commentary

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IN FOR THE LONG HAUL: ITALY'S ENERGY INTERESTS IN NORTH AFRICA

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Geography makes Northern Africa a strategic region for Italy. Nowhere is this more evident than in energy relations, as large natural gas pipelines today run from Algeria (via Tunisia) and Libya over the Mediterranean seabed to reach Italy's southern shores. These pipelines are the outcome of negotiations that lasted years and, at the same time, a testament to long-term relationships, almost unbroken by political ups and downs. Love it or hate it, pipelines (and energy interests) seal the deal: they set a route, lock you in, and politics must follow.

Eni, the main Italian oil and gas company, has been a key player in Northern Africa for over sixty years now, and remains so today. In the blurred line that often separates foreign and energy policies, Eni has often been regarded as a spearhead for furthering Italian strategic interests in the region. At the same time, the company's strategy has in many ways fed back on Italian foreign policy, contributing to shaping it over the years. While some analysts have taken this as a sign of weakness from the Italian political class, energy politics in Northern Africa have arguably been one of the few fields where Italy's post-WWII foreign policy has been able to rival big powers', resulting in some of the country's most resounding diplomatic and commercial successes (and, at times, defeats).

In the 1950s Enrico Mattei, then Eni's President, embarked upon a strategy to challenge the "Seven Sisters", the Western oil companies that had dominated the global petroleum industry in the first decades after WWII. To do so he focused on Nasser's Egypt, pre-Gaddafi Libya, and Algeria – as well as Iran – setting out on a course of "good neighbourly" relations with the newly independent Northern African countries.

After Mattei's death in 1962, by the early 1970s a wave of nationalizations had taken the industry by storm. When in October 1970 Muammar Gaddafi, Libya's new leader, expelled the Italian community residing in the country, expectations pointed to a rapid nationalization of Libyan oil industry as well. Against all odds, instead, Agip, Eni's exploration and production company, managed to safeguard its role in the

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country, setting on a turbulent but long-lasting love story with an autocrat in need to consolidate his grip.

The Egyptian revolution, the Algerian War, and Gaddafi's coup d'état show that then, as today, political instability was rampant on the southern shores of the Mediterranean. Then, as today, the world was experiencing an oil glut – soon to be interrupted by two oil shocks (in 1973 and 1979). Today, as then, Eni is one of the main players in Northern Africa, while the region is vital for Eni itself. In 2015, around a quarter of Eni's total oil and gas production came from Northern African countries. It would have been much higher, were it not for the semi-anarchical state that has been gripping Libya over the last five years.

Given its role as a main energy supplier, Northern Africa today has become a crucial region for Italian energy security as well. While Italy's domestic oil and natural gas demand has been on a declining trend for over a decade now, the overwhelming share of hydrocarbons the country consumes (around 95%) is imported. At the same time, the Italian energy security strategy, like other countries', is predicated upon an implicit N-1 framework: the capacity to withstand the loss of a key supplier for a sufficiently long period of time.

Since 2011, making up for crude oil disruptions caused by Libya's instability has not been a problem**.** Ultimately, oil is a liquid commodity, and while it could be argued that the first years of the Libyan civil war contributed to a spike in import prices that compounded Italy's economic problems, this was due to the fact that disruptions affected the international oil price, not just import prices in Italy. In the end, the country compensated for less imports from Northern Africa with more imports from elsewhere – mainly Azerbaijan and Nigeria. Moreover, since mid-2014 the oil price crash has been unaffected by Libyan disruptions, and the current high-supply environment is set to last at least for a while longer, give or take 1 million barrels a day that have been taken off from actual production due to instability on the Mediterranean's southern shores.

On the contrary, natural gas supplies are trickier to rebalance, as they require fixed import infrastructure (LNG imports to Italy are still just a mere 10% of the overall total). As it happens, however, natural gas imports from North Africa to Italy have held up much better than crude oil in the face of socio-political instability and security threats.

The 2013 hostage crisis at the Algerian In Amenas gas plant curtailed the country's production by 10% for more than a year, but Italy's natural gas imports from Algeria were hardly affected. Imports from Algeria to Italy for the 2013-2014 winter season did indeed halve as compared to the previous winter; but this happened because Eni and Sonatrach (Algeria's state energy company) formally agreed to curtail exports in the face of lacklustre Italian natural gas demand, not because of disruptions due to security threats. The ultimate evidence of the commercial nature of changes in Algeria's natural gas exports to Italy came in early 2016, when natural gas imports from Algeria suddenly more than doubled. This appears to have been again the result of renegotiations between Eni and Sonatrach: following months of high-level meetings, Claudio Descalzi, Eni's CEO, visited the country last month, finalizing a commercial deal.

The In Amenas attack is however evidence of the potential spillover effects of instability elsewhere in the region. Attackers of In Amenas had trained in Libya and came from there.

The situation in Libya certainly remains challenging**,** as the newly-created government struggles to reunite the country and militias are still in control of large chunks of territory. Despite troubles there, however, over the last five years Eni has been able to ensure security and safety around its natural gas operations. And this so much so that imports from Libya to Italy have been flowing uninterrupted and at sufficiently high rates for over two years now, after protests forced brief closures in 2012 and early 2013. Reports reveal that, in order to safeguard its continuing role in the country while ensuring sufficiently stable security conditions, Eni attempts to strike a delicate balance between local militias. At the same time, the company can leverage its provision of natural gas for Libyan domestic consumption in times of oil shortages as a bargaining chip.

Today, however, the ultimate symbol of Italy's continuing love-hate relationship with Northern African countries is Egypt. Last February, just a few weeks after the opening of a huge diplomatic rift between Italy and Egypt over responsibility for the murder of Giulio Regeni, Eni got the go-ahead for developing the Zohr field off the Egyptian coasts. Zohr is the biggest natural gas find in the Mediterranean, twice as large as Israel's giant Leviathan field, and may be the answer to Egypt's pressing energy needs. While relations between Italy and Egypt may have soured in the short term, the Zohr find and the fact that Eni breezed through the authorization process for its development at such a time is further evidence that energy relations can drive politics.

Italy's energy security depends on Northern Africa. At the same time, countries in the region depend on Italy as a consumer, and on Italian companies as developers of their hydrocarbon resources. The two shores of the Mediterranean are as interconnected as ever, as energy flows and pipelines are here to stay. In the end, Italy and Northern Africa are in for the long haul.