

# ABSTRACT

Energy has always been an important element in the human life; in modern society it has become even more essential, it is a strategic tool. It is crucial for industrial production and so for the economic development of a country. However, it is relevant for human survival and everyday life: thanks to energy, people can keep warm and they can perform common activities such as cooking or washing. Nowadays, an incredible amount of energy is consumed, it does not matter from which source it comes from; national governments need to properly forecast the energetic needs of their communities in order to guarantee a constant and sufficient flow. Otherwise, energy interruption may cause incredible damages to the economy and might create the motivations for a popular upheaval.

Security of energy resources is on all states priority lists, above all if a country is dependent on importations: in this case, foreign policy is involved. Indeed, it exists a geopolitics of energy resources that today is becoming prominent. Certain sources can be found just in some areas of the world and their importance gives to the countries that own them an incredible leverage.

Even if energy provision is commonly dealt by energy firms and not by ministries, in most of the cases those enterprises are state-owned or controlled also in capitalist democracies.

In this paper, the Italian situation is analysed. ENI, Ente Nazionale Idrocarburi, is the Italian energy firm; it was created by a law of the Italian state and it was in charge of the country's energy policy. Italy has always been a country poor of energy resources and indeed it has relied upon importation. ENI had to express its action mainly abroad, in the

international scenario where it fought with the oil's major to conquer a portion of the market.

In particular, the aim of this paper is to investigate the relationship between ENI and the Italian government; notably, what will be dealt is the external dimension, that is to say the external action of the enterprise and the foreign policy of the country. The research question is: have ENI business decisions been influenced by the Italian government positions? That is to say, have ENI foreign investments followed the directions of the Italian foreign policy? Or on the contrary, have the interests of the firm brought the state to take certain political measures? To this end, the theories of international relations will be used.

In recent times, the prominent energy source has become natural gas. It is denominated the blue gold, since it gives incredible power to the countries that control its reserves. Politics is even more involved because this material is transported via pipelines; they are expensive and fixed facilities that link producer, importing but also transit countries for a certain time. Hence, it is crucial the maintenance of good relations between them. Italy has developed an efficient gas pipelines network and as well a policy of friendship towards its suppliers. A focus is dedicated to the relations with one of the most important Italian, but as well European, gas supplier: the Russian Federation. ENI enjoys a favourable partnership with its state energy firm, Gazprom, since many years. Good energy relations reflected as well on the other economic sectors, boosting trade between the two countries.

In the twentieth century, states were not anymore the only actors in the international scenario. Among the others, transnational corporations started to play an increasingly relevant role. With the internationalisation of the economy, firms were able to go to the more convenient country to produce a certain good or a certain component. They had so much power that in some cases they were able to influence the governments of the

countries in which they operated; in the same way, they had a certain weight on their domestic administrations. Energy corporations had all these characteristics: moreover, they dealt with an important topic; when they were not directly owned and controlled by the state, they became a diplomatic tool for governments. Energy was an important element notably for those states that had to recover after the Second World War and that had to boost their economic development. The Italian situation was particularly problematic: the intervention of the state in the economy through a system of state participations was considered necessary in order to substitute the lack of private initiatives. Its intervention was important as well to safeguard Italian energy security. Defined as the uninterrupted availability of energy sources at an affordable price, it was entrusted to the national energy company. The issue of energy security is a multi-faceted question where technology, economy, geography and politics are interconnected. Indeed, 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. As a matter of fact, when a country is poor of them, it is obliged to import; the distance that this material has to cover, between the seller and the buyer, involves many additional risks, among which the problems that may derive from the presence of transit countries. National governments have to be able to foresee the energetic needs of their citizens in order to guarantee all the requirements: for this reason, it formulates an energy policy, which may be influenced as well by a number of issues (such as industrial policy, environmental policy or foreign policy).

ENI was instituted in 1953 by a law of the Italian state with the aim to assure to the country its energy autonomy. It was given the monopoly on the Italian territory and its actions were controlled by the government that was its owner through the Ministry for State Participations. The charismatic leadership of its first president, Enrico Mattei, was essential to its creation and to the setting up of its action that then influenced all his future

destiny. Its action concentrated in the conclusion of research contracts with foreign countries, seen that there was not a great hope to find important deposits in Italy. The first deals, struck under the “Formula Mattei”, were with Egypt and Iran. However, ENI had to absolve as well to important social and economic functions: it was not just in charge of the energy policy but it had the task to preserve employment, through the rescue of failed industries, and to boost the development of the more depressed areas of the peninsula, for instance, with the allocation of a certain amount of investments in the Southern regions. During its first years of existence, another important achievement was in 1958 the conclusion of a contract with the USSR: Soviet oil would be exchanged with Italian synthetic rubber. After Mattei’s death the main directions of ENI’s action remained the same. However, the enterprise lost its brilliance because of the huge debt and the increasingly interference of the political parties struggle inside the management. In 1992, with a decree ENI was transformed into a joint-stock company. It became responsible just to shareholders but the influence of the Italian governments was always present (indeed, the state is still its main shareholder).

The theories of International Relations, notably of International Political Economy, may be used to investigate the foreign behaviour of ENI and its relations with the Italian foreign policy. The main distinction, that is used for the study of ENI external action, is the one of state-centred and society-centred approaches. Indeed, the state may play an active role in the determination of international political economy policy or, on the contrary, it may have just a subsidiary role. In the first 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. In the other one, it is the system of private interests that drives the direction of international political economy. The state is just an instrument used by individuals to achieve their private ends when they cannot be satisfied independently. Those two approaches may comprehend respectively the realist and the

liberal theories. Indeed, political power controls national economy to boost national might and to preserve national security. Moreover, governments control and influence the activities of domestic multinational corporations in order to assure their political objectives and to increase national power abroad. On the opposite, for liberalism, multinationals are important actors in the international economy which contribute to the growth and development of the international community but they are not an instrument of state foreign policy: their objectives are purely economic.

This conceptual framework is used to predict the behaviour of ENI and then to draw conclusions from the analysis of the actual behaviour of the firm. If the society-centred approach was the best to describe the Italian situation, it would mean that ENI would have been created by a person or by a group of investors and 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; so the interests of a specific group in the society would have prevailed in the foreign policy of the state. 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: so, the realisation of a profit would be the only objective. On the contrary, 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. 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. ENI became a tool used by the country in order to promote its ambitions of foreign policy: the “neo-Atlantism” trend wanted more autonomy in the economic and political spheres for Italy with respect to the USA. ENI’s external

action, with the introduction of the so-called “Formula Mattei”, that gave more profits to the producer countries, was an active part of this plan. In more recent times, 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. This brought Italian governments to issue political statements in favour of the conduct of countries in which the firm was operating.

In the recent past, oil was the dominant energy resource. Its exploitation was so much important that wars were even conducted because of it. However, a new protagonist is emerging: natural gas. Its consumption is in augmentation and, as the main consumers will exhaust their deposits, its reserves will be always more concentrated in few countries. For its conformation, natural gas is transported by pipelines. They are fixed infrastructures and this exposes energy security to many risks. In addition to technical accidents that can always occur, they may be exposed to criminal or terrorist attacks. As well, they link the countries at the two ends of the pipe in a close and long relation. This can deteriorate and lead to a flows interruption. Moreover, the “geopolitical risk” is relevant: the cooperation of the transit countries is needed in order to guarantee that the gas is actually arriving to its destination. However, they may act in repercussion towards the producer country and so they may hinder or steal gas supplies. It is as well for this concern, that in recent years a new technology has been developed: LNG. Through the liquefaction of gas, it is possible to transport this material, reduced in size, with tankers and so to avoid its passage in third countries.

However, Italy heavily depends on gas supplied by pipelines. Its network is actually well developed since the country for incidental reasons was one of the first to significantly rely on this resource. Italy was able to diversify its supply: the gas comes mainly from Algeria, Russia, Libya, Norway and the Netherlands. Hence, there is also a good geographic

variation. The country proposes itself to become a gas hub thanks to its geographical position and its facilities; however, it should strengthen its connection with the other European markets.

Nonetheless, it is exposed to the geo-political risks. One of the most important supplier is the Russian Federation and its gas arrives crossing Ukrainian territory. It has happened in the past that this country behaviour caused problems in the flows towards Europe. It is mainly for this reason that Russia is looking for an alternative route to reach Europe, its main buyer, avoiding this country. In this field, it has found the open cooperation of ENI.

Today, Russia is the country with the biggest gas reserves and it is as well the greatest world producer; one of the principal consumers of its gas is Europe.

After a period of transformation and reform in the Russian economy, energy matters are dealt by the national energy firm: Gazprom. This state firm 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. This interpenetration between state and firm is confirmed by the close friendship that binds together the Russian political leader, Vladimir Putin, and the Gazprom CEO, Alexey Miller. Indeed, Gazprom and its natural resources became a political tool exploited by Moscow above all towards its former republics. Being part of the same system, they enjoyed favourable prices for their gas requirements; this policy started to change unless political counterparts were not assured. The disputes between Russia and its former allies endanger the security of energy supply for the whole European Community.

Since the beginning the Soviet Union, 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. Indeed, it has always proved to be a reliable partner. The current Russian-Gazprom strategy is to develop key alliances with certain

European states denying the European Union as locus of decision power in the energy sector.

Italy is one of these strategic partners for Gazprom: indeed this cooperation is of long standing. This partnership dates back to the sixties when ENI concluded the first contract for Russian energy importations. It started from oil, it continued with gas imports and then it passed to technical cooperation. Indeed, the interconnection between the two countries in the energy sector deepened during the years. Gazprom and ENI cooperated in the construction of an important gas pipeline, the Blue Stream. This facility brings Russian natural gas through the Black Sea to Turkey, from the Krasnodar region in Southern Russia to Ankara, the Turkish capital. It was conceived to supply the Turkish market that had become the fastest growing one and to create an alternative passage to the Ukrainian route (previously, gas arrived from Russia to Turkey via the Western route so through Ukraine, Romania, Bulgaria).

This positive cooperation between firms in the energy field, it expanded to other economic sectors. Indeed, Russian and Italian economies proved to be complementary: the first has raw materials and the second technological and luxury goods that can be inter-exchanged. 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. Russia is the third most important commercial partner outside the European Union (after the USA and China). The volume of inter-exchanges is consistent: in 2013, the exportations towards Russia were of a total value of 10.806.514 thousand euros while the importations amount was 20.067.674 thousands euros.

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. Indeed, the two countries executed joint military exercises and, on the diplomatic sphere, Italy has become one of the main advocator for an approach between



Russia and European Union and NATO positions. This attitude was more accentuated during the concomitant leaderships of Putin and Berlusconi. However, both centre-left and centre-right governments have supported ENI-Gazprom partnership.

This cooperation finds expression in the project of building a new gas pipeline: the South Stream. It will connect the territory of the Russian Federation with Europe and in particular with Italy (Tarvisio): a total of 2.380 km. 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. Then, it will be passing on the land of four European states: Bulgaria, Serbia, Hungary and Slovenia.

The original agreement was signed in 2007 by Gazprom and ENI; then, other European companies entered the consortium: Gazprom owns 50%, ENI 20% , EDF (Électricité de France) 15% and Wintershall (a German company) 15%.

This project has more a political value than an economic one. Indeed, it was conceived in opposition with a European plan to build its own gas pipeline to reduce European dependence on Russian gas. Actually, a true European Union energy policy does not exist. 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 competences over this matter. 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. The differences between member states in this field are too important: each country has a distinct energy mix and contrasting geopolitical interests.

The need to reduce European dependence on Russian gas emerged more evidently with the last waves of enlargement, when Central and Eastern European countries have been included. In some cases, 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 neighbour. 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.

The European Commission has expressed the necessity to act with a common strategy to safeguard energy security, in order to have as well a greater leverage when it comes to energy prices. In 2002, it was projected the realisation of a European pipeline that would bring Middle Eastern and Central Asian gas directly to Europe. The Nabucco would run from the eastern border of Turkey through Bulgaria, Romania and Hungary and it would end in Austria, so avoiding Russian territory. The Russian Federation took a series of action in order to discourage the building of this infrastructure: it planned its own new pipeline in the same direction and it concluded contracts with the Azeri government for energy supply (it was one of the main supposed supplier for the European pipeline). Indeed, the main difficulty to the realisation of Nabucco 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.

Finally, ENI had an important role in the building of the South Stream, not only because it was part of the construction consortium but also because with its subsidiary Saipem is supposed to carry on the operations for the positioning of the submarine parts of the pipeline.

To conclude, it can be stated that ENI has been at first an agent of the Italian foreign policy; state support was essential for the firm in order to obtain certain contracts. It was entrusted with the formulation of Italian energy policy and it had as well to absolve to social roles to boost the development of the country. The directions of its contracts followed the one of the Italian foreign politics until when in more recent times the

involvement of the firm in some countries brought the governments to act politically in order to safeguard them. These considerations are well demonstrated by the story of energy contracts between ENI and the USSR before, Gazprom then. Political support was essential to allow the conclusion of the first deals with this country. It was part of the opposite alliance, it was the “red devil” and the American ally saw these contacts with the Soviet as profoundly negative. Nonetheless, this was part of the government plan to open the country to the east and to become a sort of mediator between the two parts. The cooperation between the two countries continued and grew after the Soviet Union collapse. It extended to other economic sectors: the volume of businesses between the two countries was so much important that the Italian governments were forced to support Russian actions in the international scenario. This economic and political cooperation became more evident during the leaderships of Silvio Berlusconi and Vladimir Putin but it was always present, no matter the government colour. This interconnection of economic interests brought Italy to assume stances in opposition with the European Union, of which it is a founding member: notably, in the energy sector the Italian support for South Stream realisation against the European plan for Nabucco is the best example.