

RUSSIAN ENERGY LEGACY AND CEO CAPTURE: The Italian Example

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EU governments have suffered from corporate capture of state interests. This state capture is in turn leveraged by authoritarian states such as Russia and China against EU member states. Can any European government afford to just rely on the advice of CEO's well-connected to authoritarian regimes? While Germany has begun belatedly and hesitantly to assess the level of damage their Russian energy dependence has had on its security, Italy, by contrast, appears so far to be taking few steps to recognise the damage that its long running energy relationship with Russia has had on its broader interests.

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As German commentator Ulrich Speck recently said German politics failed to identify and assert German and European geopolitical interests in the Russian energy context. Instead, German politicians just followed the advice of a few high profiled business leaders. These major German CEOs, did have great access to the Kremlin, but they were often not working really in the German or European economic interest. They obtained short term gains for their companies and longer term economic and geostrategic losses for their own states.

Germany has begun belatedly and hesitantly to assess the level of damage their Russian energy relationship has had on its security and has begun to take steps to deal with it. Noticeably it has started to further expand its renewables capacity and started switching to liquid natural gas shipments for natural gas. In addition, Germany has begun to ask itself some profound questions about how they got into this expensive energy security mess in the first place. Can any European state afford to just rely on the advice of CEO's well-connected to authoritarian states? This surely invites a real danger of corporate capture of state interests in the short term and longer-term capture of European states interests by authoritarian regimes. Some European countries are beginning to follow Germany's example in questioning their dangerous corporate Russian energy legacy. For instance, in the Netherlands a detailed account of the actual security and energy security dangers that a succession of Dutch governments and businesses ignored over two decades has been recently been subject to a lengthy expose in the Dutch media.

In Italy by contrast, the government appears so far to be taking few steps to recognise the damage that its long running energy relationship with Russia has had on Italy's energy security and its broader security interests. In fact, it is about to make one of the old guard of the Italian-Russian energy establishment, Paolo Scaroni, the President of one of Italy's major energy companies, ENEL. Scaroni has a longstanding relationship with Vladimir Putin. For instance, *Kremlin minutes* of Mr. Scaroni's meeting with Putin in 2010 reveal the two joking and lavishing praise on one another. And as CEO of ENI, Mr. Scaroni supported Gazprom in its ill-fated South Stream project, which would have increased European supply dependence on Moscow. He also signed major supply contracts with Gazprom sustaining Italian supply dependency on Russia.

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Scaroni demonstrates again Speck's point about corporate capture. As CEO of ENI, he supported pipeline projects such as Russian controlled Blue Stream, and latterly South Stream. How far were either pipeline project in the Italian or EU interest? Those two pipelines together with the Nord Stream 1 and 2 pipelines supported in Germany by former German Chancellor Gerhard Schroeder, had the aim of weakening Ukraine. Before these pipelines were conceived almost all Russian gas to the European Union passed through Ukraine. This meant that not only did Ukraine earn significant transit revenues. It also meant that the country was extremely important to European energy security and any threat to those gas flows would generate a significant European response. Cutting those gas flows weakened Ukraine's importance to the EU. It made a potential Russian attack more likely as Moscow would assume without a significant disruption in gas flows there would be minimal European pushback. This Russian analysis of likely EU reaction proved to be incorrect in retrospect. However, at the time, Moscow saw major European energy enterprises such as Shell, Gasunie, ENI and Wintershall, participating with the apparent blessing of their governments, in a Russian pipeline strategy aimed at undermining Ukraine. That participation gave the Kremlin the confidence that no one would come to Kyiv's rescue when invasion came. That was reinforced by the belated reaction to the invasion and annexation of Crimea in 2014. Whilst the European Commission was able to find a legal hook to threaten the South Stream project forcing its cancellation, Moscow was able to find a way round. It paid off the other South Stream shareholders such as Wintershall and ENI and proceeded to work with Turkey on a new version of South Stream, Turk Stream, with no apparent European push back. Moscow's view remained that after a bit of media and regulatory bother, it was back to business as usual, and it could continue to undermine Ukraine.

This issue of CEO capture has not left us with the war. There is a danger that senior business executives have learnt nothing. They suffer from ‘corporate normality bias’ and want to return to business as usual with authoritarian states as soon as possible. As Speck points out already German executives are seeking to distinguish China from Russia. Instead of actually applying its painfully expensive Russian lessons to the danger of Chinese CEO capture and subsequent Chinese leverage against EU states. There is a real continuing danger that actually quite naïve and perhaps sometimes compromised and often greedy European CEOs who think they can put their short-term corporate interests above the economic and geopolitical interests of their states without any downside. When in fact they are in danger of ensuring the short-term capture of their own firms, and the longer-term capture of their states. And with China we have a more sophisticated authoritarian with deeper pockets than Russia.

Scaroni’s putative appointment at ENEL is only one illustration of a much bigger Italian and European security issue, shared with most EU states: the continuing lack of awareness and vital need for the continent to recognise and then deal with the security threats facing all Europeans as long as they rely on supply sources from authoritarian states: Here Russian energy. In Italy’s case, addressing this threat should focus the government – and ENEL – to follow in the steps of the Germans and Dutch, who have been reevaluating their entire energy structure personnel, sources of supply, and infrastructure – in an effort to protect their national interests. More broadly, all EU states, not just Italy have to be aware of the danger of CEO state capture in the short-term interest of their companies, and the longer-term interests of authoritarian states such as China and Russia, neither of whom wish us well.