1 Italy, Cold War Maverick

In 1964 trade with Italy had stagnated. Khrushchev's economic crises had dampened Soviet export capacity, and the later crisis in agriculture had deviated many purchases away from industrial goods in Europe and toward the purchase of grain, much of it in the Americas. In Italy this was felt as a blip in a relationship that had always been special to both Soviets and Italians (see Figure 1.1). More than any other relationship, this one embodied what the Soviets repeated ad nauseam about trade thriving on relations both parties found profitable. Italy had consistently served the Soviets to break Western European taboos about what could and could not be traded with the East. And Italy had consistently used the Soviet Union to undermine established monopolies – especially in energy – and to outflank more competitive companies elsewhere in Europe.[1] Italy, in other words, had made the most of the Bretton Woods segmentations of European economic life, and its government and business community had done surpassingly well in coordinating and administering economic relations with the Socialist Bloc.[2]

[1] Much of this is covered up to 1964 in Oscar Sanchez-Sibony, *Red Globalization.* The Political Economy *of the* Soviet *Cold War* from Stalin to Khrushchev (Cambridge: Cambridge University Press, 2014). Its success in international trade is further underscored by Italy's lack of competitiveness in its leading industries, especially the petrochemical industry that so successfully interfaced with the Soviet Union, as argued in Francesca Fauri, "The 'Economic Miracle' and Italy's Chemical Industry, 1950–1965: A Missed Opportunity," *Enterprise & Society* 1:2 (2000): 279–314.

[2] This is somewhat in contrast with the memoirs of Piero Savoretti, founder of Novasider and an important intermediary between Italian business and the Soviets. Savoretti represents the relation as having been built on the herculean work of Italian industrialists and despite the inertia and intermittent hostility of the Italian state. Soviet documents certainly attest to the efforts of industrialists in building those ties, but also give little support to Savoretti's representations, as they show Italian state officials to have been comparatively early and assiduous lobbyists of Italian industry working in tandem with Italian industrialists. Of course, it may be that they did not work assiduously enough to Savoretti's satisfaction. Savoretti's historical agency has been usefully presented in Valentina Fava, "Between Business Interests and Ideological Marketing: The USSR and the Cold War in Fiat Corporate Strategy, 1957–1972," *Journal of Cold War Studies* 20:4 (2018): 47–52. This does

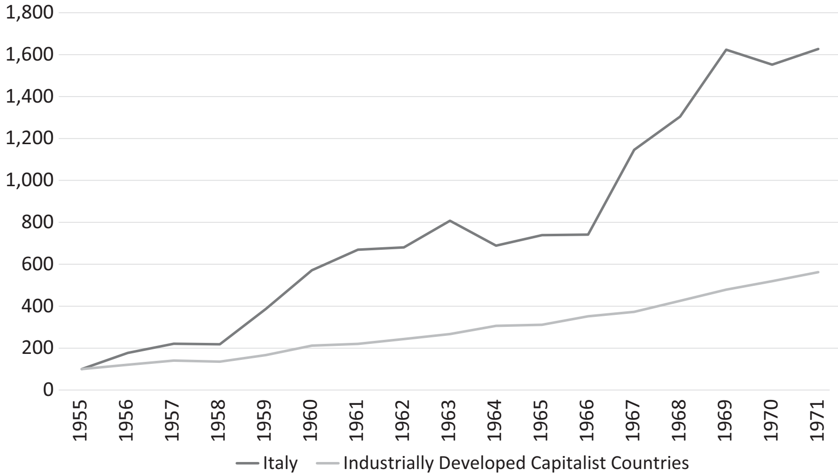

Figure 1.1 Trade growth (1955 = 100)[3]

The Italians had established a clearing payments mechanism for barter trade as early as 1948 and regularized annual trade with the Soviets through trade lists in 1952.[4] It is only a slight overestimation to say that the Soviets had learned to trade in the new Cold War world with the Italians – learned, that is, to circumvent the structural power of US dollar exclusion.[5] By the end of the 1950s, these forms of barter exchange with the Italians yielded another innovation: large-scale importation of Soviet oil through a pipes-for-oil deal. In an ominous turn, half of exports to Italy in 1962 were oil; much of the rest coal and timber.[6] This had the effect of putting the Italian state energy conglomerate – Ente Nazionale Idrocarburi (ENI) – on the

not exclude the occasional dragging of feet, as, for example, the Italian government's delay in October 1967 in insuring Fiat's contracts with the Soviets; see RGAE, f. 7590, op. 17, d. 262, l. 93. Savoretti's complaints do not seem proportional with these occasions and seem to take little account of the Italian state's efforts, concessions, and general coordinating role documented here.

[3] Constructed from the the *Vneshniaia torgovlia SSSR za … Statisticheskii obzor* series for each year published in Moscow by *Vneshtorgizdat*.

[4] Italy's special economic partnership predates the Cold War. It was the only rich country to have quoted in its foreign exchange markets the interwar-era Soviet currency, the chervonets; see Yurii Goland, "Currency Regulation in the NEP Period," *Europe-Asia Studies* 46:8 (1994): 1259; Michael Ellman, "Money, Prices, and Payments in Planned Economies," in Stefano Battilossi, Youssef Cassis, and Kazuhiko Yago, eds., *Handbook of the History of Money and Currency* (Singapore: Springer, 2020): 478.

[5] Mikhail Lipkin has also noted the singular place of Italy in Soviet foreign economic relations, in *Sovetskii Soiuz i integratsionnye protsessy* v. *Europe: seredina 1940-kh – Konets 1960-kh godov* [The Soviet Union and the Integration Processes in Europe: The Mid-1940s – the End of the 1960s] (Moscow: Ruskii fond sodeistviia obrazovaniiu i nauke, 2016).

[6] As per a January 1964 report on Soviet–Italian trade in RGAE, f. 413, op. 31, d. 284, l. 6.

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map internationally. ENI's head, Enrico Mattei, had long sought to bypass the transnational monopoly power of the Seven Sisters – the seven US and UK oil companies that controlled international pricing, production, and distribution.[7] ENI's insurgent temperament was well recognized at the time: India's Oil and Natural Gas Commission (ONGC), the country's state-owned energy company and site of some of its counterhegemonic projects for Indian self-sufficiency and sovereignty, was deliberately modeled after ENI in the 1950s.[8] The Oil Majors' loss of control would in time occasion the biggest crisis of the postwar era. Some of the first steps to the oil crisis of 1973 that rearranged energy and capital flows were taken by Mattei, hand in hand with the Soviets.

Although it is often said that the Soviets were driven to export only so they may import deficit goods, the relationship with Italy clearly showed the opposite. Breakthroughs in energy exports were driving imports of all sorts of Italian industrial goods. Especially expedient were the imports of machinery and equipment at a moment when Khrushchev was driving the "chemicalization" of the Soviet economy – meaning mainly the development of fertilizers and synthetic materials through new uses of hydrocarbons.[9] The Italian relationship, then, was in various important ways the formative arena within which the Soviets nurtured their eventual relationship to the rest of Western Europe. They leaned on their energy reserves, exchanging it for technology that aimed to resolve myriad social problems of Soviet economic life and aspirations, especially in food and consumer goods. And well before the United States became anxious in the 1960s and through the 1970s about Western Europe's dependency on Communist energy, Italy had become the first Western European country to allow the Soviets a significant weight in their energy balance, up to 14 percent by 1965.[10]

7 This is recounted in Sanchez-Sibony, *Red Globalization*, 184–188. The year 1962 was also the year Mattei died in a plane crash under mysterious circumstances.

8 Matthew Shutzer, "Oil, Money and Decolonization in South Asia," *Past & Present* 258 (2023): 212–245.

9 As Adam Hanieh has argued, while the petroleum energy regime at the production site, and as fuel, has lately been extensively revised and theorized in works such as Timothy Mitchell, *Carbon Democracy*. Political Power in the Age of Oil (New York: Verso, 2011), and Robert Vitalis, *Oilcraft. The Myths of Scarcity and Security That Haunts US Energy Policy* (Stanford: Stanford University Press, 2020), this other side energy regime has been much less studied; see Adam Hanieh, "Petrochemical Empire: The Geo-Politics of Fossil-Fuelled Production," *New Left Review* 130 (July/August 2021): 25–51.

10 RGAE, f. 413, op. 31, d. 284, l. 8. On American anxieties over a Soviet energy relation with Europe, the classic text is Bruce W. Jentleson, *Pipeline Politics. The Complex Political Economy of East–West Trade* (Ithaca: Cornell University Press, 1986). A more recent reiteration, written in an STS key, is Roberto Cantoni, "What's in a Pipe? NATO's Confrontation on the 1962 Large-Diameter Pipe Embargo," *Technology and Culture* 58:1 (2017): 67–96. A quick, orthodox overview is Elisabetta Bini, "A Challenge to Cold War Energy Politics? The US and Italy's Relations with the Soviet Union, 1958–1969," in

These pioneering interactions in energy between the two polities could not have happened without bold advances in Italy's financial offers to the Soviets. As early as 1957, the Italians had made the switch away from clearing exchanges and toward Lira-based exchanges one year before the Lira even became a fully convertible currency. The four-year trade agreement they negotiated at the same time, covering 1958–1961, aimed to double their bilateral trade turnover; it tripled instead.[11] The possibility of controlled imbalances in trade would become a frequent point of discussion throughout the 1960s, especially as the Italians accepted a perennial deficit through which they negotiated ever greater exports (see Figure 1.2).[12] Seen from their perspective, the more primary commodities they bought from the Soviets, the more they could demand to sell to them while maintaining a moral discourse involving trustworthiness, flexibility – because they accepted deficits that had to be covered with state-subsidized credit – and good will.[13] This, at least, was generally the tenor of diplomatic exchanges between each country's ministers of trade, which were very different from the small tensions and contention deficits often occasioned with ministers of other European countries, especially in the relatively stagnating years of the Soviet economic and grain crises at the end of Khrushchev's tenure. On February 1964, for example, Minister of Foreign Trade Nikolai Patolichev was surprised by the Italian request to know in advance what other European countries offer in order to anticipate what the state subsidies might have to be in Italy. This prompted a response of equal parts pride, ideological grandstanding, and hypocrisy from Patolichev: "We don't ask for preferential conditions of credit and want only that they correspond to world practices."[14]

And yet, the Italians were not above using the stick to promote exports to the Soviets, as per the pressure they poured that summer through the

Jeronim Perović, ed., *Cold War Energy. A Transnational History of Soviet Oil and Gas* (Cham: Palgrave Macmillan, 2017).

11 RGAE, f. 413, op. 31, d. 284, ll. 4–5.

12 Noted already in June 1964 in an information document for administrative use as a frequent topic of Italian "solicitude," in RGAE, f. 413, op. 31, d. 284, ll. 192–205.

13 On the readiness of the Italian state to support credit from private firms to the Soviet Union, see Italian Minister of International Commerce Bernardo Mattarella's meeting with his Soviet counterpart Patolichev on October 15, 1964, RGAE f. 413, op. 31, d. 82, ll. 91–93.

14 In talks between the two ministers of foreign trade, Patolichev and Matarella, on February 4, 1964, in RGAE, f. 413, op. 31, d. 284, ll. 25–29. Later that year, the head of the Soviet foreign trade bank (VTB) was asking for precisely that, noting that the Italian government should pick up the tab in covering an interest rate below the 7 percent of domestic Italian markets at the time, in RGAE, f. 7590, op. 17, d. 262, l. 75. The twin issues of trade balance and Italian financial largess were also the basis of the October state-to-state meetings that same year, summarized in RGAE, f. 413, op. 31, d. 82, l. 101.

Figure 1.2 Soviet trade with Italy (in millions of rubles)[15]

licensing system while angling for more sales to the Soviets. The Italian economic miracle had peaked in 1963, and as growth slowed over the next year, current account deficits began to threaten Italy's import plans. The state responded with its licensing system – the primary Bretton Woods tool of state control. To the exasperation of the Soviets, import licenses were denied to companies that had signed contracts with the Soviets, or they were told to make counter sales of their own equipment in order to get import licenses.[16] As the pressure on Italy's balance of payments eased toward the end of the summer, officials like Italy's trade representative in Moscow made the link explicit: "If the volume of Soviet–Italian commerce continued to grow, and mutual deliveries of goods were balanced, then many issues in relation to the tendering of import licenses to Italy for Soviet goods over and above the contingents provided by prevailing agreements would be much easier to resolve."[17]

The Italian business community nurtured the relationship as assiduously as its state, if at times a bit more disingenuously. In the midst of this blip in Italy's economic miracle in the summer of 1964, an important delegation of Italian businessmen, including fifty-five company bosses, visited Moscow.[18] They were met both by Kosygin and Patolichev, but it

[15] Constructed from the *Vneshniaia torgovlia SSSR za … Statisticheskii obzor* series for each year published in Moscow by *Vneshtorgizdat*.
[16] RGAE, f. 413, op. 31, d. 284, ll. 186–188.
[17] Ibid., l. 271, in a meeting between the Soviet trade representative in Italy and an official of Italy's Ministry of International Commerce from August 25, 1964.
[18] RGAE, f. 413, op. 31, d. 284, ll. 90–91.

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was at their more prosaic meeting with the heads of the Soviet foreign trade organizations that the Italian delegation's leader raised eyebrows when he "expressed confidence that the Soviet Union would defeat the US in peaceful economic competition. Italian industry is ready," he committed, "to help the Soviet Union in that competition."[19] This upon being told that Italian equipment was not competitive! It could be made so, the Soviets asserted, as long as Italy continued offering long-term financing.[20] Italian solicitousness paid off toward the end of the decade with a surge of exports of the large-diameter pipe that would soon knit Europe back together again. That technopolitical process owed much to the Italian state's willingness to coordinate the country's resources in order to prod at the political and economic boundaries of the Bretton Woods settlement.

It was predictably that embodiment of Italian political economy under Bretton Woods – the state-owned petrochemical conglomerate ENI – that simultaneously exemplified and propelled the relationship with the Soviet Union. It innovated for the West the five-year-long agreements that would govern Soviet/capitalist relations over the next two decades. It first signed a 1960–1965 barter agreement for twelve million tons of oil in exchange for pipe, equipment, and synthetic rubber. In 1963, it signed another five-year agreement covering 1965–1970 for twenty-five million tons of oil.[21] This last one was negotiated in parallel with state-to-state negotiations over a substantial expansion of trade as well as its extension covering the next Soviet five-year plan to the end of the 1960s.[22] Both were signed concurrently in November. Before machinery contracts, before negotiations over timber, oil rendered material a prospective relationship that both sides continued to underestimate.

This material flow, the physical substantiation of political decisions yet to cohere, also galvanized new and longer-term financial flows, credits to finance rather undetermined machinery exports to the Soviet Union to pay for the energy. They took longer to put together, though Italian bankers never seemed to doubt that they would be proffered.[23] The problem, a managing director from the Banco di Roma explained, was the economic crisis in Italy, which not only weakened the country's

[19] Ibid., l. 219. [20] Ibid., ll. 218–223.

[21] RGAE, f. 413, op. 31, d. 284, l. 196. In ibid., ll. 16–17, in a January 1964 meeting, in exchange ENI committed the Soviets to buying from ENI up to 60 percent of the value of ENI oil purchases from the Soviet Union. This is almost a nation-size balancing of payments unto its own.

[22] The negotiations took place from September to November 1963. See RGAE, f. 413, op. 31, d. 284, ll. 193–194.

[23] Ibid., ll. 279–280.

reserves but was also characterized by high inflation after a decade of economic growth as miraculous as the more celebrated ones in Germany and Japan. The Bank of Italy implemented financial repression measures to lower debt levels to foreign banks and to grow currency reserves. In other words, the large, long-term loan that had been the subject of so much speculation for over a year had to wait for liquidity to return to the Italian financial system.[24] As the situation turned in the last quarter of 1964, the Soviets began to ratchet up the pressure, announcing the preparation of large orders in Italy over the next five-year plan if only the Italians would create the right financial conditions.[25] The agreement finally came in February 1965, somewhat below initial expectations – just over half the amount initially discussed.[26] Nevertheless, it allowed the Italians not only to balance the suddenly growing imports of oil but also to create the surplus they had long sought, as the Soviets binged on Italian industrial products.[27] Their trade agreement for the latter half of the 1960s had expected an impressive 50 percent increase in trade turnover over five years.[28] It doubled instead.

These then were the sorties against the energetic and financial environments that had made Bretton Woods possible, and which the very stability of Bretton Woods itself would undermine. In June 1965, the final, prolonged assault would commence. That was the month in which the insurrectionary Italians made two proposals that would evolve into two of the largest transnational European projects of the 1960s, one likely the most famous East–West cooperative endeavor, the other certainly the

[24] Ibid. This meeting between the Soviet trade representative in Italy and a managing director of the Banco di Roma dates from September 1964. The Italian banker expected the situation to improve in a couple of months, when both sides might finally negotiate the loan.

[25] Ibid., ll. 287–288 and ll. 289–291, in talks by the Soviet trade representative in Italy in October 1964.

[26] Although given its success in prompting exports to the USSR, as early as 1966, the Italians were looking to increase it to the 100 million rubles originally discussed. See the Italian ambassador's unprompted suggestion in RGAE, f. 413, op. 31, d. 1129, ll. 1–3. The credit as the main stimulating factor is also the ambassador's assessment.

[27] They had hoped to reach this balance by 1965, but had in fact to wait three more years. See the talks between Matarella and Patolichev on October 15, 1964, in which Matarella leans on a moral discourse of trade, reminding his counterpart that Italy was not only the first Western country to buy oil from the Soviets but also the first to maintain a tendency toward greater trade. In RGAE, f. 413, op. 31, d. 284, ll. 294–296. In this routine exchange, both make clear their particular concerns of political economy. While Matarella pledges to be especially attentive to the financial needs of companies that export to the Soviet Union, since that stimulates Italian industry, Patolichev asserts that "although we can produce many goods ourselves, we are for a rational international division of labor."

[28] RGAE, f. 413, op. 31, d. 568, ll. 108–110.

most important. Fiat's president made his initial pitch for a factory in the Soviet Union on June 28, eleven days after ENI had made a rather more ambitious pitch: a gas pipe to puncture the iron curtain.[29] Both would require large outlays of credit, but the pipeline alone would anchor a pioneering practice in East–West relations. The proposal was new enough that the Soviets found themselves a bit confused. They had not done this before, they told ENI, and any pipe would have to go through Hungary, Austria, and Yugoslavia – countries that would demand some of the gas flowing through them. Who would pay for all this? ENI offered to lay the pipe, and the Soviets could pay it back in gas deliveries.[30]

★★★★★★★★★★

Perhaps no consumer product has defined and embodied the modern age like the car. Although the meat industry innovated the assembly line in the American Midwest, it was its use in car production that opened new potentialities in industrial imaginaries. The car reshaped rural and urban geographies and continuously defined and redefined sociocultural norms of work and leisure over the ensuing decades.[31] Perhaps it was the social weight with which it had been invested everywhere that produced the fascination that followed the deal between the Soviets and the most upwardly mobile of car manufacturers at the time, Fiat. The deal occasioned a flurry of diplomatic activity between the two countries in 1966, making the Italian Ambassador in Moscow, Federico Sensi, a regular visitor to the ministries of Soviet trade and economic management – proliferating business between the two countries, after all, meant proliferating complications for the ambassador to deal with.[32] A measure of that proliferation is the fact that by the time the cooperation ended, some 2,500 Italians had worked in Fiat's Tolyatti plant – mirrored by a similar number of Soviets who visited Italy for training and other work.[33] It was

29 These are to be found in RGAE, f. 413, op. 31, d. 595, ll. 53–56 and ll. 64–67, respectively.

30 Ibid.

31 An excellent case for its multilayered social impact in the socialist world is made in Lewis H. Siegelbaum, ed., *The Socialist Car. Automobility in the Eastern Bloc* (Ithaca: Cornell University Press, 2011).

32 RGAE, f. 413, op. 31, d. 1129, ll. 1–3 for any number of issues arising from counter purchases, delivery schedules, business representation in Moscow, etc., as discussed in a January 19, 1966, meeting Sensi had with Foreign Trade Deputy Minister I. F. Semichastnov.

33 Philip Hanson, *Trade and Technology in Soviet–Western Relations* (London: Macmillan Press, 1981): 109. Hanson helpfully contrasts this with a 1964 turnkey contract for a polyester fiber plant, which was large enough at about a third of the price of the deal with Fiat, but involved a fraction of the number of specialists moving across borders.

clear before negotiations even started that if the Fiat deal went through, both sides would have to think on forms of credit other than the ones that had been the norm until then.[34] These had generally involved comparatively small and at best medium-term bank-to-(Soviet) bank loans. The sheer volume of the Fiat deal necessarily involved a much bigger loan than had ever been contemplated. The semi-public Istituto Mobiliare Italiano (IMI) was tasked with sourcing the US$ 300 million credit at a low interest, which the bank managed by combining efforts with a private bank before bank consortia became standard financial practice. To address the inescapably global nature of the technological transfer to the East, IMI also committed itself to getting credit from banking systems in the countries selling the necessary technology. Insofar as much of the technology was American, the Soviets very much welcomed this indirect line of transfer of American technology that put the responsibility of acquisition – and its financing – on the Italians.

These financial innovations moved forward the largest single turnkey project to date for the Soviets. But the project proved to be the crowning achievement of a world that would soon move on. The deal took less than a year to come together, which would prove to be rather fast compared to the original energy deal ENI proposed that June. This was still longer than usual, but not by much, as the Fiat contract was not qualitatively different from any number of turnkey deals the Soviets had negotiated over the previous decade or so.[35] Industrialists had put together a one-time project requiring the erection of a particular financial scaffolding.[36] It is important that the financial scaffolding remained particular and did not become a model of future business practices. When finance emancipated itself in the 1970s, it did not do so through discreet transnational deals between

[34] As per Sensi's own statement in a meeting at the Ministry of Foreign Trade on February 12, 1966, in RGAE, f. 413, op. 31, d. 1129, ll. 16–18. Sensi was here passing along Fiat President Vittorio Valletta's own suggestion. To this end, Valletta further suggested that a Soviet delegation visiting Turin – then planned for February 1966 to make some preliminary assessments on possible cooperation with Fiat – should include representatives from Soviet financial organs, as conveyed by Sensi in a meeting with the deputy head of the State Committee for Science and Technology (GKNT), Dzhermen Gvishiani, on February 9, in RGAE, f. 413, op. 31, d. 1129, ll. 11–13.

[35] The deal was signed in May 1966. The social history of the resulting AvtoVAZ plant is in Lewis H. Siegelbaum, *Cars for Comrades. The Life of the Soviet Automobile* (Ithaca: Cornell University Press, 2008): 80–124.

[36] This is not to disagree with Valentina Fava's argument that Valletta had pursued a deal with the Soviets not because of its inherent profitability, which in fact proved elusive, but in order to become an important supplier of machinery not necessarily related to its automobile business. But it is to note that despite the commitment, these kinds of deals remained vulnerable to economic crisis and discontinuity that was radically different from the energy bond.

national banks, as with the deal with Fiat. It did so on the basis of a global reordering of energy – its flows, sources, materiality, and sociopolitical consequences. And part of the groundwork for it was laid by ENI.

ENI had gotten to Moscow only a week and a half before Fiat on that fateful June month of 1965. But the company had been building trust with the Soviets for seven years by then and through the kind of long-term, plannable exchange practices the Soviets had long desired from the West. The commodity exchanged – oil – helped the cause, as did the vast transformations then occurring in the energetic base of European prosperity as it changed from dirty and socially unruly coal to more socially manageable, and more calorific, petroleum. This historic change – which, Timothy Mitchell has convincingly argued, helped assemble neoliberal governance from the 1970s, and to the detriment of Europe's labor unions and worker interests – was in large part produced with the enthusiastic cooperation of the Soviet Union.

But it was first spearheaded in Europe by the United States and its Marshall Plan. It was the market position in energy the Marshall Plan built for US companies in Europe that ENI wanted to destabilize. This included the generous lending that Italy's private petrochemical companies had received from the Americans, amounting to as high as 6.1 percent of Marshall Plan funds.[37] Part of the purpose of the establishment of ENI as a public company was to forestall the monopolization of the industry by the biggest beneficiaries of this American largess, Montecatini and Anic.[38] And more specifically as it concerned the Soviets, ENI's representative in Moscow, Pasquale Landolfi, explained that what ENI wanted from its deal with the Soviets was to escape the necessity of extending yet another contract for gas to the American oil corporation Esso, with which they had recently signed a contract to bring 10 billion cubic meters (bcm) of gas from Libya per year. As the switch out of coal the Americans had initiated in the 1940s continued apace, ENI found it would need to add another 6 bcm of gas to the energy haul from abroad.[39] The decision, Landolfi urged the Soviets, would have to be made soon, as ENI "was already forced to buy 3 billion cubic meters of gas in Libya," and the contract would be for twenty years.[40]

The Soviets very quickly maximized the counterproposal, proposing that they may import gas pipe equipment deliveries large enough in order to prepare for the export of 20 bcm of gas a year to Italy. ENI balked, for two reasons. Italian industry, Landolfi said, could not produce that much

37 Fauri, "The 'Economic Miracle,'" 287. 38 Ibid., 289.
39 RGAE, f. 413, op. 31, d. 1129, ll. 24–27, in a meeting on February 21, 1966, at GKNT.
40 Ibid., ll. 28–30, in a meeting the next day at the Ministry of Foreign Trade.

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equipment. And, more importantly for the Italian government, the bigger the pipe project, the greater the repayment period would be.[41] They proposed instead to help build an export capacity of 10 bcm a year, six of which would go to Italy, and the remaining four could be sold in the countries through which the gas flowed. At this point, February 1966, the Italians were envisioning yet another modest push on the financial boundaries of the era. If they signed the deal in 1966, the Italians would take two years to deliver and lay the pipe and equipment. The cost would be repaid in gas over the next seven years.[42] The credit, in other words, would be for nine years, a mere half year longer than Fiat's special arrangement.

The Soviets were only certain about the kind of financial deal they wanted to extract from this new kind of gas-for-pipe contract. They were less certain about where the gas might come from and spent the next half year cooling ENI off a little and figuring out the feasibility of bringing the gas directly from their new monster fields in western Siberia.[43] By the time ENI Director General Raffaele Girotti visited Moscow in August, the Soviets were ready. Their strategy was to slow everything down, which meant lengthening the loan out. Deputy Foreign Trade Minister Nikolai Osipov, who would lead most energy-related negotiations with Western European countries, laid it out.[44] Italian equipment deliveries would begin only in 1967, and they would continue until 1970. The gas that would pay back these deliveries would only flow into Italy from 1971, when they would deliver 2 bcm of gas. The Soviets would add 1 bcm every year until reaching 6–7 bcm annually by 1975 – a rate that would ensure a longer repayment period. The contract, Osipov offered, could be for fifteen to twenty years; the prices would adjust themselves to world prices; the interest rate on the credit should not exceed 5 percent. In February, ENI had asked for a quicker resolution and a smaller, more financially manageable project. Half a year later, the Soviets had come back with a much larger project than the one the Italians had rejected in February.

The two partners were envisioning this quite differently. ENI had in mind an already enormous project that would strain its financial and productive capacity to the limit. It wanted to bring gas in from Ukraine – and through Hungary and Yugoslavia. The Soviets had altogether something else in mind: They would use this opportunity to get the Italians to fund the connection of the West Siberian gas fields to the gas pipe networks of

41 Ibid., 25–26. 42 Ibid., 29.
43 Ibid., ll. 87–88, as a deputy minister of foreign trade told Landolfi on May 20, 1966.
44 Ibid., ll. 115–118, in a meeting on August 4, 1966, to which the rest of the paragraph refers.

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European Russia and Eastern Europe.[45] This is in effect how they presented the deal to other participants like Czechoslovakia, to whose Gosplan they communicated that they "will build a gas pipeline from Tyumen to the western part of the Soviet Union (about 5,000 km) so that a certain amount of gas from the western fields could be released for export. At the same time, the Italians are to finance the construction of this pipeline by providing us with a loan."[46] Complementarily, they wanted to use the occasion to mark a new financial precedent they could use elsewhere as they continued creating a market for subsidized capital for themselves in the industrially advanced world.[47] Predictably, nothing with Italy was agreed on, except that the first round of negotiations should take place in September or October.

Coming into the negotiations in October with everything left to negotiate, the Italians anticipated Soviet financial requests they knew were coming by warning that their government's credit resources were already stretched by the Fiat deal. The main issue for them, they said, was price. The Soviet Union had a different concern; the "principal question" for them was making sure that gas would serve as "payment for all costs of pipe and equipment, which will be delivered on credit."[48] And more, they expected the interest rate on it to be lower than that of the Fiat deal.[49] The deal's main goal, in other words, was for a long-term credit arrangement to go with a long-term material bond with Western Europe.[50] And although price was a secondary concern, its task was also made clear from the beginning: The price "should be mutually beneficial, with which we can materialize a project for the delivery of gas from Tyumen."[51] From early on in the process, Italy ascertained that Austria and France would also be in on the deal in some capacity, which would have the added benefit of

[45] Ibid., ll. 117–118. Osipov insisted that there was no question of exports of gas from Ukraine without building a network of gas pipes in the northern fields, as "deliveries of gas from Ukraine are tied to the delivery of gas from Siberia to the center." Meanwhile, the Soviets told ENI that pipe outside of Soviet territory would have to be negotiated directly with the countries hosting the pipeline, though they were happy to help the process along.

[46] RGAE, f. 413, op. 31, d. 2294, l. 1.

[47] Ibid., l. 3. They had clearly decided on this in that 1966 hiatus, declaring to their Czechoslovak allies that autumn: "We mean to conclude an agreement for at least 15 to 20 years."

[48] RGAE, f. 413, op. 31, d. 1129, l. 143. This first protocol meeting of the first round of negotiations started October 11, 1966.

[49] Ibid., ll. 145–46. As they made clear the next day in the first financial working group meeting.

[50] As, for example, Patolichev kept insisting after the deal laid moribund a half year later, in RGAE, f. 413, op. 31, d. 1699, ll. 145–146.

[51] In the working group for pricing, in ll. 147–148. Starting negotiating positions were quite wide, with the Italians offering $8 per 1,000 cubic meters, and the Soviets offering that amount at $14, RGAE, f. 413, op. 31, d. 1129, ll. 150–151.

satisfying the Soviet Union's demand for the kind of large deal the Soviets had laid out earlier.[52]

As negotiations ground on, it became apparent that ENI would not deliver the kind of generous, long-term loan the Soviets were hoping for. Still Italy moved its price higher, and its credit repayment schedule forward, while France and Austria piled on; by the end of 1966, at the moment when the Italians had hoped the deal would be closing, Soviet horizons began to expand for the gas deal, from a bilateral deal in a typical Bretton Woods mold to a continental one. And with that, negotiations with Italy as the grand mediator withered on the vine. Italy had opened the door through which capital could now enter. This was a technopolitical effort necessitating the lifting of the pipe embargo in November 1966, a result Landolfi attributed to Italian efforts.[53] But the Soviets were happy to wait for the assembly of the kind of coalition that could offer capital on the kinds of terms and volume they had envisioned – and the technology to match. The Soviets were waiting for West Germany.

The Germans had made unofficial noises over joining the deal in November 1966, and the Soviets were ever less motivated to lower their demands in any of the parameters under discussion, whether in credit volume and length, gas price, pipe technological specifications, or pipe delivery schedules. Everything slowed down, to the frustration of the Italians. ENI and the Italian government still did not cherish the idea of financing the Soviet Union's domestic pipeline construction, and credits to the Soviets had flowed freely on deals with Fiat, the tire and rubber products manufacturer Pirelli, and the office machines producer Olivetti. The only thing that put them at ease, Foreign Trade Minister Giusto Tolloy confessed, was that "the Soviet Union is the most solvent country" – a quality he compared rather favorably with Argentina, where Italy had also much invested.[54]

The first mention in Soviet–Italian talks of German – really Bavarian – involvement, and the first the Soviets heard of it, was in early February 1967.[55] ENI's Landolfi reported that the Austrians were having financial difficulties and were now proposing to run the pipeline through Bavaria in Germany and Tyrol in Austria before reaching Italy. This new

[52] Ibid., l. 144. This would be for 7 bcm annually, four of which would go to Italy, two billion to France would and one billion to Austria.
[53] Ibid., l. 194.
[54] RGAE, f. 413, op. 31, d. 1699, ll. 191–193, in a meeting in March 1967 with the Soviet ambassador in Italy, to whom he brought the good news that the Kennedy round of GATT was likely to bring further liberalization to trade with the Soviet bloc.
[55] Ibid., ll. 216–219. In talks between Landolfi and Osipov on February 3.

proposal, Landolfi explained, would allow the Austrians to tap private Bavarian firms for finance, although it would also mean that perhaps up to 2.5 bcm of gas would have to stay in the region – a prospect the Italians presented as a negative development, although the Soviets would hardly have thought so. The Italians were against the proposal, and against German participation generally. The reason they gave was whimsical: They feared "German terrorists" around the regions where the pipe would be laid, they said. They wanted to delay German involvement altogether until after the ink dried on the 10 bcm gas deal to Italy.[56]

A further round of negotiations in June 1967, however, made it clear that the Italians would not get their quick resolution. And as the Bretton Woods structures concerning the gold value of the dollar began to be uncertain, the Soviets added a gold proviso to the list of points to be negotiated, to guard against the risk of US dollar devaluation. This was a rather new practice in long-term international agreements; currency uncertainty seemed a thing of generations past. Indeed the kind of twenty-year-long energy relation sealed in cement and steel that proliferated in the 1960s was new in itself; risks could be many over twenty years, and in 1967 the US dollar revealed itself as one of them.[57]

While talks continued through that summer, the Soviets went back to lobbying Italy to further liberalize its trade, which they complained to date had only opened about 300,000 rubles worth of exports for the Soviets.[58] State approval for each deal with the Soviets was slow and cumbersome, and the Soviets encouraged the Italians to deregulate trade flows.[59] In December the Soviets even suggested to do away with annual trading protocols if only the Italian state liberalized the import of Soviet goods, a suggestion the Italians rejected, arguing that any liberalization would be slow and in stages.[60] The Soviets found Italian assurances of their goodwill toward the import of Soviet goods empty, noting that Italy had asked the common market to implement additional import duties for socialist pork and sunflower oil.[61]

In May 1967, Alitalia inaugurated the first regular flight to Moscow.[62] Despite the delays on the gas deal, the fact was that the mid-decade stagnation in Soviet–Italian trade came to an end that year. It did so on the old standby: oil for industrial goods. The engine behind the

[56] Ibid., l. 218.
[57] Ibid., ll. 96–97. As per a memo of various conversations, this one on July 14, 1967.
[58] Ibid., 115–118.
[59] A point they made often, for example, to an Italian business delegation in May, RGAE, f. 413, op. 31, d. 1699, ll. 158–159, to Foreign Trade Minister Tolloy in July, ibid., l. 94, and to Fiat's Gianni Agnelli in October, ibid., l. 42.
[60] RGAE, f. 413, op. 31, d. 1699, l. 6. [61] Ibid. [62] Ibid., 158–159.

breakthrough was finance, again. A new level in the volume of Soviet oil exports, the prospect of a secure, infrastructural relation, and the large Fiat deal all contributed to the loosening of financial flows eastward – with a debt closing already on the $1 billion mark.[63] Oil broke the impasse; finance finally turned Italian trade deficits into trade surpluses at the end of the 1960s. And all the while the gas deal languished. Patolichev had been around long enough to know why: Italy and the Soviet Union had even recently had no problem arranging for immense deals like the Fiat factory and assorted oil deals with ENI; a pipeline connection was a very different kind of bond, however, and new to the Soviets.[64] They were not going to get this wrong.

[63] In ibid., l. 91 in talks in July and ibid., ll. 191–193 in talks in March, more than 500 billion lira – more than $800 million US dollars – was the number Trade Minister Tolloy bandied about Moscow.

[64] Ibid., ll. 4–6, in conversation with the Italian ambassador to Moscow, December 16, 1967.