# "Italy's foreign energy policy amidst the United States, Europe and the USSR: Italian-Soviet relationships from cooperation in the 1970s through the end of the Cold War".

Both diplomatic history and the economic histories of the Cold War have by and large approached the economic side of Cold War confrontation between the two blocs through the vantage point of trade exchanges, mutual cooperation and conflicts between western and eastern companies, corporations and governments. The literature on the so called "economic Cold War" has mostly revolved around two pillars: on the one side economic exchanges and relations across what once was the Iron Curtain has been studied through the lens of trade exchanges in instrumental, investment and end-items consumer goods (Segreto 2006, Fava 2019). Though the Soviet economic growth model was aimed at offering its citizens a prospect of abundance and material well-being, unlike the affluence engineered in the advanced industrial societies it did not make a promise to establish a mass consumer society. However, the Soviet Union and the Eastern bloc engaged in trade exchanges with the industrialised west in the field of mass consumer goods iconic to fordist mass production and consumption such as car , car components and mass society appliances, in return for the export of semi manufactured fuel products and petrochemical products. Therefore, the historiography has so far pivoted the history of the economic cold war on ground of east-west commercial bonds and trading, as well as the history of mutual attempts to prevent the counterpart from pursuing commercial interest, trade exchanges and profits with third parties. The second aspect featuring in the extant literature on the economic cold war was its attention predominantly focused on the postwar decades up to the 1970s (Mastanduno 1992, Jackson 2001). With rare few exceptions (Perovic 2017) this historiography limited its research perspective to trade exchanges and commercial deals across the Iron Curtain during the golden age of western capitalism, when the Cold War confrontation clearly turned out to be an economic race for the aftermath of the most successful model of abundance and material well-being (De Grazia 2006).

By departing from this two fold approach, a more recent scholarship in East-West economic relations during the Cold War has reoriented research on the important role that a shining of contacts and relationships between the socialist bloc and western capitalism in energy sources and financial products has played in reshuffling the balance of power between the two blocs over the roughly two decades prior to the fall of the Berlin Wall (Bartel 2022, Sanchez-Sibony 2023). The role of Soviet oil deliveries not only to East Germany and other Eastern bloc countries but also west to the Iron Curtain has been complemented with historical explorations focussed on the overexposure of Western banks, and particularly West European banks (Bartel 2017, Kotkin 2011), to the Eastern bloc countries in the aim to finance either the current or the capital account deficit, or in support for hard currency earning and domestic fixed-capital investments. Though mostly innovative in scope , this scholarship has limited its investigation to a tangle of very few and specific case studies, the ones of Poland and of East Germany's relation with the Federal Republic of Germany's giant private banks supplies in return for petrochemical products and instrumental goods in the framework of Bonn Ostpolitik being the most important cases in point.

Along the line of inquiry of this recent scholarship, this paper aims to unfold a tangle of relationships between the advanced industrial democracies and Soviet Union by advancing knowledge on a time frame so far largely overlooked in the literature: the years from the world economic doldrum that followed the first oil crisis of the 1970s through to the turn of the 1980s and the final approval of the Maastricht Treaty. Though studies focused on financial and energy relations as powerful tools to reshuffle the Cold War have already been the subject of scholarship on economic relations between the two blocs during the decade prior to the collapse of the Berlin Wall, none of them has made a clear-cut distinction among the shining of different players and interests that west to the Iron Curtain confronted the Soviet Union in the field of energy supplies and credit lines. The United States, the European Economic Community, the Atlantic Alliance and the chancelleries of national governments west to the Iron Curtain, held a wide variety of different approaches and policies to the issue. The purpose of this paper is to tackle the European Economic Community and a national case study, Italy, in the context of western policies to deal with Moscow energy supply and borrowing policies since the tottering of crude oil prices that shook up world oil markets following the first oil price hike in 1974, through to the repositioning of the EEC energy policies and import requirements in the following decade. The national case study of Italy and its commercial bonds with the Soviet Union has been extensively dealt with respect to the foreign energy policies of Italy during the 1960s and 1970s vis a vis the United States global approach and Washington's bid for Rome. However, the case study of Italy has not been tackled on grounds of financial matters and Italy's energy policy towards Moscow and the Eastern bloc in the framework of the EEC energy policies during a transformative age to the European Community on matters of energy and energy regimes.

Therefore, the aim is to shed light on convergence and divergence, if any, between the EEC and one of its member states most dependant on foreign energy supply as the government of Rome. The case of Italy is all the more relevant not only for this reason but also because during the 1980s it became one of the two EEC member states in which Soviet energy supplies accounted for the second largest share in total foreign supply[1]. The case of Italy is also crucible in so far as energy policy was not only topical to domestic growth rates due to energy scarcity within the domestic market; rather, it was pivotal to account for the foreign policy of Italy as energy supplies were by and large provided by one of the Western most important state-owned corporations, the Ente Nazionale Idrocarburi, over the post-war decades a pivot in the shaping of Italy's foreign economic relations and policies.
The first section provides a macroeconomic assessment of the EEC Energy market from the mid-1970s through to the 1980s and an outline of the changing energy policies of the EEC during the period. The second section brings into focus the case study of Italy and shed light on similarities and divergencies between the EEC policies and the initiatives of Rome. Whenever possible reference will be made to policies and initiatives of Washington to exert influence on the EEC and Italian policies, measures, and above all negotiations conducted with the Soviet counterpart during a decade that experienced at the same time the demise of the USSR world economic might but also renewed Cold War confrontation and the waning of deténte under the US administration of Ronald Reagan, and on the other hand a transformative energy policies at both Community and national level across western Europe up to the years prior to the approval of the Maastricht Treaty.

(section two will be drafted in this first versions and then better expanded and compounded with new archival evidence in the weeks to come based on new archive sources)

## The EEC energy market and policies from the 1970s to the 1980s

The Treaty of Rome instituting the European Economic Community did not call on its member states to build up a common energy policy, neither did it entail a process of convergence in the field. However, the period from the early 1970s to the amendment of the Maastricht Treaty by the mid-1990s, registered continued commitment by the EEC institutions, first and foremost the European Commission, to advance proposal to the European Council concerning energy requirements and saving, import programs and import diversification policies, as well as a wide range

[1] Archives of the European Communities, Florence (henceforth HAEEC). For Reference see next section.

of import diversification policies and stimulated a debate on the source of energy provision and the energy regime that best fit for a continental economic area that depended most on foreign energy supplies[2].

A snapshot of these two decades suggests that at EEC level the debate was wide-ranging and registered both a call on revamping old fossil fuels as coal and new sources as nuclear energy, as well as a debate about natural gas and solar energy. The historical origins of increased attention by the EEC to natural gas as a viable alternative to fossil fuels and oil traces back to the important discoveries of natural gas in the North Sea and in Belgium. From the 1970s to the late 1980s, notwithstanding problems in posted prices, natural gas came to center stage in the EEC strategies and became a much-discussed source of energy identified as potentially alternative to oil, oil refined products and hydrocarbons. Likewise, the case of natural gas is all the more topical to this paper as it soon became the linkage between the energy import policies of the advanced industrial economies of the west, and the Soviet Union on the supply side of the energy market chain. More importantly, the same held true for Italy, which crept itself into this market alternative and set import strategies to increase supply of natural gas from the Soviet Union since the turn-of-the-1970s throughout the 1980s. Therefore, according to this reconstruction the Italian bid for natural gas was deep rooted in the oil crises of the 1970s and began way before the mid-1980s national referendum on the development of nuclear energy program turned aside the option of nuclear power as a viable alternative to oil and other sources of energy and electricity production.

The point of departure to make sense of the increased importance of natural gas to confront the energy problem posed to the EEC by the two oil crises of 1974 and 1979 is what was then considered the first and most important issue in debating and selecting a source of energy: the price per meter cubic on the consumer market. In the the light of the skyrocketing oil price hikes caused by the first oil crisis of the 1970s, and throughout the decade, the price of natural gas in the western world kept substantially stable and the main world importers, the EEC being certainly among others, could keep afloat in the framework of the uptick in the posted price of oil barrels. This trend in the world price of natural gas during the 1970s certainly explains why by the very start fo the new decade the EEC Commission, in the context of EEC discussion and definition of the energy requirements and import program for the new decade up to 1990, devoted much attention to the option of natural gas, calling on the Council to adopt policies accordingly. According to the forecast of the Commission for the new decade, offered in a study brought for approval before the Council in 1980, the next decade was to register a decline in

[2] European Parliament, Report on the proposal for a Council Directive concerning common rules for the internal market in natural gas, 12 October 1993, in HAEEC, GA/29.

domestic production within the EEC market as a result of declining production in Belgium and at other production sites. However, as the outlook for natural gas consumption in the EEC went for a stable level throughout the decade, the Commission forecast was for a staggering rise in import and consumption of imported natural gas. Therefore, natural gas was considered vital to set condition for developing stable and secure suppliers for the new decade. At the start of the new decade, stability and security in natural gas supply was a matter of concern to the EEC authorities. As a matter of fact, following the decline in world oil supply and the rise in posted price of oil caused by the temporary termination of Iranian oil supply, some major suppliers of natural gas engaged in a tug of war with some leading western importers. The most remarkable case in point here was Algeria, which by the turn of the decade forced a rise in natural gas prices vis a vis the United States and, more importantly, France. The Iranian revolution had a negative impact on natural gas supplies to West European countries owing also to existing contracts between Iran and Soviet Union making provision for natural gas deliveries by Iran to Moscow and deliveries by Moscow to the EEC, in particular the Federal Republic of Germany. By that time Soviet Union and Algeria were therefore critical to natural gas supplies to EEC member countries. Along with Norway, by the start of the decade Algeria and Soviet Union accounted for 97% of total natural gas supplies to the EEC by a "third country", the remaining percentage being mostly supplied by Libya.

The arm wrestling launched by Algeria against France and other major western importing countries was interpreted by the EEC Commission as a conflict on both prices and other terms of agreements and contracts with the United States and the EEC countries: for instance, at the start of the new decade the Algerian corporation Sonatrac had signed agreements with a consortium of German corporations for the supply of natural gas and the construction of manufacturing plans. In the framework of the new aggressive price policy, Sonatrac called on its western clients to break the agreements and to impose on the western consortium to pay for the construction of gas pipelines and other infrastructural programs to be developed.

This upward trend in the price of natural gas kept stable at roughly 20 percent the share of EEC imported gas in total energy import by the Community during the 1980s. However, notwithstanding this price issue became interweaved with rising transport costs due to the construction and maintenance of pipelines across the EEC, the share of natural gas import in total energy import by the EEC did not decline. In many publications and reports to the Council produced over the first half of the 1980s, the European Commission stressed the importance of diversification of suppliers and diversification of energy supplies, stressing how member states highly depending on foreign oil supply and foreign raw material

supply for electricity production as Ireland and Italy should certainly at the same time make a bet on natural gas, and focusing attention on coal-refining production sites and nuclear power development[3]. Therefore, countries like Italy, but also France, were supposed to embark on a wide-ranging policy of diversification.
Therefore, the upward price policies of leading suppliers as Algeria had a potentially powerful impact on Italy, where by the first half of the 1980s nuclear power development was far from as developed as in other EEC countries. Making matters worse, Rome accounted for a substantial share in total Libyan export to the EEC: this was a further blow to the import bill of Rome as Libya, though less influential then Algeria on the Western World, went along the line of Algeria in adopting an increase in the posted price of natural gas.

**Natural gas, energy policies and financial relations in east-west trade policies in the 1980s: Soviet-Italian relations as a case study.**

As stressed in the previous section, by 1981 Algeria, Norway and the Soviet Union accounted for almost total natural gas supply to the EEC, the remaining supplies being mostly provided by Lybia. By this time the largest provider was Norway, Moscow, which accounted for 40 percent of total foreign supply to the EEC, ranked second to Norway. Notwithstanding this, over the course of the 1980s the picture changed all together: the Soviet Union supplies grew staggeringly. What is all the more remarkable is that Soviet supplies to Italy raised substantially and much more compared to other EEC member countries. By any account, the increase of Soviet gas supplies in total foreign supplies to the EEC stemmed from multiple causes: the aggressive price policy of major gas suppliers as Algeria has already been referred to; in the second instance, as clearly emerged in statistics produced by the EEC in the 1980s, the Soviet Union featured the largest production and supply potential measured by existing reserves compared to major gas suppliers as Iran, The United States or Algeria[4]. Thirdly, though transport cost was an issues and reduced the competitive edge of natural gas, pipelines and transport infrastructures connecting the Soviet production sites to the Federal Republic of Germany and the rest of the EEC were much better developed than transport infrastructure useful to other natural gas suppliers. In the fourth instance, by the end of the 1970s Soviet Union began suffering from a sticky shortage in foreign hard currencies, whilst the Eastern

[3] Commission des Communautes Européennes, Communication de la Commission au Conseil, “Objectifs énergétiques de la Communaute pour 1990 et convergence des politiques des Etats Membres, p. 6, 14 juin 1979, in HAEEC, b. Dossier Energia (1).
[4] HAEEC, b. Commissione Europea. Dossier Energia, Communication de la Commission au Conseil sur le gaz naturel, p. 18, tableau 8.

bloc countries, used to import oil from Moscow to manufacture petrochemical products, registered a significant liquidity shortage to finance import and fixed-capital investments. As a matter of fact, the decline in oil prices during the first half of the 1980s caused by the global recession triggered by the second oil crisis of 1979 and the US Federal Reserve monetary tightening adopted at the start of 1980, reduced the Soviet oil revenues during the first half of the decade. This development, combined with massive outflows of western capital from the Eastern bloc countries as a result of the uncertainly caused by the Iranian revolution on the Western banks overexposed to the Eastern bloc countries, and of the incumbent Reagan administration massive tax cut programs, prompted Moscow to develop alternative sources for delivery to the EEC member states as a way to make up for the loss in foreign hard currencies earning which Moscow was confronting.
Considering that Italy had a long-standing tradition of trade relations with the Soviet Union since as early as the very beginning of the 1960s through deals signed by ENI with Soviet counterparts based on a trade off between energy supplies and technology transfer[5], and its path dependence on major natural gas suppliers as Algeria and Lybia pushing for raising posted prices of gas, the linkage between Rome and Moscow can be viewed as the hallmark to make sense of convergence and divergencies between the EEC and a member country with respect to the energy policies devised at Community level for the period prior to the amendment of the Maastricht Treaty, and the Community relations with Soviet Union in the field.

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[5] ENI Historical Archive, Castel Gandolfo, Rome (henceforth ASENI)

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