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THE KREMLIN PLAYBOOK 2

THE ENABLERS

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Case Study

Italy

For the past 75 years, Italy and Russia have enjoyed positive economic and political relations due in large measure to Moscow's ties with one of Europe's strongest communist parties, the Italian Communist Party. These "ideological sympathies" paralleled Italy's growing dependency on Russian energy. Italian firms such as Fiat (now Fiat-Chrysler) and state-controlled Italian energy firm ENI were early European investors in the Soviet Union. Italy's foreign and trade policy toward the Soviet Union and then Russia was designed to first and foremost protect Italian business interests. These established relationships have only strengthened since the collapse of the Soviet Union as Russia has reinforced its strategic partnerships with important Italian economic and political players.

Today, Italy is Russia's third-largest commercial partner in Europe and its fourth in the world. Trade flows have doubled since 2005, peaking in 2013 before falling slightly due to sanctions and the negative impact of lower energy prices on bilateral flows (though oil and gas prices have recovered since 2017).¹ Italian companies have important economic interests in Russia: from 2005 to 2013, exports to Russia grew from €6 billion to almost €11 billion, and outward FDI stocks to Russia went from €1.7 billion in 2007 to €11 billion in 2016. These investments come from some of the structurally most important Italian businesses, from ENI (oil and gas) and ENEL (electricity generator) to Pirelli (tires).² Entities like Pirelli and ENI have reportedly attempted to shape the Italian government's policies indirectly in relation to the imposition and rollover of EU sanctions on Russia by underscoring the risk of retaliatory sanctions and their impact on the companies' bottom lines.³

But while Russian economic ties with Italy have grown, Italy's economic situation has stagnated and its governance standards, institutional malaise, and chronic corruption—already lagging behind other EU member states—have grown even more sclerotic. Italy, which is at the intersection of strong economic and political ties to Russia on the one hand and weak and opaque institutional processes on the other, is in an optimal position to enable Russian malign influence as it protects and even enhances Russia's strategic interests in Europe. In that way, the country should be viewed as a microcosm of a larger enabling ecosystem in which Russian malign influence can prosper and grow.

1 Ministero dello Sviluppo Economico, <https://www.sviluppoeconomico.gov.it/index.php/it/>; Italian National Institute of Statistics (ISTAT), <http://dati.istat.it/?lang=en>.

2 Rosneft became Pirelli's largest shareholder in 2014, and Igor Sechin, a close ally of Vladimir Putin, was appointed to its board. See Rachel Sanderson and Christian Oliver, "Italy accused of blocking tougher sanctions on Russia," *Financial Times*, July 13, 2014, <https://www.ft.com/content/ad743cae-0a8a-11e4-be06-00144feabdc0>.

3 Ibid.

Italy's economy is substantially impacted by the risk of corruption and organized crime.⁴ It ranks considerably lower than its Western European counterparts on Transparency International's Corruption Perception Index, in 53rd place out of 180.⁵ The country was the only founding EU member state singled out by the European Commission when it received specific country recommendations to address corruption in the EU Anti-Corruption Report.^{6,7} The risk of corruption in public procurement and tax administration is deemed high,⁸ the latter sector also presenting significant money-laundering risks along with organized crime and the luxury market. Indeed, tax-related crimes account for 75 percent of illegal proceeds in Italy.⁹ Italy does have a strong money-laundering legal framework, law enforcement capacity, and understanding of risks when it comes to money laundering, but the judicial system lacks the resources to prosecute many of those crimes in a timely manner.¹⁰ And while banks have generally followed their due-diligence and anti-money laundering reporting requirements, the Designated Non-Financial Businesses and Professions (DNFBPs) or non-financial sector (trust services, notaries, accountants, etc.) rely too heavily on banks' assessments instead of developing their own and lack awareness of the money-laundering risks in their own field.¹¹

This enabling economic environment is combined with political receptivity to malign influence. The Italian political scene is fragmented, and players often balance many interests in unstable coalitions. Italian political parties are reliant on private donations, which have limited transparency, and are increasingly moving away from direct donations to foundations and think tanks that have less stringent reporting requirements.¹² Previous Italian governments have been reluctant to support the continuation of EU

4 Philip Gounev and Tihomir Bezlov, *Examining the Links between Organised Crime and Corruption* (Sofia, Bulgaria: Center for the Study of Democracy, 2010).

5 As a comparison, the Netherlands ranks 8th, Austria 14th, and even the Czech Republic presents a cleaner image in 38th place. See "Corruption Perceptions Index 2018," Transparency International, January 29, 2019, <https://www.transparency.org/cpi2018>.

6 Council of the European Union, *Council Recommendation of 12 July 2016 on the 2016 National Reform Program of Italy and Delivering a Council Opinion on the 2016 Stability Program of Italy*, C 299/01, Brussels, 2016, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.C_.2016.299.01.0001.01.ENG&toc=OJ%3AC%3A2016%3A299%3ATOC.

7 European Commission, *Report from the Commission to the Council and the European Parliament: EU Anti-Corruption Report* (Brussels: European Commission, 2014), https://ec.europa.eu/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report_en.

8 "Italy Corruption Report," GAN Business Anti-Corruption Portal, December 2017, <https://www.business-anti-corruption.com/country-profiles/italy/>.

9 Financial Action Task Force, *Anti-money laundering and counter-terrorist financing measures – Italy, Fourth Round Mutual Evaluation Report* (Paris, France: Financial Action Task Force, 2016).

10 Ibid.

11 Ibid. See also: "Financial Secrecy Index 2018: Narrative Report on Italy," Tax Justice Network, 2018, <https://www.financialsecrecyindex.com/PDF/Italy.pdf>.

12 Alessandro Sardo, "Finanziamenti alla politica "ancora poco trasparenti." Con donazioni anonime ai singoli candidati tramite fondazioni," *il Fatto Quotidiano*, January 23, 2018, <https://www>.

sanctions against Russia, and one can easily understand how this political financing framework could cloud policy decisions.¹³

Over the 2005–2017 study period, Italy’s governance standards have generally worsened, particularly during former prime minister Silvio Berlusconi’s tenure. Domestic corruption has remained a serious issue, though positive developments followed Berlusconi’s departure from government, particularly in Italy’s application of the OECD’s Anti-Bribery Convention through active enforcement against foreign corruption.¹⁴

In many ways, Mr. Berlusconi’s tenure perfectly embodied the comingling of business and political interests: he tried to use his parliamentary majority to change the rules several times in order to protect himself from prosecution (for example, in 2009, when his party proposed changing the length of the statute of limitations and trial duration, though the law was ultimately ruled unconstitutional).¹⁵ He also made economic decisions that benefitted him and his business associates.¹⁶ Mr. Berlusconi has also had repeated encounters with law enforcement related to tax evasion, bribery, mafia association, and embezzlement and was convicted for tax evasion in 2013, temporarily barring him from political office.¹⁷ Despite Mr. Berlusconi’s departure from government in 2011, Italy has not substantially improved its governance standards, and its political landscape has become even more unstable.

While in power, Silvio Berlusconi was not only a great proponent of a close Italian-Russian bilateral relationship, but he was also a personal friend of Russian president Vladimir Putin, which helped to propel new bilateral energy links between the two countries (imports of oil and gas from Russia steadily rose between 2008 and 2013, and Russia is by far the largest natural gas supplier in Italy, covering over 30 percent of the annual consumption in 2017).¹⁸ The two men’s personal friendship has remained

ilfattoquotidiano.it/2018/01/23/finanziamenti-alla-politica-ancora-poco-trasparenti-con-donazioni-anonime-ai-singoli-candidati-tramite-fondazioni/4108448/.

- 13 In 2009, U.S. Ambassador to Italy Ronald P. Spogli explained in a leaked cable that the “combination of . . . factors [driving Italy and Russia’s relationship such as ideological sympathies and energy dependence] 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.” See “Italy-Russia Relations: The View from Rome (C-RE8-02675),” WikiLeaks, January 26, 2009, https://wikileaks.org/plusd/cables/09ROME97_a.html.
- 14 Gillian Dell and Andrew McDevitt, *Exporting Corruption. Progress report 2018: Assessing enforcement of the OECD Anti-Bribery Convention*, (Berlin, Germany: Transparency International, 2018) https://www.transparency.org/whatwedo/publication/exporting_corruption_2018.
- 15 Nick Squires, “Silvio Berlusconi accused of changing laws to his advantage,” *Telegraph*, November 10, 2009, <https://www.telegraph.co.uk/news/worldnews/europe/italy/6538660/Silvio-Berlusconi-accused-of-changing-laws-to-his-advantage.html>.
- 16 Rachel Sanderson, “Berlusconi study sheds light on politics and profits,” *Financial Times*, January 4, 2017, <https://www.ft.com/content/eb86eb6c-d284-11e6-9341-7393bb2e1b51>.
- 17 Iliaria Polleschi, “Italy court bans Berlusconi from public office for two years,” Reuters, October 19, 2013, <https://www.reuters.com/article/us-italy-berlusconi/italy-court-bans-berlusconi-from-public-office-for-two-years-idUSBRE99I01T20131019>.
- 18 “Natural gas supply statistics,” Eurostat, July 2018, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Natural_gas_supply_statistics&oldid=401136.

vibrant even after Mr. Berlusconi resigned from office in 2011. He recently joined Vladimir Putin on a trip to Crimea in 2015, for which Ukrainian authorities opened criminal proceedings against him for unauthorized travel.¹⁹

It has been alleged that Mr. Berlusconi received a portion of the proceeds from the energy deals Italy struck with Russia during his tenure.²⁰ At the time, a number of Mr. Berlusconi's close advisers had relationships with Russian state-owned energy companies and financial institutions. Such is the case for Bruno Mentasti-Granelli, who owned 33 percent of Central Energy Italian Gas Holding (CEIGH), a gas distribution company that was initially involved in an ENI-Gazprom deal signed in 2005 for sales on the domestic market. Gazprom held 25 percent of CEIGH through ZMB, the German-registered subsidiary of Gazpromexport, while Vienna-based Centrex Europe Energy and Gas AG (also ultimately owned by Gazprom) held 41.6 percent. The Italian antitrust authority initially blocked the agreement as it was deemed too restrictive of competition in the energy market, but CEIGH was later dissolved and replaced, and the agreement ultimately went through without the company.²¹

Energy has been the most visible strategic sector in which Italy and Russia have had important exchanges. Russia is Italy's largest energy source, and energy is the largest trading sector between the two countries. Between 2013 and 2016, Italy received approximately 40 percent of its natural gas needs from Russia (though this amount declined in 2017).²² While ENI already invested in the Soviet Union during the Cold War, the formation of the strategic partnership between the Italian company and Gazprom truly took off in 1999, when the two formed a special-purpose joint venture (registered in the Netherlands) to build the Blue Stream gas pipeline on the Black Sea seabed, in which ENI retains a 50 percent stake.²³ Building on this relationship, both firms signed a new memorandum of understanding in 2007 to construct the South Stream gas pipeline across Central and Southeastern Europe and through the Western Balkans. In addition, in 2012, ENI signed additional energy deals with the Russian state-owned oil behemoth Rosneft for an agreement to explore and produce in Egypt's Zohr offshore field, in the Black Sea, and in the Barents Sea in the Arctic. The Black Sea exploration project is currently on hold due to

- 19 Damien Sharkov, "Ukraine Launches Criminal Case Against Italy's Berlusconi for Crimea Visit," *Newsweek*, October 30, 2015, <https://www.newsweek.com/ukraine-berlusconiukraine-criminal-caseukraine-criminal-proceedingslegal-597853>.
- 20 Rob Evans, Luke Harding, and John Hooper, "WikiLeaks cables: Berlusconi 'profited from secret deals' with Putin," *Guardian*, December 2, 2010, <https://www.theguardian.com/world/2010/dec/02/wikileaks-cables-berlusconi-putin>.
- 21 Roman Kupchinsky, "Berlusconi, Centrex, Hexagon 1 and 2 and Gazprom," *Eurasia Daily Monitor* 5, no. 228 (December 2008), <https://jamestown.org/program/berlusconi-centrex-hexagon-1-and-2-and-gazprom/>. See also: Barbara Ciolli, "Acqua minerale con gas," *Lettera 43*, December 8, 2010, <https://www.lettera43.it/it/articoli/economia/2010/12/08/acqua-minerale-con-gas/2380/>.
- 22 "Natural gas supply statistics," Eurostat.
- 23 "Blue Stream," ENI, September 25, 2018, https://www.eni.com/en_RU/eni-russia/partners-projects/gazprom/bluestream/bluestream.shtml.

sanctions and economic reasons,²⁴ but ENI is still involved in the Zohr and Barents Sea explorations. Important engineering firms like Leonardo (30 percent of which is owned by the Italian state) have also contributed to important oil and gas projects in Russia through the supply of transport material, including after the 2014 imposition of sanctions and U.S. warnings over supporting the Russian industry.^{25,26}

In the oil sector, in 2008, Russian energy firm Lukoil acquired 49 percent of ISAB, the third-largest refinery in Europe located in Sicily. Lukoil has since increased its stake to 80 percent, giving it control over a strategically-located refinery in the Mediterranean that employs over 1,000 people and providing vital investment in a region where unemployment is 21.5 percent and the GDP per capita is only 62 percent of the national level.^{27,28} This gives Lukoil an outsize economic role in the region. In September 2017, there were rumors that Lukoil was planning on selling the plant—which would have had a profound effect on the regional economy—but these rumors have not yet materialized.

And though not all Russian energy partnerships are successful, they do not seem to ever fully go away. For example, in December 2014 the Russian government withdrew from the South Stream project, leaving a number of Western Balkan and Central European countries empty handed after governments had spent large amounts of political capital on trying to get the pipeline built (such as Austria or Italy).²⁹ The shelving of the project created tensions in the ENI-Gazprom partnership as the Italian company's engineering subsidiary, Saipem, lost one of its biggest pipe-laying contracts. As a result, the company filed a €679 million claim against Gazprom, though the latter refused all demands and announced its intention to start a counterclaim for €541 million.³⁰ Saipem

24 Nastassia Astrasheuskaya, Henry Foy, and Miles Johnson, "Rosneft hunts for projects to keep Eni in Russia," *Financial Times*, October 28, 2018, <https://www.ft.com/content/06a455b8-d91f-11e8-a854-33d6f82e62f8>.

25 Tom Kington, "Leonardo could get shut out of joint EU defense programs — but backs them anyway," *DefenseNews*, October 27, 2017, <https://www.defensenews.com/global/europe/2017/10/27/leonardo-could-get-shut-out-of-joint-eu-defense-programs-but-backs-them-anyway/>.

26 At a 2017 Italian-Russian business conference in Verona, Leonardo's CEO stated that his company was "present in force" in Russia, but that they "work in a heavily regulated environment, political guidance is key, and it is clear that we must find areas for co-operation." Henry Foy, Rachel Sanderson, and James Politi, "The ties that bind Italy and Russia," *Financial Times*, October 29, 2017, <https://www.ft.com/content/ffbe03c0-b976-11e7-8c12-5661783e5589>; "Sakhalin Energy Signs AW189 Contract for Modern Long Range Helicopter Transport Supporting Oil&Gas Industry in Russia," Leonardo, December 20, 2018, <https://www.leonardocompany.com/en/-/oil-gas-aw189-sakhalin-energy>.

27 Ron Bousso and Dmitry Zhdannikov, "Russia's Lukoil puts Italian refinery up for sale – sources," *Reuters*, September 20, 2017, <https://www.reuters.com/article/lukoil-refinery/russias-lukoil-puts-italian-refinery-up-for-sale-sources-idUSL5N1LZ4YS>.

28 DG Growth, "Sicily," European Commission, December 18, 2018, <https://ec.europa.eu/growth/tools-databases/regional-innovation-monitor/base-profile/sicily>.

29 Judy Dempsey, "Europe's Energy Strategy and South Stream's Demise," *Carnegie Europe*, December 4, 2014, <https://carnegieeurope.eu/strategieurope/57386/>.

30 Francesca Gerosa, "Saipem, Gazprom presenta contro-ricorso per South Stream," *Milano Finanza*, April 7, 2017, <https://www.milanofinanza.it/news/saipem-gazprom-presenta-contro-ricor>

CEO Stefano Cao has stated that he “does not expect resolution of South Stream arbitration” before 2020.³¹ Saipem, however, won a pipe-laying contract for Gazprom’s other major pipeline project in Europe, Nord Stream 2.

Despite the failure of the South Stream project, Gazprom immediately launched a new strategic gas pipeline project in early 2015 that followed a similar route as South Stream through the Black Sea, but it would arrive in Turkey, transport the gas through the country, and reach into Central Europe. Dubbed TurkStream, the offshore part of the pipeline was completed in November 2018. Governments in the region have supported this project despite its lack of economic feasibility and the corruption risks it carries. Both Bulgaria and Serbia have already begun working on large-scale gas pipeline expansion projects that would serve as outlets for TurkStream. Although ENI is not directly involved in the project, Gazprom has contracted Saipem to conduct engineering and feasibility studies for the Serbian pipeline extension. Saipem was also the first company to be selected to build the Black Sea offshore section of TurkStream before it was replaced by a Swiss contractor (Allseas) in December 2016.³² Meanwhile, ENI and Gazprom have continued their cooperation on the development of the southern corridor for gas supplies (from Russia to European countries) despite sanctions and continued geopolitical tensions.³³

The other key strategic sector for Russia in Italy is the banking industry. Unlike most other European countries’ banks, the share of Italian bank loans in all foreign bank loans in Russia has grown from 11 percent in 2014 to 18 percent in 2018—though it should be noted that financial exposure is nominally lower today than in 2018, and the share increase is due to a decrease in the total amount of claims.³⁴ Italy’s banks also have the second-largest financial exposure to Russia (behind Switzerland) with claims worth almost \$23 billion.³⁵ The fragility of the Italian banking sector and the volume of non-performing loans (14.4 percent of total gross loans in 2017, or €224.2 billion) reinforces the need for Italian banks to protect their business activities (though they have not doubled down on investments) in Russia despite the risks involved.³⁶ This is happening at the same time these banks are receiving considerable support from the European Union and the European Central Bank (ECB), with a €17 billion plan approved by the Commission in 2017 to save Banca Popolare di Vicenza

[so-per-south-stream-201704071624414136_](https://www.reuters.com/finance/stocks/SPMI.MI/key-developments/article/3780350)

31 Reuters, “Saipem does not expect resolution of South Stream arbitration before 2020,” March 6, 2018, <https://www.reuters.com/finance/stocks/SPMI.MI/key-developments/article/3780350>.

32 Angelo Scorza, “Allseas grasps the deal that Saipem awaited for on the Turkish Stream,” Ship2Shore, December 12, 2016, http://www.ship2shore.it/en/shipping/allseas-grasps-the-deal-that-saipem-awaited-for-on-the-turkish-stream_63139.htm.

33 “Partnership with Gazprom and Rosneft,” ENI, October 8, 2018, https://www.eni.com/en_RU/eni-russia/partners-projects/partners-projects.shtml.

34 “Consolidated banking statistics,” Bank of International Settlements, <https://www.bis.org/statistics/consstats.htm>.

35 Ibid.

36 World Bank data, <https://data.worldbank.org/>.

and Veneto Banca. The ECB also held €341 billion worth of Italian sovereign debt at the end of April 2018.³⁷

UniCredit, Italy's largest banking group based on total assets, is the largest foreign bank in Russia in terms of volume of activities.³⁸ In 2015, the bank advised Gazprom, the steel company Evraz, and the mining company Norilsk Nickel on previous Eurobond deals worth €2.7 billion. UniCredit's exposure to the Russian market reached 30 percent of its tangible book value in 2017, creating risks of a credit selloff in case of economic instability in Russia or a worsening of relations between Russia and the West.³⁹ But unlike Austria's Raiffeisen Bank, for example, UniCredit has not closed branches or reduced its loan portfolio in Russia. The head of the Central and Eastern Europe division, Carlo Vivaldi, has publicly recognized Russia as a "key market" and mentioned UniCredit has been "in discussions and had good communication with the [Russian] Ministry of Finance."⁴⁰ In December 2018, the largest private Russian bank, Alfa, reportedly approached UniCredit alongside Russian state-owned bank VTB to discuss a possible sale of Alfa Bank.⁴¹ In 2016, UniCredit sold its Ukrainian business (Ukrsotsbank) to Alfa Bank in exchange for a 9.9 percent share in the Russian banking holding.⁴²

Italy's second-largest bank, Intesa Sanpaolo, is also heavily invested in Russia, and its president for Russia, Antonio Fallico, has called sanctions "illegal and . . . imposed due to ideological reasons."⁴³ Intesa Sanpaolo's relations with Russia date back to the Soviet era when its predecessor Banca Commerciale Italiana invested in several projects in the USSR in the 1960s and 1970s; it was then one of the top five foreign banks in

37 Thomas Hale, "Italian banks and the problem of tightly knit politics," *Financial Times*, August 13, 2018, <https://ftalphaville.ft.com/2018/08/13/1534151830000/Italian-banks-and-the-problem-of-tightly-knit-politics>. See also: Eric Maurice, "EU approves rescue of Italian banks," *EUobserver*, June 26, 2017, <https://euobserver.com/economic/138345>. See also: Balazs Koranyi, "Explainer – Italian debt held by the ECB in focus as populists sign governing pact," *Reuters*, May 18, 2018, <https://uk.reuters.com/article/uk-italy-politics-ecb-explainer/explainer-italian-debt-held-by-the-ecb-in-focus-as-populists-sign-governing-pact-idUKKCN1IJ166>.

38 Info MercatiEsteri, Farnesina, Ministero degli Affari Esteri e della Cooperazione Internazionale, http://www.infomercatiesteri.it/accesso_credito.php?id_paesi=88.

39 UniCredit, *2017 Consolidated Reports and Accounts* (Milan, Italy: UniCredit, 2018).

40 Jason Corcoran, "No Retreating from Russia, says UniCredit's Vivaldi," *bne Intellinews*, May 19, 2016, <http://www.intellinews.com/no-retreating-from-russia-says-unicredit-s-vivaldi-97795/>.

41 Max Seddon, "Alfa-Bank owners discuss sale with VTB and UniCredit, sources say," *Financial Times*, December 11, 2018, <https://www.ft.com/content/29b62d34-e2ab-11e8-a6e5-792428919cee>.

42 "UniCredit Group completes sale of Ukrsotsbank to Alfa Group's ABH Holdings," UniCredit, October 31, 2016, <https://www.unicreditgroup.eu/en/press-media/press-releases-price-sensitive/2016/unicredit-group-completa-la-vendita-di-ukrsotsbank-a-abh-holding.html>.

43 Foy et al., "Ties that bind." Fallico received the Order of Friendship from Russia in 2008 and last year received an award from President Putin for facilitating the sale of a stake in Rosneft in 2016. See Giuseppe D'Avanzo, Andrea Greco, and Federico Rampini, "Berlusconi, Putin e quel biglietto la vera storia del gas di Mosca," *La Repubblica*, December 8, 2010, https://www.repubblica.it/esteri/2010/12/08/news/wikileaks_berlusconi_putin-9950307/.

the Soviet Union in terms of loan portfolio.⁴⁴ Today, Intesa serves “more than half of the foreign trade operations between Russia and Italy,”⁴⁵ reinforcing the interdependence of banks and businesses and their dependence on Russia.

There is also a troubling interaction (and potential reinforcement) between these two Russian-dominated strategic sectors—energy and finance—as Intesa has been an important financial partner in large Russian energy infrastructure projects in Russia and abroad. For example, the bank became an investor in Blue Stream in 2000 and financed part of the first Nord Stream project. In 2017, it signed an agreement with Russian oil producer Independent Petroleum Company to raise funds for a new drilling project (the company has been sanctioned by the United States for violating North Korea sanctions).^{46,47} Intesa Sanpaolo also provided a €5.2 billion loan to Glencore and Qatar Investment Authority in 2017 to finance their acquisition of a stake in Rosneft after its privatization, which was an effort by the Kremlin to raise capital amid sanctions (a Chinese conglomerate later agreed to buy part of that stake and Intesa will thus be reimbursed sooner than planned).⁴⁸

SACE, the Italian export credit agency (providing insurance for the risks to which Italian companies are exposed in their international transactions and investments), also has a significant presence in and exposure to Russia. Its operations in Russia and the Commonwealth of Independent States stretch over several decades, with an in-country presence since 2006. Russia is SACE’s third-largest market, with a total exposure of around €5 billion.⁴⁹ The Italian agency is currently studying several projects in Russia—mainly in the oil and gas and metallurgical industries—worth around €1 billion in potential commitments. In the last decade, SACE has developed a solid partnership in strategic sectors with the Russian development bank, Vnesheconombank (VEB, which is currently under U.S. sanctions). In 2011, SACE and VEB, together with the French company Coface, signed an agreement to support the sales of the Sukhoi Superjet 100 (SSJ100), an aircraft developed with Russian, Italian, and French technologies.

Over the research period, real estate and telecommunications have become particularly attractive for Russian investors and have emerged as strategic sectors. Italy is now the third most favored destination for Russian real estate investments, particularly

44 “Intesa Sanpaolo Activities in Russia,” Banca Intesa, <https://www.bancaintesa.ru/en/about/intesa/1/>.

45 Ibid.

46 Foy et al., “Ties that bind.”

47 “Russia Sanctions Tracker,” Center for Strategic and International Studies, <https://russiasanctionsracker.csis.org>.

48 Gianluca Semeraro and Stephen Jewkes, “Intesa Sanpaolo not concerned about Glencore loan for Rosneft,” Reuters, April 27, 2018, <https://www.reuters.com/article/us-intesasanpaolo-rosneft-glencore-cefc/intesa-sanpaolo-not-concerned-about-glencore-loan-for-rosneft-idUSKBN1HY2IW>.

49 “SACE e Vnesheconombank firmano accordo di cooperazione,” SACE, June 16, 2016, <https://www.sace.it/media/comunicati-stampa/dettaglio/sace-e-vnesheconombank-firmano-accordo-di-cooperazione>.

among high-ranking Russian government officials and oligarchs such as Roman Abramovich, Dmitri Medvedev, and Viktor Vekselberg, who own luxury properties in Italy.⁵⁰ Tuscany's Versilia region has been a focal point for Russian investments in hotels.⁵¹ This level of concentration of Russian investments in real estate is important as it can skew the local tax base and directly impact local politics, given real estate's vital role as a source of revenue for towns and regions.

There has also been a substantial increase in Russian purchases of important telecommunication firms. In 2011, VEON (formerly VimpelCom) acquired the third-largest mobile operator in Italy, Wind S.p.A., which boasts a 22.9 percent market share.⁵² VEON's largest shareholder is Mikhail Friedman's Alfa Group (through a company called LetterOne, which is registered in the Netherlands).⁵³ Wind S.p.A. later merged with Tre Italia to form Wind Tre S.p.A., which is now the largest mobile operator in Italy with a 32.7 percent market share (other shareholders in Wind Tre include Chinese and American companies).⁵⁴ Today, the Italian market is VEON's second-largest revenue source.⁵⁵

While Italian and Russian companies have important ties in some specific sectors, Russia's economic footprint in Italy is also concentrated in specific locations. This is the case in Northern and Central Italy, where most Russian-owned businesses are located (specifically Lombardy, Emilia-Romagna, Tuscany, and Marche). Along the Adriatic coast, Emilia-Romagna and Marche have the highest density of retail, food, and hospitality businesses with Russian ownership. The Romagna coast has recently seen an increase in Russian tourism, with a 25 percent increase in visits in 2017 compared to 2016.⁵⁶ Lombardy, in particular, ranks first in the number of Russian companies present in the region (173) and the density of Russian presence (1.81 Russian companies per 10,000 Italian ones); Milan princi-

50 "I Russi Comprano Casa in Italia," Luxury Villa Italy, http://www.luxuryvillaitaly.com/russi_comprano_casa_italia.aspx.

51 Niccolo Gramigni, "I russi rimettono piede in Versilia, gli americani continuano a comprare," *Il Sole 24 Ore*, March 6, 2018, <http://www.ilssole24ore.com/art/impresa-e-territori/2018-03-06/i-russi-rimettono-piede-versilia-americani-continuano-comprare-121049.shtml?uuiid=AEsO3s9D>.

52 "Vimpelcom, sì all'acquisizione di Wind. Nasce il 5° colosso della telefonia mobile", *La Repubblica*, March 17, 2011, http://www.repubblica.it/economia/2011/03/17/news/vimpelcom-wind_via_libera_a_fusione-13719580.

53 "Share ownership," VEON, <https://veon.com/investor-relations/Share-information/Share-ownership>. Alfa Group owns Alfa Bank, which owns Amsterdam Trade Bank, a bank involved in money laundering scandals. ATB was accused by the U.S. Department of Justice of paying bribes on behalf of VEON in Uzbekistan. Fridman cofounded LetterOne, which created the Dutch "foundation" (*stichting*) that owns 8.3 percent of VEON (exempt from corporate tax).

54 "Osservatorio sulle comunicazioni," Autorita per le Garanzie nelle Comunicazioni, Servizio Economico Statistico, 2017, <https://www.agcom.it/documents/10179/8144896/Studio-Ricerca+20-07-2017/d784816b-708d-471b-adc3-82337ce08b98?version=1.2>.

55 Interfax, "Altimo может потратить \$1,5 млрд на увеличение доли в Vimpelcom Ltd." *Comnews*, April 26, 2012, <http://www.comnews.ru/node/63601>.

56 "Il turismo in Emilia-Romagna Gennaio-Settembre 2017," Osservatorio sul turismo dell'Emilia-Romagna, September 1, 2017, <http://www.ucer.camcom.it/osservatori-regionali/os-turistico/pdf17/turismo-er-01-09-2017.pdf>.

pally accounts for this density, being the city with the highest number of Russian-controlled companies in the country (121) such as Wind Tre S.p.A. and Centrex Italia S.p.A.⁵⁷

This concentration of Russian activity in Italy has exposed a new nexus between Russian and Italian economic, political, and societal interests (e.g., anti-immigrant, culturally conservative, and Euroskeptic forces), reinforcing the unvirtuous circle of Russian influence. This geographic concentration of investments from Russia also coincides with Italian political figures from those regions opposing sanctions.⁵⁸ These places and figures have developed cultural ties with Russia, creating full-spectrum connections: Lombardy hosts the Lombardy-Russia Cultural Association, an organization founded by League-affiliated individuals that takes a strongly pro-Kremlin line. It is headed by Gianluca Savoini, a close advisor to the current Italian Deputy Prime Minister and Interior Minister Matteo Salvini and someone who sees Russia as a “fundamental geopolitical, military, as well as economic ally.”⁵⁹ The Association’s honorary president is Aleksey Komov, better known for his role as Russian representative of the World Congress of Families—an ultra-conservative organization defending “Christian values” against the social and moral decadence of the West.⁶⁰

Undoubtedly, there has always been strong political support of Italian-Russian relations under previous Italian prime ministers, who viewed Russia as an important economic partner and a partner in foreign policy that shared similar security concerns in Italy’s neighborhood (e.g., instability in North Africa and the Middle East).⁶¹ However, it

57 CSD calculations based on commercial corporate databases.

58 In 2016, the local parliaments of Veneto, Lombardy, and Liguria passed resolutions opposing sanctions against Russia. Veneto called the annexation of Crimea an act of self-determination. See “Sanzioni alla Russia: Assessore Marcato, Danni per Miliardi di Euro, “Il Veneto Mette in Campo la Diplomazia Regionale – Ecco le Proposte del Comitato Tecnico”,” Regione del Veneto, June 30, 2017, https://www.regione.veneto.it/web/guest/comunicati-stampa/dettaglio-comunicati?_spp_detailId=3125316. See also: “Russia, Maroni: intensificare rapporti e stop sanzioni,” Regione Lombardia, February 16, 2017, <http://www.regione.lombardia.it/wps/portal/istituzionale/HP/lombardia-notizie/DettaglioNews/2017/02-febbraio/13-19/russia-maroni-intensificare-rapporti-e-stop-sanzioni>. See also: ANSA, “Regione Liguria, stop sanzioni a Russia,” June 29, 2016, http://www.ansa.it/liguria/notizie/consiglioregionale/2016/06/30/regione-liguria-stop-sanzioni-a-russia_0cc62556-34bb-41ed-bb6b-346f685168aa.html.

59 Savoini also reportedly has ties to paramilitary groups that have sent people to fight in occupied areas of Ukraine. Alina Polyakova et al., *The Kremlin’s Trojan Horses 2*, (Washington, D.C.: Atlantic Council, 2017): 14. See also: Alberto Nardelli and Olga Tokariuk, “Here’s A Totally Incredible Story About Pro-Russian Mercenaries And A Close Aide To Italy’s De Facto Leader,” BuzzFeed News, September 13, 2018, <https://www.buzzfeednews.com/article/albertonardelli/matteo-salvini-russia-gianluca-savoini>.

60 Komov participated in the League’s party congress in 2013, during which Salvini was elected party leader. The Southern Poverty Law Center has designated the World Congress of Families as a hate group. WCF has also served as a way to connect right-wing, conservative forces across Europe and leverage them for Russia’s geopolitical goals. See “World Congress of Families,” Southern Poverty Law Center, <https://www.splcenter.org/fighting-hate/extremist-files/group/world-congress-families>.

61 As recently as May 2017, then-prime minister Paolo Gentiloni visited Sochi for a meeting with Vladimir Putin during which they discussed economic difficulties for both countries and how to improve the bilateral relationship. See Dario Cristiani, “Italy and Russia: Between Economic

is the rise of nativist and anti-establishment forces in recent years that has strengthened the country's alignment with Russia's geopolitical interests, as these forces have fed on and fueled citizens' rising frustration with "the system" that produces anemic economic growth and offers little optimism for positive change.

Some political parties and figures have participated in this shift more than others. Under the leadership of Matteo Salvini, the far-right League (formerly Northern League) has rapidly evolved from a regionalist party to a national force, which is now the most popular political party in Italy and a staunch ally of the Kremlin's. The party's northern Italian constituency includes Italy's main exporters, who partly drive opposition to EU sanctions against Russia to protect their economic ties. The League has gradually altered its position on NATO operations and is now more vocally opposed to the Alliance's efforts, including troop deployments to Eastern Europe. The party has denounced the placing of NATO forces as an act of war against Russia while pro-Russian outlets spread messages of fear of impending conflict and retaliation against Italy.⁶² Political contacts between the League and Russian officials have intensified since the illegal annexation of Crimea in 2014. In March 2014, League members even traveled to Crimea as election "observers" during the Russian-controlled "independence referendum." In 2015, the League was reportedly in discussions with the Kremlin-affiliated party United Russia, although the agreement was only signed in March 2017.⁶³

Ahead of the parliamentary elections in 2018, reports surfaced and the government acknowledged that there had been attempts by Russia to influence the public and the election. Italian officials warned that Russia was behind a sustained cyberattack on the Ministry of Foreign Affairs that lasted for several months in 2016, hacking into emails but not infiltrating encrypted communications.⁶⁴ In November 2017, misinformation efforts ahead of the election surfaced, principally targeted at the center-left incumbent Democratic Party (PD), with tampered images and videos slandering PD candidates. Fringe media outlets also spread nationalist and anti-immigrant messages online, including through Facebook pages.⁶⁵ The League and another anti-establishment party, the Five Star Movement (M5S), went on to form a governing coalition after the election.

Cooperation and Mediterranean Problems," *Eurasia Daily Monitor* 14, no. 78 (June 2017), <https://jamestown.org/program/italy-russia-economic-cooperation-mediterranean-problems/>.

62 Polyakova et al., *Trojan Horses*, 15.

63 Eugenio Fatigante, "Analisi. La rete fra la Lega e Putin dietro l'Italia giallo-verde," *L'Avvenire*, May 31, 2018, <https://www.avvenire.it/economia/pagine/la-rete-fra-la-lega-e-putin-dietro-litalia-gialloverde>.

64 Robert Hackwill, "Italy accuses Russia of huge hack of its foreign ministry outposts," Euronews, August 14, 2017, <http://www.euronews.com/2017/08/14/italy-accuses-russia-of-huge-hack-of-its-foreign-ministry-outposts>.

65 Ibid. See also: Alberto Nardelli and Craig Silverman, "One of the Biggest Alternative Media Networks In Italy Is Spreading Anti-Immigrant News and Misinformation on Facebook," BuzzFeed News, November 21, 2017, https://www.buzzfeed.com/albertonardelli/one-of-the-biggest-alternative-media-networks-in-italy-is?utm_term=.lrZe8GmNp#.hddb7AXRr.

The League's accession to and increasing grasp on power has placed a strong pro-Kremlin voice at the helm of a founding EU and NATO member, a host to important NATO bases, and the third-largest eurozone economy. The League-M5S coalition agreement of May 2018 lists the lifting of sanctions against Russia as an objective, notes the importance of Russia as an economic partner to Italy, and defends the need for Italy to work closely with Russia as a strategic partner to resolve crises in Syria, Libya, and Yemen.⁶⁶

The other coalition partner in the current government, M5S, published a foreign policy platform in 2017 that officially called for an end to EU sanctions and for removing funding for the European Union's strategic communications task force as it spread "anti-Russian propaganda."⁶⁷ This represented a significant shift in the party's views from 2014 when it criticized Russia's positions on social issues (e.g., LGBTQ rights) and its media crackdown. By mid-2015, it had adopted a much more pro-Kremlin and anti-NATO stance. In late 2015, a delegation of M5S members was reportedly set to visit Russia and Crimea, though it is unclear whether this plan ever materialized.⁶⁸ M5S-aligned outlets have since echoed and sourced Russian outlets and defended Kremlin views such as blaming the United States and the European Union for the instability in the Middle East and North Africa.⁶⁹ M5S has also encouraged increased intelligence cooperation between Italy and Russia on counterterrorism.

Italy continues to be fertile ground for Russian malign influence, as its openly pro-Kremlin government confronts economic stagnation, public discontent against the European Union, and anti-immigration sentiment. Yet despite the significant policy changes of both political parties and coalition government members in Moscow's favor, a year into its term the government's policy positions have been surprisingly less pro-Russian than previous governments. This may suggest that Italian civil servants and government authorities are seeking to counteract the pro-Russian attitudes of the ruling parties. Nevertheless, the country's economic, financial, geographic (including its strategic access to the Mediterranean), and energy centrality to Europe make Italy an especially attractive hub for Russian influence, compounded by its permissive governance and political environment. This influence could jeopardize European and transatlantic unity in the future.

66 Virginia Piccolillo, "M5S-Lega, ecco il contratto definitivo," *Corriere Della Serra*, May 18, 2018, https://www.corriere.it/politica/18_maggio_18/m5s-lega-ecco-contratto-definitivo-c85cd80a-5a7c-11e8-be88-f6b7fbf45ecc.shtml?refresh_ce-cp.

67 Polyakova et al., *Trojan Horses*, 18.

68 "Duma russa: Delegazione M5S si prepara a sbarcare in Crimea," *Askanews*, November 12, 2015, http://www.askanews.it/politica/2015/11/12/duma-russa-delegazione-m5s-si-prepara-a-sbarcare-in-crimea-pn_20151112_00341/.

69 Polyakova et al., *Trojan Horses*.