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Marco Siddi
Senior Research Fellow
European Union research programme
The Finnish Institute of International Affairs

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- Italy has a long-standing cooperative relationship with Russia, which is based on significant economic contacts and the lack of major contentious issues in bilateral relations. The Italian energy company ENI, partially state-owned, has developed a strong relationship with Gazprom.
- Italy perceives itself as a 'middle power' that can achieve its foreign policy objectives through cooperation with the international organisations of which it is a member, primarily the EU and NATO. However, Italian policy-makers tend to believe that a stable European security architecture can be achieved only with Russia's participation. Hence, Italy has been a staunch supporter of dialogue with Russia in the EU and NATO.
- The Ukraine crisis exposed the limits of cooperation between Moscow and Rome: the EU sanctions and Russian countersanctions severely affected bilateral trade, while the energy partnership was weakened by the cancellation of the South Stream pipeline project.
- Domestic pressure to lift the sanctions is increasing in Italy, particularly from the agricultural and manufacturing sector, which have been the most affected. However, the Italian government is unlikely to oppose the extension of EU sanctions without progress in the implementation of the Minsk-2 agreement.
- Italy could contribute to EU-Russia relations by profiling itself as a proactive, leading EU interlocutor on the resolution of the Libyan crisis, anti-terrorism efforts in North Africa and Mediterranean politics in general.

Italy has long been regarded as one of the most sympathetic countries towards Russia within the European Union. In the past decade, a study on EU-Russia relations by the European Council on Foreign Relations, which was widely circulated in Brussels, placed Italy in the group of Russia's EU 'strategic partners', together with Germany, France and Spain.¹ Russian observers shared this view and talked of Italy-Russia relations in terms of a 'privileged partnership'.²

Indeed, Italy is Russia's second biggest trade partner in the EU and has an important energy relationship with Moscow. Trade, tourism and cultural links between the two countries have increased significantly since the 2000s. Italy has long been an advocate of cooperation with Moscow within NATO and the EU. At times of tensions between Russia and the West, Rome has engaged in damage limitation and bridge-building – for instance during NATO's Eastern enlargement, through support for the creation of the NATO-Russia Council, and after the August 2008 crisis between Russia and Georgia, when Italy lobbied for the resumption of formal relations between NATO and Moscow and of negotiations over a new EU-Russia treaty.³

There are several reasons for Italy's cooperative stance vis-à-vis Russia. Economic interests are often cited as a key factor, and they certainly play an important role. Equally important, however, is the widespread belief among Italian policy-makers that no stable European security order can be achieved without Russia's active participation. A further determinant of Italy's stance towards Russia is its self-perception as a 'middle power' that, due to its limited resources, can achieve foreign policy goals mostly through cooperation with international organisations and great powers. Russia is one of the great powers with which Rome has well-established links, and this is seen as an asset to use in scenarios that are particularly important for Italian interests – such as the Libyan crisis, for instance.

1 M. Leonard & N. Popescu, *A Power Audit of EU-Russia Relations*, European Council on Foreign Relations, November 2007.

2 N. Arbatova, *Italy, Russia's Voice in Europe?* French Institute of International Relations, September 2011.

3 Both had been suspended following Russia's military clash with Georgia in August 2008.

However, the Ukraine crisis has highlighted the limits of Italy's approach to Russia. On the one hand, Italy has aligned itself with its Western allies and supported both EU sanctions and NATO countermeasures against Russia. This signalled that, for Rome, the 'privileged partnership' with Russia comes second at times of tensions between Moscow and the West, particularly if Russia is seen as undermining European security. On the other hand, Italy's strategy of damage limitation revealed its weakness in the context of a serious crisis. Italy left the initiative at the negotiating table to France and Germany and was unable to influence developments.

This briefing paper reviews the main economic and political aspects of Italy-Russia relations, highlighting the factors that made it a 'privileged partnership'. It goes on to argue that Italy could play a more significant and constructive role in EU relations with Russia, particularly in issues concerning the EU's Southern neighbourhood, by using the leverage that is offered by its economic weight and long-standing cooperative bilateral relationship with Moscow.

The economic factor, past and present

Italy has a long post-war history of economic ties with Russia. The connection is particularly strong in the area of energy. In the 1960s, Italy started to import oil and gas from the Soviet Union, signing one of the first long-term gas supply contracts between a Western country and the USSR in 1969. Trade quickly expanded to other areas, and in 1970 the Italian car manufacturer FIAT started producing cars in the Soviet Union. Italy also boasted the largest Communist Party in Western Europe (receiving between one third and one fourth of the total votes throughout the Cold War), which contributed to positive relations with the USSR.

Bilateral trade experienced a new surge in the post-Soviet period, particularly after Russia's economic recovery in the 2000s. Today, over 500 Italian companies operate in Russia. The energy company ENEL and the aerospace, defence and security company Finmeccanica have made large investments in the country. In 2013, Italian exports to Russia peaked at over 10.7 billion euros, while Russian exports to Italy were worth over 20 billion euros. Between 2008 and 2013, Russian tourist flows to Italy nearly doubled.



Russian VAZ-2101 was a re-engineered version of the Italian Fiat 124 and was produced under license from Fiat.

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The significance of this economic partnership has to be understood against the background of recession or sluggish economic growth experienced by the Italian economy since the 2008 financial crisis. With the imposition of EU sanctions on Russia in 2014 and Russia's countersanctions, Italy lost one of its growing export markets. The value of Italian exports to Russia fell to 7.1 billion euros in 2015, a drop of nearly 34% compared to 2013.

In absolute values, the most substantial losses were in the manufacturing sector, most notably exports in machinery, textiles, shoes and leather products, furniture and electrical appliances. Food exports were severely hit by the Russian countersanctions and experienced a drop of almost 40% between 2013 and 2015. The Northern regions of Lombardy, Emilia Romagna and Veneto – the industrial and agricultural motor of the country – accounted for more than 72% of the decline in exports to Russia.⁴

It is thus unsurprising that some economic groups, as well as the political actors that represent them, advocate lifting the sanctions. Influential critics of the sanctions include the Italian

General Confederation of Craft (Confartigianato), the nationwide farmers' association Coldiretti, prominent members of the General Confederation of Italian Industry (Confindustria) and several leaders of the political opposition, notably Silvio Berlusconi and Matteo Salvini (head of the far-right Northern League party).

The Five Star Movement, currently the main opposition party, has highlighted the negative effects of the sanctions on Italy and criticised the Renzi government for purportedly failing to defend national interests adequately on the matter. Moreover, in May 2016 the regional parliament of Veneto – an important industrial area with nearly 5 million inhabitants and governed by the Northern League – passed a resolution asking the Italian government to lift the sanctions and recognize Russia's annexation of Crimea.

Nonetheless, the Italian government will not endorse the lifting of sanctions at the EU level unless there is progress in the implementation of the Minsk-2 agreement. Italian Prime Minister Matteo Renzi has reiterated this stance on several occasions, including his last bilateral meeting with Russian President Vladimir Putin in June 2015.

⁴ Detailed data on the decline in trade flows is available at: *La Repubblica*, 26 March 2016, http://www.repubblica.it/economia/2016/03/26/news/export_russia_sanzioni_embargo-136323510/.

Still a strategic energy partner?

Russia supplies around 15% of Italy's oil and 30% of its gas. The Italian energy company ENI has been one of Gazprom's main international partners and, in 2007, it agreed to buy Russian gas until 2035. However, in the last 20 years Italy has diversified its suppliers. Italy's import options are likely to increase in the upcoming period, when the Trans Adriatic Pipeline (TAP) becomes operational and ships Azerbaijani gas to Apulia in Southern Italy (presumably from 2018).⁵ Italy still needs Russian gas, but the reverse is also true, as Italy is the second largest EU market for Gazprom. Hence, the Italian-Russian energy relationship should be seen in terms of interdependence, rather than as a one-way dependence.⁶

Nonetheless, Moscow remains Italy's main external gas supplier. With the increase in domestic demand in Algeria and the civil war in Libya (two key suppliers for Italy), Russia will continue to be an important partner in the foreseeable future. In this respect, one of the main questions is whether the Italian government and companies will attempt to revive new infrastructural plans to import Russian gas via a Southern corridor, following the cancellation of South Stream.

South Stream was a pipeline project led by Gazprom and ENI that would have shipped Russian gas to the Balkans, Austria and Italy via the Black Sea. ENI controlled 20% of the stakes (Gazprom 50%), and its subsidiary Saipem received contracts to build the offshore part of the pipeline. The project received the endorsement of the Italian government until round about early summer 2014. The escalation of the Ukraine crisis and the shutdown of flight MH17 over Ukraine dented the Italian support.

The opposition of the European Commission to the project seems to have been the decisive factor in its cancellation. In early December 2013, the

Commission declared that the intergovernmental agreements concluded between Russia and the EU member states involved in South Stream (Bulgaria, Serbia, Hungary, Greece, Slovenia, Croatia and Austria) were in breach of EU law and had to be renegotiated.⁷ A year later, Putin unilaterally called off the project, much to the disappointment of Saipem, which sued Gazprom for almost \$1 billion for work already performed on the maritime section of South Stream.

However, Putin's plans to replace South Stream with Turkish Stream, a pipeline that would reach the EU at the Greek-Turkish border instead, were frustrated by the changing geopolitical scenario. In November 2015, the shutdown of a Russian bomber by a Turkish fighter jet near the Syrian-Turkish border triggered a deep crisis in Russian-Turkish relations; as a result, the Turkish Stream project was frozen. Gazprom and its partners in Italy and Greece have seen this as an opportunity to revive the 'South Stream concept'.

Hence, in late February 2016 Gazprom signed a memorandum of understanding with Italy's Edison and Greece's DEPA for a new gas supply route reaching Greece via the Black Sea and an unspecified third country. Both Italy and Greece have an interest in the pipeline, as they import around 30% and 60% of their gas from Russia respectively.⁸ The project would build on the work already carried out by DEPA and Edison on the ITGI Poseidon pipeline, which is designed to link the Italian and Greek supply systems. As it would not involve the building of new Gazprom-controlled infrastructure on EU territory, the pipeline would be less likely to face opposition from the European Commission on legal grounds, as was the case with South Stream.

However, the project faces several constraints. It competes with the EU-sponsored TAP pipeline and, most significantly, it depends on supplies flowing first through either Bulgaria or Turkey (one of which has to be the third country not specified in

5 *Italian gas (over)supply: how the crisis reshaped imports*, ISPI, 17 June 2015, <http://www.ispionline.it/en/energy-watch/italian-gas-oversupply-how-crisis-reshaped-imports-13515>.

6 See data and analysis in R. Alcaro, 'Italy', in M. David et al. (2013), *National Perspectives on Russia: European Foreign Policy in the Making?*, Abingdon: Routledge, pp. 74-75.

7 Euractiv, 4 December 2013, <http://www.euractiv.com/section/competition/news/south-stream-bilateral-deals-breach-eu-law-commission-says/>.

8 Platts, 26 February 2016, <http://www.platts.com/latest-news/natural-gas/london/gazprom-eyes-new-route-to-europe-for-russian-26379221>.

the memorandum). With Russian–Turkish tensions running high, Bulgaria’s involvement seems to be the more likely option. However, the project would also be costly and, with the current low gas prices, Gazprom’s finances are scarce and focused on other priorities (i.e. Nord Stream-2).⁹ In this conundrum, Edison’s stance and that of the Italian government will indicate whether Italy is still betting on large joint infrastructural projects with Gazprom.

Pursuing European security and fighting terrorism with Russia

Economic factors are often cited as the main determinant of Italy’s stance towards Russia. Nonetheless, security considerations are equally important, particularly in the current geopolitical scenario. Italian policy-makers tend to believe that enduring stability in Europe can be achieved only if Russia is an integral part of the European security architecture. This is also the reasoning behind Italy’s long-standing policy of encouraging dialogue between the EU, NATO and Russia. Significantly, Italy responded positively to the proposal made in 2009 by former Russian President Dmitri Medvedev to engage in discussions for a new comprehensive treaty on European security.¹⁰

However, while Rome appeared amenable to an upgrade of European security structures in order to strengthen Russia’s participation in them, it remains opposed to the idea of re-establishing spheres of influence in Europe. Moreover, the quest for cooperation with Moscow has not prevented Italy from supporting decisions that were sometimes fiercely opposed by Russia, if they were seen as strengthening European security. This was the case with the recognition of Kosovo’s independence in 2008 and, more recently, with the policy of sanctions against Russia during the Ukraine crisis.

During the Ukraine crisis, Rome has been careful to sustain dialogue and preserve bilateral diplomatic

channels. In March 2015, Matteo Renzi was the first European leader to be hosted in the Kremlin after Russia’s annexation of Crimea. On the other hand, Vladimir Putin visited Italy twice after the start of the Ukraine crisis: the first time in October 2014, to attend the Asia–Europe meeting in Milan, and the second time in June 2015, to visit the EXPO 2015 in Milan and then meet Renzi and President of the Republic Sergio Mattarella in Rome (as well as Pope Francis in the Vatican). On the latter occasion, Putin called Italy “a great partner in Europe” and appeared keen to show both Russian and foreign observers that Russia still has friends inside the EU as well.¹¹

Despite mentioning political differences between Italy and Russia, Renzi reciprocated through friendly rhetoric and by arguing that it is necessary to have Russia on board in the fight against terrorism. Indeed, Italy’s main geopolitical concerns lie in the Middle East, and Rome is keen on Russia’s cooperation with the West to pacify Syria and, above all, to stem the civil war in Libya.¹² The rise of Islamic State and large-scale migration from the EU’s Southern neighbourhood are the main security issues from an Italian perspective.

Russia’s support in fighting terrorism is seen as desirable for several reasons. As a permanent member of the United Nations Security Council, Russia can add political clout to the relevant international efforts. Italy was therefore eager to have the Russian foreign minister participate in the international talks on Libya in Rome in December 2015. Prior to the Rome conference, the decision-making process on Libya had been confined to the P3+5 (France, the United Kingdom, the United States, Germany, Italy, Spain, the EU and the UN).

Perhaps even more significantly, Italy sees Russia as an important player in the MENA region in general. Russian military intervention in the Syrian civil war has strengthened this perception. Furthermore, in recent years Moscow has intensified its cooperation

9 V. Socor, *Turkey–Greece–Italy Interconnector: South Stream’s Latest Avatar?*, 4 March 2016, [http://www.jamestown.org/single/?tx_ttnews\[tt_news\]=45171&tx_ttnews\[backPid\]=7&cHash=b90b8919f10455659452a72607c0ba88#.VoHoitv97IV](http://www.jamestown.org/single/?tx_ttnews[tt_news]=45171&tx_ttnews[backPid]=7&cHash=b90b8919f10455659452a72607c0ba88#.VoHoitv97IV).

10 See Alcaro, op. cit., pp. 76–7

11 See *Financial Times*, 10 June 2015, <http://www.ft.com/intl/cms/s/0/1c7a8c76-of84-11e5-b968-00144feabdco.html#axzz49Umzp9nr>.

12 See *The Economist*, 17 March 2015, <http://www.economist.com/news/europe/21646626-italy-trying-straddle-widening-rift-between-russia-and-west-relatively-friendly>.

with several North African states and developed solid relations with key regional actors such as Egypt and Algeria.¹³ For instance, Russia signed a \$3.5 billion arms deal with Egypt in 2014, and in February 2015 Putin, foreign minister Sergei Lavrov and Russian businessmen paid a two-day visit to Cairo.

The Italian government sees Egypt as an important factor in the fight against terrorism in Libya, hence it is interested in the functionality of the growing Russian-Egyptian cooperation for Italian purposes.¹⁴ According to some analyses, Russia is also attempting to gain direct influence in Libya by siding with (and presumably supplying arms to) General Khalifa Haftar, the head of the Libyan National Army and one of the most influential figures in the current Libyan civil war.¹⁵

A key question, however, is to what extent Russia is interested in supporting Italian or EU diplomatic efforts for the stabilisation of Libya. For Russian policy-makers, the Libyan crisis is symbolic of what goes wrong when the West undertakes unilateral military action and pursues regime change. Russia has an interest in stemming terrorism in Libya, as the issue has a clear international dimension, and in sitting at the decision-making table (not least for status reasons). However, it is questionable whether Moscow sees these as good enough reasons to become engaged in the resolution of a crisis that is often used to epitomise Western failure. Russia may ask for a larger *quid pro quo* in exchange for its support of conflict resolution at the UN level and, if this goes beyond promises of economic involvement

in post-conflict Libya, Italy may not have the leverage to deliver.

Contributing to the Mediterranean dimension of EU–Russia relations

Having left the initiative to Germany and France in negotiations over Ukraine, it appears that Italy could contribute to the development of EU–Russia relations primarily by profiling itself as the main EU interlocutor on the Libyan crisis, if not on Mediterranean politics as a whole. This would correspond with the current Italian priorities in foreign and security policy. Even while negotiations over Ukraine are deadlocked, the EU needs to engage Russia on Mediterranean issues, not least because – as the Syrian intervention has shown – Moscow can take unilateral initiatives in the area. Italy’s traditionally good relations and considerable economic leverage with Russia would be a valuable asset in pursuing this policy.

Italy’s leadership in coordinating EU efforts to resolve the Libyan crisis is likely to be welcomed in Brussels too. The initiative of individual member states can provide an important contribution to European foreign policy, provided that policies are agreed upon with other EU partners. Italy is well-positioned to coordinate its endeavours with the European External Action Service and the Union’s High Representative, Federica Mogherini. While Mogherini must maintain an impartial role within the Union as head of European foreign policy, her extensive contacts with Italian decision-makers would certainly facilitate joint efforts to resolve the Libyan crisis.

In order to be seen as a leader of EU policies in the Mediterranean region, however, Italy must formulate a clear strategy and a proactive diplomatic agenda. This is all the more important in negotiations with the Russian leadership, which has shown little consideration for indecisive interlocutors. If Rome succeeds in profiling itself as a leader in talks over Mediterranean politics, it will have much better chances of being treated as an influential factor in European security and in EU–Russia relations as a whole.

13 See T. Schumacher and C. Nitoiu (2015), ‘Russia’s Foreign Policy Towards North Africa in the Wake of the Arab Spring’, *Mediterranean Politics* 20(1), pp. 97–104, and D. Trenin, *Russia in the Middle East: Moscow’s Objectives, Priorities, and Policy Drivers*, 5 April 2016, <http://carnegie.ru/2016/04/05/russia-in-middle-east-moscow-s-objectives-priorities-and-policy-drivers/>.

14 See also, *Why Italy seeks cooperation with Russia*, Stratfor, 5 March 2015, <https://www.stratfor.com/analysis/why-italy-seeks-cooperation-russia>.

15 See Y. Barmin, ‘Will Russian arms soon start flowing to Libya?’, *Al-Monitor*, 1 June 2016, <http://www.al-monitor.com/pulse/originals/2016/05/russia-military-ties-former-allies-libya.html>.

Conclusion: the Italian factor in the future of EU–Russia relations

From an Italian perspective, the current crisis in EU–Russia relations and the recession in the Russian economy have meant the loss of a lucrative export market and the weakening of a long-standing partnership. Influential domestic actors, both in the business community and the main opposition parties, have criticised the current EU and national stance vis-à-vis Russia. The current fragility of the Italian economic recovery goes some way towards explaining why there is little enthusiasm about extending the sanctions.

Nonetheless, the Renzi government has supported the EU position on Russia and will most likely continue to do so. An important reason for this is that Italy highly values unity at the European level, not least because it needs support from its EU partners in tackling the crises in its own neighbourhood. As long as the other member states show solidarity on issues such as Libya and the refugee crisis, Italy will also reciprocate in areas – such as relations with Russia – where its national interests may differ.

At the same time, Italian policy-makers will attempt to shape debates on Russia within the EU in ways that match Italy's concept of European security. This includes the recognition that Russia is an essential actor in European and global geopolitics, and that there can be no stable European security if Russia and the West are set on a long-term confrontational path. Hence, it is possible that Italy will support EU-level endeavours to de-escalate tensions with Russia, provided that there is progress in the implementation of the Minsk-2 agreement.

Italy could also take the initiative and extend the EU–Russia dialogue to Mediterranean issues. This entails the advantage of having Russia fully involved in the resolution of the Libyan crisis, where it may play a role thanks to its vote in the UN Security Council and its significant relationship with several regional actors. EU–Russia cooperation on Mediterranean issues will be fruitful if a set of common objectives are clearly agreed upon, such as defeating ISIS and stabilising the MENA region.

The Finnish Institute of International Affairs
tel. +358 9 432 7000
fax. +358 9 432 7799
www.fiia.fi

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