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65 APR 1979

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HM Treasury
Parliament Street
LONDON

Your reference
Our reference
Date 1 April 1979

Mr. Vorek

Dear Chris,

*More or less what one has read
in the press with the important
exception of the question of
embezzlement.*

SCANDAL AT THE BANK OF ITALY

1. I wrote on 26 March to describe the alarming events which had recently taken place at the Bank of Italy. I thought I had better bring you up-to-date. Sarcinelli remains in jail, though he was expected to be released on bail today, now that, as the magistrates say, his offices have been searched and he is no longer able to destroy incriminating evidence. Baffi has been interrogated twice. Meanwhile, the whole affair has begun to assume the dimensions of a power struggle between the magistrature and the Government, and it is possible to distinguish this as a separate theme from the underlying investigation of the financing of SIR.
2. The Government's reaction to the action of the magistrates last week was sharp: the Ministerial Committee on Credit and Saving met on Thursday and approved a statement which repeated the Government's confidence in Baffi and the Bank of Italy, and, perhaps rather unwisely, suggested that the Banking Law, which gives the Bank of Italy discretion over reporting misdemeanours by the commercial banks to the magistrates, takes precedence over the Penal Code, which makes it an offence for any public official to withhold information from the magistrates when he has obtained evidence of illegal activities. The magistracy have not unreasonably pointed out that it is for the courts to rule on this point, and not the Government. Parliament, in the person of the Parliamentary Committee on Credit, have also pronounced solidarity with the Bank of Italy. Similar sentiments have appeared on the part of other national institutions. Andreotti however has been notably absent from the list, whether because, as it is whispered, he has an interest in seeing the activities of the Bank of Italy curtailed, or, much more probably, because he recognises the unwisdom of a public confrontation with the magistracy.
3. These reactions, which have been rather visibly orchestrated by the Bank of Italy, have led to a tightening of the ranks among

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the magistracy, and even those members of the latter who were known to feel that the indictment of the Bank of Italy was mistaken have now publicly sided with the magistrates in charge of the case. In fact the thing has now reached rather ludicrous proportions. The magistrates, having requested and been refused the minutes of Thursday's Ministerial Meeting, have announced their intention of attempting to interrogate all the Ministers involved in the meeting to establish on what evidence they approved the statement. 50 prominent economists who signed an open letter in support of Baffi have been served with orders to appear before the magistrates to justify their statements. And, perhaps most absurdly of all, all 22 employees of the Bank of Italy's branch at Enna in Sicily, down to those who sweep the floor, have been indicted before the courts under an article of the Penal Code which prohibits strike action designed to put pressure on authority. I mentioned in my last letter that the Bank of Italy had gone on strike over the affair. It remains uncertain whether this is a local initiative on the part of the Sicilian magistrates, or whether the magistracy have decided to serve similar notices on all employees of the Bank of Italy, starting, one assumes, at the southernmost point and working upwards.

4. While this comedy is proceeding there are more serious developments in the background. It is reported that the enquiring magistrates are about to issue a number of warrants for the arrest of prominent persons involved in the financing of SIR, this time for embezzlement or complicity in embezzlement. Hitherto the charges have been on the misuse of public funds, and since there is a widespread expectation in Italy that decisions on the allocation of public funds are often likely to be pretty dubious, this is not regarded as a particularly damaging charge. Putting the money in one's own pocket, or deliberately conniving at it, would be. It is almost certain that charges for this crime will be issued against Rovelli, and the heads of the main banks involved, including IMI: it should be remembered that Baffi himself was a senior director of IMI at the time the loans were approved. But it is perhaps not very probable that senior members of the Bank of Italy will be accused of this more serious offence, though assiduous rumours are nevertheless going about that they will.

5. More next week.

Yours ever

Tony

A C Galsworthy

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