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SUBJECT: ITALY-RUSSIA RELATIONS: THE VIEW FROM ROME

(C-RE8-02675)

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CLASSIFIED BY: Ronald P. Spogli, Ambassador, for reasons 1.4 (b), (d).

¶1. (U) This is a joint Political and Economic Section cable.

¶2. (C/NF) Summary. Italy's relationship with Russia is complex, encompassing historical ideological sympathies, geostrategic calculations, commercial pressure, energy

dependence, and personal relationships between top leaders. The combination of these factors creates a strong tendency for Italy's foreign policy to be highly receptive to Russian efforts to gain greater political influence in the EU and to support Russia's efforts to dilute American security interests in Europe. In its relationship with Russia, energy is the most important bilateral issue and the quest for stable energy supplies from Russia frequently forces Italy to compromise on security and political issues. A not insignificant concomitant factor is PM Berlusconi's desire to be seen as an important European player on foreign policy, leading him to go where others dare not. End summary.

Roots of Italian Russophilia: Ideology on the Left, a Long-Standing Market Opportunity on the Right

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¶3. (C/NF) Until the 2008 parliamentary elections, the Italian Communist party and various leftist splinter groups were a permanent fixture of the Italian political scene. Throughout the Cold War members of the Italian communist movement maintained close ties with the Soviet Union, other communist countries, and many communist revolutionary movements. Unlike many other communist parties around the world, the Italian communist movement remained unapologetic in its continued belief in Marxism-Leninism as a viable economic alternative to capitalism. While many European leftist intellectuals recognize that -- aside from an authoritarian approach to governing - - Putin's Russia bears little resemblance to Communist ideals, this fact has not deterred Italian communists and other radical left politicians from being openly pro-Russia on the basis of ideological solidarity. This, combined with the advanced average age of most high-level Italian politicians (65-70), prevents many in the far left of Italy's political spectrum from moving beyond a worldview developed (and apparently frozen) during the Cold War.

¶4. (C/NF) Throughout the Cold War, Italian business interests

frequently skirted the line of what was appropriate in their pursuit of the Soviet market. After the collapse of the Soviet Union, the explosion of consumer wealth in Russia created massive demand for high-end and luxury Italian exports. From 1998 to 2007 Italian exports to Russia grew by 230 percent, from 2.7 billion Euros to 9.5 Billion. Many of Italy's leading businessmen began to see Russia as a limitless market that could substitute for loss of export revenue from other parts of the world. These businessmen maintain strong ties to the pro-business, free-market-oriented politicians on the right, including the most visible patron of Italy's business elite: PM Silvio Berlusconi.

Putin Most Influential Figure in Italy's Russia Policy

5. (C/NF) While Italy's political parties, the MFA and ENI exert some influence on Italy's Russia policy, by far the most important factor is the personal attention Putin devotes to the relationship. By our reckoning, Putin has held more bilateral meetings with sitting Italian PMs in the recent past than any other world leader. He was the first world leader to meet with Berlusconi after the 2008 elections, arriving in Sardegna to visit the PM designate before the latter had even been sworn in. Berlusconi believes that Putin is his close and personal friend and continues to have more contact with Putin than with any other world leader. During the Georgian crisis, Berlusconi spoke to Putin on a daily basis for a period of almost a week. The basis of the friendship is hard to determine, but many interlocutors have told us that Berlusconi believes that Putin, a fellow 'tycoon', trusts Berlusconi more than other European leader. (A contact in the PM's office told us that their frequent meetings are accompanied by exchanges of lavish gifts). Berlusconi admires Putin's macho, decisive, and authoritarian governing style, which the Italian PM believes matches his own. From the Russian side, it appears that Putin has devoted much energy to developing Berlusconi's trust.

6. (S/NF) Contacts in both the opposition center-left PD

party and Berlusconi's own PdL party, however, have hinted at a more nefarious connection. They believe that Berlusconi and his cronies are profiting personally and handsomely from many of the energy deals between Italy and Russia. The Georgian ambassador in Rome has told us that the GOG believes Putin has promised Berlusconi a percentage of profits from any pipelines developed by Gazprom in coordination with ENI. Whenever we raise the issue of Russia and the P with our contacts in PdL, Berlusconi's own party, they have usually pointed us to Valentino Valentini, a member of parliament and somewhat shadowy figure who operates as Berlusconi's key man on Russia, albeit with no staff or even a secretary. Valentini, a Russian-speaker who travels to Russia several times per month, frequently appears at Berlusconi's side when he meets other world leaders. What he does in Moscow during his frequent visits is unclear but he is widely rumored to be looking after Berlusconi's business interests in Russia. Our contacts uniformly deem Valentini, a multilingual former interpreter, close to Berlusconi with regard to Russia, but not a policy person.

¶7. (C/NF) All of our interlocutors - xxxxxxxxxxxxxx - report that Berlusconi determines

Italy's policy on Russia single-handedly, neither seeking nor accepting counsel. Virtually all are reluctant to confront the PM even when he is at his worst on Russia. In November 2008, after a disastrous press conference in which, inter alia, the PM described NATO expansion, recognition of Kosovo's independence, and missile defense as "U.S. provocations" of Russia, GOI officials did a classic duck- and-cover. In response to our objections, MFA and PM staff sheepishly directed us to the PM himself, rather than deliver the unpleasant news to him that he had angered not only the Americans but other members of the Contact Group for the Balkans, not to mention the Czechs and Poles. Even FM Frattini admits to wielding no influence on Berlusconi on Russia. During an early September visit to Italy, former VP Cheney confronted Frattini on Italy's

very public and unhelpful stance on the Georgia conflict. A subdued Frattini noted that, while he had strong opinions on the issue, he nevertheless received his marching orders from the PM.

¶8. (C/NF) Distressingly, Berlusconi treats Russia policy as he does his domestic political affairs - tactically and day-to-day. His overwhelming desire is to remain in Putin's good graces, and he has frequently voiced opinions and declarations that have been passed to him directly by Putin. One such example: in the aftermath of the Georgia crisis, Berlusconi began (and continues) to insist that Georgia was the aggressor and that the GOG was responsible for several hundred civilian deaths in South Ossetia.

No Institutional Leadership on Russia

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¶9. (C/NF) Trying to determine who might have some influence on Berlusconi's Russia policy is not an easy task. One thing is certain, however - it is not the foreign policy institutions of the GOI. FM Frattini is widely seen as only the messenger for PM Berlusconi's Russia policy - indeed he termed himself as much to VP Cheney during the latter's September 2008 visit to Rome. Within the professional ranks, resources and expertise are scant. Italy's MFA contains only one full-time diplomat assigned to cover Russia and the countries of the former Soviet Union: the Office Director. The Deputy Office Director position and single Desk Officer position assigned to cover all the countries of the FSU are vacant. Italy's dire budget situation is likely to prevent the hiring of additional staff at the MFA for at least two years, according to one MF source. The Office Director's direct supervisor - the A/S equivalent - is also responsible for the Balkans and the rest of Europe, but she, like Frattini, appears to have little or no input to GOI Russia policy. The PM's staff does not fare much better. The Office of the Diplomatic Advisor is thinly staffed - with only one officer assigned to each geographic region. The position covering Russia is staffed by a midlevel diplomat who is in the process of being transferred. No replacement is likely to be named. As a result, the

officer covering the Middle East (also the deputy for the office) will be forced to take on those duties in addition to his already overwhelming portfolio and management duties.

¶10. (C/NF) In 2008 the MFA undertook an effort to produce a long-term foreign policy strategy for the GOI. In a paper entitled "Rapporto 2020" the MFA outlined its strategic vision for the next decade and a half. The document notes that geostrategic realities have created the need for Italy to adapt its foreign policy with regard to Russia and calls for Italy to seek 'a privileged relationship' with Moscow in order to press its overwhelmingly preeminent bilateral concern: energy.

Rome 00000097 003 of 005

Energy Becomes Key Bilateral Issue

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¶11. (C/NF) With virtually no domestic energy reserves, no domestic nuclear power, and an ambitious parastatal energy company, Italy's key bilateral concern with Russia has become the quest for long-term guarantees of energy supplies. The GOI has supported ENI and other energy giants' efforts to create a unique partnership with Russia and Gazprom for long-term cooperation. ENI, Italy's most prominent energy parastatal, wields immense political power; its business strategy has focused on complicated geopolitical environments generally perceived as overly risky by many of its international competitors. ENI's lobbying efforts vis-(-vis the GOI are better funded than most government offices. It hosts one diplomatic advisor assigned from the MFA. Going by press reports alone, we would judge that PM Berlusconi grants its director, Paolo Scaroni, as much access as he does his own FM.xxxxxxxxxxxxxx. Members of political parties on both sides of the aisle have told us that ENI is one of the leading financial contributors to Italy's many think-tanks - many of which produce public diplomacy discussions and

events on the importance of Italy-Russia relations. At one such event in 2007, a conference on Central Asia, representatives from ENI and Edison were given 30 minutes each to speak, while the four Foreign Ministers and Deputy Foreign Minister of five Central Asian former Soviet states were all crammed into a single hour. There is even suspicion that ENI maintains journalists on its payroll.

¶12. (C/NF) Members of political parties from both sides of the aisle have told us that ENI does not limit its dialogue with the government to energy issues. One member of the opposition center-left PD party told poloffs that ENI's presence in Russia exceeds that of Italy's understaffed embassy. While it is unclear how much policy coordination occurs between ENI and the Russian political structure, the same PD party members noted that ENI had as much contact with Russian political and economic leaders as the embassy, if not more, and political messages were frequently passed through such commercial/economic channels. Back in Rome, ENI maintains strong contacts with members of the Italian parliament - something the MFA does not do (apart from requested briefings to members of the foreign affairs committees).

An Energy Policy without the Policy

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¶13. (C/NF) ENI and other energy giants have managed to press their case quite effectively within the highest ranks of the GOI. Italian leaders on both sides of the aisle seem strangely unconcerned about dependence on Russian energy. They point out that Italy depended on Russian coal during the darkest days of the Cold War with dire consequence. Italians are also lulled into complacency by the fact that geographic proximity to North African resources means that they are far less dependent on Russia than are the Germans or the former Eastern bloc countries.

¶14. (C/NF) During a March 2008 visit to ENI Headquarters embassy staff were given a briefing on ENI's Russian energy operations (available on Embassy Rome's Classified web site). ENI's

view of the European energy situation was disturbingly similar to that of GAZPROM and the Kremlin, and at times laced with rhetorical flourishes reminiscent of Soviet-era double-speak: according to ENI, the real threat to Western Europe's energy security is not Russia -- it is Ukraine. The real solution to Europe's energy insecurity, according to ENI, lies in more direct pipeline connections to Russian gas fields and a need for pipelines that do not go through Ukraine - the rationale for the South Stream and Nord Stream pipelines (ref b).

ENI's engineering arm hopes to construct both pipelines using experience gained in the construction of the Blue Stream pipeline that connects Russia and Turkey under the Eastern portion of the Black Sea. Additionally, ENI seeks full partnership with Russia on the South Stream project. GOI and ENI contacts have reported that the company was having trouble getting a firm Russian commitment to this South Stream partnership. The plummeting price of hydrocarbons may have reduced the economic incentives for this project, but many analysts believe that Russian geo-strategic concerns will trump business considerations on this project. The most recent Russia- Ukraine gas dispute seems to have revived interest in the Nord Stream and South Stream projects, especially among those who see Ukraine as the problem.

Rome 00000097 004 of 005

¶15. (C/NF) Italy is not totally blind to the dangers of its dependence on Russia, however, and it is taking some steps that may prevent an increase in the percentage of their energy that they get from Russia. Upon returning to power, Berlusconi announced that he would return the country to nuclear power. While the GOI seems serious, this project will require eye-popping expenditures, long- term commitment, and the resolution of thorny environmental problems. Some fear that the nuclear project was launched in response to an oil price of \$140 per barrel, and wonder if the Italian commitment to nuclear power will recede if oil prices stay low. Italy

is also increasing its use of Liquid Natural Gas and is finishing work on a new terminal in the Northern Adriatic. While less-than-enthusiastic about the EU's complex Nabucco pipeline, the GOI seems to be supporting the smaller-scale Turkey-Greece-Italy pipeline project designed to bring Caspian gas to Western Europe. Edison, a French company with Italian roots, is trying to determine if it should commit to this project. While Azeri gas supplies and Turkey's willingness to allow the gas to flow West are unresolved issues, Edison believes its project has a chance of succeeding because unlike Nabucco, it is small enough -- it believes -- not to provoke opposition from Russia. The GOI -- especially powerful Minister for Economic Development Scajola -- supports the TGI project (in fact GOI officials complain if the U.S. sometimes seems to imply that Nabucco should have priority). There is fear that a successful launch of South Stream would -- by promising to meet demand -- doom both South Stream and Nabucco.

A Foreign Policy Designed to Deny Russia Nothing

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¶16. (C/NF) The combination of historical ideological sympathy, energy dependence, lack of institutional influence, and a close personal relationship between Berlusconi and Putin serve to provide Russia with an apparently trusted ally, overtly willing to work overtime within the EU on Moscow's behalf. Russia can count on Italy to support its efforts to remove irritants in its relations with the West, including:

- pressure on/within OSCE to overlook Russia's lack of compliance with its legally binding Istanbul commitments on frozen conflicts,
- weak support or even opposition to NATO efforts to build closer ties to Georgia and Ukraine,
- weak initial support for international efforts to recognize Kosovo's independence,
- unhelpful comments on U.S. bilateral Missile Defense plans with Poland and Czech Republic,

- support for Russian President Medvedev's plans to redefine European security architecture to undermine OSCE and NATO.
- support for Russian efforts to undermine EU and US energy security initiatives for Europe.

¶17. (C/NF) In the past, Berlusconi's highly-prized personal relationship with U.S. President Bush was an important counterweight to Russian influence, but many pro-U.S. Italian party officials on both sides of the aisle have worried to us that Bush's departure could tempt Berlusconi to move closer to Russia. For his part, Berlusconi has publicly stated that he would like to become a bridge between the U.S. and Russia and to "educate a young and inexperienced new American president" on how to deal with the Russians. If the past is any guide, this will likely mean an intensified effort to press the Russian agenda with the U.S.

Mitigating the Problem: Pushing Back on a Corrosive Influence

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¶18. (C/NF) To tackle the problem head-on, Post has deployed a robust diplomatic and public affairs strategy targeting key figures inside and outside government. Our aim is two-fold: educate our interlocutors more profoundly on Russian activities and thus the context for U.S. policy, as well as build a counter-weight of dissenting opinion on Russia policy, especially within Berlusconi's political party. . Since the beginning of the summer, with Berlusconi's return to power and the Georgia crisis, we have been engaging with GOI leaders aggressively at all levels. Pol, PA and Econoffs have engaged party members, GOI contacts, think tanks and even press to provide an alternative narrative to the Berlusconi insistence that Russia is a democratic and stable country that has been provoked by the West. The effort seems to be paying off. The opposition has begun taking jabs at Berlusconi by portraying him as choosing the wrong side of the debate. Some in the PdL have begun to approach us privately to say that they would like greater dialogue with us on the Russia issue, and have indicated their

interest in challenging Berlusconi's giddiness about Putin. While we have a long way to go in changing the narrative, unfortunately, we have help - in the form of a PM who appears increasingly to be the mouthpiece of Putin.

Comment

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¶19. (C/NF) The bilateral relationship between the U.S. and Italy is excellent and encompasses tremendous cooperation on many levels and on many fronts. Unfortunately, Berlusconi efforts to "repair" the relationship between the West and Russia (which as he told the Ambassador in their farewell meeting on February 23, "sticks in my gut as a large undigested mass") are threatening his credibility and becoming a real irritant in our relationship. We can help get him back on the right track by sending him a clear signal that the U.S. does not need an interlocutor for its important bilateral relationship with Russia and that his insistence on undermining existing structures and channels based on common interests and shared values within the alliance in exchange for short term stability is not a strategy Washington wishes to pursue.

Spogli