no surprise to students of the oil industry, who have been reading the same sort of thing since Ida Tarbell's *History of the Standard Oil Company* more than 50 years ago. But for those unfortunates who must acquire their information from the energy correspondents of the *New York Times* or the advertisements of Mobil Oil, the simple facts can never be stated too often.

O'Rourke's memorandum, extinguished beneath the placid buttocks of Alfred Kahn, merely helps to make U.S. policy clear. This policy has been designed, under the aegis of President Carter, to reinforce the system so soberly described by O'Rourke. Carter, after all, deregulated oil prices, giving the oil companies even greater control. He then introduced the derisory windfall profits tax as a fig leaf to conceal overall surrender.

The direction and effect of this policy are clear: oil company profits, straightforwardly described by O'Rourke as "immense," are permitted as a mode of capital accumulation which the companies will be encouraged to devote to the development of new energy sources.

There are two main points about energy policy in the U.S. First, the major companies have not yet achieved consensus on just what they want to do. Second, whatever the policy, it is clearly the province of these companies, not of the U.S. government. This surrender of responsibility has been the major achievement of the Carter administration, in an era when every other government in the world is moving in precisely the opposite direction.

It has become fashionable lately in the West to discount the role of the major oil companies, to relegate them to the humble role of mere utilities overseeing supply and to direct full attention, blame, and fury at OPEC, assembled now in Caracas to perpetrate further outrages upon the consuming world.



For its part, OPEC has been attributing blame to the companies. But the truth is that both OPEC and the companies enjoy the status quo and need each other. (Even though country-to-country oil deals are on the increase, this slice of world oil commerce accounts for only 10 percent of overall production.) OPEC has assumed over the last decade a greater role in production, while the companies have reorganized themselves to take profits downstream in shipping, refining, and marketing.

Throughout the history of the oil industry there has always been one central problem: glut. Today, the talk in uninformed circles is—as always—of shortage. Such is not the case and those who believe this talk of glut to be the unwholesome obsession of these two authors should direct their attention to articles in the last five days in the *Journal of Commerce*, the *Wall Street Journal*, and indeed *Business Week*.

Glut—more oil than people need—should, in the cheery worlds of Adam Smith and Milton Friedman (who forecast a collapse of OPEC and sub-$10 oil in 1974) spell lower prices. Such, in today's world of $30-a-barrel prices, is manifestly not the case. A "classical" drop would of course be ruinous to Carter's energy policy which, as we have suggested, depends on inflated prices for capital accumulation as the springboard of the new energy industry.

Hence the first unifying principle of OPEC and the Seven Sisters: No glut. This, put in its most cynical light of the Iranian revolution, with consequent reduction of oil sales to the West, can be viewed as exceedingly helpful. So, too, can the caution with which Middle Eastern regimes now view untrammeled industrialization, which enables them to need less revenue, leave more oil in the ground, and reduce the possibility of surplus.

These arrangements have had a most unpleasant effect on one segment of the earth's consumers: the poor Third World countries. The rising cost of oil since 1974 has meant that these countries have plunged deeper and deeper into debt to the Western banks, largely through the Euromarkets.

For the non-oil producing Third World countries the prospect is grim. Default is one possibility—with the chance of a world banking catastrophe. More likely is the reorganizing and extension of debt on onerous terms, the effect of which would be to reduce them to an ever-more-abject neocolonial posture.

This week the White House press room will no doubt echo with lamentations and tirades against the oil gougers of OPEC, amid ongoing emphasis on the insistence of the administration that the hostages in Teheran be released. There is an irony here. The government which is allegedly acting with such responsible determination to rescue those hostages has, by its own actions over the last three years, made itself, and indeed every American consumer, hostages of the OPEC/oil company cartel. The hostages who will be suffering over the coming winter are not the embassy personnel in Teheran but the poor people in this country who never even had the option of volunteering for service in an embassy overseas. ■

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