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ENI external action: an International Relations theories interpretation?

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INDEX

CHAPTER III

The blue gold and its pipelines

1. The gas age
2. Pipelines and geopolitics

   2.1 LNG: a future escape from the constraints of geopolitics

   2.2 The Italian situation

CHAPTER IV

ENI-Gazprom: strategic partnership against Nabucco

1. Gazprom: energy resources as a political tool
2. ENI-Gazprom: celebrating 45 years of partnership
3. The European energy security policy
4. South Stream versus Nabucco

CONCLUSION

BIBLIOGRAPHY AND WEBSITE CITATIONS

INTRODUCTION

Energy is an essential element for modern societies. From the morning after waking up to the evening when lights is turned off, each every day activity is characterised by the use of energy. It is something that it is usually taken for granted above all in the Western countries, but what if suddenly energy flows would stop? No more light, no more heating, no more microwave, no washing machine…not to speak about the terrible damages to the economy.

As a matter of fact, national governments have to put on their priority list the need to make sure that the energy necessary for industrial production and population well being will be guaranteed. This can be achieved through the direct control of this sector by the state. In countries poor of energy resources in their own territories, authorities have to forecast national needs and work on the international stage to conclude sure long lasting agreements with producer countries. For this reason, the security of energy supply may be seen as a part of a state foreign policy.

In this paper, it will be analysed the relationship between the Italian energy firm and the state interests. In particular, ENI foreign action will be analysed.

The main question to be discussed is whether ENI behaved according to national interests so if its policy and decisions were just a reflection of the state foreign policy or if the firm acted as a private multinational, so following its capitalistic interests.

ENI, Ente Nazionale Idrocarburi, was created by a state law in 1953 with the open support of the political leaders. It has been a state-owned enterprise until the nineties when it

started a process of privatisation. In this work the dynamics of domestic parties competition that influenced the management of the firm will not be included.

In the first section, some preliminary topics will be tackled. The themes of state intervention, as an entrepreneur, in the economic development of the country and the important issue of energy security will be analysed. Finally, an overview on the history of ENI, lingering over its most important moments, is described.

In the second chapter, international relations theories will be used to find an answer to the main issue: using those paradigms, company's possible actions could be pictured. The contraposition is between a state-centred kind of policy and a society-centred one: on the one hand, national interests had to be guaranteed as well through the action of the national energy firm; on the other hand, the interests of a societal group influenced strategic choices of the enterprises and as well of the state. The forecasts that will be produced, according to these dictates, are compared to the reality of ENI's and Italy external action. Conclusions can be drawn from this comparison.

In the third section, the new protagonist on the economic and political arenas is presented: natural gas. Indeed, its consumption and its importance in the various energy mix are increasing. The peculiarity of this energy resource is that it is mainly transported via pipelines. Those are fixed facilities that fatally link countries: indeed, for their nature they are more exposed to criminal or political attacks and gas flows may be interrupted endangering the security of gas supply.

In the last chapter, an important business relation will be explained: the economic cooperation between ENI and Gazprom. The two energy firms have some elements in common: for instance, they are controlled by the public actor and their history is a mixture of politics and economy. Even if the Russian company has a more recent creation, the relationship between ENI and USSR is rich of agreements that date back to the first years of ENI's existence. Recently, this partnership deepened even more: the two societies

cooperated together in the building of important pipelines. The relationship between Russia and Western companies such as ENI may be better described as a situation of interdependence: Russia uses its energetic resources as a political weapon but it needs as well the technologies and the technical expertise of Western firms in order to innovate its industry. This relationship is more than energy supply: it expanded to other sectors of the economy but as well to security and politics. Even if the friendship between Italy and the Russian Federation was more emphasised during the respective leadership of Berlusconi and Putin, Italian political leaders, no matter the colour, have always supported the cooperation between the two companies. The convergence of economic interests led Italian governments in some occasions to issue clearly pro-Russian statements and to assume positions that were in contrast with European Union projects.

To conclude, energy is an issue where economy and politics converge: the security of energy supply is connected with the economic behaviour of the market but even more with geopolitics and with foreign politics actions.

CHAPTER I

An Italian Wild Cat on the international scene

The twentieth century was characterized by the internationalisation of every aspect of life. Time and space seemed to be reduced: any part of the globe could be reached in a short time. The exchanges between states, enterprises and people intensified thanks to the evolution of communication technology: the political, economic and cultural levels were involved. Trade boosted amazingly. Entrepreneurs exploited the advantages offered by this context of greater interdependence: it was possible to dislocate phases of the cycle of production in different countries, where it was more convenient to produce that good. The possibility to exploit cheap hand labour or raw materials, where they were available in the world, has been an incentive to the internationalisation of the economy.

International corporations were able to develop thanks to the mobility of capitals and technology, to the advancement of transportation and communications but as well thanks to favourable government policies that lowered taxes to attract foreign direct investments. So, since the beginning an interlocking web of relationships between states and transnational corporations was created. Those giant companies seemed to be able to guide the whole system of international economy.

Moreover, the intensive industrial developments of many countries took place: to this end a great amount of energy resources were essential. This brought to the growth of energy

resources market and technologies in a relentless race for the hoarding of the best price. The importance of this raw material in some way politicised economy: for producer countries it was a good occasion to use them as a weapon to have more weight on the international scenario, for importers it gave to governments another issue to deal with. Indeed, energy security became a major national priority for many states; this issue is closely linked to politics and international relations.

Energy companies for the nature of their business are international corporations: they are better defined as majors. ENI, the Italian energy firm since the beginning fought to enter into this sector as a protagonist. As already said, the importance of energy resources is so great that politics came to be involved.

On the one hand, many developed countries decided to create a national energy firm or to control it in order to safeguard the security of energy supply. On the other hand, the producer countries refused to be manipulated by multinationals and regained the control of their own natural resources: they decided to use their precious goods to acquire more leverage on the international community and to enrich.

In this section a little description on the nature of trasnational corporations will be given and so their political and international implications will be analysed. Secondly, the connection between economy and politics will be deepened with the issue of state intervention in the economy; notably in Italy after the second world war a system of state participation was introduced to boost the economic development of the country and to foster certain strategic sectors. Among those peculiar areas, there was the energy field. Here there is the coincidence of political and economic interests. Indeed, the security of energy supply is one of the main objective of a government action.

The creation of ENI, the Italian energy firm, which then became an international corporation, represents the confirmation of the importance of the energy sector.

1. International corporations

Even if they are commonly used as synonyms, multinational companies and transnational companies are not exactly the same thing: they are two categories of international corporations.

The International Labour Organization defined multinational enterprises as "*enterprises, whether they are of public, mixed or private ownership, which own or control production, distribution, services or other facilities outside the country in which they are based*"[1]. The difference with transnational corporations is very slight: the latter are defined by the draft UN Code of conduct on transnational corporations as enterprises which comprise "*entities in two or more countries, regardless of the legal form and fields of activity of these entities, which operates under a system of decision-making, permitting coherent policies and a common strategy*"[2]. Briefly it can be stated that while multinationals just try to adapt their products to each local market, a transnational corporation grants also decision-making, research and development, marketing powers to foreign subsidaries.

However, this dinstiction is rarely considered. The two terms are used alike. Indeed, both are firms which own and manage economic units in two or more countries. The various components of the enterprises such as ownership, management, production or sales activities are extended over several national jurisdictions.

Their activity involves foreign direct investments from the home country to the states in which they are operating and as well it entails the extension of managerial control across

[1] ILO, *Tripartite Declaration of principles concerning multinational enterprises and social policy*, http://www.ilo.org/dyn/normlex/en/f?p=1000:62:0::NO:62:P62_LIST_ENTRIE_ID:2453910:NO, accessed on 15th April 2014

[2] UNCTAD, *International Investment Instruments: A Compendium. Draft United Nations Code of Conduct on Transnational Corporations*, http://unctad.org/sections/dite/iia/docs/Compendium/en/13%20volume%201.pdf, accessed on 15th April 2014

boundaries. International corporations tend as well to be oligopolistic because they expand globally and they want to control the entire field in which they are operating, hindering the entrance of new competitors or of smaller enterprises.

The nature of multinationals has evolved in time. In the last century, the two types of foreign investments were "manufacturing investments", generally in other developed countries, and "extractive industry investments", regarding raw materials and usually in developing countries.[3] Later, multinationals came to dominate the service sector as well.

For many years, speaking about multinationals meant to refer to American corporations that were expanding their control and power abroad. Then, European and Asian corporations started to emerge.

The European situation was generally characterized by government intervention in the economy that could be realized in this case through the nationalization of key sectors of the corporate economy or with government participation. This behaviour was justified by the will to support employment or to use those corporations as an instrument to promote their industrial policies.

The sanction and promotion of national governments are still useful to conclude interfirm alliances or cooperation: the times in which an international corporation could operate freely and dominate the host country has passed. Today various arrangements exist: joint ventures, marketing agreements, cross-licensing of technology among corporations of different nationalities, etc.[4]

Transnational corporations have grown so much that in certain cases they have become even more powerful than states: for sure commonly they own more financial resources than the poorer states of the Third World.

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[3] R. Gilpin, *The political economy of international relations*. Princeton, Princeton University Press, 1987, p. 233

[4] Op. cit., p. 256

Their presence in the international community and their influence became more evident in the seventies when indeed the discipline of International Political Economy was born. It was becoming clear in that period that there were other actors, others than states, which were acting and impacting on the events. The interaction between multinationals and host countries became an important matter to be investigated and maybe ruled. However, another relevant topic was the relationship between transnational corporations and home governments.

Energy firms fit particularly well in this picture. Oil companies are the quintessence of international corporations[5]. The peculiarity of oil and energy production permit this kind of structure: raw materials are often present in developing countries that are poor and weak. But to exploit them expensive and advanced technologies and skills are necessary and those states cannot find them in their territory. So foreign companies take control of the process usually granting a percentage of the profit to the producer state.

Energy is so much important to the life of a country that to guarantee the security of the supply usually become a strategic objective. For a country short of national energy resources the only solution may be the acquisition and the control of foreign fields. Oil companies have become so powerful that they are able thanks also to the support of their own government to influence the direction of policies of producer countries but above all of their own state.

In this picture we can insert ENI existence. As an energy firm it can be included in that kind of transnational corporation which was involved with extractive industry investments. The seat and the managerial line was set in Italy but the operations were carried out

[5] op. cit., p. 232

abroad. ENI used to create joint ventures with foreign firms in order to cooperate with the home country in the research and the exploitation of the deposits.

It has always been clear that to achieve an industrial development the availability of energy resources is essential. For this reason their control and exploitation became a strategic objective for governments which wanted to enhance their country power. This is even more important for a nation, such as Italy, poor of energy resources.

Indeed, its exploration and production activities were located abroad where it concluded a particular kind of agreements with producer countries that were more favourable to them. As a matter of fact, ENI, always supported by its own government, dealt directly with the political leaders of the exporting countries.

ENI was created by the state with this aim: to provide energy to industry and to the whole country. So, its main objective was to carry out Italian energy policy and so to assure the availability of resources for its development.

2. Economic development, energy supply and State intervention

The institutional framework in which the Italian industrial system developed is remarkable. State intervention in support of the industrial system, the financing of enterprises, the general political context have been important. Definitely, state direct intervention has always been important in the Italian economic development. First of all, it substituted the action of private capitalism that in Italy was not enough strong and rich. Secondly, the public actor took the responsibility to develop strategic sectors of the economy. Moreover, it contributed to rescue private businesses in crisis and above all it fostered modernization and growth.[6]

Indeed, state-owned enterprises and state direct intervention in the economy had a positive role: this set up was common in those countries that were late-comers and where the great oligopolistic groups had to be constituted by the state.[7]

Still today, the structure of the Italian production is composed mainly by small and medium size enterprises: this is explained perhaps by the existence of a centuries-old craft and commercial tradition.[8] Few Italian multinationals exist and a great part of them are directly controlled by the state. The public actor came to be in this way determinant in the management of whole economic sectors: an example is the energetic one.

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[6] P. A. Toninelli, *Energy supply and economic development in Italy: the role of state-owned companies.* Milano: Dipartimento di Economia Politica Università degli Studi di Milano-Bicocca, 2008, http://dipeco.economia.unimib.it/repec/pdf/mibwpaper146.pdf, accessed on 26th March 2014, p. 7

[7] C. Bussolanti, G. Dosi, *Innovazione, politiche pubbliche e competitività nell'industria italiana: un riesame*. Castellanza (VA): Liuc Papers n 17, Serie Economia e Impresa, Università Carlo Cattaneo, 1995. Available on line: http://www.biblio.liuc.it/elenco1liucpapersita.asp, accessed on 28th April 2014, p. 10

[8] P. A. Toninelli, *Energy supply and economic development in Italy: the role of state-owned companies.* Milano: Dipartimento di Economia Politica Università degli Studi di Milano-Bicocca, 2008, http://dipeco.economia.unimib.it/repec/pdf/mibwpaper146.pdf, accessed on 26th March 2014, p. 2

This is the situation in which the Italian energy firm was created: this sector is particularly strategic and it needs a great amount of investments. The Italian state decided to create a national entity in order to have the complete control on the matter.

ENI was the first Italian modern industrial group with an international dimension to be constituted and it was created with an important political support.[9]

Indeed, it was included in the system of state participation. It was efficient in a first moment and it was well considered also abroad; then due to some degenerative trends, the direct intervention of the state started to be considered as a negative alteration for the market. This marked the dismantling of the public economic sector: however, in some strategic sector the state kept the control.

2.1 State-controlled enterprises

The Second World War had left so much destruction that in many countries the intervention of the state proved to be essential in order to recover. Italy was a country that even before the war was used to a massive state intervention in the economy. As well for this reason it resulted more acceptable the idea that even in a free market economy, because of certain structural conditions, the direct action of the public actor was necessary to develop the economy. State control of the economy can develop through the intervention of the state in enterprises or in the financial sector and it can be realized with the ownership of a certain quantity of shares of a company.

[9] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 15

In 1956 it was created a specific Ministry, the Ministry for State Participation: it was the actor responsible to the Parliament and the one which had to coordinate politically the whole system of the state direct intervention in the economy. The system of state participation was considered to be particularly efficient because it combines the advantages of the public and of the private sector.[10]

The public enterprise had to perform a synthesis between the instructions of national economic planning and market data. It was a way for the state to correct the natural trends of the economy.[11] Public powers intervene in the economy in a competitive way with the private initiatives and for this reason it is not limiting the economic freedom of the country. In a first moment it was efficient and it was well considered also abroad: it was taken as example by many developing countries but also by industrialized states.[12]

The public intervention in the economy enters into a crisis starting from the oil shocks due to the Yom Kippur War.[13] The trust on the state-entrepreneur finished and in many countries the period of divesting opened: this process was supported equally by conservative and progressive governments.

The question is whether the state is able to perform its task in the appropriate way. Indeed, commonly public enterprises were in deficit and they did not even care to resolve it. This was perhaps due to the lack of incentives for the public managers to be efficient. The existence of monetary deficit may be due to the fact that state-owned enterprises are called to absolve certain general objectives assigned by the political actor: notably revenue redistribution, employment preservation, support to national production especially in

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[10] G. Bognetti, *Il processo di privatizzazione nell'attuale contesto internazionale*. Milano: Dipartimento di Economia Politica e Aziendale dell'Università degli Studi di Milano, 2001

[11] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti.* Bologna: il Mulino, 2004, p. 75

[12] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 139

[13] G. Bognetti, *Il processo di privatizzazione nell'attuale contesto internazionale*. Milano: Dipartimento di Economia Politica e Aziendale dell'Università degli Studi di Milano, 2001

depressed regions of the country or satisfaction of peculiar national or political interests.[14] All those activities usually are not compatible with economic efficiency.

Above all, if the public enterprise is involved in the international market this results in problems of competitiveness. If the enterprise has to concentrate on its function of public utility it cannot care about economic efficiency and this will create problems in the confrontation with foreign actors.

The crisis of the State Participation was due as well to the inability to innovate: in a situation of structural and technological transformation even if the public firms were injected with fresh money they continued on their path.

So, the process of privatisation started in many countries. In the case of privatisation the criteria used to make choices are financial ones: the risk is that the precious capital of knowledge gathered during the previous years is dispersed.

Indeed, in certain sectors, where technologies are more unsound, with low expertise in the private industry, state participation may play a fundamental role (this is the case of energy).[15]

The two main state enterprises in Italy were IRI and ENI. The IRI, Istituto per la Ricostruzione Industriale (Institute for Industrial Reconstruction), was the main financial and industrial conglomerate. It was created during the Fascist period in order to rescue Italian banks but after the Second World War it became the main agent of Italian industrial development. It was the responsible for the modernization of the Italian economy above all in the fifties and the sixties.

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[14] Ibidem

[15] C. Bussolanti, G. Dosi, *Innovazione, politiche pubbliche e competitività nell'industria italiana: un riesame*. Castellanza (VA): Liuc Papers n 17, Serie Economia e Impresa, Università Carlo Cattaneo, 1995. Available on line: http://www.biblio.liuc.it/elenco1liucpapersita.asp, accessed on 28th April 2014

Indeed, this enterprise gained a new role: to develop the big businesses and the important facilities for the country in cooperation with the private sector. It was not the nationalization of certain sectors of the economy; it was something of more efficient, a joint effort between private and public capitals.

The ENI, Ente Nazionale Idrocarburi (National Agency for Hydrocarbons), was at the beginning a small enterprise but its objective was clearly identified in its institutive law. It had the task to "*promote and implement initiatives of national interest in the field of hydrocarbons and natural vapours*".[16]

Contrary to the nature of the IRI, the ENI was created in complete opposition to private interest in this field of production. Indeed, hydrocarbons and energy was such an essential element for the economic development and for the power of the country that it could not be left to private initiatives and to the logic of the market. The state wanted to control all the phases of this production.

ENI, as the other state enterprises, had to answer to the instances of the Ministry for State Participation. Indeed, it was clear that the political intentions of the holder of this position would influence productive and strategic choices of state-owned enterprises. This was an important field: security of energy supply was at risk and the state had to have exclusive control on it.

In addition, there was another reason for which the state had to take the initiative in creating an Italian energy firm. In the fifties the economy was still handicraft based and the transformation towards an industrial one was slow; the perspectives of remuneration in this field were really modest for the difficulty of the exploitation of the few Italian deposits and

[16] Gazzetta Ufficiale della Repubblica, *Istituzione dell'Ente Nazionale Idrocarburi (E.N.I.), Legge 10 Febbraio 1953, n. 136,* http://www.normattiva.it/atto/caricaDettaglioAtto?atto.dataPubblicazioneGazzetta=1953-03-27&atto.codiceRedazionale=053U0136&currentPage=1, accessed on 28th April 2014

private capitals were poor.[17] The Italian state was the only one to be able to develop an energetic industry.

Moreover, ENI had to fulfil its task of social utility: economic efficiency was left behind to safeguard employment and investments in less developed regions of the country.

Notably, many countries chose the public management of the energetic sector. The growth in international interdependence and in vulnerability has prompted some governments to cite reasons of national security to follow a policy with clear political objectives.

France was one of them: the state direct involvement in the operations of French oil companies was marked by the creation of the French Oil Company, Compagnie Française des Pétroles, funded in 1924. Moreover since 1945 the French government set up other firms involved in the exploration, refining, production and distribution of oil.[18] The close relationship between industry and government was due to the requirements of large capitals and to the international competition for the attainment of political objectives. Through numerous policy instruments the state strengthened the position of French companies against foreign competitors. Even five saving institutes, owned or controlled by the government, were set up in order to raise funds for the costly and risky business of oil explorations.[19]

This is to say that Italy was not the only country to own an energy firm, to control energy resources supply and to use this instrument to achieve political objectives.

However, after the first period of positive activity, some degenerative elements started to emerge: indeed the state was allocating directly or indirectly through the existence of state-

[17] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti.* Bologna: il Mulino, 2004, p. 75

[18] P. J. Katzenstein, *International relations and domestic structures: foreign economic policies of advanced industrial states*. International Organization, 30, December 1976, pp. 1-45 , p. 36

[19] Ibidem

owned enterprises resources to certain industrial sectors but at the same time it ignored others that were technologically more dynamic.[20]

In the 70s and the 80s the positive situation started to change: the technocrats in the management of those important state firm were substituted by other actors that had not technical experience and whose activity was focused on the maintenance of the political relations.[21]

The political instability of the Italian governments as well put a negative strain on the efficient functioning of public firms.

ENI was mainly a Christian Democracy product: in the first years the management of the firm, directed by Mattei, was in tune with the leadership of the party; however, the situation changed from one side because of Mattei's death and from the other because of the party's internal rifts. The opening of the season of centre-left governments allowed the entrance in the direction of the country of the Socialist Party that had a certain distrust for public enterprises.[22] This lead to continuous political interference in the management of the firm and to an incredible growth of its deficit.

In Italy the process of privatisation started in the nineties when a series of government decisions brought to the dismantling of the system of state participation. This trend involved ENI as well. It was transformed into a corporation in 1992. In reality, as in many other cases, the state maintained the control on the firm with just a partial sale of shares.

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[20] C. Bussolanti, G. Dosi, *Innovazione, politiche pubbliche e competitività nell'industria italiana: un riesame*. Castellanza (VA): Liuc Papers n 17, Serie Economia e Impresa, Università Carlo Cattaneo, 1995. Available on line: http://www.biblio.liuc.it/elenco1liucpapersita.asp, accessed on 28th April 2014, p. 5

[21] Ibidem

[22] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 143

3. What is energy security?

The issue of energy security comes back into the public debate periodically, all the times when there is a war in a oil producer country or when the oil price increases. This is a very important matter for every country and above all for advanced industrialised countries. Assuring energy security is part of any economic policy of a state. Indeed, energy availability is an important element for the economic development of a country. Energy is needed for industrial production, for transportation, for domestic consumption.

Energy security is defined by the International Energy Agency as "*the uninterrupted availability of energy sources at an affordable price*"[23]. In this definition its two main components are included: they are reliability and affordability.

Reliability of energy resources means to be sure to have energy supply in the quantity needed: this characteristic is related to the accessibility of deposits and to transport infrastructures.[24]

Affordability of energy resources is the price at which energy can be bought: indeed, energy is a commodity like any others and it is sold and bought on a market. However, the peculiarity of this good is that its demand is not elastic: it means that at a significant variation of the price its consumption cannot vary automatically. Indeed, even if the oil price increases, we can reduce the use of cars but we cannot avoid it.

The issue of energy security is a multi-faceted question where technology, economy, geography and politics are interconnected.

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[23] IEA, *Energy security*, Glossary, http://www.iea.org/aboutus/glossary/e/ , accessed on 6th May 2014

[24] M. Verda, *Che cos'è la sicurezza energetica. Una riflessione preliminare.* Paper per il XXV Convegno SISP "Discutere di sicurezza. Come incide il cambiamento su un concetto chiave delle relazioni internazionali?", Palermo: 2011, available on line at http://www.sisp.it/files/papers/2011/matteo-verda-1062.pdf, accessed on 2nd May 2014

Energy supply becomes an international issue because resources can be found domestically but most of the times they are imported. As any other merchandise, its provision is ruled by economic relations but the sensibility of the good put the stake at an higher level.

Geopolitics as well plays an important role in this issue: geopolitics is the interaction between geography, physical and human, and the research of power by political units. So, the "geopolitics of energy" refers to the geographical distribution of energy resources, to the location of transport routes and of the powers that control and consume them.[25] Producer states and energy firms try to maximize their power and their profits exploiting the possession of energy resources.

Indeed, those countries that are poor of them are obliged to import. Energy resources are not distributed equitably around the world. The distance between the deposits and the final consumers increases always more. This is a risk: energy supply is more exposed to technical problems or to other kind of troubles.

The European Union in its Green Paper on energy security considered four kind of risks: a physical, economic, social and environmental risk.[26]

A physical disruption may occur when the flow of energy supply is interrupted because, for instance, deposits are exhausted or production is stopped. Temporary disruptions are likely harmful: they can result from a natural disaster but also from a geopolitical crisis[27].

First of all, it is necessary to assure the physical protection of plants and pipelines. Indeed, production and transport facilities may be the objective of criminal or terrorist actions.[28]

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[25] F. Bordonaro, *La sicurezza energetica nelle relazioni internazionali e le implicazioni di carattere politico-militare. Scenari e prospettive per l'Italia*. Ricerca CeMiSS, Roma: Centro Militare di Studi Strategici, 2009, available on line at http://www.difesa.it/smd_/casd/im/cemiss/pubblicazioni/documents/86334_la_sicurepdf.pdf, accessed on 6th May 2014

[26] Commission of the European Communities, *Green Paper: Towards a European strategy for a security of energy supply*. Brussels: 29-11-2000, available on line at http://aei.pitt.edu/1184/1/enegy_supply_security_gp_COM_2000_769.pdf, accessed on 12th May 2014

[27] Ibidem

There are certain locations that are particularly subjected to this risk, for instance the Strait of Hormuz. As a matter of fact, an interruption of the energy flow caused by a technical problem, such as an equipment malfunction, or by a terrorist attack, can determine incredible problems for the countries involved.

This risk can be avoided assuring a certain degree of resilience to the system: whenever there is an interruption of energy supply the country must be able to keep going without substantial damages for its industries and citizens. This objective may be achieved through the diversification of energy supply, using different sources or importing energy from different countries.

The states must prepare emergency plan in which they forecast possible solutions and reactions to problems that may intervene. Moreover, to keep the production and transport installations under watch can avoid the intervention of criminals or terrorists.

The economic risk is linked to the erratic fluctuations of prices on the world market.[29] If fuel prices increase they may create trade and monetary imbalances.

Due to the inelasticity of the energetic demand the businesses and consumers will see their expenses grow. This means for importing countries that industries will loose competitiveness and people will reduce their well-being.[30] A sudden augmentation of the price of oil could endanger the economic development of a country: it is as well for this reason that states and governments care particularly of this issue.

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[28] M. Verda, *Che cos'è la sicurezza energetica. Una riflessione preliminare.* Paper per il XXV Convegno SISP "Discutere di sicurezza. Come incide il cambiamento su un concetto chiave delle relazioni internazionali?, Palermo: 2011, available on line at http://www.sisp.it/files/papers/2011/matteo-verda-1062.pdf, accessed on 2nd May 2014

[29] Commission of the European Communities, *Green Paper: Towards a European strategy for a security of energy supply.* Brussels: 29-11-2000, available on line at http://aei.pitt.edu/1184/1/enegy_supply_security_gp_COM_2000_769.pdf, accessed on 12th May 2014

[30] M. Verda, *Che cos'è la sicurezza energetica. Una riflessione preliminare.* Paper per il XXV Convegno SISP "Discutere di sicurezza. Come incide il cambiamento su un concetto chiave delle relazioni internazionali?, Palermo: 2011, available on line at http://www.sisp.it/files/papers/2011/matteo-verda-1062.pdf, accessed on 2nd May 2014

Geopolitical considerations can be made also for this aspect: for instance the oil crises of the seventies were due to the decisions of the cartel of the oil producer countries, gathered together in an organization, the OPEC. Suddenly increasing the price of this raw material a transfer of wealth from one side to the other takes place exploiting the dependence of the importing countries. The same effect may be produced if those countries decide to reduce the production. Through a disequilibria between demand and supply, for which the demand is higher, the price boosts.

As a matter of fact, being dependent on energy importation is a major risk because it requires that the relationship with the producer country remains positive in time. However, energy autarchy can be dangerous as well.

Furthermore, energy has a cost: richer countries are less exposed to the risk of lack of energy supply.

Social disorders may be the consequence of the previous risks. Indeed, today oil or other energy resources are so important to the economy that the inability of the governments to assure their supply will cause the negative reaction of the population. For instance the shortage of energy resources might bring to a reduction of employment because firms have higher costs for their activity: it is like the lack of bread for the population of two hundred years ago.[31]

Lastly, the environmental risk refers to all the damages that can be produced accidentally or by pollution.[32] To face those problems a long-term strategy needs to be organized in order to safeguard the planet.

A crucial aspect of energy security is the political dimension: it is on this matter that this paper will focus. Public decision-makers have to take into consideration different facets of

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[31] Commission of the European Communities, *Green Paper: Towards a European strategy for a security of energy supply*. Brussels: 29-11-2000, available on line at http://aei.pitt.edu/1184/1/enegy_supply_security_gp_COM_2000_769.pdf , accessed on 12th May 2014

[32] Ibidem

the question and different interests at stake. Their decisions and actions are the result of a compromise and for this reason they cannot correspond to economic efficiency.

Especially, international relations acquire an important role in the energy security issue. It is always necessary to have a kind of cooperation between countries, to maintain good relations for instance between importing and exporting countries. The more a country is exposed on the international trade of energy resources, the greatest its diplomatic, military and commercial actions have to be interconnected.

The producer country may be prevented from extracting or exporting hydrocarbons because of domestic or foreign tensions. For instance the deposits may be in a region where there are dangerous ethnic-cultural confrontations; the local population may use the weapon of terrorism against gas or oil pipelines and deposits to convince the central authorities for instance to grant autonomy.

Moreover, the producer country may decide for political reasons to stop the export towards a certain country or, on the opposite, one or a group of states may decide to impose an economic embargo always for political or economic reasons.[33]

In the case of natural gas, this kind of resource is distributed through a system of pipelines. The importer needs to work to maintain the good relations with the producer country to assure that it will keep sending gas to it. The best situation in this case could be to establish a relation of interdependence: the interest in the good relationship between importing and exporting countries is relevant for both actors and in this way there are more incentives for the cooperation to avoid problems in the energetic flows.

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[33] F. Bordonaro, *La sicurezza energetica nelle relazioni internazionali e le implicazioni di carattere politico-militare. Scenari e prospettive per l'Italia*. Ricerca CeMiSS, Roma: Centro Militare di Studi Strategici, 2009, available on line at http://www.difesa.it/smd_/casd/im/cemiss/pubblicazioni/documents/86334_la_sicurepdf.pdf, accessed on 6th May 2014

Another risk is that the international relations between the exporter and the countries in which the pipeline is passing deteriorate so much that the first decides to stop the flow. This is something that the importing country cannot influence but it can foresee letting to itself the possibility of different routes of supply.

Hence, politics need to intervene in order to safeguard the security of energy supply.

Economists tend to look at and explain the dynamics in the energy resources market in an “economic way”, that is referring to the interplay between supply and demand. For them, political interventions are irrational distortions that interfere in the market logic. However, this vision cannot be complete. The energy question is more linked to political and strategic issues than to economic one.

4. A brief story of ENI

In 2008 Forbes published the ranking of the greatest 100 economic groups in the world: ENI was at the 28th position and its market value was estimated to be 127.38 billions of dollars[34]. It was the first Italian enterprise and the 8th of the companies operating in the gas and oil sector. Moreover, since 1995 ENI is listed on the Milan and New York Stock Exchange. This is a remarkable result for a relatively young company created from scratches by the government of a little and poor country as it was Italy in the fifties. A long way has been covered and thanks to the action of brilliant managers and the political support of the state, nowadays ENI is the sixth oil company in the world for its turnover.

At the end of the Second World War the new Italian state was determined to close with the heavy past and to support the Italian economic development that had to be achieved. Among the various actions to be undertaken there was the dismantling of AGIP. The Azienda Generale Italiana Petroli, Italian General Company for Oils, was the Italian public oil company funded in 1926. It owned the monopoly for the explorations on the Italian territory and it was dealing with an important sector. However, the shortage of results of its research and the fact that it was seen as a relics of the Fascist past convinced the government that it had to be eliminated.

Enrico Mattei was then appointed as special commissioner to perform this task; nonetheless he did not achieve the goal. Indeed, he became the first promoter of the company's revival. He was convinced of the importance to assure energy autonomy to the

[34] Forbes, *Special Report: The Global 2000*, 04-02-08, http://www.forbes.com/lists/2008/18/biz_2000global08_The-Global-2000_Rank_print.html , accessed on 28th April 2014

country[35]. He acted so vehemently that he avoided the destitution of the oil firm and, even more, his energetic action brought to the constitution of a new entity. In all this process the political support of the DC, Christian Democracy, was essential. Indeed, this party highly backed the approval of the institutive law of ENI.

The Ente Nazionale Idrocarburi was created in 1953 with a law of the Italian state; it was an attempt to rationalize the public sector of energy: Agip, SNAM and other state-owned energy activities were merged.

The company appeared to be since the beginning as an integrated oil and energy group finalised to the exploitation of the Italian energy resources. The internal structure of the group was constituted by four parent companies controlled by ENI: Agip Mineraria (upstream), Agip (distribution), SNAM (natural gas and pipelines) and ANIC (refining).[36] However the decision-making power was all in the hands of ENI'e leader, in this case Mattei.

Indeed, ENI was created with a twofold purpose: it was not just responsible of the energy supply but as well it was a tool for the economic development of the country. To this end, the company had to furnish low-price energy to help the Italian economic system.

Its first years were the more active and fruitful thanks to the leadership of Enrico Mattei. The Italian deposits did not guarantee an important result; nonetheless in this period the gas pipeline network was developed, the distribution sector boosted because of the construction of the Italian highways and finally the firm started to deal also with the chemicals division.

An important event in 1962 was the opening of the new plant of Gela (Sicily). It was meant to be the second great petrochemical plant of the company. This project was born from the

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[35] P. A. Toninelli, *Energy supply and economic development in Italy: the role of state-owned companies.* Milano: Dipartimento di Economia Politica Università degli Studi di Milano-Bicocca, 2008, http://dipeco.economia.unimib.it/repec/pdf/mibwpaper146.pdf, accessed on 26th March 2014, p. 7

[36] Op. cit., p. 11

discovery of a crude oil deposit that was considerable but difficult to exploit. The material was heavy and sulphurous, so of bad quality.[37] The investment needed to treat this material was so high that the final project comprehended a real petrochemical plant, not just a refinery. The power needed to feed all the machinery was so high that the oil found in the deposit could not be sufficient and it ended up using imported crude oil. Moreover, this industrial plant was also a tool to help the social development of a poor area whose economy was still based on agriculture[38]: nonetheless the good intentions, the desired result was far from being reached.

In 1955 Metanopoli was unveiled[39]: this was planned to be the ideal town for the enterprise and its workers. It was a true hamlet near San Donato Milanese that wanted to unite the residential area with the working place: it comprised the directional centre, scientific laboratories, a study centre for hydrocarbons, industrial plants, workshops, motels, fuel stations but also houses for workers, a church, sport facilities etc.

Moreover, ENI controlled as well a newspaper: in 1956 Il Giorno published its first copy. This became a tool to control and influence the public opinion in the direction of ENI's interests.

Already in the first ten years of existence the company started to perform its role of saviour of the other Italian industries in difficulty: in 1954 the Nuovo Pignone (Firenze) was acquired. This business was active in the engineering sector and it was then used by the ENI for the building of petrol stations. In 1962 the Lanerossi was as well incorporated: this time a textile industry was involved.

The foreign action of the Mattei's period was characterized by his idea of Third Worldism, for which the firm tended to present itself as friend of the producer countries. Italy was not

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[37] M. Colitti, *ENI - Cronache dall'interno di un'azienda*, Milano: EGEA, 2007, p. 42

[38] Ibidem

[39] Sito istituzionale dell'ENI, Eni Storia, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

a colonial power and for this reason it was well accepted by Third World governments, that were treated as equals. The role of ENI was a tricky one since this newborn enterprise had to insert itself in the international market controlled by the monopoly of the oil majors, the Seven Sisters as Mattei used to call them.

ENI international relations were driven by the so called "Formula Mattei". ENI stroke deals with Mediterranean and African countries: the first research were conducted in Somalia already in 1953. In 1955, ENI acquired 20,32% of the International Egyptian Oil Company.

However, it was in 1957 that the Mattei's formula was first used. An agreement was signed with the National Iranian Oil Company to create a new entity, the Sirip (Société Irano-italienne des Pétroles) for oil research in the Persian Gulf. It introduced a new arrangement: the profits were divided in 25% for ENI and 75% for the Iranian company. This was a revolution in a system that was based on the American option 50-50.[40]

In this period a series of contract was signed: a number of partnership and new societies were created for the trade and distribution of oil products in Lybia (Asseil in 1957), in Sudan (Agip Sudan Ltd in 1959), in Morocco (Agip Société Anonyme Casablanca in 1959), in Liberia, Togo and Nigeria (Agip Liberia Corporation, Agip Togo SA and Agip Nigeria Ltd in 1961), in Congo (Congo Agip Brazzaville SA in 1962) and at Cyprus (Agip Cyprus Co Ltd in 1963).[41] Indeed, the strategy of the company was to intervene in countries in which oil majors were less present but that were areas in rapid development.

[40] D. Yergin, *The Prize. The epic quest for oil, money and power*. New York: Touchstone, 1991, p. 504

[41] Sito istituzionale dell'ENI, Eni Storia, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

ENI created a series of distribution networks and of refineries to supply local markets exclusively.[42]

To distribute oil and products was necessary to own them; hence, some mixed company were created for the exploration, the exploitation and the production of oil: there was the SOMIP, a Moroccan-Italian society for the research and production of hydrocarbons in Morocco (1958); then were constituted the SITEP, Société ItaloTunisienne d'Exploration Petrolière (1960), the Nigerian Agip oil Company Ltd (1962) and in 1963 the building of a refinery in Ceylon began.[43]

In 1961 the construction of a transalpine pipeline began. To contrast the majors dominion Mattei planned to build a refinery at Ingolstadt, Bavaria, and an oil pipeline connecting with Genoa, Italy. It was the realization of the Central Europe oil pipeline. This project will be integrated by the one for the construction of the oil pipeline Trieste-Ingolstadt to which ENI will participate together with other societies such as Esso, Shell and BP.

However, the international agreement that astonished everybody was struck with the "red enemy", the USSR. In 1963 it was signed a contract with Sojuznefteexport Moscow: Soviet crude oil and fuel oil were given in exchange of petrochemical products, machineries and plants.[44]

This prosperous time seemed to disappear with the death of ENI's founder: the 27th October 1962 his private airplane crashed down near Linate. This was a great shock for the company: it had lost its charismatic leader. All deals were directed by him, all choices

[42] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti.* Bologna: il Mulino, 2004, p. 29

[43] Sito istituzionale dell'ENI, Eni Storia, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

[44] Ibidem

were taken by him, the political structure, on which the firm stood, had been created by him.[45]

After Mattei's death, Marcello Boldrini took the chair until 1967. He was a close friend of Mattei but he decided to assume just a cultural and representative role of ENI's presidency.[46] The real director of the firm became Eugenio Cefis.

Cefis became officially president of the company in 1967 and he held this position until his transfer to the direction of Montedison.

This premature top change left a lot of problems to be solved. The primary activity of the firm was the import of crude oil but it had no profits coming from the mining phase that usually was the basis for all the other oil companies.

An important problem was the international expansion of the company that was essential to its survival seen the fact that there was not great hope to find important deposits of energy resources in the Italian territory.[47] Furthermore, there was the necessity to resolve some political relations and engagements that were taken in the previous years. Indeed, Mattei had kept up relationships of financing with some press organs and parties[48]: in some cases they were becoming dangerous.

However, the most concerning issue was the existence of a huge debt that had to be solved. After the investments and plans realised by Mattei, for the firm it opened up a new cycle of development. For the first time the company started to plan a business strategy: it was a rational initiative to bring the public powers to discuss serious problems of the

[45] M. Colitti, *ENI - Cronache dall'interno di un'azienda*, Milano: EGEA, 2007, p. 91

[46] Ibidem

[47] Op. cit., p. 93

[48] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti*. Bologna: il Mulino, 2004, p- 113

Italian society and to convince them of the necessity to keep financing the company.[49] In this strategy it was included the decision to limit the geographical extension of ENI's activity and to concentrate the investments in African countries.[50]

So, the sixties were characterized by the progressive disclosure of ENI financial disequilibria. Many debts had been piled up with all the operations and projects that the firm had undertook: the state endowment fund started to be inflated. In 1965 the total amount of debt was of a thousand billion liras[51] and for the first time in 1964 an increase of the endowment fund was authorised: 125 billion liras in four years.[52] Money were needed above all for investments in the hydrocarbons research abroad.

After Mattei's death, ENI was characterized by greater diversification and further rescues, expansion of the chemicals, the entry in the nuclear energy and in the coal mining.[53]

On the international scenario, the orientation remained quite the same and ENI kept signing a number of agreements mainly with African countries for the exploration, production and distribution of oil products. However, even if the general direction was maintained the foreign action of the company lost its brilliance and independence. Indeed, ENI decided to renounce to its antitrust characterization and at the international level it entered the club: this evolution marked a difference with Mattei's strategy.[54] This change was realized with the conclusion of joint-ventures with some of the majors and other oil companies: it was a way to diversify the risk and to diminish the expenses.

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[49] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti*. Bologna: il Mulino, 2004, p. 135

[50] Ibidem

[51] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 18

[52] Ibidem

[53] P. A. Toninelli, *Energy supply and economic development in Italy: the role of state-owned companies.* Milano: Dipartimento di Economia Politica Università degli Studi di Milano-Bicocca, 2008, http://dipeco.economia.unimib.it/repec/pdf/mibwpaper146.pdf, accessed on 26th March 2014, p. 13

[54] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 36

In 1966 Agip Tanzania Ltd, Agip Espana Ltd and Agip Uganda Ltd were created[55]; Agip Zambia Ltd for distribution was realized in 1967 and in 1970 an agreement with the government of the Central African Republic was stipulated for trade, research and industry of liquid and gas hydrocarbons.

Indeed, the most important project realised was the construction of the oil pipeline Dar-es-Salam-N'Dola that would supply Zambia with oil[56]: this work was relevant from an operational but above all a political point of view. It was useful to supply a country, Zambia that was isolated from one side because of the Mozambique war and from the other because of the presence of South Africa: to help a country threatened by South Africa was a signal of anti-colonialism for all the other African countries.

Nonetheless, ENI had to pay for its great involvement in this continent: in May 1969 the sites of Kwale and Opkai, in the eastern part of Nigeria, alongside the Niger river, were attacked by irregular units. Ten workers of the Italian firm fell victims of the fighting in the civil war of Biafra.[57]

However, the battle for the monopoly of chemistry in Italy absorbed much of ENI energy and resources. In 1968 ENI acquired an important portion of the Montedison becoming the main shareholder of the company. This enterprise was born in 1966 from the fusion of Montecatini and Edison. It was characterized to be the private chemical centre in opposition with the public one owned by ENI. The acquisition of Montedison was possible due to its financial problems and to its divided shareholders and it was seen by the public opinion in a negative way: it was a sort of nationalization of the chemical sector and a way for ENI to eliminate a dangerous competitor. In 1971 Cefis left ENI for the presidency of Montedison. He was substituted by Raffaele Girotti that held the position until 1975.

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[55] Sito istituzionale dell'ENI, Eni Storia, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

[56] M. Colitti, *ENI - Cronache dall'interno di un'azienda*, Milano: EGEA, 2007, p. 132

[57] Op. cit., p. 137

In the 70s and the 80s the chief executives of the company started to be always more appointed by the government on the basis of political considerations and they almost completely lost the control of the productive activity of the firm: it was the phenomenon of "parcelling out" (lottizzazione) of the offices of public entities between political parties. ENI was surely more efficient but less creative because subjugated to politics.[58]

Certain important roles could be covered just if some conditions were accepted: for instance to finance political parties. It was the so called "legge della valigetta"[59], the law of the briefcase: it was a circle of corruption that was generally accepted by the entire establishment and that would come to light some years later.

In this vicious circle can be included the so called "Petronim Affair". In 1979, ENI concluded a very important agreement with Saudi Arabia: to get crude oil at lower price ENI paid a bribe of 100 million liras. Still it is not clear who got those money and for which purpose: however this became a big scandal that left ENI in decline.

Girotti changed the centralized structure that Mattei had given to the company: it transformed ENI in an holding with the tasks of coordination and approval of the general plans. The single societies of the group became directly responsible for the direction of their activity.[60]

During Girotti presidency the war of the Yom Kippur took place (1973) and with it the first energy crisis. The OPEC countries had decided the suspension of oil supply as a consequence of the political situation in the Middle East. In this moment the firm could have exploit its fame of friend of the Arabs and of the producer countries and his fame of supporter of democratic regimes in the Third World but it lost this opportunity.

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[58] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 41

[59] M. Colitti, *ENI - Cronache dall'interno di un'azienda*, Milano: EGEA, 2007, p. 127

[60] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 74

The reaction of the government was to adopt some stopgap measures to reduce fuel consumption; however ENI and Italy were the most penalised by this situation seen that 75% of its energy requirements came from importation.[61]

The enterprise, and the Italian economy with it, was seriously damaged as well by the Iranian Revolution in 1979: ENI was deeply involved in this country. Provisions were made but not paid and installations ordered but not carried out: the loss was evaluated to be of 1200 billions liras.[62]

This crisis in the oil sector brought to the development of the natural gas market. The enterprise dedicated much of its effort to the trade and transportation of gas: it intensified its partnership with the USSR and the Southern Mediterranean countries, in particular Algeria, Libya and Egypt.

The locations of its main production and research remained the same. An important collaboration started as well with China. In 1978, a contract was signed with the Popular Republic of China for the supply of units for the processing and the compression of natural gas. The following year Agip and China National Oil and Gas Exploitation and Development Corporation stipulated and agreement for economic cooperation for the works to be executed in the Chinese offshore.[63]

In those years also the cooperation with the countries of the Eastern block was intensified: ENI concluded agreements with Bulgaria (in 1966, an Italian-Bulgarian agreement of economic, industrial and technical cooperation was signed), with Poland (in 1972 and in 1973 an agreement of cooperation between ENI and the Polish Ministry of the Chemical Industry was defined) and with the DDR (in 1972, for cooperation in the economic,

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[61] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti.* Bologna: il Mulino, 2004, p. 290

[62] Op. cit., p. 294

[63] Sito istituzionale dell'ENI, Eni Storia, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

commercial, technical and industrial sectors).[64] As well the commercial relations with the USSR were boosting remarkably.

When Girotti left ENI in 1975 the penetration of politics into the public enterprise was complete: the firm was involved in a power conflict and it ended to be influenced by the changing equilibrium in the Italian executive. The economic crisis of the firm kept going: in 1982, the financial loss was of 1.626 billions liras.[65]

On the operational side, the company continued to invest in the acquisition of natural gas from the countries of the Mediterranean shore (Algeria and then Libya) and from the USSR. In 1983 the Transmed entered into function: it was an underwater pipeline, 2.200 km long, which carried Algerian natural gas to Italy through Tunisia and the Sicily Canal.

In 1982 and 1984 two agreements were signed with the USSR for the importation of natural gas.[66]

Offshore projects in West Africa, Congo and Angola were developed as well.[67]

In the nineties an important movement toward the privatisation of the public sector started to emerge. The public entrepreneur was judged to be inefficient because the characteristic of the public firms pushed it to be less concerned with keeping the balance sheet in equilibrium.

Indeed, in 1992 with the law decree number 333 of the 11th July, decided by the first Amato government, ENI was transformed into a joint-stock company.

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[64] Ibidem

[65] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti*. Bologna: il Mulino, 2004, p. 474

[66] Sito istituzionale dell'ENI, Eni Storia, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

[67] R. Grant , M. Ritter, *ENI SpA : building an international energy major (case twelve)*, http://s3.amazonaws.com/zanran_storage/www.blackwellpublishing.com/ContentPages/2201494295.pdf, accessed on 26th march 2014

The Ministry for State Participation was dismantled; however, the company kept to be controlled by the Treasury. The Italian state through the Ministry of the Economy and Finance and the Cassa Depositi e Prestiti owned 30% of the shares. According to law 474 of 1994 it has the so called "golden share": it is a special share that assures to it the control of the company even if the state has not the absolute majority in the Assembly.

In 1993 ENI was caught up with the scandals of corruption that involved the whole Italian political system (the so called Tangentopoli). Some of the executives were indicted of corruption and a new board had to be appointed. This was the occasion to de-politicise the management: indeed many technocrats and energy industry experts were chosen.[68]

In 1995 ENI shares started to be traded on the Milan, London and New York stock exchanges.

Now, ENI's top management would be responsible just to shareholders. The transformation that the firm underwent was not connected just to the ownership. Indeed the new strategy was to concentrate the business activity just on energy and to abandon other sectors. The strategic sectors of the group were defined to be: production and energy services, chemistry and all the other activities linked to the environmental sector. All the other components had to be dismissed, seen also that they were causing the greatest loss for the firm.[69]

The reorganization of the enterprise took place between 1993 and 1995: non-core activities were abandoned, plants were rationalised, some activities liquidated, employment and investments reduced.[70] All this was done to reduce the debt and to make the company more

[68] Ibidem

[69] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti*. Bologna: il Mulino, 2004, p. 552

[70] Op. cit., p. 594

competitive on the international market: in 1996, the businesses disused or alienated to others were in total 180.[71]

International operations kept going mainly in the traditional directions so towards North African countries. In 1993, ENI signed an agreement with Libya to build a gas pipeline to Sicily and to explore eight oil areas.[72]

Another direction difficult to follow for political reasons[73] is the one of operational agreements with Iran: just in 1998 after a long time of mediation it was possible a meeting between the company and the country's president. An agreement for the value of 1 billion dollars for the exploitation of a big deposit was concluded and a mixed society was created for the gas production in the Persian Gulf (reserves are estimated to be of 10.000 billion of cubic meters).[74]

In 1997, an agreement for production and exploitation of the Karachaganak oilfield and of the offshore deposits in the Northern Caspian Sea in Kazakhstan was signed.[75] Kazakhstan has deposits that could possess 50 billion barrels according to forecasts. This area is geopolitically important also for a European common energy strategy. Azerbaijan could become an important pipeline junction.[76]

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[71] Ibidem

[72] Op. cit., p. 597

[73] In 1996 the United States had imposed the embargo against Iran. The USA opposed European investments, which were indeed stimulated by the new ruling class.

[74] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti.* Bologna: il Mulino, 2004, p. 597

[75] Sito istituzionale dell'ENI, Eni Storia, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

[76] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti.* Bologna: il Mulino, 2004, p. 598

In the same year a deal was concluded with the Chinese company CNPC for the constitution of a joint-society, ChinAgip, for the promotion of common interests initiatives in countries different from Italy and China (the addressees are West African countries).[77]

In 2000, ENI made its first takeover; it acquired British Bormeo, an exploration and production company, listed in London. The operation was valued to be of 1,3 billion euros. As well, an upstream company, LASMO was included that year (for a value of 4.1 billion euros).[78]

In 2001, it took the ownership of the newly discovered Kashgan oilfield in the North Caspian Sea. Other discoveries were made in Iran, West Africa (Angola and Nigeria), North Africa (Libya and Algeria) and in the North Sea.[79]

It can be said that in the last period ENI's investments focused on natural gas trade and transportation. Indeed, gas routes are always in expansion.

In the last decade ENI contributed to the building of important gas facilities, mainly thanks to the competences and the expertise of its subsidiary, SAIPEM. As a matter of fact, it is a leader in the provision of engineering, procurement, project management, construction services, in the design and the execution of large-scale offshore and onshore projects.

The Blue Stream pipeline entered into function in 2003. In this project, as in many others, ENI participated together with one of its main business partner, Gazprom the Russian energy firm. Blue Stream is 760 km long and it connects Russia and Turkey through the Black Sea: the pipe is placed at a remarkable depth under the sea.[80]

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[77] Sito istituzionale dell'ENI, Eni Storia, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

[78] R. Grant , M. Ritter, *ENI SpA : building an international energy major (case twelve)*, http://s3.amazonaws.com/zanran_storage/www.blackwellpublishing.com/ContentPages/2201494295.pdf, accessed on 26th march 2014

[79] Ibidem

[80] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti.* Bologna: il Mulino, 2004, p. 603

In 2004, the Greenstream became operational: it is an underwater gas pipeline that connects Mellitah on the Libyan Coast and Gela (Sicily).[81]

In 2008, ENI and Gazprom signed a memorandum for the construction of the South Stream pipeline: it will connect directly Russia and the European Union avoiding to transit through other countries.

ENI developed during the years a special relationship with the Soviet and then Russian energy firm. Indeed, nowadays ENI's most important international partner is Gazprom.

The relationship between ENI and Gazprom together with its implications on the Italian and European energy policy will be dealt in the fourth chapter of this paper.

To conclude, 2013 marked the 60th anniversary of ENI's foundation. Definitely, the progress that this state enterprise has done is remarkable: it has become a leading international energy firm. Maybe, Enrico Mattei could be satisfied of this result.

[81] Sito istituzionale dell'ENI, Eni Storia, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

CHAPTER II

ENI and International Relations theories

International relations theories are used by scholars to describe, explain and predict various aspects of international relations. Each theory is based on a set of key ideas about the nature and roles of various actors of the international scenario, conceptions of the state, sovereignty, interactions among states and other actors, as well as conceptions about the international system. Historically speaking, the study of international relations has largely concerned the study of states and the effects of anarchy on their foreign policies and on the patterns of their connections. The state has always been the primary actor in the international system and for this reason it is usually central to the study of international relations; even if various theories may give a different degree of importance to it, no one can prescind from it. However, nowadays scholars have recognised that states must share the stage with other actors and that trends in global politics are shaped not only by states but also by other subjects. So, a dense network of state and non state actors are increasingly involved in choices of foreign policy and in the production of a multilayered governance structure. International politics is no longer dominated by states but it includes non state entities such as nongovernmental organizations, international organizations and transnational corporations.

As a consequence of the changed global context, in the early 1970s emerged a significant field of study: the International Political Economy (IPE). The economic interdependence was growing: the set of global institutions created at Bretton Woods, the

progress of the European integration and the recovery of the economies of the developed countries were some of the factors that contributed to this result. Perhaps, it is better to state that this field of interest re-emerged: indeed, the nineteenth century works of some economists such as Ricardo, Adam Smith and even the theories of Marx can be identified as predecessors.[1] The causes of this revival were the economic problems experienced first by the US and then by the whole international community because of the global crisis that followed the decision of the Nixon administration, in August 1971, to devalue the dollar and to put an end to the gold-exchange standard. As well, those theoretic developments were inspired by the unexpected success of the actions led by the Organization of Petroleum Exporting Countries (OPEC).

Realists assumptions, dominant in that period, were challenged in this occasion: they never considered economic interactions significant in international relations and their favourite instrument, military force, proved to be useless to solve the international crisis.[2] The IPE placed new emphasis on non-state actors and in particular on multinational corporations.

The International Political Economy studies the relations between politics and economy in the global system: it is the interface between international relations theory and international economy. The three most important approaches of this discipline are: mercantilism, economic liberalism and Marxism which correspond to the main paradigms of International Relations that are realism, liberalism and Marxism.[3]

This field of study tries to understand the consequences of the mutual interactions between state (politics) and market (economy). From one side, political decisions and interests may affect production, the location of economic activities or the distribution of costs and

[1] Christian Reus-Smit, Duncan Snidal (edt). *The Oxford handbook of international relations*. New York: Oxford university press, 2010, p.540

[2] Ibidem

[3] Mazzei, Marchetti, Petito. *Manuale di politica internazionale.* Milano: Egea, 2010, p. 230

benefits; from the other side, economic forces may influence politics and alter the international distribution of political power.[4]

Among the topics to be discussed, foreign direct investments concern directly multinationals. In particular, it can be analysed whether those transnational actors are autonomous actors or if their actions are influenced by the political strategies of their home countries. The relationship between multinational corporations and their home governments is a very controversial issue.[5] Concerning this matter, different interpretations have been formulated.

The main theories of international political economy could be used to analyse and consequently predict the behaviour of ENI, the Italian energy firm, since this is the main objective of this paper. Has this firm acted autonomously following an economic behaviour or its production choices were a consequence of the directions of the Italian foreign policy?

[4] C. Roe Goddard, J. T. Passé-Smith, J. G. Conklin (edt). *International political economy. State-market relations in the changing global order*. Boulder: Lynne Rienner Publishers, 1996, p. 10

[5] R. Gilpin, *The political economy of international relations*. Princeton, Princeton University Press, 1987, p. 241

1. International Political Economy theories

1.1 Economic nationalism

Originally called mercantilism, this theory was dominant in the XVI-XVIII centuries: its policies encouraged exports and the accumulation of gold in the government coffers to demonstrate state power. The re-emerged mercantilism differs from the classical one since it does not stress gold possession but it recommends government action to support the development of national economy.

Mercantilism can be defined as the international political economy counterpart of Realism: as a matter of fact, it shares all its assumptions. First of all, in the anarchical international system nation-states are the only sovereign entities and the main protagonists of international political economy; all actors are subordinated to them.[6]

Secondly, states tend to maximize their power and this can happen just at the expenses of other states. The focus is on relative gains: it is a zero-sum game where states fight to increase their power in order to protect themselves. The failure to do so would threaten their very existence.[7] In an economic perspective to increase their power means to develop the richness and the economic activities of the state.

Moreover, states are rational actors making their decisions upon a cost-benefits calculation. Indeed, the main idea of this approach is that the economy of a country should be subordinated to the political interests of the state. This does not mean that a choice between power and wealth should be made: they are complementary. To boost a country's wealth means to expand its power. As a matter of fact, a country may make an economic sacrifice

[6] C. Roe Goddard, J. T. Passé-Smith, J. G. Conklin (edt). *International political economy. State-market relations in the changing global order*. Boulder: Lynne Rienner Publishers, 1996, p. 31

[7] Ibidem

in order to gain something in military terms or to weaken its opponents. For instance, protectionism may be counterproductive for the economy of a country because it reduces its income but it could be adopted for political reasons.[8]

Security is the central concept of realist paradigm: it is the priority for the state. The concept of security is linked with the one of interdependence that implies vulnerability for the country: to break the relations with a certain government, an alliance, has a significant cost.

As far as the relationship between governments and multinationals is concerned, according to this approach speaking for instance about the United States means to refer to the whole American block; that is to say that in this term is comprehended everything: the government of the state, its people and also its economic enterprises.[9] The state is a monolithic entity. According to this view, multinationals have a symbiotic existence with their governments: they are part of the state, they are a tool to expand its power and influence in the world. So, state support is essential for those enterprises and in return multinationals sketch their strategies to fit national political goals. Foreign direct investments, used by multinationals, have been considered an instrument to expand state's leverage on the world. As well, multinational corporations may be used by governments as a diplomatic tool: their activity may be controlled and manipulated by their domestic governments to induce other countries to behave as it is wished.[10] So, multinational corporations are not autonomous actors; transnational corporations' interests coincide with state ones.[11] Governments just delegate some functions to them.

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[8] Ibidem

[9] op. cit., p. 470

[10] R. Gilpin, *The political economy of international relations.* Princeton, Princeton University Press, 1987, p. 243

[11] F. Fossati, *Introduzione alla politica mondiale*, Milano: Franco Angeli, 2006, p. 222

Therefore, to increase the richness of a country is just a way to increment its power. This will guarantee national security. Political power controls national economy to boost national might. Moreover, governments control and influence the activities of domestic multinational corporations in order to assure their political objectives and to increase national power abroad.

1.2 Economic Liberalism

The classical representatives of economic liberalism are Smith, Ricardo and Pareto. The main idea behind this theory is that economy and politics are two separate spheres: so, economic activity should be independent and autonomous from politics. Economy is linked to the concept of market: economic choices and transactions have to be ruled just by the laws of the market. It is impossible to control it: the market is impersonal and constituted by a number of actors dispersed everywhere. No single character is able to influence it.[12] The most important objective is the optimal management of the economy: this optimal administration will bring automatically to efficiency, growth and personal well-being. So national interest is not taken into consideration: the only aim is to increase individual richness and prosperity.[13]

The principal actors are consumers and families and not states. It is the invisible hand of the market that drives everything and there is no other actors, such as the state, which can intervene. National laws cannot regulate economy but market laws, supply and demand

[12] J. A. Caporaso, D. P. Levine, *Theories of political economy*. New York: Cambridge University Press, 1992, p. 159

[13] M. Cesa, *Politica e economia internazionale*. Milano: Editoriale Jaca Book spa, 1996

laws, will do that. Economy and politics are two separate spheres: the state has a secondary role.

Economic actors are rational and they look at the maximization of their utility. So there is a cost-benefits calculation behind economics choices. Among a variety of options, individuals, since they are rational economic actors, will choose the option that yields the highest level of subjective satisfaction.[14]

There could be different liberalist views: one that focuses on equality and so on the propensity toward social democracy and state interventionism; another one that stresses liberty and so the absolute non-intervention of the state. To a certain extent, a limited role of the government can be accepted in the liberal view: the state should provide the necessary foundation for the market which means it should put in place those public goods that otherwise privates will not produce: property rights guarantee, national defence, education, currency regulation.[15]

In the international arena, economic relations and commercial exchanges contribute to increase the richness of the single nations but also the general wellness of the international community. Notably, international trade brings richness and peace since the perspective of a profit will push states to cooperate with each other. It is economy which brings cooperation between states while politics divides.[16] Exchanging goods will allow for everybody's utility to be maximised. The volume of trade boosted the degree of interconnection between different states and societies: this interconnection is defined as

[14] C. Roe Goddard, J. T. Passé-Smith, J. G. Conklin (edt). *International political economy. State-market relations in the changing global order.* Boulder: Lynne Rienner Publishers, 1996, p. 27

[15] Ibidem

[16] Mazzei, Marchetti, Petito. *Manuale di politica internazionale.* Milano: Egea, 2010, p. 230

"mutual sensitivity of behaviour within societies"[17]. This means that the prosperity of a population may be deeply effected by changes in international relations.

For liberalism, multinationals are important actors in international economy which contribute to the growth and development of the international community. They are not an instrument of state foreign policy: their objectives are purely economic.

In conclusion, according to liberal theory economy and politics are two independent fields and there should be no interference. The economy functions at its best if it is free to work; government intervention will cause dysfunction even if involuntary. Market by itself favours cooperation, democracy and peace.

1.3 Marxist view

Marxism has evolved in significant ways since its basic ideas were put forward by Marx and Engels. Despite the existence of different Marxisms, some essential elements remain common.[18] Capitalism is based on private ownership of the means of production: the aim of capitalism is to accumulate profit, capital, that will be reinvested in further production. Workers are subjected to it, they are exploited by it and they become alienated because of their job. The three principal laws formulated by Marxism are: the law of disproportionality, there will be always a disproportionality between production and demand due to the anarchy of the market; the law of the concentration of capital, according to the logic of accumulation for reinvestment, the final result will be the impoverishment

[17] P. J. Katzenstein, *International relations and domestic structures: foreign economic policies of advanced industrial states*. International Organization, 30, December 1976, pp. 1-45

[18] R. Gilpin, *The political economy of international relations*. Princeton, Princeton University Press, 1987, p. 35

of the many for the enrichment of the bourgeois elites; lastly, the falling rate of profit, as the capital is accumulated the rate of return decreases always more.[19] But this is most of all a domestic view of the economy. It was Lenin who converted Marxism into a theory of international political relations.[20] His vision was linked with a more mature capitalist economy and with the seizure of colonies. The prevailing contrasts were among nation states and not social classes.

The main points that are useful to this analysis are the following. First of all, the economy has the supremacy on the other aspects of life, so also on politics and on the state.

The most important actors are not states nor families but social classes, more specifically capitalist elites.

The only aim of economic activity are the pursuit of class interests. This means that political choices are driven by economy and more precisely by the interests of the components of the economic system. Lobbies use their potentials to favour the adoption of the policies that are useful to their projects.

Marxist approach deals with the topic of underdevelopment that is, according to it, the result of global capitalism. It is caused by the economic forces that create crisis and distort traditional economic and social relations in the Third World countries. So international relations are characterized by a relationship of dependency of the poorest countries on the capitalist ones. In the domestic arena, capitalist elites exploit labour in order to gain a profit; in the international scenario capitalist countries do the same with underdeveloped countries that can be used for cheap hand labour and resources. Indeed, economic relations are by nature conflicting. According to the Marxist view, a capitalist society tends to have

[19] Ibidem

[20] Ibidem

an aggressive foreign policy[21]: this is because its only objective is to acquire raw materials and to exploit cheap hand labour before other capitalist countries do so.

The interests of the firms and of the states cannot be correspondent; perhaps it can happen accidentally. The reason is that the logic of accumulation, that drives every action, is different for the nation and for the firm.[22] Multinational corporations are responsible for the underdevelopment of certain countries. As domestic firms do with workers in their countries, transnational corporations extract the surplus from those countries exploiting cheap hand labour or certain environmental conditions, without leaving any positive effects. With their power, multinationals may be able to influence the economic policies of weak states.[23] As well, the interests at stake may be so important that they could be able to drive their domestic government to support them in those actions.

To sum up, economics dominates politics; in the international arena the interests to prevail are the interests of the capitalist elites that aim for profit accumulation and for workers exploitation.

[21] ibidem

[22] C. Roe Goddard, J. T. Passé-Smith, J. G. Conklin (edt). *International political economy. State-market relations in the changing global order*. Boulder: Lynne Rienner Publishers, 1996, p. 470

[23] F. Fossati, *Introduzione alla politica mondiale*, Milano: Franco Angeli, 2006, p. 224

2. State-centred versus society-centred theories

The three theories explained above are the classical theories of International Political Economy. However, during the years a great number of different positions have been elaborated. The majority of these approaches tends to underline the international elements that affect a state action in international political economy. The domestic element is clearly neglected. If international elements were to influence the response that states gave to international economic events this would meant that all advanced industrial countries would have reacted in the same way in the same situation. However, it is empirically proved that democratic and free economy states, for instance Western European countries, do not act as such.

The situation may be analysed from another perspective, taking into consideration internal elements as well. So, it can be stated that domestic structures and the nature of domestic policy networks which link state and society are the responsible for the shaping of different government policies.

So, different types of international effects do not explain policy responses of advanced industrial states but the constraints of domestic structure do.[24]

Then, two categories may be distinguished: state-centred theories and society-centred ones. On the one hand the state plays an active role in the determination of international political economy policy, on the other hand the state has a subsidiary role.

[24] P. J. Katzenstein, *International relations and domestic structures: foreign economic policies of advanced industrial states*. International Organization, 30, December 1976, pp. 1-45

2.1 State-centred theories

In this case the state is defined as an "autonomous" actor: this means that it is able to escape the pressures emanating from the society and that its leaders are able to translate their will into public policy. The state's agenda for international political economy is not defined by solely private societal interests. This means that the state action is not controlled or manipulated by any interests groups coming from society.[25]

The public actor is able to have an aerial view on the society and it is able to determine societal general interests. State's objectives are for the utility of the community, they are national interests. It needs to be clear that the interests of the community are not composed by a mixture of private and group interests but they depends, according to Krasner, on values assigned by the state.[26] It is the institution which is responsible to decide which principles should guide the existence of the national community and its external action. National interests may be identified with those matters that private persons do not deal with. Among those that Krasner defines there is the maximization of the competitiveness of the industrial structures[27] and the securing of foreign policy objectives.

In this category the realist approach to international political economy may be included. Economic interdependence is judged to be a cause of vulnerability for governments. Foreign policy has the primacy and the primary aim of the state's action is to guarantee national security. And this is in the general interest of the whole community.

Political choices create economic conditions. To favour economic development of the country is a national interests as it is security of energy supply; it is not a particularistic necessity but a concern for the benefit of the whole community.

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[25] J. A. Caporaso, D. P. Levine, *Theories of political economy*. New York: Cambridge University Press, 1992, p. 182

[26] Ibidem

[27] Op. cit., p. 191

Domestic political structures may interfere in the way the governments take decisions. Policy networks may be state-centred: this means that the state is involved in the society and in this case in the economy. The public actor participate through state owned or state-controlled enterprises. State bureaucracy which is the main linkage between state and society seeks to direct policies[28]; the economic choices are rational because they have a comprehensive approach and they give the prerogative to public power. This is peculiar of centralized public administrations[29]. France experience is taken as example in this case: there is a long tradition of state centralization and a strong power of public bureaucracy. There is a central decision-making body that will rule on foreign economic policy: however, it will be in pursuit of political objectives.[30]

To conclude, governments respond to international events, to the necessity of international economy unencumbered by societal pressures: national interests have to be asserted. Policy-networks indeed are state-centred and they will try to uphold national prerogatives.

[28] P. J. Katzenstein, *International relations and domestic structures: foreign economic policies of advanced industrial states*. International Organization, 30, December 1976, pp. 1-45

[29] Ibidem

[30] Ibidem

2.2 Society-centred theories

It is the system of private interests that drives the direction of international political economy. In this conception the state is just an instrument used by individuals to achieve their private ends when they cannot be satisfied independently. Economy has a primary place and privates interests are at the centre.[31]

In the public arena individuals express their preferences through political claims. The holders of public offices have preferences and so interests to be realized that may be linked to their own personality or to the constituencies they refer to. They guarantee state autonomy when they translate their preferences into public policy above all when there is a conflict with another group of interests. The unique characteristic of the state is that its decisions and policies are binding upon others. So state policies will reflect the result of group pressures in society.[32]

In this category it can be included the liberal approach to International Political Economy or better a neo-liberal vision in which the main objective to be achieved is prosperity and the ineluctable intermingling of domestic and foreign policy, society and state is assumed.

For instance, Moravcsik argued that state choices are influenced by the preferences of domestic groups.[33] International relations depends on the domestic sphere of a state: the foreign policy of a state will be pursued because in line with certain social views of the population; so if powerful individual interests may be favoured domestic groups will push their governments to facilitate a certain course of action.

Indeed, the scope of government policy has increased during the last decades. With the technological revolution in transportation and communication the interconnection of

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[31] Ibidem

[32] J. A. Caporaso, D. P. Levine, *Theories of political economy*. New York: Cambridge University Press, 1992, p. 185

[33] F. Fossati, *Introduzione alla politica mondiale*, Milano: Franco Angeli, 2006, p. 46

different societies and states grew as their mutual sensitivity. So, citizens expectations on the range of activity on which the government should exercise its control expanded.[34]

Society-centred policy networks respond instead to private interests. In this context society is strong while state is weak. A decentralised system of administration encourages the penetration of private interests into public policy.[35] The best example is American approach to economic policy: in the USA the ownership of the means of production is private and the state exercises little control on it. Interest groups occupy an important position in the policy process: the result will be rational in the sense that there will be a right mediation between private interests. Private corporations are in intimate contact with the government: indeed the aim to pursue through the elaboration of a foreign economic policy is of an economic kind and not political one.[36]

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Obviously, this paper will not deal with the complexity of the theories of International Political Economy: it is not its aim. Some of them have been briefly described because

[34] P. J. Katzenstein, *International relations and domestic structures: foreign economic policies of advanced industrial states*. International Organization, 30, December 1976, pp. 1-45

[35] ibidem

[36] Ibidem

they tackle the topic of the relationship between politics and economy and the role of multinationals in the international arena.

The main distinction that will be at the centre of our analysis is the contraposition between state-centred and society-centred theories. The realist and the liberal approach may roughly correspond to those two ways of conceiving the decision-making process that than result in different orientations of external action.

Hence, those two visions will be used to predict and analyse the energy policy of ENI, the Italian energy firm, while the Marxist view will be dropped.

3. Prediction of ENI's energy policy

The behaviour of a firm, and in particular of a multinational, may be analysed according to the theories of International Political Economy to understand if business choices are made because of a rational economic calculations or whether they are justified by national interests.

To do this inquiry two aspects may be considered. First of all the creation of the firm: has it been the free choice of one or a group of businessmen who decided to invest in this sector? Or was it an initiative of a sovereign state?

Secondly, the actions of the firm may be taken into consideration. Are industrial plans and notably foreign direct investments addressees the result of a business choice? Either, are international agreements a consequence of national interests and alliances?

In this paper the firm that will be studied is ENI, Ente Nazionale Idrocarburi. ENI is an Italian energy firm born more than sixty years ago which came to experience a process of transformation that in recent years brought it from being a state controlled enterprise to be a limited liability company responsible only to shareholders.

In the light of the international political economy's theories that have been explained above, the life of this firm will be analysed. A distinction may be drawn: in the first phase, the company was completely a state-owned enterprise, then in a second one a process of privatisation started. As a consequence, the participation of the Italian institutions in the government of the business was reduced.

The most interesting aspect to be inquired, it is whether international agreements and investments, that are notably important for an energy firm, followed the directions of the Italian foreign policy or they were simply business choices based on cost-benefits calculations. Was energy policy such an important matter that the state had to control the

firm actions? Was the enterprise, seen also the peculiar business it dealt with, just a tool to expand the political and economic diplomacy of the state in strategic countries? Or on the contrary, were the business managers who influenced the Italian government in order to obtain certain favourable policies? Moreover, were these two spheres, politics and economy, completely separated with the possibility that business choices could be as well opposite to the ideological trend and foreign policy choices of the Italian government?

In this section, the possible behaviour of the energy firm will be predicted according to the International Political Economy Theory: this means to describe the situation in which the company would be if the Realist, so state-centred theory, or the Liberal, so society-centred theory, dictates were followed.

3.1 Realist theory

Energy has always been treated as a “special” sector: it is considered to be a vital resource for the existence and the growth of a country. For this reason energy policy was always regarded as a national concern with governments intervening directly in this field. This happened as well in the most capitalistic and free market economies. Energy was too important to leave it to the self regulation of the market.

Realist theory states that political power should control economy and this could be done through state-owned or state-controlled businesses.

Realist thesis, being a state-centred approach, focuses policy formulation on the achievement of national prerogatives that are indeed national interests. Security is the priority for realists and one aspect of it is the energetic one. Energy security is considered to be a national interest, so one of the objective of foreign economic policy of a country.

Normally, energy resources are not equitably distributed; the requirements of states have to be satisfied through importation and the distance between deposits and final consumers increases always more. For this reason energy security is closely linked to the concept of interdependence. This will be seen by realists as a degree of vulnerability for the state: for this reason energy policy becomes a prerogative of government actions because national interests are at stake.

The best way to assure energy supply to the country it is with the creation or the control of a firm that operates in this sector. Every kind of energy, electricity, nuclear, oil, is important to the survival of a state. It is the primary resource for the economy but also for households. Furthermore, energy is as well important for the military security of a state.

So, this matter will be included as well in foreign policy concerns: indeed for countries that import energy resources it will be useful a political action aimed to assure cooperation and alliances with a producer country. The contrary can be as well true: the necessity to establish a political alliance with a country may be reinforced by an energetic agreement.

The state will act as a unitary actor and it will be not influenced by class conflicts or groups interests in its decision-making.

ENI should be a state-owned energy firm instituted by the government for the research and the production of those important resources. The first imperative for a state is security and energy resources are essential to this end: the state and the state-owned enterprise should have the exclusive control on this field. This will be achieved assuring to the company the monopoly for the conduction of research, production and distribution activities on the national territory. Those activities should be financed by the state.

Energy resources are necessary for the development of the industrial system: a strong industrial apparatus is an essential component of national might; for this reason state control of the energy sector is even more important.

Being Italy a country poor in energy resources, necessarily the company should be operative abroad. ENI business choices and foreign direct investments should have been directed by national prerogatives. Notably, the choice to conclude an international agreement to import energy from a certain country or to carry out research operations in a region rather than in another followed the direction of the Italian external action.

Another foreign policy prerogative is the necessity to control the political instability of Italian neighbour countries to avoid negative consequences. The Southern Mediterranean shore may create some concerns in this sense: a way to assure good relations with those countries are foreign direct investments. First of all, it is a security necessity because those countries are Italian neighbours and they could easily launch an attack against the country. As well internal instability may endanger negative effects outside. Good economic and commercial relations are a way to partially control them. Indeed, the Italian energy company since its creation started to conclude important contracts with those states.

National interests have the priority on other concerns: occasionally ENI may renounce to a profitable investment because an oilfield is located in a country far from Italy that does not constitute a particular concern for it. Otherwise, it may decide to start research that may be more expensive in a country with which the state wants to conclude an alliance. Foreign direct investments of the energy firm are used by the government as a diplomatic tool to persuade countries to follow a certain behaviour or to do certain political choices.

National choices of foreign policy outweigh business reasons. The company is not free to choose between a more profitable investment and a politically friendly one: the second will always prevail.

So, the primacy of the state is present in the ownership and in the composition of the firm but also in the business and productive choices: its policies decisions are impenetrable to private and societal interests.

3.2 Liberal theory

Liberal theory may be considered a society-centred approach. Economic activity has the primacy over all other fields: policies aim is to increase prosperity. The interconnection between states and societies is increased, also due to the communication technology revolution, and it is measured by the volume of trade. Economy is an autonomous field in which private actors operate and that is feebly ruled by state intervention. All fields of economic activity will be treated in the same way: from health care to defence. Private entrepreneurs will start their business wherever they perceive a possibility of gain with the certainty that the state will never intervene in the economy. The state has a secondary role and the infusion of private interests into public policy is encouraged.

This means that ENI would have been created by a person or by a group of investors. Even if it was created as a state firm its activity would have followed just the rules of the market. That is, once it was put in place, the individualistic and rationalistic assumptions would have guided the path. As an economic actor, the firm, having complete information, would be able to select the most efficient option, to choose to invest for research in a country or to import gas or oil from another. These choices will be made because the opportunity cost of them would be the highest: among all the countries to trade with, that one gives the most highest utility satisfaction. For a business such as the one of energy, this situation could be related to the proximity of the sources of energy, to the easiness of extraction, to the existence of a good chance to find a rich oilfield in that area, to the presence of an efficient transportation system or of skilled workers. For instance, instead of concluding agreements with African states that were unstable from a political and social point of view, where the transportation system was absent and where workers were not at all skilled, it could be preferable to head for Northern European states, to make test drills in the Northern Sea or in other developed areas.

Since energy imports are fundamental seen that Italy is poor of internal resources this field is even more subjected to economic interdependence. For liberals, this relationship is not a negative aspect but it is a way to increase the prosperity of the country.

ENI decisions should not be linked to the political situation of his own country: it should operate independently with a mere profit calculation. The aim of foreign economic policy would be pecuniary gain. Business actions that surely would implicate great investment but little result would not have been undertaken. A research agreement may be concluded also with the countries that are politically in opposition to the firm home country. The commercial agreements concluded for the importation of energy supply will be those that involves a minor cost for the firm. ENI, as a multinational, is just an actor in the international economic system. It is not linked to the state, it does not need its interference or help.

If the neo-liberal position of Moravcsik is taken into consideration the structure of domestic societal preferences will imply a certain foreign policy for Italy. This is to say that strong private interests are able to guide the government action. In the case of energy policy is the enterprise that shapes it for the country in relation to the interests at stake.

ENI top management, constituted by a group of capitalists, will deal with production and the conclusion of international agreements. Their only interest is to maximize their utility, to increase their satisfaction. The only aim of ENI's managers is to gain a profit. This behaviour takes into consideration just the interests and the needs of a part of the society, of an interest group. This group will lobby to obtain the approval of certain laws and regulations that will guarantee its interests.

The state policy results from the penetration of private interests and national interests are not considered: it is shaped by non governmental actors thanks to the intimate contact between the privately-owned energy firm and the Italian government. With this mechanism not only Italian energy policy has been formulated but as well foreign policy choices have

been influenced in order to safeguard private investments in foreign countries. In the international arena, Italian government will be forced to enter into alliances with countries that are as well economic partners of the company or where the firm has oilfields for instance. Certain political alliances even if the colour of the Italian governments has changed over time have to be preserved to not endanger considerable economic interests; even if they may be in contrast with the ideological stance. This means that if ENI has struck an important economic agreement with the state-controlled Russian energy firm the political relations with this country have to be cultivated, by both centre-right and centre-left governments.

To conclude, the only rationale behind production choices is the maximization of economic gains. The state policy results from the penetration of private interests and national interests, considered as general necessity of the whole community, are not formulated.

4. ENI’s energy policy

The energy sector is a peculiar part of the economic activity for the importance of the resources it deals with and the great amount of investments needed. After the Second World War, many countries had to rebuild their destroyed industrial systems; Italy was one of them. Already before the war this country had difficulties due to the lack of proper energy resources. This was a great occasion to restart the economy and to catch up with the other developed countries. To this end, an Italian energy firm was necessary to assure to Italy the needed resources. ENI was born as a state owned company; in the nineties it followed the restructuring of the public economic sector. The process of privatisation transformed it into a limited liability company. So, in analysing ENI energy policy two periods can be distinguished: from 1953 to 1992 when the firm was nominally and practically controlled by the state and from 1992 when the only people to whom the management should be responsible are the shareholders.

Politics and economy are clearly intertwined in the story of ENI: it was created mainly for the will of a political party and as all the other public entities it underwent the parcelling out of its offices. However, in this paper this aspect will not be analysed deeply: the research is directed toward the relationship and mutual influence between politics and foreign choices of the energy firm.

4.1 1953-1992

Since when Enrico Mattei was appointed extraordinary commissioner of AGIP with the aim of dismantling this Fascist body, its main objective has been to indeed create a public energy firm to assure energy autonomy for the country. This will was supported by his party the Christian Democracy and in particular by its left wing. Indeed, it can be stated that ENI as many others public enterprises was a Christian Democracy baby. The Christian Democratic leaders believed that a system of State Participations could be an efficient instrument to boost national development and to substitute the lack of private initiatives in certain sectors. In 1953 a new state holding, the ENI, Ente Nazionale Idrocarburi was constituted by law number 136 of the 10th February. Its creation marked the intention of the Italian state to have the exclusive control on the energy production field. Indeed, the same constitutive law gave to the firm the monopoly in the research activities and in the hydrocarbon production in the Po Valley. Its activities were financed by the state who was as well its owner.

ENI was thought as an "agency for the economic development of the country"[37]; energy independence for Italy was the goal to reach.

The Ministry for State Participation was the body responsible to the Parliament for the activities of state owned enterprises and as well its task was to coordinate the individual business plans. This was another way in which the action of ENI was conditioned by political will; however, it can be said that at least during Mattei's presidency there was political correspondence between the firm management and the ministry.

ENI had more responsibilities and aims than a common enterprise. It had to be like an extension of the state. In particular, in the intention of the Italian state when it was created,

[37] P. A. Toninelli, *Energy supply and economic development in Italy: the role of state-owned companies.* Milano: Dipartimento di Economia Politica Università degli Studi di Milano-Bicocca, 2008, http://dipeco.economia.unimib.it/repec/pdf/mibwpaper146.pdf, accessed on 26th March 2014

the company had to add to the normal economic activity also other concerns such as employment, welfare and socio-economic development of the more disadvantaged areas of the country.[38] The law on the "Mezzogiorno" imposed to state-owned enterprises, as ENI was, to address 40% of new investments to the Southern regions.[39] This constituted a particular difficulty for the firm: the nature of the sector in which ENI operated, energy, entailed that investments could not be done everywhere but just where there was the actual possibility to find a deposit. For the distribution network was the same: it could be created only if there was a significant demand. Methane pipelines could be built just from where there was a deposit to where this resource was consumed. The only investments possible were directed to the so-called footloose industries that could be located everywhere, notably petrochemical plants.[40]

In the domestic arena, ENI was a primary agent of Italy economic policy and of social development promotion. The existence of ENI gave the possibility to furnish to Italian industries low price energy.[41] This was a way for the state to intervene in a weak economic system that was determined to take off after the Second World War.

In the international scenario, the company was used as a strategic-diplomatic mean.[42] ENI was created after the Second World War, in a moment in which the tension between East and West were at its peak. The United States tried to consolidate its alliance with the European states through the concession of funds with the European Recovery Program. This was a way to control the development of European economy and to avoid that some countries such as Italy could change their position. Among the areas of interest of the

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[38] Ibidem

[39] M. Colitti, *ENI - Cronache dall'interno di un'azienda*, Milano: EGEA, 2007, p. 37

[40] Ibidem

[41] P. A. Toninelli, *Energy supply and economic development in Italy: the role of state-owned companies.* Milano: Dipartimento di Economia Politica Università degli Studi di Milano-Bicocca, 2008, http://dipeco.economia.unimib.it/repec/pdf/mibwpaper146.pdf, accessed on 26th March 2014

[42] Ibidem

Americans there was the oil and energy sector. As a matter of fact, the constitution of ENI was seen as an obstacle to the monopoly of the oil majors, mostly American.[43]

De Gasperi was one of the main supporter of the constitution of ENI: as Mattei, he wanted for Italy an independent oil policy. This implied as well an autonomous foreign policy that tried to escape the situation of "limited sovereignty" of the country.[44]

During Enrico Mattei's presidency, ENI actions reflected clearly the direction of the Italian foreign policy. It attempted to be on a double track: allied of the US and at the same time friend with the Arabs.[45] As well, Italy wanted to be a sound mediator between East and West, perhaps as a reflection of its domestic scenario. In the fifties, Gronchi attempted to give to the Italian foreign policy a new trend, a more forward-looking direction. His action could be defined with two terms: "Atlantic pacifism" and "Mediterranean nationalism".[46] Especially, Italy could present itself as a friend of the emerging powers of the Mediterranean, favoured by its light colonial past. Italian foreign policy could be defined "neo-Atlantism": this trend wanted to let Italy be freer and more independent to act in Europe but most of all in Africa and in the Middle East.[47] The main promoter of this line was the left wing of Christian Democracy and so the political leaders were Fanfani and Gronchi. But this attitude could be well accepted as well by the Socialist Party. It was a centrifugal trend from the USA and the NATO:[48] the Italian government was looking for more autonomy in the economic and political spheres with respect to the USA. ENI oil policy was an active part of this plan. This orientation was perfectly matched by the unscrupulous economic diplomacy of Enrico Mattei who wanted to bypass the big oil firms

[43] Indeed, AGIP did not obtain any funds from the Erp for the buying of its equipment.

[44] N. Perrone, *Enrico Mattei*. Bologna: Il Mulino, 2001, p. 71

[45] S. Romano, *Guida alla politica estera italiana. Da Badoglio a Berlusconi*, Milano: RCS Rizzoli Libri S.p.a., 1993, p. 122

[46] op. cit., p. 106

[47] N. Perrone, *Enrico Mattei*. Bologna: Il Mulino, 2001, p. 116

[48] Ibidem

oligopoly. He wanted to break the majors control on the oil market: indeed 90% of the world oil production was controlled by just seven oil companies, among which five were exclusively American. To do so, ENI stipulated contracts that were very advantageous for the producer countries, earning a good fame in the Middle East but provoking the rancour of the "Seven Sisters"[49].

Mattei's foreign policy was based on a network of preferential alliances that were profound, for instance the relations with the USSR, Iran and Egypt were part of this system.[50] For instance, the agreement signed with Teheran in 1957 gave to the Iranians 75% of the profits[51]: this marked the beginning of a shift of power from the oil majors to the producer countries. It created as well a jointly-owned exploration and production company with an Iranian leader and with shared proceeds between ENI and the Iranian National Oil Company[52].

Moreover, the first agreements between ENI and the USSR were signed in 1957. A million ton of Soviet oil would be imported in 1958 and in 1960 the quantity grew up to 2 million tons[53]: Italy had become Soviet Union's biggest oil costumer after China.[54] The choice to establish an important and long-lasting commercial alliance with the USSR can be considered to be as well a reflection of the position that the country wanted to adopt in the

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[49] As Mattei christened the existing oil majors which controlled the majority of the oil fields and cooperated with each other in order to prevent the entry of another rival company in the business.

[50] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 32

[51] S. Romano, *Guida alla politica estera italiana. Da Badoglio a Berlusconi*, Milano: RCS Rizzoli Libri S.p.a., 1993, p. 106

[52] R. Grant , M. Ritter, *ENI SpA : building an international energy major (case twelve)*, http://s3.amazonaws.com/zanran_storage/www.blackwellpublishing.com/ContentPages/2201494295.pdf, accessed on 26th March 2014

[53] S. Romano, *Guida alla politica estera italiana. Da Badoglio a Berlusconi*, Milano: RCS Rizzoli Libri S.p.a., 1993, p. 131

[54] R. Grant , M. Ritter, *ENI SpA : building an international energy major (case twelve)*, http://s3.amazonaws.com/zanran_storage/www.blackwellpublishing.com/ContentPages/2201494295.pdf, accessed on 26th March 2014

international context. Italy wanted more space of manoeuvring, it felt oppressed by the stifling scheme of the Cold war: it had chosen to be in the Western sphere but it did not want to be completely subjected to the American will. Italy chose a country of the opposite coalition to assure its energy supply.

However, a business reason may be behind this behaviour: Mattei wanted to break the majors monopoly and the Soviet market was not taken up by them. Moreover, the price of Soviet oil and then gas was inferior to the one offered by Western companies. Indeed, Soviet oil was paid "100 million dollars instead of 140"[55] asked by other oil firms. In addition, it could be paid with ENI's production realizing as well a profit.

The partners of the Italian oil diplomacy remained the same during the years, notably the USSR and the countries of the Southern shore of the Mediterranean. The so-called "Formula Mattei" was used also to strike deals with North African countries: ENI acquired exploration and production rights in Libya, Egypt, Tunisia and Algeria between 1958 and 1960.[56] Notably, Algeria was an important supplier of natural gas and Libya became the ideal commercial partner for the country.

ENI was more than just an energy firm: it was a corporate empire that comprehend several kind of industries. Indeed, it was designated by the government to acquire all those factories that were in difficulty in order to safeguard employment. It covered motels, highways, chemicals, fertilizers, electricity and so on. Between 1961 and 1962 ENI entered as well the textile sector: the Lanerossi, a wool textile company whose centre was in the province of Vicenza, was acquired. It took as well 50% of the Lebole Society, a tailoring business in the area of Arezzo.[57] This kind of production was not at all linked to ENI main

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[55] N. Perrone, *Enrico Mattei*. Bologna: Il Mulino, 2001, p.102

[56] R. Grant , M. Ritter, *ENI SpA : building an international energy major (case twelve)*, http://s3.amazonaws.com/zanran_storage/www.blackwellpublishing.com/ContentPages/2201494295.pdf, accessed on 26th March 2014

[57] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 125

business and it was clearly motivated by the need to influence a local Christian Democratic politician.[58]

After Mattei's death the direction of the policy firm remained quite the same; however it lost its brilliance. ENI became an integrated international energy company but it was still based on political support.

During the years, the company continued with the same energy policy but it kept as well rescuing failing companies, and this caused an incredible growth of its debt. It continued to purchase oil and gas from the Soviet Union, from Algeria and Tunisia with the construction of the Trans-med Pipeline and it invested in other African countries such as West Africa, Congo and Angola.[59] However, the policy of friendship with the producer countries sponsored by Mattei was too much innovative to be accepted at all levels. Above all it was difficult to be welcomed by those politicians who wanted for Italy a marked European and Atlantic vocation.[60] The political support on which Mattei could rely on disappeared as well because the political equilibrium changed in the government: this was reflected on a less aggressive and independent foreign strategy of the firm.

From the 70s the international situation started to change because of the emergence of autonomous initiatives of the producer countries and of their strong stance against imperialism. This was supposed to be an advantage for Italy and for ENI's policy towards the Arab states: Mattei was the first to increase the profits for the producers country and to present itself as anti-imperialist.[61] But the firm did not exploit the credibility that it had gained in the developing countries during the years as well for the lack of political support

[58] It would be malicious to remember that Vicenza was Rumor town and Arezzo Fanfani's. These operations of rescue were clearly a political action to the favour of Christian Democracy.

[59] Ibidem

[60] M. Colitti, *ENI - Cronache dall'interno di un'azienda,* Milano: EGEA, 2007, p. 144

[61] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 87

from the government. Its enormous debt made the company more dependent on it and on state funds: this meant increasingly political control that more clearly made ENI an instrument of government economic, industrial and employment policies.[62] A fierce debate came out to justify the infusion of public funds into the company assets: indeed, according to Cefis the public actor had to behave like a private shareholder which supplies its firms with adequate monetary funds. A further issue arose about the destination of this public capitals: some wanted that public money was used on the national territory. However, this was difficult for a multinational enterprise as ENI whose most important tools were foreign direct investments.[63] Indeed it was in this sector, the hydrocarbons research abroad, that ENI had to invest more. Mining research could not be financed with loans because the risk of a failure was too high. To obtain money from the state it was necessary to have an important plan to convince the government that the ENI and the state objectives fitted together.[64]

The top management of the firm lost all his capacity of critical analysis and vision and it abandoned itself to a political fight: this was the result of the degeneration of political patronage that caused to the enterprise to loose its identity.[65]

ENI continued to absolve to its task of social enterprise: for instance this was done through rescues of failing businesses in order to safeguard employment adding to the bad balance sheet further burdens. The policy of contributing to the development and the well being of the country was undertaken as well with the realization of studies to offer to the national community some material on issues of civil interest, as it could have been energy and

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[62] R. Grant , M. Ritter, *ENI SpA : building an international energy major (case twelve),* http://s3.amazonaws.com/zanran_storage/www.blackwellpublishing.com/ContentPages/2201494295.pdf, accessed on 26th March 2014

[63] F. Briatico, *Ascesa e declino del capitale pubblico in Italia. Vicende e protagonisti.* Bologna: il Mulino, 2004, p. 133

[64] M. Colitti, *ENI - Cronache dall'interno di un'azienda,* Milano: EGEA, 2007, p. 108

[65] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 11

water supply. They were study contributions on themes that were not involved with the firm and they were carried out to underline the connection between public enterprises and community. This had been the case for instance of the first project for the building of the Autostrada del Sole, the highway that connects the North with the South (from Milan to Naples), realised by Mattei.[66]

The reform to the structure of the businesses that was undertaken during Girotti's presidency was intended to give more responsibility to each society of the group and ENI was to be just an holding that approved and coordinated the general programs presented by them. In this way the individual society could act on the market like a private company with a behaviour finalised just to the realization of a profit. They could act in this way independently from the public power.[67] However it was difficult to actually escape political pressures.

The most disadvantaged sector was the one of foreign investments in the field of research, acquisition and exploitation of oil and gas deposits abroad. Those kind of activities required a great amount of money and an important political support when the firm had to negotiate with foreign countries.

On the contrary, a lot of money and political support were concentrated in the domestic arena and it pushed ENI to acquire a lot of foreign bodies. Hotels, newspapers, textile industries, advertising and press agencies, electricity, glassworks[68] were all part of ENI's group. They were more or less efficient but their acquisition had always been done to the service of DC power.[69] Fundamentally, it was an oil firm, it was public and its objective was to acquire oil and gas for the energetic requirements of the country; instead it was used

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[66] Op. cit., p. 68

[67] Op. cit., p. 76

[68] It is referred to the glassworks of Vasto directed together with EFIM, Ente Prtecipazioni e Finanziamento Industrie Manifatturiere

[69] D. Cuzzi, *Breve storia dell'ENI da Cefis a Girotti*, Bari: De Donato Editore, 1975, p. 136

by each politicians to their utility in various occasion.[70] This compromised ENI's position as an international energy firm.

In the seventies and the eighties Italian foreign policy decided to abandon the idea to be close to the Third World and the attitude to be unstably balanced between USA and USSR, between Europe and the Arab countries. There was the obsession to be careful to not detach too much from the American policy. For this reason all ENI initiatives were blocked in some way remembering that Italy had to stay in Europe and with the Atlantic alliance. Nothing that could be disliked by the Americans could be done, nothing that could make Italy less acceptable in the Western sphere could be realized: this happened at the expenses of the Italian position in the energetic market. [71]

Periods of intensive political interference and of management independence alternated and ENI's debt augmented; until when a movement to reform the public sector to reduce inefficiency became stronger. These reforms were also sponsored by the European Monetary Union. Among its requirements, the public balance sheet had to be in equilibrium and economy had to be freed from state control.

At the beginning of the nineties, ENI was an economic public body supervised by a special Ministry, the Ministry for State Participation. The members of its executive committee, the body with the main powers, were chosen on government recommendation.

For economic and strategic reasons was completely controlled by the state and as a matter of fact it had become part of the foreign policy action of the Italian state.

[70] Ibidem

[71] M. Colitti, *ENI - Cronache dall'interno di un'azienda*, Milano: EGEA, 2007, p. 264

4.2 Since 1992

In the nineties a general process of privatisation of all state-owned enterprises began. ENI was transformed in a society with limited liabilities with decree number 333, passed on the 11th July 1992. The first share was listed on the Milan and New York Stock Exchange in 1995.

Now, the board of directors would be responsible just to shareholders for the financial state of the company and for the conduct of business activities. The Italian state holds just a little more than 30% of the shares but it still has the effective control on the firm: notably the Ministry of the Economy and Finance owns 3,93% of the capital and Cassa Depositi e Prestiti S.p.A owns 26,37%.[72] However, law number 474, 30 July 1994, gave special powers to the Italian state, the so called golden share. This is a nominal share which is able to outvote all other shares in certain circumstances. It assures state control on the company even if it does not have any more the absolute majority of the votes in the Assembly. The state, through the Ministry of the Economy, can oppose the holding of more than 3% of the shares by a single actor whenever this is considered to be prejudicial to its vital interests.[73] It has also the veto power in case of decisions of dissolution of the enterprise, moving of the firm, fusion, demerger, moving of the social seat abroad, changing of the social object and modification of the charter which eliminates the powers of the golden share.[74]

The Assembly of shareholders has the power to choose the members of the board of directors. The Ministry of the Economy still has the power to appoint a great part of the members of the council as it holds a great part of the shares. Moreover the state may appoint a councillor without entitlement of vote in the board.

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[72] ENI S.p.A, *Relazione sul governo societario e gli assetti proprietari 2010*. Roma, 2011, http://www.eni.com/it_IT/attachments/governance/relazione-governo-societario/relazione-sul-governo-societario-2010.pdf, accessed on 26th March 2014

[73] Ibidem

[74] Ibidem

The new CEO, Bernabè, was the main responsible of the company reorganization. In 1993 he appointed a new non-political board with technocrats and energy industry experts. To reduce the debt, subsidiaries were pressured to reduce costs, to follow a tight expenditure discipline, and to raise profits.[75] Under Bernabè, ENI was able to successfully undergo this restructuring and according to the words of the same CEO "*one of the reason why we have been able to achieve better results is that we have been able to operate without political interference. We have been able to manage our business on commercial criteria*".[76]

After the reorganization of the firm, the international direction of ENI's policy remains quite the same, that is a particular attention for Northern African producers and for Russia and Central Asian countries; as well, the correspondence between Italian foreign policy trajectories and ENI strategic choices is still evident. The exploration has been expanded in Kazakhstan, with the new oilfield in the North Caspian Sea. It is active in Iran, West Africa (Angola and Nigeria), North Africa (Libya and Algeria) and in the North Sea.

The preoccupation of maintaining the proven stability of North African governments, or better regimes, was connected with energetic and economic interests. To preserve the important agreements concluded by the company with those governments, Italy preferred to assure support to dictators instead of helping towards a democratic transition. Notably, Algeria is the second largest energy supplier and Italy enjoys since many years a special relation with Libya that is an important economic partner.

Italian governments, keeping as well their commitment to the European integration, decided to create some special bilateral relations especially with two important energy supplier: Libya and Russia.

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[75] R. Grant , M. Ritter, *ENI SpA : building an international energy major (case twelve)*, http://s3.amazonaws.com/zanran_storage/www.blackwellpublishing.com/ContentPages/2201494295.pdf, accessed on 26 march 2014

[76] Ibidem

Notwithstanding the ambiguous relations between Libya and Italy, new exploration rights have been granted to the company and the new methane pipeline Greenstream was set going in 2005. It is a pipeline of 520 km that connects Libya and Italy and it is operated by a joint venture between ENI and NOC, Libyan National Oil Corporation. In 2007 ENI and Libyan National Corporation concluded an agreement for the extraction of oil and gas until 2042 and 2047. In 2008 the Friendship Treaty between the two countries was signed. It was an historic agreement on cooperation in a number of fields, among which energy.[77] Italian investments and exports in Russia are continuously increasing and it became the main energy supplier, in particular of natural gas (40% of Italian gas imports came from Russia by 2010).[78]

All this actions were driven by an important concern that was the necessity to assure to the country secure energy supply; that is a more extreme urgency for a developed and industrial country as Italy poor of resources on its own territory.

So, it can be stated that even after the privatisation of the company the Italian state continued to influence its decisions and to drive its foreign investment. It is true that the Italian politics influenced the decisions of ENI management but the contrary can be said as well. Italian governments used the channels provided by ENI to dialogue with some important countries but ENI, which was indeed in charge of defining the energy policy of the country, lobbied to ward off radical change in Italian foreign policy direction since the amount of its investments was too important.

Notably, Russia became the most important non-EU partner of the Berlusconi government.[79] He was the primary promoter of a special relationship with Moscow also

[77] R. Alcaro, *Catching the change of tide. Italy's post-cold war security policy*. 2010: The International Spectator, 45:1, 131-145

[78] Ibidem

[79] Ibidem

thanks to his personal connection with the Russian prime minister Vladimir Putin.[80] He promoted greater cooperation and involvement of Russia in the European Union and in NATO. Indeed, in May 2002 at the Pratica di Mare Summit it was established the NATO-Russian Council.[81] The consolidation of this partnership was one of the main point in Berlusconi foreign policy. Italy's siding with Russia in the Georgia's war was not really appreciated neither by the other European states nor by the Bush administration.[82]

For sure, there were economic motivations behind this Italian choice. The rapid growth of the Russian economy attracted a lot of Italian investors; moreover, the energy sector played an important role. This positive attitude toward Russia is a constant in the Italian foreign policy: both centre-right and centre-left governments favoured it. Indeed, also the following government (a technocrat cabinet led by Mario Monti) did not change the relationship between Italy and Russia: maybe it was less flaunted but the substance remained the same.

In 2011, Italy imported 24% of its natural gas and 13% of crude oil from Russia.[83] Above all ENI is the main international partner of Gazprom, Russia's state-owned energy company. A strong and long term alliance has been established between the two companies. In particular, the most important projects are the building of the Blue Stream Pipeline and the South Stream Pipeline. The first was completed in 2003: it connects Russia and Turkey via an offshore route in the Black Sea.[84] The South Stream pipeline should bring Russian gas to Italy and Austria through the Black Sea by 2015. These

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[80] Ibidem

[81] M. Siddi, *Italy-Russia relations: politics, energy and other businesses,* http://fakproject.hu/docs/EE-4-kotet_ch3.pdf, accessed on 26th March 2014

[82] M. Carbone, *Italy in the European Union, between Prodi and Berlusconi.* 2009: The International Spectator, 44:3, 97-115

[83] M. Siddi, *Italy-Russia relations: politics, energy and other businesses,* http://fakproject.hu/docs/EE-4-kotet_ch3.pdf, accessed on 26th March 2014

[84] Ibidem

directions were followed even if in contrast with European plans: ENI's agreements with Gazprom are not well seen in Brussels and in Washington. Indeed, this last project is totally in contrast with the plan to build the Nabucco pipeline, sponsored by the European Union and the United States. This topic will be better dealt in the next chapter.

CHAPTER III

The blue gold and its pipelines

Energy availability is a precondition for productive activities, transportation, lighting and heating. Energy can be obtained from a number of different natural sources, that may be renewable or exhaustible. Usually, the latter are available at a constant and foreseeable quantity and their concentration of power in just one unit is higher. Indeed, today they are the most used.

In the history of humanity it can be said that three main energy resources followed one another in the role of protagonist. The industrial revolution started thanks to the energy given by coal. It was then substituted by oil: it has been the undisputed energy resource for many years but it can be said that its decline started with the oil shock of the seventies.

The world's primary energy needs will grow by 55% by 2030. Despite the efforts to reduce carbon dioxide emissions, fossil fuels are still the dominant energy source and they represent 84% of the demand increase.[1]

Natural gas will know the greatest development in the next decades. By 2030 its share will increase from 21% to 22%: consumption is growing and it will go from 2 854 billion cubic metres in 2005 to 4 779 bcm[2] in 2030. Even if, gas requirements will mostly boost in

[1] International Energy Agency, *World Energy Outlook 2007*. Available on line at https://www.iea.org/publications/freepublications/publication/weo_2007.pdf , accessed on 14th May 2014

[2] Bcm is billion cubic metre; gas can be measured as well by Gmc, cubic gigametre. One Gmc is equal to one billion cubic metre.

developing countries, Europe, together with the United States, is and will be the leading gas consumer as well in 2030, accounting for more than one-third of world consumption.[3] International gas trade will rise consequently: in particular it is in OECD Europe that imports will increase most in absolute terms, from 234 bcm to 520 bcm.[4]

There are two possibilities to transport this resource: through pipelines or through its liquefaction. However, this technique is very expensive at the moment and for the next decades the majority of global gas trade will happen still through transnational pipes.

This generates geopolitical problems, since often those pipelines pass in the territory of intermediate countries that could endanger the continuity of gas flow.

Moreover, gas reserves are concentrated in a relatively small number of countries that usually give the control of this natural resource to a public monopoly. For a number of reasons, it is commonly thought that the market by itself is not able to manage the energy resources situation and public intervention is needed. This is also due to the fact that this raw material is so important to the security and prosperity of states that governments need to have its control.

Indeed, from one side, the exporting countries are able to use energy resources as a political tool and this is the risk. From the other, the importing one needs to put the security of energy resources on the priorities list of their economic but above all foreign policy. However, most of the times the relationship between importing and exporting countries is of interdependence; exporting countries base their well being on the proceedings of natural resources sales so they need as much the importing currency.

In this chapter it will be explained the situation in the “gas age”, that is in a period in which the most important and disputed energy resource is not anymore oil but gas. The fact that it is transported by pipelines add tensions: pipelines are fixed and expensive facilities, once

[3] Ibidem

[4] Ibidem

they are built the countries involved are linked with each other for several years with all the economic, political and security risks that may follow. To avoid all those problems the LNG technology is being developed: liquefied gas is shipped by tankers that can reach all harbours. In this international context the Italian situation is particularly delicate. In its energy consumption natural gas has always occupied a primary position even when it was not so much important. Its pipeline network is one of the most developed. The problem is that it is highly dependent on energy importations, that happens for the majority by pipeline, even if it was able to efficiently diversify its partners.

1. The gas age

In 1859 the first oil well was perforated in the United States: from that day the consumption of this material started to grow continuously. It was just after the first World War that its potential was understood fully and since that moment crude oil became the dominant energy resource. The manifold ways in which it can be used were an incentive to its spread. Its consumption kept growing until reaching a peak in 1972. The oil crises were a reason to start looking for alternative sources.

Indeed, the weak point of oil is its localisation: 60% of the reserves are in the most unstable region of the world: the Middle East.[5] Moreover, other difficult countries such as Libya, Nigeria and Venezuela own big deposits.

Furthermore, the average price of Brent is very high; it was of 111.67$ per barrel in 2012[6]: an enormous increase if we consider that just in 2001 the cost was of 29,61$.

In 2012 the consumption of oil declined by 1,3% in the OECD countries; however, global oil production increased by 2,2%.[7] 34% of the total energy used by human beings comes from oil.

However, the new energy resource that will take the stage is natural gas.

In 1821 in the United States for the first time a deposit of natural gas was exploited. It was first used for public illumination and just at the end of the century it started the domestic consumption. The explosion of natural gas happened just when the period of low oil prices

[5] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 9

[6] BP, *Statistical Review of World Energy*, June 2013, available on line at http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf , accessed on 14th May 2014

[7] Ibidem

ended: the consequences of the oil crises pushed the industrialized countries to look for a surrogate.

The International Energy Agency estimated that the world consumption of natural gas will increase for the next decades. In 2011 the world requirement was of 3.460 bcm and in 2020 is evaluated to grow until 3.900 bcm.[8] The greatest part of this rise is related to Asian markets but the European one will keep being relevant: in 2030 gas consumption is estimated to be of 600 bcm yearly.[9]

But what is it natural gas and how is it found and exploited?

Natural gas is composed by a mixture of hydrocarbons: it is mainly constituted by methane but it contains as well ethane, propane, butane and pentane. Those elements can be easily compressed and than transported. Moreover, other substances are present in this mixture: they have to be isolated and eliminated: for instance, carbon dioxide, nitrogen and hydrogen sulphide.[10] The formation of those hydrocarbons is linked with the crude oil one: they result from the decomposition of organic material that underwent pressures and high temperatures for millions of years as oil is. Sometimes, natural gas can be found in oil deposits but there can be also exclusive gas deposits.

It is not easy to find gas, the research involves much time and technologies and it is always a probabilistic attempt.

First of all a mining prospecting is executed; then the geological exploration is carried out: through the studying of the rocks composition it is possible to forecast gas presence. Then,

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[8] C. Frappi, M. Verda, A. Villafranca e M. Monti, *Focus Trimestrale Sicurezza energetica*, n. 12 – agosto/dicembre 2012, Osservatorio di Politica Internazionale, Roma: Senato della Repubblica, Camera dei Deputati, Ministero degli Affari Esteri, 2012. Available on line at http://www.parlamento.it/application/xmanager/projects/parlamento/file/repository/affariinternazionali/osservatorio/focus/PI0012FocusISPI.pdf , accessed on 2nd May 2014

[9] Ibidem

[10] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 25

with the installation of some sensors a seismic prospecting is produced: in this way the composition of the ground beneath is known. Finally, exploration wells are perforated.[11]

The inexpensiveness of the extraction needs to be considered: what it is usually exploited is the so called conventional gas while the gas that is found in the oil deposits is wasted with the flaring (combustion in the open air) or the venting (dispersion in the atmosphere).[12]

After the extraction, the gas has to be treated and purified if necessary before to be ready for the final use.

Recently, natural gas came to be preferred among other energy sources because it is less expensive and less polluting and it has a variety of employments. It can be exploited as fuel for motor vehicles or for petrochemistry, but three are the main uses.

Domestic consumption is the most known: gas is used to cook and to warm. In this case, gas needs to be distributed with a widespread network of facilities. Commonly the possibility to have gas for households was a symbol of economic progress for a country.

Industry uses a considerable amount of gas: chemistry, ceramics and glass industries, paper factories, steel industries, textiles and food processing industries have an extensive use of this material.

However, the greatest consumption of gas is for electricity generation. The plants for electric energy creation from gas are of small size, efficient, flexible and less expensive: indeed 39% of gas production is designed for this scope.[13]

It is in the last two phases, transportation and distribution, that the process becomes more difficult and expensive: moreover, it is in this stage that politics comes into the play.

Gas is carried from the place of production to the final consumer through a network of pipelines: according to the distance that they have to cover and the place where they have

[11] ibidem

[12] Op. cit., p. 30

[13] Op. cit., p. 44

to be built, the cost of their construction is around 1-2 million of dollars per kilometre. Indeed, the cost of gas transportation may bear for the 50% on the final cost.[14]

Indeed, transnational pipelines require a great investments and they create as well a situation of dependence between the exporting and the importing country: contrary to petrol tankers which can move freely from one harbour to the other, pipelines are fixed, they cannot change path. A long and continuative time of operation has to be guaranteed for the building of a pipeline to be economically advantageous.

For this reason, bilateral relations between the countries at the two ends of the pipe are put under strain: not just energy issues are involved here but above all political ones.

As a matter of fact, there is always a risk: from one side, if the seller does not send gas, the buyer will remain without it; on the other side, if the importing country does not consume the resources coming from that pipe, the exporter will be obliged to keep its gas into the deposits.

To avoid those problems a new kind of gas has been researched: it is the LNG, the liquefied natural gas. With the conversion of gas into liquid form, storage and transportation is eased. Its volume is reduced and it can be put onto methane tankers that can theoretically reach every harbour, where indeed there is a plant to re-gasify it. This solution is economically competitive on the long distance and it can allow countries that cannot be linked by pipelines to trade it.

However, its main advantage is indeed the absence of the obligations existing between countries connected by a pipe. As a matter of fact, this is a solution to the geopolitical risk.

Another element, that it is strategically important, is the storage capacity of a country. It is a government duty to decide the level of strategic reserves that needs to be fulfilled in order to avoid problems to citizens and this is particularly important for importing

[14] Ibidem

countries. There is always the possibility of an accident, of particularly rigid winters but also the likelihood that supplies are interrupted for political reasons.

Gas industry has developed generally as a public monopoly vertically integrated, this means that the same enterprise would deal with all the phases from exploration to production and distribution.

As a matter of fact, there has been a convergence of interests: the firm had the monopoly on the sector but in exchange it had to pursue public utility aims, guarantying economic advantages for the community, for instance furnishing gas to industries and households at a lower price.

The world biggest producers of natural gas are United States that in 2012 covered 19,6% of the world production (665,88 bcm) and Russia with 19% (642,94 bcm).[15] The sixth position is held by a European country, Norway: 3,4% of world production.[16]

Russia resulted to be in 2012 as well the world's top reserves holder with 48.914 bcm. The second one is Iran with 17% and the third is Qatar with 12.5%.

Europe consumes 18% of the world natural gas consumption; Italy individually covers 2,2% and it is the tenth consumer in the world with 73.19 bcm.

Russia is the leader in world's exporters with 189.30 bcm in 2012 (18,5%); it is followed by Qatar (12,5%) and Norway (10,8%). On the other side, Japan is the greatest importer (12%); Italy has the fourth position with 66.16 bcm of gas imported in 2012, 6,5% of the world total.[17]

Indeed, in the future the scenario is likely to be composed by few exporting countries as the others exhaust their resources. They are located in two areas: Russian Federation and

[15] ENI, *World Oil and Gas Review 2013*. Available on line at http://www.eni.com/world-oil-gas-review-2013/O-G_2013_WEB.pdf, accessed on 15th April 2014

[16] Ibidem

[17] Ibidem

Middle East. The fact that production is so much concentrated implies the risk that instability of one of the two regions will cause problems of energy supply for the consumer countries.

Europe is a big consumer of energetic resources but it is very poor of it. For this reason it has to import the majority of them, included natural gas. The majority of it goes trough a network of pipelines that connects the producers with the final consumers. While LNG still has to develop fully, this traditional way of transport implies remarkable risks. Pipelines stretch for thousands of kilometres and usually they are in the territory of third countries: this adds an additional actor in the interplay of energy and foreign politics between importing and exporting countries that sometimes is difficult to control.

Hence, geopolitics comes to play an important role in the gas market.

2. Pipelines and geopolitics

When energy requirements are satisfied mainly with importation, it is not just economy but also foreign politics that comes into the play. Cooperation between producer countries and importing ones is essential to guarantee domestic well being and national security. National governments need to anticipate the energy needs of their people and industry to assure continued growth. For this reason diplomatic relations with supplier countries occupy a very important position in the governments priorities to assure that energy supply will not run out.

In the case of gas, fixed transport facilities are used: pipelines. Indeed, gas market has a regional dimension[18]. This is because gas pipelines are very expensive infrastructures to be built and their path is predetermined: once it is chosen, it cannot be changed. Moreover, once a pipeline is constructed, producer and importing countries are closely linked. This is due not only to the fact that a pipeline cannot change its beginning and its end, so it cannot move but also to the fact that usually long-term contracts are stipulated. So, the buyer and the seller are linked for a number of years (on average 20 years). The existence of contracts of this duration is needed for a reasonable distribution of the possible dangers among the various participants.

This situation exposes gas trade to greater risks: first of all, they link indissolubly for a long period of times importing and exporting countries, with the risk that the relations between the two countries for any reason deteriorate with serious repercussions. Secondly, they are more exposed to terrorist attacks: gas pipelines run for thousands of kilometres, sometimes underwater, others in the territory of third countries. They are difficult to protect and supervise.

[18] C. Stagnaro (a cura di), *Il mercato del gas naturale. L'Europa tra sicurezza e liberalizzazioni.* Soveria Mannelli: Rubettino Editore, Treviglio: Leonardo Facco Editore, 2009, p. 14

Moreover, the worst threat to a regular gas flow may be the political instability of the producer country. The inability to guarantee the public order in the country jeopardizes not only the possibility of exporting but above all the necessary investments for the future production. (for instance, this is the situation in which Libya is right now)

There are three important factors for a pipeline: the distance, the position and the capacity.

Pipelines are economically attractive just on the medium distance. Moreover, sometimes importing countries are so far away from the producer ones that it is impossible to connect them via pipe.

The position where the tubes have to be placed also makes a difference: technical difficulty and cost vary for instance if the pipeline is underwater or is passing on land.

The potential capacity of the line is a relevant element: indeed, if the actual flow can be expanded then it is possible to face increase in demand. It is less expensive to boost gas terminals or storage instead of building a new pipe.

If a country is deeply involved in the international trade of energy resources, it will have the need to coordinate its choices of energy policy with its commercial, military and diplomatic actions.

However, it can be said that the existence of energy trade between two countries favours bilateral cooperation also in other sectors, such as economy or security. So, the advantages of a friendly relations between the two countries are felt by the whole society and it will boost investments. Indeed, commercial relations become politicised with sometimes the addition of treaties between the two countries.

Nevertheless, a preferred relationship between two countries may limit the possibility of choice in foreign policy. For instance, the attempt to diversify the national energy mix or to find an alternative supplier could be seen by the principal exporter as a bad behaviour towards it.

Most of the times between importing and exporting countries is established a relation of interdependence. Gas is concentrated in few regions and there are some countries that are major exporters. On the one hand, countries are pushed to focus their economic activity on the extraction and trade of their natural resources: so they are dependent on the proceeds of the sale to keep the state going. On the other hand, importing countries needs those resources for their economic development.

For this reason, there is a strong incentive towards cooperation and there is no much sense from a practical point of view that the producer country decides to suspend gas flows for a political reason. Indeed, economy and monetary needs prevail on ideological stances.

This is the case of the so feared suspension of gas flow from Russia as a retaliation of European support to Ukraine entrance in the North Atlantic Treaty Organization. It would not be attractive to Russia to loose such important buyers.

The transit countries are usually little consumers but their cooperation is essential in order to allow gas to arrive to its final destination. Usually, in exchange of this service those countries are paid by the exporting one. However, in some occasion the political tensions between them and the producer country may endanger this process. Sometimes the decision-makers try to obtain additional advantages exploiting their geographical position. In the event of a sudden interruption of the flux operated by the intermediate country, the most hit will be the importing one. It is to avoid this risk that there is the strategic necessity to diversify energy supply and to find alternative routes of means of transport.

As a matter of fact, this is the situation in which the energy interchange between Russian Federation and Europe is. The cooperation of some countries such as Belarus and Ukraine is essential to guarantee a regular gas flow to Europe; since it cannot be assured, alternative routes are being planned to connect Russia and Europe without passing through them.

There are mainly seven corridors for the European oil and gas supply: North-South path, for the resources of the Northern Sea, North East-West corridor for Russian oil, North East-West for Russian natural gas, South East-West for Azerbaijan oil, South East-West for natural gas from the Caspian Sea, South-North for oil and natural gas of Northern African countries and finally South East-West just in the planning stage.[19]

This section is focused on natural gas and in particular with the tricky channels of gas transportation.

The North-South corridor is the most reliable one. The deposits from which the raw materials comes, are controlled by two European countries: Norway and the United Kingdom. Surely, those are trustworthy partners but the problem is that the production in this area is lowering.

The South-North path is used for the natural gas produced by the countries of the Southern shore of the Mediterranean. Notably, Algeria supplies 47.72 bcm of gas to Europe and its majority, 33.81 bcm arrives through pipelines.[20]

There are four gas pipelines that connects Africa and Europe: Transmed, Maghreb-Europe, the Medgaz and Green Stream.

The Trans-Mediterranean, Transmed, runs from Hassi R'Mel gas field in Algeria to Sicily and Italy via Tunisia. It is 2.475 km long and it is able to deliver 33 bcm yearly (its

[19] F. Bordonaro, *La sicurezza energetica nelle relazioni internazionali e le implicazioni di carattere politico-militare. Scenari e prospettive per l'Italia*. Ricerca CeMiSS, Roma: Centro Militare di Studi Strategici, 2009, available on line at http://www.difesa.it/smd_/casd/im/cemiss/pubblicazioni/documents/86334_la_sicurepdf.pdf, accessed on 6th May 2014, p. 21

[20] ENI, *World Oil and Gas Review 2013.* Available on line at http://www.eni.com/world-oil-gas-review-2013/O-G_2013_WEB.pdf, accessed on 15th April 2014

capacity was augmented from 27 bcm in 2012).[21] It is the more ancient infrastructure built in 1983: it was dedicated to Enrico Mattei, the first president of ENI. The route is operated by Sonatrach[22], the Algerian national company, by Sotugat and Sergaz in the Tunisian section, by ENI (or better its subsidiary Snam Rete Gas) in the Italian territory and by a joint venture between Sonatrach and ENI in the sea part.[23] After reaching Italian mainland, the pipeline has a diversion towards Slovenia.

The Maghreb-Europe pipeline (MEG), also called the Pedro Duran Farell, goes from the Algerian Hassi R'mel gas field to Cordoba, Spain, via Morocco. It is 1.620 km long[24] and its capacity is of 8,5 bcm. Its potential may be augmented to 11 bcm yearly.[25] This line supplies Morocco, Spain and Portugal.

Moreover, there is the Medgaz, officially inaugurated in 2011, a submarine natural gas pipeline which links Beni Saf, Algeria, to Almeria, Spain.[26] This project has a value of $1.3 billion; its length is of 757 kilometres and its capacity is 8 bcm per year.

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[21] F. Bordonaro, *La sicurezza energetica nelle relazioni internazionali e le implicazioni di carattere politico-militare. Scenari e prospettive per l'Italia*. Ricerca CeMiSS, Roma: Centro Militare di Studi Strategici, 2009, available on line at http://www.difesa.it/smd_/casd/im/cemiss/pubblicazioni/documents/86334_la_sicurepdf.pdf, accessed on 6th May 2014

[22] The Société Nationale pour le Transport et la Commercialisation des Hydrocarbures is the Algerian state enterprise founded just eighteen months after independence in 1963; it was created for the oil and gas businesses.

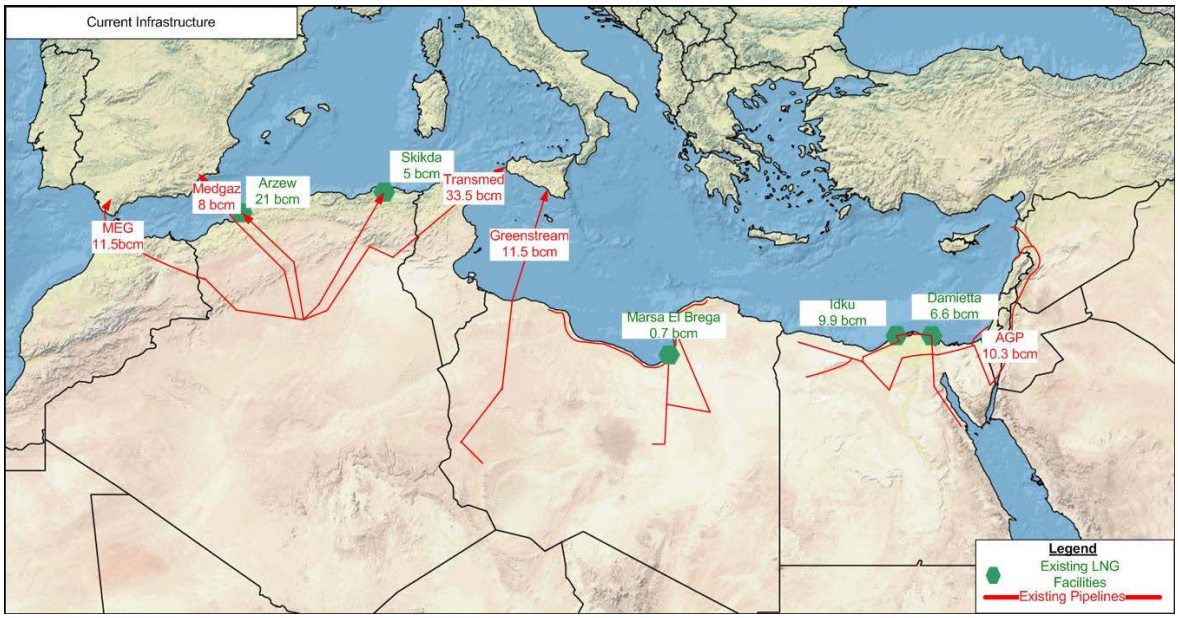
[23] European Chemical Site Promotion Platform, *An overview of the pipeline networks of Europe*. Available on line at https://chemicalparks.eu/system/files/attachments/file/14/European_Pipeline_Infrastructure__Networks.pdf , accessed on 19th May 2014

[24] Ibidem

[25] F. Bordonaro, *La sicurezza energetica nelle relazioni internazionali e le implicazioni di carattere politico-militare. Scenari e prospettive per l'Italia*. Ricerca CeMiSS, Roma: Centro Militare di Studi Strategici, 2009, available on line at http://www.difesa.it/smd_/casd/im/cemiss/pubblicazioni/documents/86334_la_sicurepdf.pdf, accessed on 6th May 2014

[26] European Chemical Site Promotion Platform, *An overview of the pipeline networks of Europe*. Available on line at

Green Stream started to work in 2004 and it connects Mellitah, Lybia, to Gela, Sicily. It is 520 km long and its capacity is 9 bcm yearly.[27] It is the longest under water pipeline ever realised in the Mediterranean and it has been placed at a depth of 1.127 meters.[28]



Map 1 In this map the pipelines infrastructures of the South-West trajectory are shown: the Green Stream, the Transmed, the Medgaz and the Maghreb Europe Pipeline [29]

The North East-West and the South East-West paths are the more controversial and strategic for the energy relations between the Russian Federation and Europe.

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https://chemicalparks.eu/system/files/attachments/file/14/European_Pipeline_Infrastructure__Networks.pdf , accessed on 19th May 2014

[27] Ibidem

[28] ENI official website, *Green Stream*, available on line at http://www.eni.com/it_IT/innovazione-tecnologia/progetti/greenstream/greenstream.shtml, accessed on 19th May 2014

[29] *Supplying the EU natural gas market. Final Report*. Croydon, Mott Mac Donald, November 2010, available on line at http://ec.europa.eu/energy/international/studies/doc/2010_11_supplying_eu_gas_market.pdf, accessed on 19th May 2014

The totality of Russian gas arrives to Europe with pipelines, that is 196.31 bcm per annum.[30] The network used is the one first traced during the Cold War: Indeed, those pipelines originated when intermediate countries were part of the Soviet sphere. Since the collapse of the Soviet Union in 1991, key countries for the transit of oil and gas from Russia to Europe became independent and not always they enjoy good relations with Moscow.

Currently, Russian exports arrive to Europe through three routes: Yamal-Europe (across Belarus to Poland), North Stream (connecting directly to Germany) and Ukranian network (controlled by Naftogaz the national company).[31]

The North East-West path includes gas pipelines of the "Unified system for Russian gas supply" (UGSS) and hence the so called "Brotherhood" and the Yamal-Europe lines. The gas that they transport is coming from Western Siberian deposits.[32]

Indeed, the two important countries of transit are Belarus (for Northern Europe, Poland and Germany) and Ukraine (for central and southern European states). Being this a relevant risk for the continuity of gas flow, Moscow started to look to other routes to lower its dependence on Ukraine for gas transit. The North Stream, the Blue Stream II and the South Stream projects are part of this strategy.

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[30] ENI, *World Oil and Gas Review 2013.* Available on line at http://www.eni.com/world-oil-gas-review-2013/O-G_2013_WEB.pdf, accessed on 15th April 2014

[31] C. Frappi, M. Verda, A. Villafranca, *Focus Trimestrale Sicurezza energetica*, n 16, Ottobre-Dicembre 2013, Osservatorio di Politica Internazionale, Roma: Senato della Repubblica, Camera dei Deputati, Ministero degli Affari Esteri, 2013. Available on line at http://www.parlamento.it/application/xmanager/projects/parlamento/file/repository/affariinternazionali/osservatorio/focus/Focus_n_16_ISPI.pdf , accessed on 6th May 2014

[32] F. Bordonaro, *La sicurezza energetica nelle relazioni internazionali e le implicazioni di carattere politico-militare. Scenari e prospettive per l'Italia*. Ricerca CeMiSS, Roma: Centro Militare di Studi Strategici, 2009, available on line at http://www.difesa.it/smd_/casd/im/cemiss/pubblicazioni/documents/86334_la_sicurepdf.pdf, accessed on 6th May 2014

The North Stream Pipeline runs from Russia to Germany under the Baltic Sea. The participants to this project are: Gazprom, the German companies E.ON Ruhrgas and BASF and later the Dutch company N.V. Nederlandse Gasunie (2008). In 2010 the French Gdf Suez became the fifth share holder (9%)[33]. The project started in 2005 and it came to have a strategic relevance because it allows Russian gas to arrive directly to Germany, one of its main client. Indeed, it benefits both Germany and Gazprom because it reduces the costs for the consumers and it raises the profits for the company. This project was driven by political and economic interests. Indeed, it is not a case if the former German chancellor, Gerhard Schröder, is part of the consortium board.[34] In the first phase of realisation additional 27,5 bcm of gas yearly will arrive (by 2015) and by 2020 other 27,5 bcm will be available to be traded in the other European markets.[35]

This could be a symbol of a new energy cooperation between Russia and Germany but also with the European Union. Italy is concerned as well, seen that Saipem will participate in the works of stabilisation in the Baltic sea together with the Dutch company Boskalis-Tideway.[36]

In the South East-West trajectory it is the Caspian and the Central Asian gas that is passing. Azerbaijan, Turkmenistan, Iran, Uzbekistan and Kazakhstan are the main producers of this area. They have two options to send their gas to Europe: passing through Russia (in the North) or following the Transcaucasian direction (in the West).[37]

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[33] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 118

[34] Ibidem

[35] Ibidem

[36] Ibidem

[37] F. Bordonaro, *La sicurezza energetica nelle relazioni internazionali e le implicazioni di carattere politico-militare. Scenari e prospettive per l'Italia*. Ricerca CeMiSS, Roma: Centro Militare di Studi Strategici, 2009, available on line at

Here, the relevant question of energy geo-strategy originates. This route was at the centre of European attention as a possible solution to reduce its dependency from the Russian gas. Indeed, since 2006 Azerbaijan natural gas goes through the South Caucasus Pipeline, also called Shah Deniz Pipeline from the name of the Caspian deposit. It brings gas to the Turkish shore following the route of the Baku-Tbilisi-Ceyhan (BTC) crude oil pipeline through Azerbaijan and Georgia. It is 6912 km long and it carries nearly 7 milliards of cubic metres of gas yearly.[38]

The Trans-Anatolian Gas Pipeline (TAP), whose construction started in 2007, would transport Azerbaijan gas from the Caspian Sea to Turkey: this pipe will connect the Turkish Black Sea shore with the Mediterranean side. The cost is estimated to be of 8 milliard of dollars and it should have a capacity of 16 bcm. The material to be carried is coming from the offshore deposit of Shah Deniz. Its production is supposed to begin in 2017.[39]

The possibility of the exploitation of deposits in the Eastern Mediterranean, the offshore fields of Tamara and Leviathan discovered in 2009 and 2010, could serve the project of a gas interconnector between Italy and Greece.[40]

In this trajectory the Blue Stream pipeline is included; as well the challenge between the Nabucco pipeline and the South Stream one is about the exploitation of this area.

Those three pipelines and the issues related will be tackled in the following paragraphs.

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http://www.difesa.it/smd_/casd/im/cemiss/pubblicazioni/documents/86334_la_sicurepdf.pdf, accessed on 6th May 2014

[38] Ibidem

[39] C. Frappi, M. Verda, A. Villafranca e M. Monti, *Focus Trimestrale Sicurezza energetica*, n. 12 – agosto/dicembre 2012, Osservatorio di Politica Internazionale, Roma: Senato della Repubblica, Camera dei Deputati, Ministero degli Affari Esteri, 2012. Available on line at http://www.parlamento.it/application/xmanager/projects/parlamento/file/repository/affariinternazionali/osservatorio/focus/PI0012FocusISPI.pdf , accessed on 2nd May 2014, p. 27

[40] Ibidem

Map 2 In this picture the system of gas pipelines connecting the Russian Federation and Europe are illustrated. Moreover, it is possible to see as well the project of the South Stream with the three alternatives of final direction. [41]

[41] C. Frappi, M. Verda, *Sicurezza energetica, gas naturale e rapporti russo-europei*. Paper per il XXIV Convegno SISP "Market, security or waste? Energy and international relations", Venezia: 2010, available on line at http://www.sisp.it/files/papers/2010/carlo-frappi-matteo-verda-638.pdf , accessed on 2nd May 2014

2.1 LNG: a future escape from the constraints of geopolitics

In the last years a new technology started to be developed and spread: the LNG. Liquefied natural gas is a mixture of hydrocarbons constituted by 80-90% of methane and then by ethane, propane, nitrogen and others. This solution is preferred to the traditional means of production and transportation of natural gas, that is by pipelines, for political, strategic and economic reasons.

The two different phases that liquefied gas goes through, in comparison to the traditional process, are liquefaction and re-gasification. After being discovered and extracted, the gas is purified; then in the liquefaction terminal is transformed from the gas to the liquid state through the two processes of pre-cooling and liquefaction. It is then stored at a temperature inferior to 160 Celsius degree.[42] In this way, the resulted material is odourless, colourless and deprived of its toxicity and corrosiveness. The most important consequence of this process is that the volume is reduced of nearly 600 times atmospheric pressure[43], so it is possible to transport remarkable quantities of gas through ship. On average, a methane tanker is able to carry 130.000 cubic meters of LNG, that correspond to 80 millions of cubic meters at the gas state.[44]

In this way it is possible to reach as well places that are distant for geographical reasons and that cannot be linked by pipeline or to connect important producers that are far away from the principal consumption markets (for instance, Qatar).

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[42] C. Stagnaro (a cura di), *Il mercato del gas naturale. L'Europa tra sicurezza e liberalizzazioni.* Soveria Mannelli: Rubettino Editore, Treviglio: Leonardo Facco Editore, 2009, p. 76

[43] Ibidem

[44] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 35

Once at destination, the liquefied gas has to be stored in tanks that will isolate it from heat and will minimize the risk of evaporation.[45]

So, the importing country needs to have a re-gasification system to convert again the liquid into a gas state. Usually, a certain quantity of LNG is stored nearby those plants so that in periods of great demand it is possible to furnish more energy.

It has been calculated that the distance beyond which it is economically convenient to chose LNG so, transportation by gas tankers instead of gas pipelines is around 2500-3000 nautical miles.[46]

The problem is that liquefied gas has a greater price than natural gas transported via pipe. The facilities used to treat it are very costly: a re-gasification structure of 8 bcm yearly capacity may cost more than 3 milliard of dollars.[47] Moreover, around 10% and 24% of the volume of the gas transported is worn out; a bigger quantity than in the case of pipelines (just 5%).[48] Nonetheless, LNG has a lot of advantages.

First of all, it gives the possibility to diversify the sources of supply. In addition, it has more flexibility: this means that a methane tanker may change its harbour of destination whenever it is required. So, it is eliminated the physical tie: the producer can diversify its market and the consumer its supply. However, a re-gasification facility needs to be built.

From a geopolitical perspective, transit countries do not exist anymore: there is freedom of navigation. So, the relevant risk of political tensions between supplier and intermediate countries is avoided.

Moreover, the investments for the construction of re-gasification or liquefaction facilities involve just one country while the pipeline projects implicate the participation of a

[45] C. Stagnaro (a cura di), *Il mercato del gas naturale. L'Europa tra sicurezza e liberalizzazioni.* Soveria Mannelli: Rubettino Editore, Treviglio: Leonardo Facco Editore, 2009, p. 76

[46] Op. cit., p. 75

[47] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 36

[48] Ibidem

plurality of actors. So, negotiations are longer and more difficult; the agreements reached may be weak and unstable and the times to complete the infrastructure could be undefined.[49]

From an environmental point of view, gas is preferred to coal and oil because it emits less carbon dioxide for the same production for instance of electricity. Furthermore, the LNG is purified, more light and it does not contain dangerous elements.

The contracts are in general of long term: this gives the possibility to invest in the expensive facilities needed.

The LNG market is a recent one so not yet developed and efficient. However, the perspectives are in favour of a great expansion. Indeed, relevant and functioning spot markets are already working: in the international markets it is possible to sell just a single cargo.

Investments in this technologies are increasing and this is due also to the perception of a greater geopolitical risk. Indeed, liquefied natural gas became a driver of energy security.[50] Once this kind of production will be spread completely, it would be possible the creation of a true global and competitive international gas market.

[49] C. Stagnaro (a cura di), *Il mercato del gas naturale. L'Europa tra sicurezza e liberalizzazioni.* Soveria Mannelli: Rubettino Editore, Treviglio: Leonardo Facco Editore, 2009, p. 83

[50] Op. cit., p. 39

2.2 The Italian situation

Italy has always been a country highly dependent on imported energy resources. The history of natural gas, commonly called methane, started really early: since when AGIP, the national oil company, in the thirties started to look for oil in the Po Valley in order to give energy self-sufficiency to the country, in the autarchic logic of the Fascist regime. Instead of oil, it was found gas. When in 1953 ENI was created, AGIP became its subsidiary.

In the fifties, the first President of ENI, the state-owned energy firm, Enrico Mattei, used the presence of gas resources in the Po Valley to create a strategy based on the substitution of imported coal with the cheaper and more functional natural gas. This favoured an early development of pipeline facilities that reached the factories of Northern Italy.[51] Indeed, natural gas proceeds constituted the monetary capital that favoured ENI expansion and exploration activities also abroad.

The strategy was based on a double track: on the one hand demand was to be supported, on the other hand supply was to be created. Indeed, it was not logic to have pipelines without gas and the other way round. In the first period, ENI decided to favour industrial consumption because it was required great and constant amount of energy. Subsequently, residential uses were boosted. Just in a third moment, gas consumption was concentrated in the thermo electrical production.[52]

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[51] M. H. Hayes, *Algerian gas to Europe: The Transmed pipeline and early Spanish gas import projects. Working Paper # 27.* Geopolitics of Natural Gas Study Stanford University: Program on Energy and Sustainable Development, Stanford Institute for International Studies, 2004. Available on line at http://bakerinstitute.org/media/files/Research/e56d897c/algerian-gas-to-europe-the-transmed-pipeline-and-early-spanish-gas-import-projects.pdf, accessed on 19th May 2014, p. 3

[52] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 162

By 1965, Italy was already the largest gas producer but above all consumer in Western Europe.[53] The pipeline network developed rapidly: in 1952 it was constituted by 2.697 km which augmented to 10.471 in 1971.[54]

Domestic production was not sufficient to satisfy Italian requirements and since the sixties it was clear that importation was the only solution. The contracts for energy supply with producer countries came to correspond to the history of ENI assertion on the international scenario (this aspect was already dealt in the previous chapters).

Still today, gas has a primary position in the Italian energy mix, that is highly unbalanced in this direction.

The concurrence of the primary importance held by gas in the Italian energy consumption and its dependence on importation determines the strategic importance of gas transportation infrastructures. So, Italian energy security is driven by the assurance that import facilities are sufficient to guarantee constant supply at a reasonable price for final consumers.[55] Indeed, as it is showed by the chart below, Italian energy supply are quite diversified from a geographical point of view. Its main exporters are Russian Federation, Algeria and Libya, while an important part of its gas flows come as well from other European countries, notably Norway and the Netherlands.

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[53] M. H. Hayes, *Algerian gas to Europe: The Transmed pipeline and early Spanish gas import projects. Working Paper # 27.* Geopolitics of Natural Gas Study Stanford University: Program on Energy and Sustainable Development, Stanford Institute for International Studies, 2004. Available on line at http://bakerinstitute.org/media/files/Research/e56d897c/algerian-gas-to-europe-the-transmed-pipeline-and-early-spanish-gas-import-projects.pdf, accessed on 19th May 2014, p. 3

[54] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 159

[55] Op. cit., p. 163

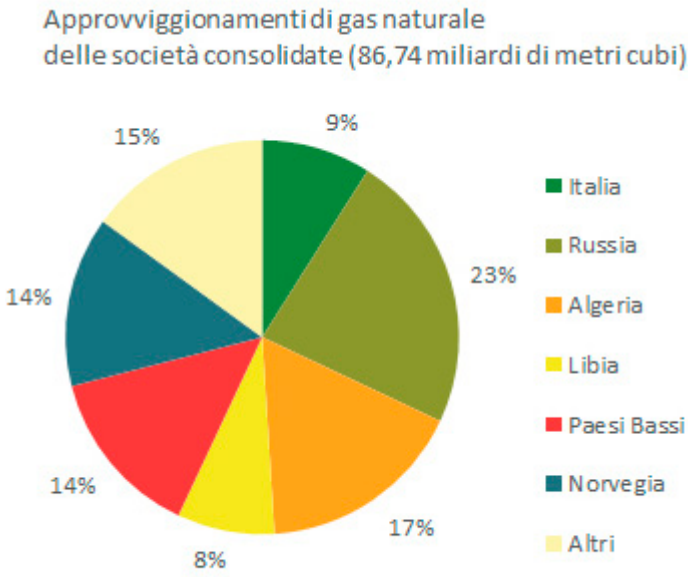

Chart 1 In this chart it is shown the composition of Italian natural gas importations. [56]

For this reason the pipelines network is very important. Even if in the last ten years LNG technologies knew a sudden development, it is not yet the favourite one.[57] Indeed, out of 67.73 bcm of imported gas, 60.39 bcm arrives through pipes[58]. Moreover, the totality of Russian gas uses this means of transportation.

Mainly, four are the principal routes from which gas is imported in Italy. The first is constituted by the gas flows coming from North Africa, notably Algeria (Transmed) and Libya (Greenstream). Nonetheless, the recent Libyan political instability endangered the reliability of this source.

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[56] ENI S.p.A, *Gas & Power, gli approvvigionamenti*. July 2013, available on line at http://www.eni.com/it_IT/azienda/attivita-strategie/gas-power/approvvigionamenti-gas/approvigionamenti.shtml, accessed on 6th May 2014

[57] Just 7.34 bcm arrives in Italy as LNG. The origin of this material is Qatar, Algeria and Trinidad and Tobago. The expansion of this technology has been hindered by the concerns of local communities about the environmental impact of the regasification plants.

[58] ENI, *World Oil and Gas Review 2013.* Available on line at http://www.eni.com/world-oil-gas-review-2013/O-G_2013_WEB.pdf, accessed on 15th April 2014

The second important origin of Italian imported gas is the Russian Federation: the facility involved is the Trans Austria Gas Pipeline.

The third route is the one connecting Italy with the European producer countries, notably the Netherlands, and Norway.

The fourth origin of gas importation is constituted by LNG whose importance is increasing.

Italian geographical position favours its role of energy and gas hub. Indeed, it is placed in the intersection between the gas coming from North Africa, the Middle East, Russia and maybe in the future also from the Caucasus region.

Italy has the third-largest natural gas transmission system in Europe[59]: according to Snam, it consists of a national transport network of 32.000 kilometres.[60] Furthermore, Italy, together with ENI, the national energy firm, led the way for the construction of submarine pipelines.

The first project was indeed the then realized Trasnmed. A natural gas export pipeline spanning international borders and deep ocean waters was an enormously economic and technical undertaking for that time. It was an opportunity to develop peculiar technical capacities that could in future result in a strategic niche in sub-sea pipelines. This pipeline was completed rapidly because the project enjoyed the strong support of the Italian state: ENI was the state owned enterprise and it was "politically mobilised".[61]

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[59] European Chemical Site Promotion Platform, *An overview of the pipeline networks of Europe*. Available on line at https://chemicalparks.eu/system/files/attachments/file/14/European_Pipeline_Infrastructure__Networks.pdf , accessed on 19th May 2014

[60] SNAM, *Fact sheet*, available on line at http://www.snam.it/export/sites/snam/repository/file/Media/Press_Kit/fact_sheet_ITA.pdf, accessed on 19th May 2014

[61] M. H. Hayes, *Algerian gas to Europe: The Transmed pipeline and early Spanish gas import projects. Working Paper # 27.* Geopolitics of Natural Gas Study Stanford University: Program on Energy and Sustainable Development, Stanford Institute for International Studies, 2004. Available on line at

This project was part of the social action of the company: as a matter of fact, the Trasmed pipeline was to bring gas to the less developed South of the country (the so-called plan for the gasification of Mezzogiorno).[62] The Transmed was finally completed in 1983 and doubled in 1994.

From the Mediterranean Italy receive gas also through the Green Stream, for Libyan gas. It is operated by ENI (75%) and NOC (25%) together in the Western Libyan Gas Projects joint venture. The works of pipes positioning were as well carried out by Saipem.

The Russian gas arrives in Italy by pipeline as well: two entry points are the Tran-Austrian Gas Pipeline at Tarvisio and at Gorizia via Slovenia. This pipeline supplies Austrian and Italian gas consumption.

The Trans-European Pipeline and the Transitgas Pipeline connects Italy to natural gas deposits of Northern Europe (Netherlands and Norway).[63]

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http://bakerinstitute.org/media/files/Research/e56d897c/algerian-gas-to-europe-the-transmed-pipeline-and-early-spanish-gas-import-projects.pdf, accessed on 19th May 2014, p. 3

[62] Ibidem

[63] European Chemical Site Promotion Platform, *An overview of the pipeline networks of Europe*. Available on line at https://chemicalparks.eu/system/files/attachments/file/14/European_Pipeline_Infrastructure__Networks.pdf , accessed on 19th May 2014

Map 3 This map shows the extension of the pipeline network in Italy and the location of the active re-gasification plants. In red, the national gas pipelines structure is underlined.[64]

Currently, in Italy there are just two liquefaction terminals. The Panigaglia Terminal (near La Spezia) is owned by the society GNL Italy, controlled by SNAM. Its re-gasification capacity is around 3,7 milliard of cubic meters yearly.[65] It was one of the first in Europe and it was meant for the LNG coming from Libya (1971).[66]

The other is the offshore LNG terminal in the Northern Adriatic Sea, at Porto Levante, near Rovigo, inaugurated in 2009. Its ownership is divided between Qatar Petroleum

[64] SNAM official website, http://www.snam.it/it/index.html accessed on 19th May 2014

[65] C. Stagnaro (a cura di), *Il mercato del gas naturale. L'Europa tra sicurezza e liberalizzazioni.* Soveria Mannelli: Rubettino Editore, Treviglio: Leonardo Facco Editore, 2009, p. 92

[66] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 163

(45%), Exxon (45%) and Edison (10%). Its task is to treat the gas coming from Qatar. Its capacity of gasification is nearly 8 milliard of cubic meters per annum.[67]

The other projects have all been blocked for different reasons (lack of authorisation, political, environmental). Indeed, Italy imports a very small portion of liquefied natural gas in comparison to the totality of its gas purchase.

Italy has an import capacity that exceeds its national requirements: overall, the theoretical capacity of all the infrastructures is of more than 100 bcm per annum, even if it is not yet completely exploit.[68]

Indeed, this may be an incentive to develop a greater interconnection between the Italian network and the adjacent European countries to be able to function as well as exporter and so the actually become an international gas hub.

Two projects in which Italy would have a great interest are the ITGI and the TAP.

The Interconnector Turkey-Greece and Italy is a facility that will link Caspian and Middle Eastern fields with Europe through Turkey. Its capacity should be of 8 bcm yearly and it will be composed of various sections. The first part is the Turkish grid that needs to be strengthened. The second one is the interconnector between Turkey and Greece (ITG): it was completed in 2007. Finally, the interconnection between Greece and Italy composed by two sections, the onshore part (IGI Onshore) of 600 km on Greek territory and the offshore one (IGI Poseidon) of 200 km under water. This last part will be built by IGI Poseidon SA, a joint venture between Edison and Depa.[69]

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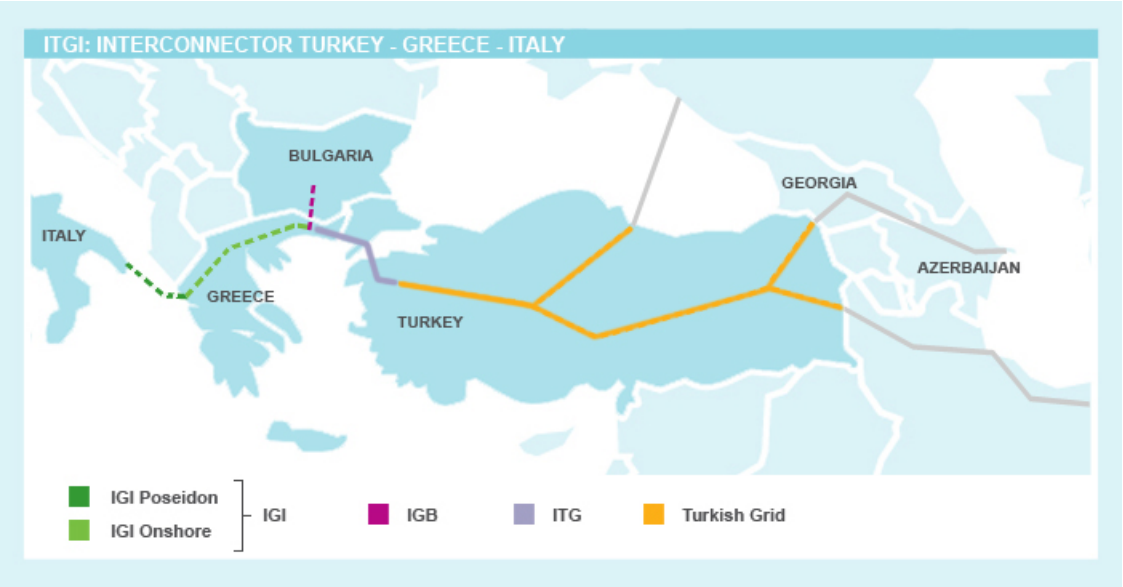
[67] C. Stagnaro (a cura di), *Il mercato del gas naturale. L'Europa tra sicurezza e liberalizzazioni.* Soveria Mannelli: Rubettino Editore, Treviglio: Leonardo Facco Editore, 2009, p. 92

[68] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 165

[69] Edison official website, *ITGI gasdotto Turchia-Grecia-Italia.* http://www.edison.it/it/azienda/infrastrutture-gas/itgi.shtml, accessed on 24th May 2014

The facility has obtained already the first evaluations for the environmental impact, the exemption from the obligation of third party access for 25 years and European grants for its realisation (145 millions of euros).[70]



Map 4 The three sections in the ITGI path[71]

The other project is the TAP, Trans Adriatic Pipeline: this pipe would go from Greece to Albania and then under the sea until the Italian shore. It will transport gas from the Shah Deniz II deposit in Azerbaijan and its capacity would be between 9 and 18 bcm according to the real requirements.[72] The construction should begin in 2015.

[70] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 168

[71] Edison official website, *ITGI gasdotto Turchia-Grecia-Italia*. http://www.edison.it/it/azienda/infrastrutture-gas/itgi.shtml, accessed on 24th May 2014

[72] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 168

Map 5 TAP path[73]

A final remark relates to the gas consumption fluctuations (and so to the profitability of new facilities investments): indeed, they are closely linked to the economic situation. In a period of economic crisis or recession, as it is the case since 2008, energy and gas consumption is generally in decline. Indeed, this trend for Italy is confirmed by the statistical figures: in 2008, 77.8 bcm of gas were consumed while in 2012 just 68.7 bcm.[74] However, despite the negative economic context, it is possible to foresee that in the near future gas demand will come back to grow.

[73] TAP official website, *Percorso*, http://www.trans-adriatic-pipeline.com/it/progetto-tap/percorso/, accessed on 24th May 2014

[74] BP, *Statistical Review of World Energy*, June 2013, available on line at http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf , accessed on 14th May 2014

CHAPTER IV

ENI-Gazprom: strategic partnership against Nabucco

Russia is the country with the biggest gas reserves and it is as well the greatest world producer. Its state company, Gazprom, detains a great power. Indeed, Russia is basing its economic development on the exploitation of its natural resources; for this reason it is linked by a relation of interdependence with importing countries and mainly with European partners. As a matter of fact, they are important because they can give in exchange technologies and modern skills that Russian industries are lacking.

Hence, Russian strategy is focused on the creation of strategic commercial relationships with certain individual European countries but not with the EU as a unique body; among those chosen states there is Italy. Indeed, ENI, the national energy firm, is linked to this country by a long lasting commercial tie, dating back to the fifties. ENI and Gazprom are working together for the realization of a network of pipelines that has as its main objective the possibility to link Russian Federation and the European Union without passing on the territory of unreliable third countries (for instance Ukraine).

This solid alliance came to be in opposition to the European project to build a common European energy market operating to protect the security of energy supply for the whole Union. However, each member state has different geopolitics interests and each national

government is convinced that it will be able to safeguard national energy supply better if it can control its local circuit.

Nonetheless, the Italian-Russian relationship does not relate just to the energy sector: it is a more deep alliance that covers other economic sectors as well as security and political ones. This is the proof that good energy relations between two countries bring with them a strong cooperation also in other spheres with positive reverberations on the whole society.

In this last section, after a brief overview on Gazprom situation, it will be analysed the relationships between the Russian energy firm and the Italian one, ENI. Moreover, an outline of the economic interests between the two countries is as well described. Their alliance collides with the will of the European Community (and of the USA) to create a common strategy for energy supply and with its objective to reduce European dependence on Russian gas. The respective pipeline projects, South Stream and Nabucco, are clearly in competition.

Energy supply is so much important and linked with national security that member states still do not want to delegate this power to Union authorities.

1. Gazprom: energy resources as a political tool

In 1946, the first long distance natural gas pipeline was built in Russia, from Saratov to Moscow: this is considered to be the birth of the modern Russian natural gas industry.[1] Then in the 60s the first super giant deposits were discovered in Western Siberia and Orenburg (southern Russia); in the 70s the finding of the Yamal Peninsula fields[2] transformed Western Siberia in the centre of gas production and today it is still as such.
In 1967 the first large-scale gas exports to Europe began: it was Czechoslovakia to enjoy this record.[3] The gas exports towards Italy started before in 1960, even if they were of a small scale. Indeed this early contract for oil and gas trade was just the beginning of a long history of mutual commercial exchanges between the Russian energy firm and the Italian one (ENI), as well as of political contacts between the governments of the two countries.
So, the Soviet Union since the beginning, despite the rigid political constraints of the cold war, chose Europe as its main gas importer and this situation continued to be the same also after the desegregation of the Soviet system. The participation of Russia and Gazprom in the European energy business had as consequence that this company was affected as well by the EU regulations on the matter.

Nowadays, energy matters are dealt by the national energy company. In 1989 Gazprom, contraction of the words Gazovaya Promyshlennost (Gas Industry)[4], was born from the fusion of the Ministry of the Oil and of the Gas Industry. It was one of the measures contained in the Gorbačëv's Perestrojka. Viktor Chernomyrdin, former Minister for

[1] J. P. Stern, *The future of Russian gas and Gazprom*. Oxford: Oxford University Press, 2005, p. 1

[2] Ibidem

[3] Op. cit., p. 109

[4] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 178

Energy, was appointed as its first leader.[5] While the oil industry was privatised, undersold and fragmented, the gas sector remained under state monopoly. In this attempt of state capitalism, the Soviet leaders thought to take even ENI organization as example.[6]

Between 1992 and 1994 Russia knew a phase of mass privatisation of all the national enterprises that affected around 240 thousands businesses. As well Gazprom is included in this transformation but it was too much a strategic firm to let it without control. Indeed, the majority remained under state control, 15% of the shares was left for a low price to its employees, 35% was negotiated in closed auctions held in some little Siberian towns to favour the managers.[7]

In 1993 State Gas Concern Gazprom was transformed into Russian Joint Stock Company (RAO) Gazprom. It was then re-incorporated into an open joint stock company in 1996 and it became OAO Gazprom.[8]

The Russian Federation President Decree of November 5 1992, assigned to the company some obligations. Among them there were: to provide reliable gas supply to Russian consumers, to export gas under inter-state and inter-governmental agreements and to pursue an integrated sci-tech and investment policy with regard to the UGSS upgrade and development.[9]

Indeed, Gazprom is a strategic company, it controls 95% of Russian gas reserves, 90% of the production and it owns the pipeline network; so, it has the monopoly on the Russian gas sector.[10]

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[5] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 67

[6] Ibidem

[7] Op. cit., p. 51

[8] Gazprom, *Gazprom in questions and answers*. OAO Gazprom, 2008, available on line at http://www.gazprom.com/f/posts/89/747450/gazprom-questions-eng-2011-06.pdf , accessed on 5th May 2014

[9] Ibidem

[10] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 65

In 2001 its former leader was replaced with Alexei Miller and this decision implied an incredible boom of Gazprom shares value.[11] Its peculiarity was his close friendship with the Prime Minister, Vladimir Putin. This combination brought the company to an incredible boost and recovery that transformed it into a global player.

Indeed, the objective of Putin presidency was to consolidate its internal power. He created a sound ruling class that was involved in the direct control on key sectors such as military and intelligence fields but also on the business one with specific attention to energy and raw materials. Functional to this end was the expansion of the main enterprises of the energy sector but always under state control.[12]

Today, the Gazprom Group is a vertically integrated energy company, dealing with exploration, production, distribution, storage, transformation and commercialisation of gas and other hydrocarbons. Moreover, it is involved also in the finance, media and other sectors. Its success is linked to intelligent policy choices but above all to the government and state support.

With the European unification and the expansion of NATO eastward, the strategy of gas exports of Gazprom has evolved through the development of joint ventures, trading houses; the issues of diversification, transit in Central Europe and transit-avoidance pipelines became central to the debate and the research.[13]

The first project to accomplish this objective was the North European Pipeline (Nord Stream), designed to run from North West Russia, Vyborg, through the Baltic Sea to the

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[11] Op. cit., p. 69

[12] F. Bordonaro, *La sicurezza energetica nelle relazioni internazionali e le implicazioni di carattere politico-militare. Scenari e prospettive per l'Italia*. Ricerca CeMiSS, Roma: Centro Militare di Studi Strategici, 2009, available on line at http://www.difesa.it/smd_/casd/im/cemiss/pubblicazioni/documents/86334_la_sicurepdf.pdf, accessed on 6th May 2014

[13] J. P. Stern, *The future of Russian gas and Gazprom*. Oxford: Oxford University Press, 2005, p. 111

German coast, Greifswald. The original joint-venture was established by Gazprom and Fortum, the Finnish company. This project was declared to be of common interest of EU and Russia since the EU-Russia Summit of October 2001.[14]

The structure of the Nord Stream AG, the gas pipeline construction operator, is composed by OAO Gazprom (51%), Wintershall Holding (BASF SE subsidiary, 15,5%), E. ON Ruhrgas (15,5%), N.V. Nederlandse Gasunie (9%) and GDF Suez (9%).[15] The source of the gas to be exported through this pipeline is the South Russkoye field in Western Siberia: this is because in the Memorandum of understanding between Gazprom and E.ON Ruhrgas it was included the opportunity for the German company to invest in it.[16] The building of the Baltic sea section was started in 2010.[17]

This project had a certain priority not because it augmented the volume of gas flows but it was crucial in the geopolitical context. The construction of this new pipeline gives the possibility to diversify export flows, directly linking Russian deposits with the European gas market and so avoiding to deal with problematic transit countries.

The other two important projects that had the same strategic purpose were the building of the Blue Stream and of the South Stream (both will be discussed in the following sections). This latter pipeline is the most controversial one because it was mainly conceived as a strategic movement against European Union aim to reduce Russian role for the energy security of the continent.

As a matter of fact, Gazprom and Russia as a strategy decided to deny EU as a locus in energy relationships and it concluded bilateral agreements with the individual European

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[14] Op. cit., p. 121

[15] Gazprom, *Gazprom in questions and answers*. OAO Gazprom, 2008, available on line at http://www.gazprom.com/f/posts/89/747450/gazprom-questions-eng-2011-06.pdf , accessed on 5th May 2014

[16] J. P. Stern, *The future of Russian gas and Gazprom*. Oxford: Oxford University Press, 2005, p. 121

[17] Gazprom, *Gazprom in questions and answers*. OAO Gazprom, 2008, available on line at http://www.gazprom.com/f/posts/89/747450/gazprom-questions-eng-2011-06.pdf , accessed on 5th May 2014

states. It is a monopoly, so from this position it has the power and the possibility to close off its pipe to third parties, that are energy companies of European states that operates with the imported Russian gas.

Putin and Gazprom built up two special key counter parties, Italy and Germany, which are considerably exposed to external energy supply; but actually they are ready to cooperate with everybody.

In the case of Germany, it was projected and built the North Stream pipeline that bypasses Poland and the Baltic states linking directly Russia and Germany.

In the Italian one, ENI, the national energy firm had considerable interests in the Caspian region and as well in Russia. The two companies were linked by years of agreements and reciprocal cooperation. Indeed, ENI had participated with Gazprom in the building of some infrastructures giving its technical contribution.

Gazprom has been at the centre of a reform of the Russian energy policy that in the last years had the will to restate the Kremlin direct and full control on the mineral wealth of the country. However, this evolution is not optimal from an economic point of view: monopoly implies inefficiency and the policy to keep down the prices artfully for national consumers will probably result very detrimental.[18]

Indeed, it can be stated that the Russian government decided to use the energy tool for political aims, for instance to rebuild an area of exclusive influence in its "near abroad". The possible enlargement of the North Atlantic Treaty Organization to include Ukraine and Georgia notably is considered to be a threat because it is conceived as an invasion of its power sphere.

[18] C. Stagnaro (a cura di), *Il mercato del gas naturale. L'Europa tra sicurezza e liberalizzazioni.* Soveria Mannelli: Rubettino Editore, Treviglio: Leonardo Facco Editore, 2009, p. 53

Natural gas exports became a political tool in two ways: firstly, towards the old Soviet Republics. The new countries inherited agreements for gas supply at a "political price": the gas exported to Ukraine and Belarus is paid half the European prices. To maintain those costs, Russia looks for a political compensation. For this reason, natural gas has become as well a blackmail weapon. Indeed, recent contrasts emerged with neighbouring countries that enjoyed favourable prices because of the decision to stop this treatment.

Secondly, natural gas exportation gives the financial means to support political actions.[19] Indeed, the Russian leader Vladimir Putin affirmed that he wanted to exploit Russian raw material richness to finance the modernization of the country (and this can be done as well exchanging them with Western manufactures), of its army and to support its demographic policy with an help to families.[20]

This is not a threat to European countries since the Russian Federation will keep depend on the proceeds from gas selling as well in the next years; moreover, it needs European technology.

As a matter of fact Russia gives a political relevance to the energy issue (while Europe tends to see it from an economic perspective).[21] Indeed, Gazprom is an energy giant controlled by the state and it does its own interests, the interests of the state and of its shareholders. Seen its strategic importance for Russia, the state will keep the full control of it.[22]

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[19] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 180

[20] F. Bordonaro, *La sicurezza energetica nelle relazioni internazionali e le implicazioni di carattere politico-militare. Scenari e prospettive per l'Italia*. Ricerca CeMiSS, Roma: Centro Militare di Studi Strategici, 2009, available on line at http://www.difesa.it/smd_/casd/im/cemiss/pubblicazioni/documents/86334_la_sicurepdf.pdf, accessed on 6th May 2014

[21] C. Stagnaro (a cura di), *Il mercato del gas naturale. L'Europa tra sicurezza e liberalizzazioni.* Soveria Mannelli: Rubettino Editore, Treviglio: Leonardo Facco Editore, 2009, p. 54

[22] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 72

The problem for Gazprom is that to reach its main consumers (European countries) it has to cross other countries, the so called transit countries. Ukraine, Belarus and Moldova receive the majority of Russian deliveries and they command the transit routes for the majority of Russian gas exports to Europe. Up to 1994 the whole matter was dealt by Gazprom[23] but after this date there was a fragmentation of suppliers that became increasingly a challenge. All businesses with those countries are dealt by long-term intergovernmental agreements signed by presidents or prime ministers. Those understandings are a framework for a number of issues: sale, transit, price, tariffs, etc. The fact that all these details are included in intergovernmental treaty gives the possibility to the parties to always appeal to their political leaders in order to enforce them.[24]

Indeed, it can be said that politics is never detached from gas affairs in Russia and that the management of the relationships with the countries of transit of European importations has been the most challenging task for Gazprom and the Russian government in the post-Soviet period.[25]

From the figures in the table below, it can be deduced the importance of these transit countries. Not all the gas passing through them is destined to Europe as not all the gas to Europe crosses those countries but it constitutes an important volume. There is a clear dependence of Gazprom on them for transit of gas to Europe as they depend on it for supply. Those matters deal with so much gas and money that for the related decisions the actors involved are presidents and ministers.[26]

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[23] J. P. Stern, *The future of Russian gas and Gazprom*. Oxford: Oxford University Press, 2005, p. 67

[24] Ibidem

[25] Op. cit., p. 86

[26] Ibidem

	2001	2002	2003	2004
Belarus	24.1	27.4	33.1	35.3
Moldova	18.5	21.0	22.1	20.4
Ukraine	122.7	119.7	122.0	126.3

Table 1 Transit of Russian Gas across CIS Countries 2001-2004 measured by Bcm [27]

In particular, Ukraine holds a pivotal geographical position in the trade and transit of Russian gas and as a matter of fact Gazprom export strategy has been focused, since the collapse of the Soviet Union, on reducing transit through this country.

As a matter of fact, European security of energy supply was damaged by the alternating Ukranian/Russian gas relationship. The Russian Federation decided to reduce gas supply to Ukraine for short periods and this led the country to divert the gas designed to Europe. However, Russian actions were not a political blackmail to an ancient vassal as it could be thought; Ukraine had accumulated a huge debt and it was not able to pay it. It was for this reason and in this moment that the issue came to be politicised because the Kremlin took advantage of the situation and proposed to Kiev the cancellation of the debt in exchange of the return of the control of the Black Sea Fleet to Russia and of the restitution of all nuclear warheads.[28] The political sensitivity of the Ukranian-Russian relations was too high to allow a commercial solution of the dispute.

European states focused on the political risk as a reason to find an alternative energy supplier; however, an important element that has been underestimated is the degree of

[27] Ibidem

[28] Op. cit., p. 87

depletion of Gazprom fields. The same Russian energy Strategy declared that three fields were in decline in 2003, having already produced the majority of their reserves. They were Medvezhe (75,8%), Urengoy (65,4%) and Yamburg (54,1%).[29] However, it cannot be known if for instance technological innovation will find a way to exploit better the resources left.

Gazprom often acts as an agent of Russian foreign policy. However, the economic dimension of gas trade cannot be underestimated. Sometimes the amount of money involved is so big that conciliatory politics is put aside.

Indeed, a syllogism may be coined: Gazprom is the State, the State is Putin, Putin is Gazprom.[30] Gazprom is the weapon for Russian neo-imperial politics: Putin would like to invade Europe and the neighbouring areas with gas.

[29] Op. cit., p. 8

[30] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 70

2. ENI-Gazprom: celebrating 45 years of partnership

Italian energy policy is closely related to ENI history. Indeed, the national company had the monopoly in the domestic market but it lead as well the international side. As a matter of fact, the history of international contracts corresponds to that of ENI assertion on the international scenario. The national firm was the only interlocutor for international suppliers and this had a series of economic and political advantages for the country.

First of all, the possibility to exchange gas with finished products of its subsidiaries allowed important financial savings. Moreover, the network, controlled by SNAM, was very extended and so it absorbed great quantity of material that constituted a guarantee for the suppliers giving to ENI a strong contractual position.

From a political point of view, ENI had the necessary means to deal directly with political leaders of the producer countries not in a subordinated way. In the internal context, being a state-owned firm, it could influence foreign politics directions according to the enterprise interests.[31]

Those characteristics are indeed still valid.

Energy security was completely managed by ENI: the Italian state delegated to it the definition of the Italian energy policy and the security of energy supply. Indeed, for its characteristics energy policy needs to be integrated together with energy diplomacy and so foreign politics seen the complex geo-political implications; this is particularly important for a country highly dependent on external supply.

So, its strategic choices were focused on the construction of pipelines, on the diversification of suppliers and on the instauration of contracts with specific key producers.

[31] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 160

For the duration of the relations and its intensity it can be said that one of the primary partner was the USSR before and then the Russian Federation.

Despite the ideological and institutional differences the cooperation between the two countries was always important. Indeed, economic and political interests came to be intertwined since the beginning and this convergence was strengthened after the collapse of the Soviet Union.

Since when the power was taken by the Russian politician Vladimir Putin the role of Gazprom as an extension of Russian foreign policy was reinforced and Russia looked at creating a special partnership with Italy. This attitude became more marked when Putin found as its counterpart the Italian political leader Silvia Berlusconi. This was the period in which the political and economic relationship with Russian Federation seemed more friendly and strong. However, they were just more highlighted. The warm relations between the two countries existed before and they will exist also after that those two actors would be gone.

The relationship between Italy and Russia in the energy sector dates back to the first years of ENI activity which coincided with the worst period of the Cold War.

In this period of bipolar confrontation, the USA had evaluated USSR oil exports to be a destabilizing element through which the USSR could penetrate in the society and the economy of Western countries. Oil exportations were considered to be the most important element in the political-economic Soviet offensive against the free world. This tool was used to destroy the private oil industry; moreover in exchange of oil the Communist country could get advanced technology and spread its ideology. For this reason Communist oil exports had to be limited.

ENI had to wait that the diplomatic picture was more favourable to establish a political settlement that indeed was necessary to escape the problem of the lack of a common legal framework.

Indeed, the first agreement was signed in 1958, after the Suez crisis and just before the second Fanfani government, which sponsored a more autonomous foreign policy for Italy even if within the NATO. 1 million tons of Soviet oil would be imported in Italy in exchange of synthetic rubber produced by ANIC, a society controlled by ENI.[32] Soviet oil import constituted 7% of the Italian domestic demand.

Notwithstanding American pressures, the relationship with the Communist country continued. In 1959 the contract was renewed and Soviet oil arrived to cover 16% of the domestic demand with 3 million 146 thousand tons.[33]

In 1960 a more complex and articulated agreement was signed by Mattei and Nikolaj Patolicev, the Soviet Ministry for Foreign Trade. 12 million tons of Soviet oil would be exported to Italy together with gas supply in exchange of synthetic rubber, always by ANIC, machineries and oil equipment, produced by the Nuovo Pignone, and pipes from the Finsider, a society controlled by IRI.[34] This agreement was sanctioned by a travel of the President of the Republic to Moscow (February 1960). It was just the beginning of a long-lasting relationship between Moscow and Rome that continues still today.

The commercial agreements between ENI and the USSR were part of the Italian foreign policy, supported by the Italian government that wanted more room of manoeuvring for Italy in the international scenario, even if sometimes its actions were in contrast with American interests. Indeed, Italy had the strongest Communist Party of the Western sphere and it had an important role in the development of the country.

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[32] N. Perrone, *Enrico Mattei*. Bologna: Il Mulino, 2001, p. 91

[33] Op. cit., p. 93

[34] Ibidem

As a matter of fact, the Kremlin considered ENI as a tool to influence the Italian political situation and its position in the international confrontation. Russian energy supply to Italy would favour the country neutrality.[35]

Indeed, it is to be said that politics had an important role for the conclusion of ENI's agreement in the USSR: they would not be possible without the Christian Democratic support and the Italian Communist Party mediation[36], in view of the strong international opposition to them. The first promoter of the conclusion of energy deals with Moscow was Enrico Mattei: he was attracted by the possibility to obtain oil and gas at more affordable prices and to escape the international system controlled by the seven sisters.

However, this bias towards the USSR did not stop with his death. The relations continued also when Italy came to have a more static policy of close adhesion to the North Atlantic alliance.

In 1969, ENI and the Soviet National Committee for Science and Technology signed an agreement of technical-scientific cooperation. As well, a contract of gas supply was concluded: 6 bcm per annum was the initial quantity.[37]

In 1971, in Rome, a similar arrangement was defined between ENI and the Soviet Ministry of Gas Industry.[38] In the same year, it was decided the building of the TAG (Trans Austria Gasleitung) that arrived to Tarvisio. In 1974 the first Soviet gas reached Italy: the volume was of 747 millions cubic meters.[39]

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[35] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 140

[36] Ibidem

[37] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 176

[38] ENI official website, *Eni Storia*, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

[39] Ibidem

In this period, the international context made Soviet energy supply more acceptable: after the oil shock there was indeed a general trend towards the reduction of energy dependence from the Middle Eastern countries.

In 1982, SNAM signed a technical and economic agreement with the USSR for the importation of 8 milliards cubic meters of gas yearly. This arrangement was integrated by another one in 1984 for additional quantities of gas import with a duration of twenty years.[40]

In 1988, ENI and the USSR signed an agreement for the trade of petrochemical products. In this arrangement Montedison, Occidental Petroleum and Marubeni participated as well.

In 1989, the Soviet Institute for the research and the design of health structures of the Ministry of Health signed with Inso, a society specialised in the health sector and controlled by the Nuovo Pignone, an agreement for cooperation in the sector of system planning. In the same year, Savio, a society of the mechanical and textile group, signed an agreement with the USSR for the supply of systems of wool and cotton spinning and of looms produced by the Nuovo Pignone.[41]

With the desegregation of the Soviet Union, there was the fear that the concluded agreements, above all the long-term ones, would not be respected. However, the disastrous conditions, in which the Russian economy was, prevented this outcome. Indeed, the state needed the proceeds of natural gas and oil exports because they paid milliards of dollars of hard currency. So, this was a guarantee that the Russian political leaders would do their best to fulfil their contracts.

[40] Ibidem

[41] Ibidem

In the mean time, the Gazprom group was created from a reorganization of the Ministry of the Gas Industry (1989). Russia needed not only Western capitals but above all technology to modernize its energy sector. Indeed, the relationship with ENI went along this path.

In the same period, ENI as well underwent a transformation: it started the privatisation process. Despite those changes for both actors, the relationship between the two groups was a continuum in a process of reciprocal approach.

In 1990, the new entity signed an agreement with Snam to improve the productivity and the efficiency of the system of transportation of natural gas in the USSR.[42]

In 1992 Tragaz (a consortium of Snamprogetti and Nuovo Pignone) agreed to cooperate with Gazprom for the modernisation of the Russian pipeline network with the supply of new machineries and equipments.[43]

In 1993, projects were put in place in Russia and Kazakhstan where in 1997 the Karachaganak and the Caspian Projects began.[44]

In 1994, AGIP and Lukoil signed an agreement for the development of the oil field in Western Siberia and they constituted with a joint effort the LukAgip company.[45]

In 1998, Gazprom and ENI concluded a multi-planning agreement in the sectors of hydrocarbons, natural gas, electricity and cogeneration.[46] Arrangements for the exploration, development and production of hydrocarbons in the Caspian Sea (in Azerbaijan) were stipulated.[47]

Moreover, ENI had the opportunity to participate together with the Russian company to the building of important international facilities. Those common projects marked the opening

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[42] Ibidem

[43] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 142

[44] Ibidem

[45] ENI official website, *Eni Storia*, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

[46] Ibidem

[47] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 142

of a new phase in this partnership: from technical and commercial relations to industrial and entrepreneurial ones. For sure a close cooperation between the two national companies was as well a guarantee of reliable gas flows. The first two mixed society were created to operate in the upstream and the downstream phases, notably NeftoAgip: it was the first western society to open a filling station in Moscow.[48]

Two are the main projects in which ENI and Gazprom cooperates: the Blue Stream and the South Stream pipelines.

In 1999, ENI concluded a strategic alliance with Gazprom for the realisation of the Blue Stream Pipeline that would bring Russian natural gas through the Black Sea to Turkey, from the Krasnodar region in Southern Russia to Ankara, the Turkish capital. This pipe was conceived to supply the Turkish market that had become the fastest growing one. Previously, gas arrived from Russia to Turkey via the Western route so through Ukraine, Romania, Bulgaria. The agreement included as well a specific mention of the joint-development of the Astrakhan gas field on the north west shore of the Caspian Sea.[49] A joint venture was created between Gazprom and ENI that gave to the Italian company 50% of the share of the capacity of the pipeline. Indeed, all those arrangements gave the possibility to the Italian firm to develop and produce its own Russian gas for Blue Stream and then to sell it to Turkey autonomously.[50] However, this remained just an opportunity not yet realised. These rights were unprecedented but the Russian firm was obliged to grant them in order to obtain the financing.

In late 2001 the laying of the offshore lines started and the entire pipeline was completed in October 2002. The pipeline is composed by a totality of 1213 km of overland and under

[48] Ibidem

[49] J. P. Stern, *The future of Russian gas and Gazprom*. Oxford: Oxford University Press, 2005, p. 124

[50] Ibidem

the Black Sea sections. It starts in Stavropol Krai[51]; the submarine part connects the Russian coast, Dzhugba, and the Turkish one, Samsun. The laying of the underwater pipe has been realised by Saipem, leader in this field. It is located at a depth of 2150 m in some points, one-third deeper than any other known under water pipeline in the world.[52]

The majority of the $3.2 bn financing was provided by ENI.[53] This facility successfully entered into function in 2003; it is operated for 50% by ENI and its capacity is of 16 bcm yearly.[54]

The partnership between the two groups continued and strengthened above all in the field of pipeline construction. In 2000, ENI and Gazprom signed an agreement for the realisation of a project of connection of the Yamal-Europe pipeline with Slovakia.[55]

In 2001, ENI was appointed as unique operator of the Northern Caspian Sea Project, in the Kazakh offshore where in 2004 a plan for the development of the Kashagan field was approved.[56] Here, ENI participates at the North Caspian Sea Production Sharing Agreement (NCSPA). It is part of a consortium composed at the beginning by ENI (18,52%), Total, Shell and Exxon Mobil (also with 18,52%), ConocoPhilips (9,26%), Inpex and KazMunaiGas (8,33%). However, the Kazak government, having understood the strategic importance of these reserves asked for a modification in favour of a greater

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[51] Gazprom, *Gazprom in questions and answers*. OAO Gazprom, 2008, available on line at http://www.gazprom.com/f/posts/89/747450/gazprom-questions-eng-2011-06.pdf , accessed on 5th May 2014

[52] Ibidem

[53] J. P. Stern, *The future of Russian gas and Gazprom*. Oxford: Oxford University Press, 2005, p. 124

[54] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 192

[55] ENI official website, *Eni Storia*, http://enistoria.eni.com/it/inizia-il-viaggio.html, accessed on 29th April 2014

[56] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 143

participation of the state energy firm (KazMunaiGas): it reached a share of 16,81% thanks to the diminution of the other companies.[57]

The 14th November 2006 in Moscow a very important agreement between ENI and Gazprom was signed. ENI obtained the extension of the contracts for gas supply until 2035. Gazprom instead will have a direct access in the Italian energy market: it will sell directly some quantities of gas, sold before by ENI, with a maximum of 3 milliards of cubic meters from 2010.

Moreover, some other contracts have been signed by Gazprom and other Italian utilities A2A, Iride-Enia, Ascopiave for further gas supplies: for them there is the possibility to create a joint venture for a joint distribution effort.[58]

To do so, ENI's facilities will have to be used. The direct sales by Gazprom of the Russian gas on the Italian market is a further guarantee for Italian security of supply, seen that its interruption would have a more serious repercussion on its interests.[59]

Furthermore, ENI and Gazprom have decided to cooperate on a series of projects in Russia and abroad. ENI will have the possibility to acquire oil assets in Russia. In exchange, ENI will help Gazprom outside its country, mainly in Africa.[60]

This is a strategic agreement between the two companies, a kind of international alliance, to realise common projects for gas midstream, downstream and upstream and for technological cooperation. In 2010 the agreement was renewed for additional two years.[61]

In 2007, ENI-Neftegaz (60% ENI and 40% ENEL), now known as Severenergia, took over the remains of Yukos[62], at a price of 5,83 milliards of dollars.[63] In this asset it was

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[57] Renda Francesco, Ricciuti Roberto. *Tra economia e politica. L'internazionalizzazione di Finmeccanica, Eni ed Enel*. Firenze: Firenze University Press, 2010, p. 44

[58] Op. cit., p. 58

[59] Ibidem

[60] C. Stagnaro (a cura di), *Il mercato del gas naturale. L'Europa tra sicurezza e liberalizzazioni.* Soveria Mannelli: Rubettino Editore, Treviglio: Leonardo Facco Editore, 2009, p. 130

[61] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 142

anticipated an option of entrance for Gazprom: indeed, the Russian firm used it and in 2009 it acquired 51% of the shares for 1,5 milliards of dollars.[64] This operation intensified the strategic partnership.

The other important infrastructural project to which ENI participated is the realisation of the South Stream. In 2007, an agreement between ENI and Gazprom was signed for the South Stream project. They had worked together already for the construction of the Blue Stream, the underwater pipeline that since 2003 connects Russia and Turkey crossing the Black Sea. In 2008 it constituted with Gazprom the South Stream AG society to carry out the study for its technical feasibility. (this project will be better explained in the next sections)

Indeed, the strategic partnership between ENI and Gazprom was so strong that it was perceived as dangerous from some perspectives: not only by the European supporters of the rival pipeline, the Nabucco, but also by Washington who was always more concerned about the impact of this project on the continued European dependence on Russian gas.[65]

The two energy firm, ENI and Gazprom, as the two countries, Italy and Russian Federation, enjoy, today as yesterday, very good and interconnected relations.

In the energy field, the importance of gas exchanges between Italy and Russia is testified by the their numbers. In 2012 Italy bought 67.73 bcm of gas: 19.00 bcm were coming from

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[62] Op. cit., p. 146

[63] Renda Francesco, Ricciuti Roberto. *Tra economia e politica. L'internazionalizzazione di Finmeccanica, Eni ed Enel*. Firenze: Firenze University Press, 2010, p. 61

[64] Ibidem

[65] These statements were contained in the information leaked from US government cables (Wikileaks). In M. Siddi, *Italy-Russia relations: politics, energy and other businesses*, available on line at http://fakproject.hu/docs/EE-4-kotet_ch3.pdf, accessed on 26th March 2014

Russia. This country is second just to Algeria, from which Italy got 21.76 bcm.[66] However, since Russian Federation, contrary to Algeria that holds just 2,2% of world gas reserves, is the first in the world for reserves (24,4%)[67], the exchanges with it are destined to increase and to become predominant.

The volume of commercial exchanges between the two countries is evidently favoured by bilateral cooperation in the energy sector.

Russia is the third most important commercial partner outside the European Union (after the USA and China). Since 2000, the inter-exchange dynamics showed that the investment flows in and out were consistent. Both Italian importations and exportations kept growing: in 2013 the export towards Russia was of a total value of 10.806.514 thousand euros while the import amount was 20.067.674 thousands euros.[68]

This was because the two economies found themselves to be perfectly complementary: on the one side Russian raw materials, above all energetic ones, are essential to the Italian economy; on the other side, the Italian manufacturing specialisation is important to satisfy Russian domestic demand, from machineries to goods of consumption. Indeed, Italy mainly imports natural gas (7.458.948)[69], crude oil (5.990.721), refined oil products (3.566.645), steel industry products (910.907) and other raw materials.[70] It exported clothing (1.108.692, not fur), machineries for general use (972.199), machineries for

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[66] ENI, *World Oil and Gas Review 2013.* Available on line at http://www.eni.com/world-oil-gas-review-2013/O-G_2013_WEB.pdf, accessed on 15th April 2014

[67] Ibidem

[68] ICE, Agenzia per la promozione all'estero e l'internazionalizzazione delle imprese italiane, *Interscambio commerciale dell'Italia per paesi: Russia.* 2013, available on line at http://actea.ice.it/short_stat_view.aspx?TipoReport=1&paese=Russia&anno_fine_periodo=2013&anno_fine_serie=2012&mese_fine=12, accessed on 24th May 2014

[69] The figures are expressed in thousands of euros.

[70] ICE, Agenzia per la promozione all'estero e l'internazionalizzazione delle imprese italiane, *Interscambio commerciale dell'Italia per paesi: Russia.* 2013, available on line at http://actea.ice.it/short_stat_view.aspx?TipoReport=1&paese=Russia&anno_fine_periodo=2013&anno_fine_serie=2012&mese_fine=12, accessed on 24th May 2014

specialised use (950.054), furniture (687.957), shoes (644.154) and other finished products.[71]

Nearly 500 Italian enterprises are present in the Russian Federation, 35% in the mechanical sector (machine tools and food) and 4% in the food processing sector.[72] Among the big Italian companies, ENI, ENEL, Finmeccanica (and it is not by chance that they were state-owned company), Fiat and Iveco invested in this country already during the Soviet period and keep being present. Notably, Fiat arrived in USSR in 1966 when in the Togliattigrad plants started to produce the Zigulì model (from 124 design).[73]

After the Soviet collapse, also medium and small size enterprises tried to enter this promising market. As well, Pirelli, Technimont and Indesit invested in Russia.

Today, Italy is active in various sectors: telecommunications (Italtel and Technosystem), building trade and constructions (Marazzi, Concorde, Tegola Canadese, Mapei, Codest, Busi Impianti and Merloni Projects), transportation (Barbaro, D'Apollonia, Alstom), metallurgy and steel industry (Techint, Danieli), banking sector (Intesa-Sanpaolo, Unicredit), food processing (Parmalat, Ferrero, Perfetti, Cremonini).[74]

In 2006, Fiat stipulated an agreement with Severstal Avto for the assemblage of Albea, Doblò and Ducato and for the exportation and marketing in Russia of the its main designs. In 2007, a new memorandum of understandings was signed for the development of a new industrial area in Tatarstan for the production of Linea. In 2008, it created an equal joint venture with Sollers (successor of Severstal Avto). In 2009, the subsidiary New Holland and Kamaz agreed to produce together agricultural machines.[75]

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[71] Ibidem

[72] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 136

[73] Ibidem

[74] Ibidem

[75] Ibidem

Stable and profitable energy relationship not only favours economic exchanges but it brings the countries to cooperate also in other more sensible sectors such as security and foreign policy.

An important partnership between Italy and Russia has been constituted by Finmeccanica (whose 30,2% is owned by the Italian Ministry of the Economy). In 2005, Alenia Aeronautica (its subsidiary) and Sukhoy signed a memorandum of understandings for cooperation in the development of a new kind of commercial aircrafts for regional transport, the Super Jet 100. The Italian firm participates with 26% of shares in the mixed society for the management of civil programs in this sector. Moreover, Alenia Aeronautica and Aermacchi (both owned by Finmeccanica) signed an agreement for commercial and industrial cooperation with Yakovlev (Irkut group) in the field of training aircrafts. They will work together in the research for the materials of airplanes without pilot, using the Yak 130 helipad. Furthermore, a mixed society has been created by Irkut and Alenia for the development of aeronautics programs.[76]

Elsag[77] won the tender for the postal automation of the Russian Postal Service. Thales Alenia Space won as well a tender for the supply of artificial satellites for telecommunications.

Finmeccanica has an important collaboration with Russian Technologies. In 2010, Finmeccanica and Russian Railways signed a memorandum of understanding for a joint venture to develop automation, signalling, telecommunication and safety technology for the Russian rail network.[78] This could be an opportunity of advantaged access to the rail systems of other post-Soviet states, seen that their conditions are the same.

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[76] Op. cit., p. 137

[77] Finmeccanica subsidiary

[78] M. Siddi, *Italy-Russia relations: politics, energy and other businesses,* available on line at http://fakproject.hu/docs/EE-4-kotet_ch3.pdf, accessed on 26th March 2014

In 2008, Agusta signed an agreement with OboronProm and Lloyds Investments Corporation for the commercialisation of its helicopters and components factory.[79] In June 2011 Agusta Westland signed a joint venture with Russian Helicopters for assembling AW139 civil helicopters in Tomilino (Moscow).[80]

Since 2004, ENEL manages a thermo electrical power station at Saint Petersburg and since 2011 it participates at the upstream phase with SeverEnergia. It has been the first foreign electricity operator to enter the Russian market; it owns 55,86% of Ogk-5 and participates with 49,5% in RusEnergoSbyt. Moreover, it is cooperating with RosAtom in the nuclear sector.[81]

Finally, an important Italian contribution was also present for the realisation of the facilities of the 2014 Winter Olympic Games in Sochi.

ENI and Gazprom, Italy and Russia, moved closer because for both parties there was an interest. The opening to Russian Federation is functional to the safeguarding of Italian security of energy supply even if there are some international oppositions. The explosion of wealth in Russia brought a great demand of luxury goods from Italy. So, it was not just ENI management but also other Italian businessmen that saw Russia as an important potential market and that urged politics and the Italian government to safeguard this bilateral relations.

Indeed, economic choices are reflected as well on the political one and this was valid yesterday as it is today. Moreover, the direct involvement of ENI in Russia can be considered a success for the Italian firm but this implies that Italy will be induced to support Russian political positions. Otherwise, Italian investments in Russia (not only

[79] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 138

[80] M. Siddi, *Italy-Russia relations: politics, energy and other businesses*, available on line at http://fakproject.hu/docs/EE-4-kotet_ch3.pdf, accessed on 26th March 2014

[81] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 148

ENI's ones) would be at risk. This means as well to support certain stances that other actors may refuse: for instance, it means to support Russian interests and ambitions at the detriment of European Union plans.

Italian foreign policy has to take this element into consideration. As a matter of fact, the contracts that ENI and its subsidiaries concluded with Gazprom have been endorsed by both centre-right and centre-left governments.

The most resounding period of cooperation coincided with the presidency of Putin and Berlusconi but the relations between the two countries were already existing and it is independent from party alternation. Indeed, the agreement for the South Stream Project was signed at the presence and with the warm support of the Ministry of Economic Development Bersani (centre-left).

Putin developed a personal friendship with the Italian political leader Silvio Berlusconi. Their personal exchanges became part of gossip talks but there was more than this involved. The quality of Italy-Russia relations and this peculiar personal harmony had repercussions on the multilateral forums to which they participate. Currently, Italy is one of the Russia's key partners in Europe and often it offers its service of mediator within NATO and the European Union to take into account Russian's interests in the formulation of the policies. Notably, Berlusconi has been the most ardent advocate of this cooperation.

In the early 2000s, Italy sponsored Russia approximation to NATO security structures. Indeed, the NATO-Russia Council (NRC) was established in May 2002 at the Pratica di Mare Summit.[82] The consolidation of good relations between Russia and NATO became one of the main objective of its foreign policy and he continued in this direction as well in the moment of the Russia-Georgia war in August 2008 when tension was at its peak.

[82] M. Siddi, *Italy-Russia relations: politics, energy and other businesses,* available on line at http://fakproject.hu/docs/EE-4-kotet_ch3.pdf, accessed on 26th March 2014

The Italian government played its part too, issuing a series of pro-Russian statements, for instance in the occasion of the invasions of South Ossetia and Abkhazia.[83]

So there is an intertwining between economic, energetic and political interests to which Italian governments could not remain deaf.

The importance of the relations between the two countries is showed by the fact that even after Berlusconi substitution, the new Italian Prime Minister, the technocrat Mario Monti, visited Russia and supported ENI involvement in the South Stream Project. Moreover, he signed a number of agreements for further economic partnership in the banking, insurance and tourism sectors.[84] During this same visit ENI signed an agreement with Rosneft, Russia's oil company, for joint exploration in the Barents and the Black Sea.

In 2012, SACE, the Italian export credit agency, owned by the Italian Ministry of Economy and Finance and so by the state, won a contract to train the personnel of EXIAR, its Russian counterpart.[85] Always SACE in July 2012 guaranteed an investment of 276 millions of euros made by the Russian bank VTB and the Italian banks Cassa Depositi e Prestiti and Intesa Sanpaolo.[86]

Furthermore, the Italian company Rizzani will build touristic facilities in the North Caucasus mountains together with North Caucasus Resorts.[87]

Finally, in September 2012 joint exercises of Russian and Italian reconnaissance units took place in Italy. Anti-terror operations were carried out in mountainous areas. The same kind of exercise was executed as well the previous year in Russia's North Caucasus.[88]

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[83] E. Jones, A. Menon, S. Weatherill edts, *The Oxford handbook of the European Union.* Oxford: Oxford University Press, 2012 , p. 565

[84] M. Siddi, *Italy-Russia relations: politics, energy and other businesses*, available on line at http://fakproject.hu/docs/EE-4-kotet_ch3.pdf, accessed on 26th March 2014

[85] Ibidem

[86] Ibidem

[87] Ibidem

Indeed, those last deals demonstrate that the end of the Berlusconi government did not meant the loss of an important partner for Russia; moreover, it remarks that the two countries are so much connected above all from an economic point of view, that in the future there will be surely space for further cooperation no matter the colour of the Italian government.

In this vast context, energy cooperation is just an aspect even if maybe the most important.

As a matter of fact, in 2014 ENI and Gazprom celebrated 45 years of cooperation: this partnership started in the far 1969 with the first gas supply, it went through historical and economic revolution, technological innovations but it lasted firmly and it even reinforced. The forecast for the next future will surely confirm this trend and the relationship will evolve positively. This could play an important role in the European context.

For many years still Russian energy will be needed in Italy as much as its technology will be wanted in Russia.

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[88] The Voice of Russia, *Russia, Italy start joint reconnaissance drills*. 12th September 2012, available on line at http://voiceofrussia.com/2012_09_12/Russia-Italy-start-joint-reconnaissance-drills/, accessed on 24th May 2014

3. The European energy security policy

To speak about a European energy policy, first of all it should be inquired: does it exist?

At the origins of the European Community a central role was played by energy. In 1951 the Treaty of Paris, instituting the European Coal and Steel Community, and in 1957 the Treaty of Rome, creating the European Atomic Energy Community, are a demonstration. However, those constructions were just political tools. Indeed, the ECSC had as aim to put coal under international control since it had been the engine of war-making; the Euratom as well had a political rationale: it was to supervise the development of this kind of energy and to avoid that it could be used for warlike purposes and it functioned as a technical agency.[89] Those bodies did not work to coordinate national policies.

It can be said that the process of European integration started for the political objective of reducing the risk of war through a common management of energy.

Actually, the European Community, being born as an economic body for an integrated European economy, at the beginning was just focused on the creation of a unified market as well for energy, being it a good to be traded. Just in the last decade the European authorities started to look at the issue from an energy security point of view.

This is a very important matter for all the member states seen the high dependence on importation for every kind of energy resources but above all for hydrocarbons.

The statistical figures state that in 2011 Europe[90] was dependent for 84.9% on petroleum and products, 85,6% on crude and NGL and for 67% on natural gas.[91]

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[89] H. Wallace, M. A. Pollack and A. R. Young edited by, *Policy-making in the European Union*. Oxford: Oxford University Press, 2010, p. 359

[90] The reference is to Europe 27

Since the beginning of its existence, some measures have been taken in the energy field. Among those, some are more important in the context of the energy security.

In 1991, it was signed the European Energy Charter: its objective was to create a long-term cooperation in the energy sector creating a sort of pan-European Energy Community[92]. It involved all the countries emerging from the USSR desegregation and it aimed to boost their economic development. It wanted to create a legal framework for cross-border investments in the energy sector: among the issues tackled by the Charter there were investment protection, energy trade and transit, resolution of controversies in this field. Its multilateral dimension favoured the instauration of a fruitful dialogue between different realities. Trying to involve Central and Eastern European countries in some projects of collaboration was an instrument to safeguard European energy interests also with the attempt to export EU policy to countries from which the European Union was dependent[93]. However, the Russian Federation, the most important European partner in this field, did not ratify the Charter and this constituted the evidence of the difficulty of realisation of European intentions.

Indeed, until that moment USSR energy supply had been very important to European requirements and the producer had shown to be a trustworthy one: it was necessary to make sure that the political instability resulting from the Soviet Union collapse would not obstacle the flows.

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[91] European Commission, *EU Energy in figures. Statistical pocket book 2013*. Luxembourg, available on line at http://ec.europa.eu/energy/publications/doc/2013_pocketbook.pdf , accessed on 19th May 2014

[92] F. Bastianelli, *La politica energetica dell'Unione Europea e la situazione dell'Italia*. La Comunità Internazionale, n.3, Editoriale Scientifica Srl., 2006, available on line at http://www.sioi.org/Sioi/BASTIANELLI.pdf , accessed on 6th May 2014, p. 454

[93] H. Wallace, M. A. Pollack and A. R. Young edited by, *Policy-making in the European Union*. Oxford: Oxford University Press, 2010

Since the nineties, a series of "energy packages" was introduced: they were some legislative decisions to rule the electricity and the gas sectors in an homogeneous way in the whole European territory (the last one has been issued in 2009).[94]

However, it was in the Green Paper "Towards a European strategy for the security of energy supply", issued in 2000, that for the first time the question of a common energy security strategy emerged. It was thought that European energy policy had to be seen from an angle other than that of the internal market, harmonisation, environment or taxation.[95] Recognising that European countries were increasingly dependent on energy importation, the necessity to balancing and diversifying the various sources of supply, both by product and by geographical region, was stated. As well, environmental concerns were expressed with a strong support for the development of renewable resources. This call had a twofold utility: it would reduce the carbon dioxide emissions, so pollution, and it would diminish European external energy dependence. It was remarked that being the Member states interdependent, any decisions of energy policy taken by a country would have an impact on the other.[96]

Moreover, it was clear that geographical diversification was not easy to achieve, above all for the natural gas market. The challenges posed by the countries of transit were as well acknowledged.

Europe was already heavily dependent on Russian gas supply; however, the USSR and then the Russian Federation had proved to be always a reliable partner and it had always fulfilled its contracts. The importance for the Union to maintain good relations with transit countries to secure a stable access to energy supply was affirmed. Two regions were

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[94] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 95

[95] Commission of the European Communities, *Green Paper: Towards a European strategy for a security of energy supply*. Brussels: 29-11-2000, available on line at http://aei.pitt.edu/1184/1/enegy_supply_security_gp_COM_2000_769.pdf, accessed on 12th May 2014

[96] Ibidem

particularly under the European attention: the Mediterranean Basin and Eastern and Northern Europe. In this area, Ukraine, the Baltic States and the Caucasian countries deserved special carefulness.[97]

Briefly, for the first time in this occasion it was recognised the necessity to develop a common energy policy and in particular to develop an energy strategy for the diversification of resources and routes to guarantee the security of energy supply to the continent.

In 2005, it was created the Energy Community: it was established between the European Union and South-Eastern European countries.[98] Its aim was to extend European energy regulation also to such countries and among the issues to tackle there was as well security of energy supply. This was a tool as well to leverage Russian influence in the region.

In addition, more recently, in 2010 the European Commission developed a ten years strategy for a smart, sustainable and inclusive growth. Among its objective, denominated 20-20-20, there are those linked to the fight against climate change and in favour of energy sustainability. First of all, carbon dioxide emissions should be reduced by 20%; secondly, 20% of energy requirements should be obtained from renewable sources; finally, energy efficiency should be augmented of 20%.[99] This decision influenced the relations between European countries and international exporters. The pursuance of such strict objectives had some consequences on energy policies. To reach all those objectives, it is necessary to reduce the dependency on coal, oil and gas and this implies the risk of a reduction of the possible growth of gas demand. On the contrary, the consumption of natural gas, that is

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[97] Ibidem

[98] H. Wallace, M. A. Pollack and A. R. Young edited by, *Policy-making in the European Union*. Oxford: Oxford University Press, 2010, p. 373

[99] European Commission Official website, *Europe 2020*, available on line at http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/targets/index_it.htm, accessed on 19th May 2014

less polluting than oil and coal, may increase and this will cause a greater dependence of European countries from their suppliers with a negative effect on energy security.[100]

The European Commission and the European Parliament several times have called for Europe to speak with a single voice for energy above all in its external dimension. They did so in the Communication on the security of energy supply and international cooperation "The EU energy policy: engaging with partners beyond our borders" of the 7th September 2011.[101] The individual agreements between member states and third suppliers resulted just in the fragmentation of the internal market: so a unique European external action is seen as a completion of the internal energy market.[102] A consistent and coordinated external energy policy would be beneficial for security of energy supply: it may be achieved through the creation of a partnership between the EU and its key suppliers.[103]

Moreover, gas is sold at different prices in different countries: for this reason if the EU acted as a single actor, it could exercise a certain leverage in particular over prices and conditions offered by the Russian Federation for its gas exports.

Despite all the efforts and the institutional calls, a real common energy policy was never developed. Some measures have been taken for the harmonisation of the energy market, for the liberalisations in this sector, against climate change. Indeed, the treaties do not contain any specific provision on energy and so the Union does not have legal

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[100] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 104

[101] European Commission, *The EU Energy Policy: Engaging with Partners beyond Our Borders.* Brussels: 7th September 2011, available on line at http://eur-lex.europa.eu/legal-content/EN/ALL/;jsessionid=Rrj0T9tNzWc1QzH3F2GvYbdvLWsLHbyMFcsHyzZzJhzRyzD9Vq0L!604306741?uri=CELEX:52011DC0539, accessed on 21st May 2014

[102] Ibidem

[103] Ibidem

competences over this matter. But the economic and environmental parts have been used to justify measures involving energy.[104]

The European Commission struggled to cope with "energy nationalism"; since the beginning member states were committed to keep energy policy at national level. They did so with their national energy companies, vertically integrated and state-owned. European governments favoured a nearly monopolistic management of their energy markets, controlled by their national firms.[105] The key problem is that the infrastructure network of each country is usually owned by national firms and so in this way they hinder the access to third parties in the national circuit. This is an obstacle to free competition.[106]

Furthermore, the differences of energy policy and situation between European states are too pronounced to be able to get everybody to agree on a common energy policy, as well in the specific field of energy security. They differ for the dimension of energy demand, for their production capacity, for gas final use. Indeed, some countries have attaint energy self-sufficiency; others are highly dependent on importations. The choices of energy policy vary very much also in the composition of the so-called energy mix. For instance, France chose to rely on nuclear power while on the contrary Italy decided to renounce to this source and pointed on natural gas.

Moreover, the geopolitical interests of the various member states do no correspond.

Energy is still considered a too essential element for the development of national economy and member states are not yet ready to leave its control. Each member state has a peculiar energy story and it has been given to energy a strategic relevance linked to economic and political conditions of the country.

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[104] H. Wallace, M. A. Pollack and A. R. Young edited by, *Policy-making in the European Union*. Oxford: Oxford University Press, 2010, p. 360

[105] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 92

[106] Op. cit., p. 97

As a matter of fact energy security is connected to foreign and security policies of a country and this is true as well at the Union level. As in those fields national governments have been reluctant to yield their sovereignty to the European authorities, the same is for energy.

Finally, national energy markets are poorly interconnected; national firms supported by their national governments are opposed to a European control of this sector. They want to keep this matter under national prerogatives because they fear to be weakened by this passage, above all towards international suppliers, with the consequence of hindering their energy security.[107]

This situation has led many times to the clash of different interests in this sector due to the fact that some member states, notably the most important such as Germany, Italy but also France, had developed a strategy of energetic partnership that was in contrast with European projects.

To conclude, it can be said that the European Union has taken some measures in order to push for a common approach to the issue of energy and energy security. However, national sovereignty still prevails in this sector.

After the last waves of enlargement in 2004 and 2007, Central and Eastern European countries have been included. Those countries are more affected by their relations with Russia. Indeed they still have a certain animosity towards this country caused by the years of forced comprehension in the Soviet system. Sometimes, they are still completely dependent from an energetic point of view from it and so they have the greatest interests in supporting a strong EU energy security policy to avoid their reliance on their Eastern

[107] Op. cit., p. 98

neighbour.[108] On the contrary older and bigger member states of the Western part enjoy bilateral energy ties with Moscow and they do not want to renounce to them.

Moreover, leading national champion companies, notably Eon in Germany and Eni in Italy, have long-term contracts with the Russian firm Gazprom.[109] They want to keep their favourable position and they think, naturally supported by their governments, that leaving the matter of security of energy supply to the Union will weaken their own national security. On the contrary, smaller states do not have an energy major therefore they are interested in a common external energy policy.

Indeed, the European Union is demonstrating a greater involvement in planning and supporting energy infrastructures, for instance the construction of new pipelines[110]; in particular, it tends to sponsor all the initiatives that will reduce its energy dependency on the importation from the Russian Federation. Mainly, the political risk of an interruption of the gas flows as a repercussion by the transit countries needs to be avoided and for this reason the geographical diversification of the sources has to be advanced.

In this context, it can be found the Nabucco project, a plan to bring natural gas from the Caspian basin to Europe (that so avoid Russian involvement). This is opposed to the Russian counter-strategy that is focused on the establishment of strategic partnership with certain European countries, notably Germany and Italy, and on the proposal of a pipeline, the South Stream, that mainly followed the same path.

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[108] H. Wallace, M. A. Pollack and A. R. Young edited by, *Policy-making in the European Union*. Oxford: Oxford University Press, 2010, p. 361

[109] Op. cit., p. 370

[110] Op. cit., p. 373

4. South Stream versus Nabucco

The perspectives of an increase in the European gas demand and so in its consumption have been the driver for the development of infrastructural projects that should increment the quantity of this resource arriving to Europe. The most interesting and controversial scenario is the Eastern one. This is particularly engaging as well because it creates a great competitiveness between the Russian Federation, which control actually this area, and European supporters of a strategy of dependence reduction from Russian gas.

The Russian Federation is a fervent supporter of the realisation of the South Stream Pipeline.

The South Stream project was planned in the middle of the years two thousand, forecasting a growth in consumptions; this was before the economic crisis that changed all the perspectives. So, by now there is a less urgent need of new gas facilities. However, considered the decline of the European productions of the Northern Sea and of the Netherlands the future possibility that the European market will need to increase the volume of its importations is more concrete. Nonetheless, the expected new demand seems to be lower than the capacity of the South Stream project.

The urgency for the building of this infrastructure for Russia is of a political kind. Indeed, it has the will to reduce the blackmail power of the Ukrainian government.

As a matter of fact, Gazprom, the Russian company, is linked to the cooperation of Kiev because a great part of the gas going to Europe passes through the Ukrainian network. Actually, the economy of this country is strictly dependent on the Russian one, so it is improbable a hostile action of Kiev in this sense. However, European buyers perceive always more this threat and this damages Gazprom contractual position. For this reason, it

has become a strategic priority the full and complete control on the whole gas transportation system towards the West. Indeed, this plan is specular to the realised North Stream.

However, there is another strategic reason. The South Stream was the answer to the European proposal for the building of another pipeline: the Nabucco. This was a mean to diversify European gas supply and especially to reduce Russian weight as European gas exporter.

The South Stream will be a pipeline connecting the territory of the Russian Federation with Europe and in particular with Italy (Tarvisio). In total it will be a project of 2.380 km.[111]

The first part will be underwater and it starts from Anapa, on the Russian shore of the Black Sea and it arrives near Varna, on the Bulgarian coast. This section will be passing through the Turkish exclusive economic zone. There will be 4 lines of 81 cm of diameter and it will be 925 km long: the depth at which the pipe will be located is of 2250 meters under the sea.[112]

The second part of the facility will be passing on the land of four European states: Bulgaria, Serbia, Hungary and Slovenia. This part will be of around 1.455 km but the details have not been decided yet. In the project, it is anticipated the possibility to add some derivations to serve minor markets along the way, for instance Bosnia-Herzegovina and Croatia.[113] The capacity at the point of arrival in Bulgaria, so in the European territory,

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[111] C. Frappi, M. Verda, A. Villafranca, *Focus Trimestrale Sicurezza energetica,* n 16, Ottobre-Dicembre 2013, Osservatorio di Politica Internazionale, Roma: Senato della Repubblica, Camera dei Deputati, Ministero degli Affari Esteri, 2013. Available on line at http://www.parlamento.it/application/xmanager/projects/parlamento/file/repository/affariinternazionali/osservatorio/focus/Focus_n_16_ISPI.pdf , accessed on 6th May 2014

[112] Ibidem

[113] Ibidem

will be of a total amount of 63 bcm per annum.[114] It is forecast that by 2016 the first line will enter into function and the submarine part will be operative by 2019.

The under water part is pursued by the South Stream Transport: it is a consortium composed by Gazprom for 50%, ENI for 20% , EDF (Électricité de France) for 15% and Wintershall (a German company) for 15%.[115] Actually, at the beginning the agreement in 2007 was just between ENI and Gazprom but in 2010 the other two companies took over a portion of ENI shares.

For the mainland parts, Gazprom has stipulated various consortium with the national companies of the countries on which it will be passing. They are South Stream Bulgaria (50% Bulgarian Energy Holding), South Stream Serbia (49% Srbijagas), South Stream Hungary (50% Magyar Villamos Művek) and South Stream Slovenia (50% Plinovodi).[116]

The total investment calculated is of 16 milliards of euros, 10 milliards for the under water part and 6 milliards for the parts on the mainland.[117]

The agreements with the various governments for the construction of all the sections have been already concluded. At the moment, some preliminary works have been carried out in Russia, Bulgaria and Serbia. Some tenders for pipes and for the operations of positioning for the submarine part have been published already.

This infrastructure will require as well a work of adaptation of the Russian network until the Black Sea shore. It implies a strengthening of the stretch from the Pochinki compression station to the coast (the so called Southern Corridor): it is estimated to be of a cost of 16,3 milliards of euros.[118]

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[114] Ibidem

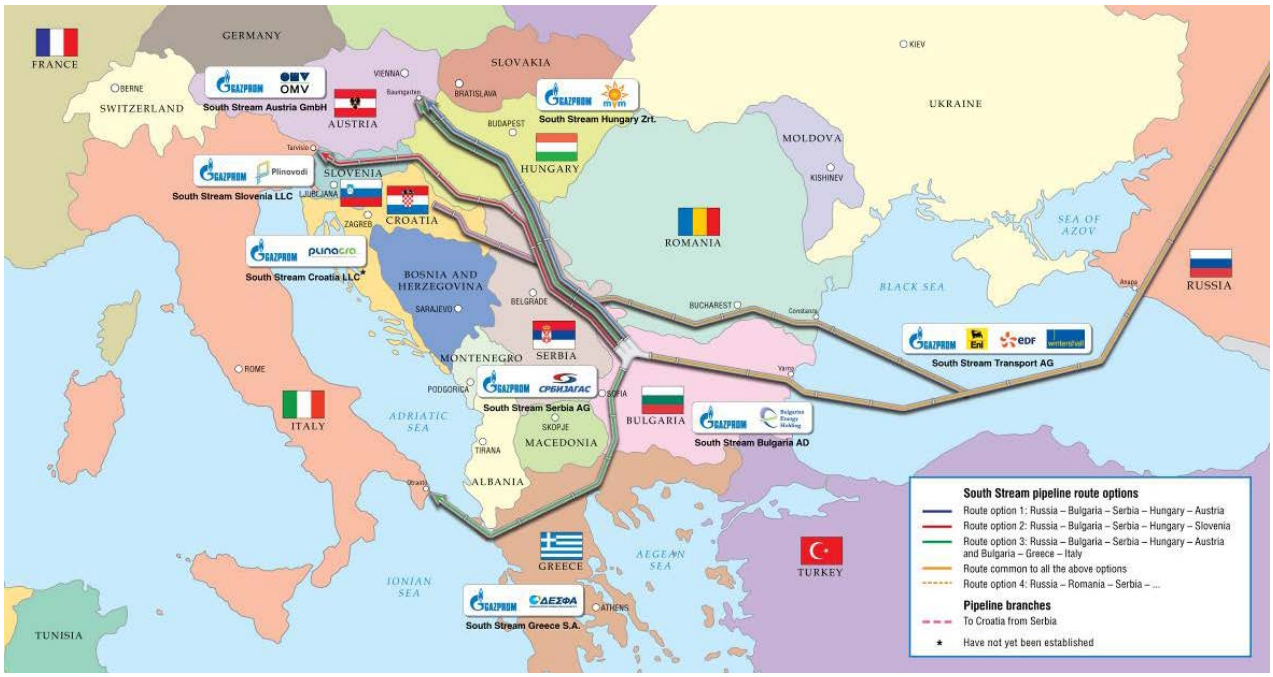
[115] Ibidem

[116] Ibidem

[117] Ibidem

[118] Ibidem

There are three optional routes for the onshore part: to Austria via Bulgaria, Serbia and Hungary, to Northern Italy, via Bulgaria, Serbia, Hungary and Slovenia, and finally the South-western route, to Greece and Italy.[119]



Map 1 This map shows the path of the South Strema whose aim is to bring Russian gas to Europe bypassing unreliable transit countries such as Ukraine and Belarus. The three possible alternatives in its final section are also underlined. [120]

However, there has been a slow down in the progress towards the realisation of this project for a series of reasons. First of all, because of the economic crisis and of the reduction of European gas demand, some doubts have emerged about the profitability of this investment. The expected exploitation of the facility is not enough.

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[119] Gazprom, *Gazprom in questions and answers*. OAO Gazprom, 2008, available on line at http://www.gazprom.com/f/posts/89/747450/gazprom-questions-eng-2011-06.pdf , accessed on 5th May 2014

[120] C. Frappi, M. Verda, A. Villafranca e M. Monti, *Focus Trimestrale Sicurezza energetica*, n. 12 – agosto/dicembre 2012, Osservatorio di Politica Internazionale, Roma: Senato della Repubblica, Camera dei Deputati, Ministero degli Affari Esteri, 2012. Available on line at http://www.parlamento.it/application/xmanager/projects/parlamento/file/repository/affariinternazionali/osservatorio/focus/PI0012FocusISPI.pdf , accessed on 2nd May 2014

Moreover, there is a problem with the regulatory system of the European Union. According to the latest provisions, the transport facility has to request a specific exemption from the obligation to guarantee third parties access. It has happened already for the North Stream where just 50% of its capacity can be exploited by Gazprom[121]: so because of these rules it is probable that it will be no more profitable for the Russian company.

Nonetheless, the South Stream could be used to furnish the Turkish market: however, the gas will always pass before on European territory.

Other uncertainties come from the political and strategic side: all this is pushed by the need to avoid the Ukranian network. However, this motivation will be valid until when Kiev will keep a position of autonomy and detachment from the Russian actor.

The role of Italy and of its national energy firm, ENI, in this plan is remarkable. First of all, ENI participates with a stake contribution to the financing of the pipeline (the evaluation is for an amount of 600 millions of euros)[122]. Moreover, SAIPEM, its subsidiary, is looking for winning the competitive tender for the operations of positioning of submarine pipes. Besides, it gained this job as well for the Blue Stream and the North Stream construction. Saipem seems to be favoured by the fact that it has carried out already some preliminary operations; furthermore, ENI is the second partner of the consortium.

Even if it is commonly believed that this new pipeline will be an important element for the safeguard of the Italian energy security, in reality the South Stream is going to have a limited impact on the Italian situation. The gas coming from this side will just substitute the material already arriving from Russia by Ukraine. So, there will be no an additional

[121] C. Frappi, M. Verda, A. Villafranca, *Focus Trimestrale Sicurezza energetica,* n 16, Ottobre-Dicembre 2013, Osservatorio di Politica Internazionale, Roma: Senato della Repubblica, Camera dei Deputati, Ministero degli Affari Esteri, 2013. Available on line at http://www.parlamento.it/application/xmanager/projects/parlamento/file/repository/affariinternazionali/osservatorio/focus/Focus_n_16_ISPI.pdf , accessed on 6th May 2014

[122] Ibidem

quantity of energy but just a replacement. The only risk avoided would be the case of a flow interruption because of Russian-Ukrainian confrontation.

The positive side of this project is of an economic nature and it is linked to the possibility for Saipem to obtain the contract for the submarine works. This will have a repercussion for the whole satellite industries.[123]

The plan for the Nabucco gas pipeline was developed in 2002: it would run from the eastern border of Turkey through Bulgaria, Romania and Hungary and it would end in Austria. The building of this pipeline has been strongly supported by the European Commission: it would be the principal facility on the Southern part able to connect directly European market and centre-Asiatic deposits with a length of 3.300 kilometres.

The consortium for its construction is constituted by Botas (Turkey), Bulgargaz (Bulgaria), Transgaz (Romania), Mol (Hungary), Ömv (Austria) and Rwe (Germany).[124]

The financing comes from EU grants and from the single companies of the various countries the pipes will cross. The Commission has allocated 200 millions of euros and politically it has strongly upheld its realisation because it defined it as a European interest.[125] Indeed, it has a geopolitical interest: the goal is to send Middle Eastern and Central Asian gas to Europe without passing on the Russian territory. This is a way to really diversify supply routes and increase Europe leverage over gas prices.

The total cost for its realisation is estimated to be of nearly 7.9 milliards of euros.[126] Despite the money already allocated and the political support, the development of this

[123] Ibidem

[124] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 127

[125] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 128

[126] Ibidem

project is blocked. Actually, its realisation is not anymore sure. Rising construction costs, purchasing agreements are some obstacles to its realisation.

Map 2 The comparison between the paths of the two pipelines.[127]

The main difficulty to its realisation comes from the fact that it is above all a political project and not an economic one. Indeed, it would be more convenient for Europe to get gas directly from the producer without intermediaries. On the contrary, the gas to be pumped into the Nabucco pipeline has not been found yet.

Indeed, it is not necessary just to build a pipeline; its exploitation then has to be efficient. The planned capacity of the pipeline should be of 30 bmc yearly but to get to this amount the Azeri gas, the most accessible one, would not be enough. Turkmen deposits but also the Iraqi and the Iranian ones are needed.[128] To get Turkmen gas without crossing Russian territory it is necessary to build an underwater pipeline under the Caspian Sea but its legal status is uncertain and for this reason its building is hardly possible. Iraq is in unstable

[127] E. Bonini, *Guidi: South Stream rimane opera strategica*. Eunews. 24th May 2014. Available on line at http://www.eunews.it/2014/05/26/guidi-south-stream-rimane-opera-strategica/16483, accessed on 25th May 2014

[128] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*. Milano: Egea, 2011, p. 128

situation from an economic and political point of view. Finally, Iran is internationally isolated and Western investments are not very welcomed.

The only possibility is the gas coming from the Azeri deposits that however are able to furnish just 10-15 bcm yearly (from the Shah Deniz II field that will enter into function in 2016).[129]

For this reason, the feasibility of the Nabucco Pipeline was put seriously under discussion as well by the agreement that was signed between Moscow and Baku in 2009. Azerbaijan will supply Russia of 1 bcm of gas yearly.[130] This cooperation is favoured by the fact that transport facilities already exist. Moreover, in March 2010 Gazprom and Socar, the Azeri state company, signed a memorandum of understanding for gas export towards Russia through the already existing pipeline along the Caspian shore from Baku to Novo-Filya.[131] The gas flows would start in 2011. Even if Socar manager reassured Europe for the fact that the gas directed to Moscow will come from another deposit, some doubts exist. This country seemed to have preferred the Russian option to the European one.

Surely, this contract is part of the Russian strategy of opposition to the Nabucco project. It tried to discourage it and to convince some European member states not to use it.

The South Stream is ahead in development in comparison with the Nabucco. Russia is working in finishing it first so that as it is natural, European countries will use the gas of the pipeline that arrives first. Moreover, its greatest advantage in comparison to Nabucco is that it can surely count on the necessary resources. In this way the profitability of the Nabucco Pipeline is put in serious discussion.

[129] Ibidem

[130] S. Grazioli, *Gazprom. Il nuovo impero*. Pavona (Roma), Lantana Editore srl, 2010, p. 108

[131] Op. cit., p. 129

Finally, the European project lacks a serious leadership that could guarantee the progress of its realisation and the conclusion of the necessary agreements with transit and producer countries.[132]

To conclude, if the South Stream will be built and will enter completely into function the Russian role for the passage of Caspian resources to Europe will be asserted.

However, it has its limitations as well: the high costs and the dimension of the gas volumes transported in comparison with the final markets. It is extremely long and with the present economic situation it requires an investment that it can be covered with difficulty. Moreover, just by 2020 the new pipeline will be able to satisfy the majority of the new gas demand; in the mean time minor projects could be accomplished easily and they will absorb portions of this demand.

[132] Ibidem

CONCLUSION

Matching the theoretical assumptions of International Political Economy and the reality of ENI activity and relationship with the Italian state we can derive some results.

Certainly, the creation of ENI and the policy of its early period were a clear expression of a state will and of national interests. This interconnection between politics and economy in the energy sector continued to exist in the following years. In that mixture of politics and economics the state-owned firm came to absolve also to political and social roles.

In the nineties, there were the conditions for a drastic change, to assure the complete independence of the company and so to eliminate any state interference, judged to be the cause of the firm inefficiency. However, this intention was not completely realized. The influence of the Italian government and of its directions of foreign policy continued to be suspiciously important in ENI business choices.

Therefore, the creation of ENI and its business strategy both before and after the transformation into a limited liability society show that the behaviour of this energy firm corresponds to the requirements of the realist theory of international relations. Indeed, the maximisation of the profits was in certain occasion a secondary goal: this behaviour caused more than once the existence of financial burdens in the balance sheet which were then resolved by state endowment funds.[1] For instance, one of the main power that the state had was to fix energy prices to guarantee to industries and households cheap energy. This happened also in the period of the oil crisis in the seventies: it was the cause of great losses

[1] P. A. Toninelli, *Energy supply and economic development in Italy: the role of state-owned companies.* Milano: Dipartimento di Economia Politica Università degli Studi di Milano-Bicocca, 2008, http://dipeco.economia.unimib.it/repec/pdf/mibwpaper146.pdf, accessed on 26th March 2014

in the balance sheet. As well, on state's recommendation ENI performed the function to rescue businesses in difficulty with the aim to preserve jobs. Diversification, rescues and geographical expansion comported huge costs and direct state aid became necessary. Since 1964 funds began to boost: 162 billions liras in 1964, 347 in 1968, 989 in 1973.[2] Those financial necessities conditioned even more the strategic choices of the firm.

The interference of the Italian state continued also after the beginning of the privatisation. Perhaps, its influence was less institutionalised but recognizable to a careful eye. ENI international investments were conditioned by the sympathy of the Italian government sometimes exposing the company to the risk of losing its investment because of the political instability of the foreign countries where it operated.

The peculiarity of energy production investments requires huge amount of money and long time for exploration, extraction, refining and transportation. For instance, the building of a pipeline is not an easy action. Once you build a gas pipeline, then you have to have the certainty that the countries to which the gas is brought will buy this gas and as well the buyer needs to be sure that the seller will keep sending the gas to it. For this reason, the presence of long-term investments in certain countries forced the Italian governments to preserve its political relations with them, like in a vicious circle.

Energy policy is an important dimension of national security and so, the state had to be involved in it. For this reason, a state-centred theory, such as the Realist one, can better fit the reality of ENI business activity. The conclusion of energy agreement for research or importation from other countries was part of the foreign policy prerogatives in order to safeguard national interests. Security of energy resources, stable and positive relationships with producer countries are so much important that other political alliances can be sacrificed in order to defend them. For instance, Italian governments are more or less firmly devoted to the cause of European integration for the values behind European Union

[2] Ibidem

creation and they are convinced American ally for the ideologies they propose. However, they did not hesitate to neglect them, although without great risk of repercussions, to support ENI investment and strategic partnership before with the Soviet Union and now with Gazprom. Indeed, good energy relations may have positive repercussions on the economy of a state: indeed from this field, cooperation between the two states may expand in other sectors. This is the case of Italy and Russian Federation: the volume of trade is increasing from clothing to food processing. The importance of economic interests than come to influence choices of foreign politics.

Hence, it can be said that ENI as a transnational corporation acquired so much power during the years to be able to dictate conditions to its own state and to the states receivers of its foreign direct investments. This is true because in some cases the Italian government were forced to have such behaviour because the pressure to safeguard or to sponsor ENI operations in certain countries was too powerful. However, this does not correspond completely to the reality. As a matter of fact, Italian government participated always to the composition of its board of directors and if then a government felt pressured to go into a direction instead of another because of ENI needs, this was just a consequence of previous choices. Nonetheless, it can be said that a penetration of private interests, the interests of ENI shareholders, took place. This was able to influence government foreign action.

To conclude, ENI since its creation was not just in charge of the Italian energy policy. It had a more complex role that comprehended the general economic and social development of the country. The Italian state participated in all the aspects of ENI activity even if this did not assure optimal results to it. At the beginning of its existence, ENI became a tool used by the country in order to promote its ambitions of foreign policy. Later, the interests at stake became so important that on the contrary the extent of ENI’s foreign investments had to be safeguarded by prudent political conduct.

The goal of restructuring of the firm was to reduce the interference of the Italian state on the company action and to eliminate all its inefficiency. It was partially reached, even if state control remained in the ownership of the company and as well on the direction of its production policy.

The, it can be said that realist international political economy theory, so a state-centred approach, seems to fit at its best ENI's story and its relationship with the Italian state. In the first period, it was an instrument of the Italian foreign policy; since the nineties one of the main aim of the Italian foreign policy was to safeguard ENI investments. Indeed, security of energy supply is guaranteed in Italy by the strategic alliance between ENI and Gazprom: to safeguard it (and other economic interests) the Italian government is willing to undermine European Union plans in its energy security strategies.

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