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C J Baker Esq
IFI
HM Treasury
Parliament Street
LONDON

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Our reference

Date 26 March 1979

Rx 29/3
1. Mr. Vecker:

some interesting background

2. Reg 4:

Enter of AA Plan

Dear Chris,

SCANDAL AT THE BANK OF ITALY

1. At 11'am on the morning of Saturday 24 March the Carabinieri arrived at the Bank of Italy, where they arrested the Deputy Director General, Mario Sarcinelli, and took him forthwith to the Regina Coeli prison where he now languishes. While at the Bank, the Carabinieri served on the Governor, Professor Baffi, an order to appear before the magistrate. The magistrature have since let it be known that Baffi himself would have been arrested but for considerations of his age and the international repercussions. Since it seems likely that these untoward events may cause some international interest, I thought I would let you have as much of the background as we know.

2. The warrant was requested by a young Roman magistrate named Infelisi, and confirmed by Judge Alibrandi, both of whom have been engaged in investigating the affairs of the chemical empire of Nino Rovelli, Societa Italiana Resine, usually known as SIR. The charges are that Sarcinelli and Baffi gave personal favours, and allowed private interests to dictate official acts. The charges relate to the failure of the Bank of Italy to transmit to the magistrature a report of an inspection which the Banking Supervisory Section of the Bank of Italy had carried out on the Industrial Credit Bank of Sardinia, in connection with dubious finances which that bank had made to SIR. You will probably have heard of the various scandals surrounding the financing of Rovelli's empire, of which this is but one. The Bank of Italy maintains that the report of their inspection was available to the magistrature all along, and that in any case it does not reveal anything incriminating about the Sardinian bank, since all documentation of the suspect loans had already been seized by the local magistrature before the inspection took place.

3. As usual in Italy, there seems to be a rather more complicated motivation behind the whole operation. (Much of what follows, while being common gossip, is wholly unproven. But I report it anyway, since at least some of it is bound to be true, and in any case much of the importance of this affair is likely to be less what happens than what people think about it). Sarcinelli is thought to be very close to the Italian Communist Party: since he became the Deputy Director of the Bank and Head of the Banking Supervisory Department in 1975, the Bank's system of inspection of bank operations has

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been greatly tightened, and the Bank has been very much more punctilious in its duty of passing on to the magistrature any evidence of illegal activities discovered in the course of inspections. One famous such case was the Sindona scandal. A more recent one in 1978 was the Italcasse scandal where the Bank of Italy uncovered the activities of the then President of Italcasse, Arcaini, who had been funding a number of political parties, primarily the Christian Democrats. Arcaini fled into exile where he subsequently died, but I believe that another of his co-directors is still in prison. Not unnaturally these activities on the part of the Bank of Italy have made Sarcinelli a number of enemies, and in recent months there has been a growing crescendo of criticism, mainly in the right wing press, of the Bank's activities, generally alleging that the Bank was itself involved in doubtful financial dealings. There are two possible motives for such attacks: the first simply revenge, but the second, perhaps more credible, the fear that the Bank might discover and reveal other cases of illegal dealings.

4. Last week an Italian journalist called Nino Pecorelli was found shot dead in his car: he had run a small right wing newspaper and news agency which specialised in circulating insidious articles about leading political figures, and particularly senior officials of the Bank of Italy. The suspicion is that Pecorelli was killed to keep him quiet. However Pecorelli is known to have been close to Infelisi, the Procurator who requested the arrest order on Sarcinelli, and to have seen him shortly before he was killed. The judge who issued the arrest order, after, incidentally Infelisi failed to get it endorsed by his superior, who is an Andreotti man, is himself suspected of being close to the Fascist Party.

5. There is thus a strong suspicion of a political motive hidden somewhere in the undergrowth. This does not necessarily mean that there is no truth in the charges: it is by no means inconceivable that the Bank of Italy, perhaps acting with the purest of motives, might have at least delayed the publication of more scandals concerning Rovelli. And attempts to get one's opponents involved in judicial proceedings is an all too familiar device in Italian politics. There are many great men in this country who have spent the odd night behind bars: it is one of the curiosities of the Italian legal system.

6. Following Sarcinelli's arrest the Italian Socialist Party leapt to the defence of the Bank very quickly, perhaps not surprisingly in view of Rovelli's links with the PSI. More importantly the PCI is also hinting through the Communist press of "dark manoeuvres" by right wing political interests designed to suppress the only Italian political institution which has hitherto been above suspicion whatever the truth behind all this - and there will probably be further revelations - there is no doubt about the seriousness of the situation. The Bank of Italy certainly has been the one Italian institution which has remained largely above suspicion of corruption, not only domestically but also internationally. There is already considerable nervousness on the part of the Government about the effects which a scandal could have on international confidence in Italy. Following the arrest of Sarcinelli all three of the senior remaining members of the Bank of Italy's "Directorate", Baffi, Ciampi, the Director General, and Acerbo, the Deputy Director General put out a statement in which they committed



themselves to resigning if the magistrature did not immediately release Sarcinelli (the Bank itself is on strike today in protest). At the same time they declared their continued readiness, as before, to cooperate completely with the magistrature. We believe that there is a strong possibility that Baffi and the other leaders will carry out their threat. This would place the Government in a very difficult position. The Minister of the Treasury, Pandolfi has already made a strong statement expressing confidence in Baffi, which was endorsed by Andreotti, and the President of the Republic, Pertini, who is ex-officio the Head of the Magistrature, received Baffi yesterday as a gesture of confidence. In view of the political consequences of a showdown the most probable outcome is that pressure will be brought on the magistrature and that Sarcinelli will be released, although I gather that he was interrogated by the magistrates this morning, and that they did not order his release. Even if he is released it will be a long time before the ripples die down. If he is/ there could be an interesting crisis - see tomorrow's newspapers.

*Yours ever,
Tony*

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