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Master's dissertation

“Sanctioned Russian-Italian Relations: Shift from Trade Reality
to Investment Opportunity?”

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Annotation of the Scientific Supervisor

Progress, prosperity, education – there is a number of common values that tends to be shared in the contemporary world. International relations are regulated by multilateral agreements and driven by economic interests of different states. But what ties up ideology and pragmatism in relations between the countries? What dimension seems to be consistent with the changing international environment?

Human relations, human bonds based on common culture experience and common history unite countries better than any official policies that fluctuate in time. Russian-Italian relations show stability and even structural improvement regardless politically-driven decisions to restrain some of bi-lateral trade and financial aspects.

Bright and talented young scientist Jessica Giorgi reveals these deep-rooted ties between Italy and Russia in her research “Sanctioned Russian-Italian relations: Shift from trade reality to investment opportunity?”

This research starts with the retrospective analysis of the phenomenon of sanctions in the history of international economic relations. The author justifiably argues that “in a world in which nuclear proliferation has made a global conventional war unthinkable, sanctions and economic sabotage will play a key role in the 21st century geopolitics. One can only hope that today's wisdom will prevail and that economic sanctions will lead to the negotiating table, rather than confrontation” [p.8].

Then in the Chapter I the nature of current sanctions between Russia and Italy (as the EU member) is studied. The author thoroughly analyses the Ukrainian Crisis and the followed EU response to the decision of the Crimea’s people to re-join the Russian Federation based on direct plebiscite voting. Ms Giorgi managed to create two interconnected lines of study – translation of political events into economic implications.

Chapter II is the core part of the research charged with and based on extensive use of statistical data. The author indicates that the collapse of the Italian export to Russia concerns all the products and sectors affected by the embargo from the 6th of August 2014: fruits, vegetables, meat and fish from European countries,. In the agro-food sector, the estimated damage is around 35-40 million euro. But the analysis show that starting from 2016, investors returned to Russia. The country’s FDI’s have grown on 61%, performing in the 8th position among European countries and this is the best results that the state has achieved since 2005. Italy is in the top three European FDI countries for Russia , implementing 12 projects and creating 777 jobs [pp. 55-56].

That’s where the author makes the major observation of the dissertation: under the pressure of sanctions historical cooperative ties between Russia and Italy are shifting from “Made in Italy” to “Made with Italy” format, revealing therefore strong

fundamental basis of these bilateral relations. It includes without limitation the localization of production in the Special Economic Zones and creation of Italian-Russian joint-venture seeking the complementarity of Italian know-how and Russian opportunities.

The cases of new cooperative ties are studied in Chapter III. It shows that official Moscow is paying more attention to the new model of industrial cooperation due to the fact that Russia wants to reduce dependence on foreign sources, and be less vulnerable to the sanctions regime. However, the effort to develop the domestic production does not exclude a fundamental role for foreigners, invited to contribute to the development of the country.

The author concludes the research stating that even if the economic crisis affects bilateral trade relations, Russian and Italian investors have merely found different models of cooperation, investments based by the exploitation of all the advantages that the Russian market offers and the success that the Italian products have always had in this country.

There are some arguable theses in the dissertation, such as Russian “fear of potential NATO expansion with the Ukraine’s annexation” which is “one of the keynotes which brought Moscow to intervene in the Ukrainian crisis and to prevent the loss of a former vassal including this country in the big project of an economic cooperation” [pp. 13-14]. Another statement indicating that there was an “annexation of Crimea by Russia, on the 16th of March 2014” [p. 18]. These considerations are rather political or formal and do not diminish substantive meaning and overall positive perception of the present dissertation.

The research is referring to wide and solid information, empirical and methodological basis. Ms. Giorgi has been acting as responsible and professional researcher.

Hereby I assume that Ms Giorgi deserves the title of Master of Science in the field of Public Administration and her Master Dissertation can be highly evaluated.

Scientific Supervisor:
Professor of Department of Public Administration and Law:
Sergey G. Kamolov

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Introduction

During the last years, economic sanctions have been defined as the modern international instrument adopted by governments to influence the commercial activity of a country. These restrictive measures aim at punishing and pressurizing a country which has violated international norms. Moreover, the widespread use of economic tools in the recent years is due to the more pacific alternative to the bloody wars occurred in the history. Nowadays, relations among countries are largely based on business and the imposition of economic sanctions has originated some obstacles in the development of trade and exchange.

The objective of my thesis “Sanctioned Russian-Italian relations: shift from trade reality to investment opportunity?”, is to analyse the impact of Western sanctions on Russia and vice versa countersanctions on trade relations between the European member states, however my research is mostly focused on Italian and Russian economic relations.

Since the beginning, the empirical research has been built up with the idea that it will be useful for potential investors who are willing to invest in Russia and to better understand whether the economic sanctions have plagued significantly international trade.

Thanks to the opportunity that lead me to have my internship at the Italian-Russian Chamber of Commerce in Moscow I was offered the chance to participate to many conferences and events which significantly enrich my thesis and give credit to my work. The research is based on the analysis of different kind of updated sources: official documents of the European Union, Russian and Italian governments, national research institutes investigations, official statistics of institutions of both countries, newspaper articles and think-tank reports.

The first chapter is focused on an historical overview of sanctions and the reasons behind the extensive use of them in the last two decades. After this brief introduction, further explanation is given about the many motivations which brought to the escalation of the conflict in Ukraine. The end of this prefatory part is dedicated to the outcome of the conflict between the West and the East in Ukraine: the ongoing imposition of sanctions and countersanction starting from 2014.

Following, in the second chapter the analysis becomes more specific, concerning the long-lasting economic, diplomatic and cultural relations between Italy and Russia. The insight on their partnership is relevant to the core of my research, to comprehend through statistics and official data the concrete impact of sanctions on Italian-Russian trade

relations. Last but not least, the new model of cooperation: the shift from “Made in Italy” to “Made with Italy”.

All in all, the last part is made up by the outcome of many recent conferences and meetings organized by the Italian institutions and companies in Moscow to present possible investment projects in the Russian Federation. Through the help of disparate cases, the last chapter reports the most attractive Russian regions and sectors for Italian investors, the Special Economic Zones regime and the localization as a new model of cooperation between Russian and Italian businessmen.

Chapter I

1.1 Historical Overview and Impact Assessment of Economic Sanctions

The genesis of economic sanctions dates back to the World War I, when the President of the United States Woodrow Wilson decided to choose sanctions as rather a diplomatic instrument to put an end to the horrors of that geopolitical conflict¹. Afterwards, this tool has been included in the two collective security systems settled at that time, namely the League of Nations between the two World Wars and the United Nations, established in 1945 after the World War II. It cannot be disputed that diplomatic, economic and financial sanctions are fast becoming a widespread policy instrument after the post-Cold War era but sanctions are not a new tool in the modern history, they simply became a common and essential practice for the foreign policy to ensure the collective security, for an integrated political and global understanding². Indeed, even the American Revolution “was in part revolt against British sanctions”³; they were essential in provoking the

¹ K. A. Elliott, G. C. Hufbauer and B. Oegg, *"Sanctions"*, The Concise Encyclopaedia of Economics, 2008, Library of Economics and Liberty.

Web: <http://www.econlib.org/library/Enc/Sanctions.html>

² Consiglio dell'Unione Europea, *Sanzioni: quando e in che modo l'UE adotta misure restrittive*, 4/11/2016; web: <http://www.consilium.europa.eu/it/policies/sanctions/>

³ R. Haass, 1998, *Economic sanctions and American diplomacy*, New York: Council on Foreign Relations.

war of 1812, in weakening the Confederacy and they also played a fundamental role in the Spanish-American War of 1898.

The 20th century has been defined by some scholars the “Sanction Decade”⁴, due to the extensive application of sanctions to appease civil wars and national strife, starting from the Italian aggression to Abyssinia in the two-year period 1934-1936 to the recent crisis in Yugoslavia, Iraq and Haiti. The major powers, such as the United States, continue nowadays undisturbed to deploy unilateral economic sanctions as an instrument of geopolitical influence. Since 1990, “targeted sanctions” aimed at political leaders, drug lords, and terrorists and frequently have been used aiming at avoiding the humanitarian quarrel resulting from broad-brush sanctions⁵. After this brief historical overview on sanctions it is rather obvious that governmental bodies and international organisations have used them during the centuries to alter strategic decisions, to punish, to coerce same entities, which have violated international norms of behaviour.

Indeed, at this point we can interpret economic sanctions “as the withdrawal of customary trade and financial relations for foreign and security policy purposes. They may be comprehensive, prohibiting

⁴ S. H. Allen, D. J. Lektzian, 2013, *Economic sanctions: A blunt instrument?* *Journal of Peace Research*, 121-135

⁵ See note 1

commercial activities with regard to an entire country, like the longstanding U.S. embargo of Cuba, or they may be targeted, blocking transactions of and with particular businesses, groups, or individuals”⁶.

After the terroristic attack at the Twin Towers on the 11th of September 2011, the concept of economic sanctions has shifted towards the idea that they can be used as a mean to protect and minimize the pain of harmless civilians. This catastrophe shocked the whole global community and together changed also the sanctions policy regime: the United States government decided to disrupt all the financial system that was supporting the terrorists and criminal authors of the disaster. The plan provided the freezing of financial assets of all the entities suspected to support the terrorists and gave birth to the phenomenon of the prosecution of banks for the following years with more than fifteen cases of banks in which the US government intervened with sanctions. “This new approach worked by focusing squarely on the behaviour of financial institutions rather than on the classic sanctions framework of the past,” wrote Juan Zarate, a top Bush administration official involved in counterterrorism efforts, in his book *Treasury’s War* (2013). “In this new approach, the policy decisions of government are not nearly as

⁶ J. Masters, *What Are Economic Sanctions?*, in CFR Backgrounders; web: <http://www.cfr.org/sanctions/economic-sanctions/p36259>

persuasive as the risk-based compliance calculus of financial institutions”⁷.

When implementing sanctions there are many specific features that foreign policymakers should take into account and it is still debated among scholars whether in the past years this international instrument has been successful in the resolution of critical disputes. Firstly, the economic measures are strictly linked to a precise event, this means that cannot for sure be applied to another case; this particularity is represented by the glaring example of United States behaviour in Afghanistan, when they achieved modest results by exacted heavy tool but they failed in achieving the huge political goal, namely to move the Taliban regime to surrender Osama Bin Laden. Secondly, sanctions should evolve according to the situations’ progressions, due to the fact that most of the time the objectives could change during the flow of the events, that is why it is very important to set always attainable goals and if states and international organizations want to achieve them, they have to create more flexible tools.

In the last two decades, more than twenty countries have been imposed to economic sanctions regime and the EU has made increasing use of “restrictive measure” for the need to accomplish the goals of its

⁷ See note 6

Common Foreign and Security Policy (CFSP). The European sanction's policy has evolved over time to respond to the different global crisis. Nowadays, the sanctions tend to be embedded in a broader policy plan and instruments. The European Union is well known internationally because of the widespread use of sanctions, for instance in Iran, Syria and recently in Russia where the international security was threatened by the political and social situation of turmoil. Lacking of effective military capabilities, and being one of the most important global trade partner and investor, sanctions are widely adopted by EU as a coercive form of diplomacy forasmuch as they can globally affect the total volume of trade, exports and imports⁸. Since the EU lacks of a joint military force between the 28 Member States, at the moment economic sanctions represents the most powerful foreign policy tool. At this time, even if the imposition of sanctions remain a policy instrument in the hands of the Council, since that sanctions must be voted at the unanimity at the Council of the European Union, the States can decide whether to harsh the sanctions or create some collaborations to maintain the cooperation between the countries. A clear example of this situation is represented by the Italian efforts to maintain the long-lasting partnership with Russia

⁸ Institute of Security Studies, EU, Report n° 25-September 2015, *On target? EU sanctions as security policy tools*; web:http://www.iss.europa.eu/uploads/media/Report_25_EU_Sanctions.pdf

even when the European Union continues to inflict restrictive economic measures to its second trade partner.

A short answer to the debated efficacy of this tool is that economic sanctions have generally modest effects, although they can be a good means to demonstrate the moral will of the governments to condemn particular events threatening the international order. If their role in the 21st century politics is expected to grow, maybe it is worth asking if it has really worked in the past. The majority of the current cases of sanctions compare a big country to a small one, even though some others have as protagonists equal size countries. As Hufbauer and Schott have explained in their book *Economic Sanctions Reconsidered*, the effects of the sanctions are often disappointing to the point that many scholars believe that their main objective is to show the citizens that governments are "doing something". Of course, the severe sanctions against Cuba did not take back the order of the Castro regime; in fact, the final decision of President Barack Obama was to restore diplomatic relations between countries in 2015-2016 and officially apologise for such approach the US have been applying for many years in bilateral relation⁹.

⁹ M. Warren, December 19, 2014, *Obama Apologizes to Castro*, The weekly Standard; web:[http://www.weeklystandard.com/obama-apologizes-to%20castro/article/821908%20\(access%2026/03/17\)](http://www.weeklystandard.com/obama-apologizes-to%20castro/article/821908%20(access%2026/03/17))

Sometimes, however, the sanctions work. An outstanding example is the broad international consensus on sanctions against South Africa, which in the '80s caused the end of apartheid.

One of the main reasons why the economic sanctions have not achieved their expected goal in the past is that not all countries have followed all the 'rules' and specific features described above. Even the significant differences in terms of public opinion in the country that imposes sanctions often help to undermine its effectiveness. Moreover, countries that impose sanctions must be prepared to deal with their own vulnerabilities. Currently, North Korea is perhaps the most dangerous regime, and one can only hope that this unpredictable government will soon be changed. Kim's regime still firmly in power, despite being subject to severe economic sanctions, perhaps because China, fearing a united Korea on the border, is still not prepared to withdraw its support.

However, it is easy to forget that there are different points of view in international relations, even in the most extreme situations. Although the alleged attack by North Korea against Sony Pictures computers has been rightly condemned, it should be admitted that from the point of view of the North Korean elite, the country has just put in place an economic retaliation, more or less like everyone else.

In a world in which nuclear proliferation has made a global conventional war unthinkable, sanctions and economic sabotage will play a key role in the 21st century geopolitics. One can only hope that today's wisdom will prevail and that economic sanctions will lead to the negotiating table, rather than confrontation¹⁰.

1.2 The Ukrainian Crisis

A ticking-time bomb shook the whole Europe and the entire system of certainties related to leadership in the Eastern Europe, getting rid of the project to integrate Ukraine in the Eurasian Union. In 2008, while the President of the Russian Federation Vladimir Putin was leaving the presidency to Medvedev, the Ukrainian crisis is still far when Moscow decided to announce a Custom Union with Belorussia and Kazakhstan, the Eurasian Economic Union (EAEU)¹¹. The idea was based on an opportunity for the former Soviet countries to benefit of a single trade, workforce and finance area, which would have led them to a potential economic growth and modernization¹². This organization was meant as the new “Silk-Route” under the Russian guidance, where all the

¹⁰ K. Rogoff, 2014, *Economic sanctions have a long and chequered history* in The Guardian; web: <https://www.theguardian.com/business/2015/jan/05/economic-sanctions-long-history-mixed-success>

¹¹ <http://www.eaeunion.org>

¹² M. De Bonis, O. Moscatelli, *Il gemello diverso : appunti per un ritratto di Vladimir Vladimirovic Putin*. In: Limes, *La Russia in guerra*, n° 12/2014

participants were supposed to do business and deal with the Eastern and Western front. Initially, Armenia has shown signals of uncertainty, but the president Serzh Sargsyan put the first sign and anyway his country was too dependent from Russia to renounce the union for long.

Kirghizstan promised to sign the agreement; what was rather obvious at that time was the exclusion of Ukraine from the EAEU. According to Russian plans, Kiev would have guarantee to the East, the European dimension of the future Economic Union, specifically building a bridge towards the European market. The former Ukrainian president Viktor Yanukovych, aware of the fact that without Ukraine the Russian project could have failed, initiated in 2012 the negotiations, shuttling from Moscow and Brussels, by making impartial promises and asking for loans.

The Ukrainian crisis began in the end of November 2013, when president Yanukovych decided to suspend the negotiations for the agreement that would have signified a clear rapprochement to the European Union, at the expenses of the neighbour Russian partner. This U-turn of Yanukovych towards a more tightened relations with Russia, arouses protests which escalated during months. The population was not ready to renounce the benefits that would have brought the Stabilisation and Association Agreement (SAp) that is to say the free trade area,

cooperation and political policies, regulation of immigration, terrorism and illegal activities¹³¹⁴. The rejection of the president to sign the association agreement with Europe gave rise to movements of oppositions in Independence Square in Kiev; these demonstrations against the political choices of president Yanukovych suddenly bloomed into full-fledged protests. The social and political crisis quickly became an international issue, in which a lot of Western countries were involved. Why this domestic conflict has proved a new confrontation between the West and the East? To avoid an escalation of the clash of trade and political relations with Moscow, the European agreement has been postponed for one year and simultaneously it could have brought catastrophic effects to Ukraine. In this situation, the Russian president Vladimir Putin has shown himself a tough partner for his tenancy to carry out the project of an economic union among the former Soviet states. His plan would have not failed and through a huge series of concessions, which cost more than \$3 billion to Belorussian president

¹³ *Stabilisation and Association Agreement between the European Communities and their Member States of the one part, and the Republic of Serbia, of the other part*; web:https://ec.europa.eu/neighbourhoodenlargement/sites/near/files/pdf/serbia/key_document/saa_en.pdf

¹⁴ European Commission, European Neighbourhood Policy and Enlargement Negotiations, Association Agreement: https://ec.europa.eu/neighbourhood-enlargement/policy/glossary/terms/association-agreement_en

Lukashenko and the Kazak president Nazarbaev, the 1st of January 2015 was created the Eurasian Economic Union¹⁵.

The epilogue of Yanukovych's orientation between the East and the West overwhelmed everyone and resulted in the tug-of-war between Russia, United States and Europe in Ukraine. This behaviour triggered civil protests into the streets of Ukraine. Citizens asked their government not to stop dealing with European Union and scrap plans with the West¹⁶. The period from November to February marked the most violent intensification of the conflict between the government forces and the democratic protestors in Kiev and other regions of the country, especially the one in the Eastern Ukraine. That time was characterised by buildings' occupation, the formation a parallel government and violent mass demonstrations. This state of chaos brought to more than hundred deaths¹⁷ and in the end of December 2013, the Ukrainian parliament approved a number of restrictive laws on manifestations. In February, president Yanukovych disappeared from Ukraine, denouncing a 'coup d'état' and was made an arrest warrant made for him. At this point, new parliament's elections were agreed to be held in May 2014; in the

¹⁵ V. TRET'JAKOV, *"Progetto Russia, che cosa vogliono Putin e Medvedev"*, in Limes, Progetto Russia, n° 3/2008, p.28

¹⁶ *Ucraina, come siamo arrivati a questo punto*, September 4, 2014, Il Post; web:www.ilpost.it/2014/09/04/crisi-guerra-ucraina/

¹⁷ C. Scheide, U. Schmid, *The EuroMaidan in Ukraine November 2013 till February 2014 in Governance and Culture in the Black Sea Region* n° 13/2014.

meanwhile Oleksandr Turchynov was appointed as interim president and the leader of the opposition Arsenij Yatsenyuk became prime minister.

By that time, the opposition protests spread beyond the central Independence Square in Kiev, where all started as a demonstration of few students. In the eastern regions of Ukraine mostly inhabited by ethnic Russians and in the Autonomous Republic of Crimea, where separatists dominated the population, mass manifestations and tumults were on the agenda¹⁸. For Moscow this represented the perfect justification to intervene in the Ukrainian crisis from March 2014, when Russia had official mandate of Russian Parliament to use military force outside the country. On March 16 2014, through referendum, Crimea decided to split from Ukraine and agreed on the annexation to Russia.

Over 95% of the voters in Crimea and in Sevastopol district supported “the reunification of Crimea with Russia with all the rights of a federal subject of the Russian Federation”¹⁹. The results of the referendum in Crimea, where the Russian-speaker population decided to

¹⁸ W. Wang, Impact of Western Sanctions on Russia in the Ukraine Crisis, in *Journal of Politics and Law*, vol. 8, No. 2, 2015, published by Canadian Center of Science and Education

¹⁹ Web: <http://crimea.gov.ru/en/>

¹⁴ M. R. Johnson, September 25, 2014, *Russian Nationalism and Eurasianism*; web: www.geopolitica.ru/en/article/russian-nationalism-and-eurasianism#.WKViZ-i5jxA

join Moscow was the outcome of the dissatisfaction of the uncontrolled corruption in Kiev and the state of economy in Ukraine²⁰.

The Russian comeback of Crimea through referendum on March 16, 2014 was based on the same reasons that pushed Moscow to intervene in the Ukrainian crisis but also the threat that “Kiev might evict Russia’s Black Sea Fleet from its long-standing base in Sevastopol”²¹. For a better understanding of Russian special interest in Ukraine has to be investigated throughout the history and the recent events.

This country has always had a considerable geopolitical and strategic position not only for Russia but also for the Western countries. The reasons behind this crucial importance laid on the fact that this territory represents for Russia the door to Mediterranean region and vice versa for the European countries; Ukraine represents a threat to the Western balance if it will decide to definitely join the Russian block.

The Russian fear of potential NATO expansion with the Ukraine’s annexation is one of the keynotes which brought Moscow to intervene in the Ukrainian crisis and to prevent the loss of a former vassal by

²⁰ A. Bebler, Crimea and the Russian-Ukrainian conflict in Security Policy Library 1-2015 p. 15, The Norwegian Atlantic Comitee
Web: http://www.atlanterhavskomiteen.no/files/dnak/Documents/Publikasjoner/2015/Spb_1-15.pdf

²¹ D. Treisman, 2016, *Why Putin Took Crimea*, The Guardian;
web: <https://www.foreignaffairs.com/articles/ukraine/2016-04-18/why-putin-took-crimea>

including this country in the big project of an economic cooperation (EAEU).

Moreover, Moscow supported the separatists of the pro-Russian regions of Donetsk, Lugansk and Kharkiv in the Eastern part of Ukraine, fighting against the new regime as part of a broader "Novorossiya Project"²². Conflicts broke out and in this unbearable situation; the government was accused of genocide against the Russian-speaking population. On July 17 2014, when the aircraft Malaysia Airlines MH17, flying on the Ukrainian space near the Russian borders was shot down, the tensions have worsened dramatically. This episode increased the rivalry between Russia and the 28 Member States, seriously threatening their future relations and cooperation. According to the United Nations, "the total death toll from mid-April 2014 to 1 December 2016 is 9,758, with another 22,779 people injured. These figures include Ukrainian armed forces, civilians and members of armed groups. Over 2,000 of those killed were civilians, with an additional 298 passengers killed as a result of the MH-17 plane crash. The number of civilians injured due to the conflict is estimated at between 6,000 and 7,000"²³.

²²R. Allison, 2014, *Russian 'deniable' intervention in Ukraine: how and why Russia broke the rules* in *International Affairs* 90:6, p. 1255-1297.

²³ United Nations Human Rights Report, December 8, 2016, *Civilians in Ukraine continue to suffer*; Web: <http://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?LangID=E&NewsID=20999>

On one hand, the undefined Russian position in these current events, that despite of the clear support of Moscow to the pro-Russian republics in the eastern part of Ukraine through humanitarian assistance, Moscow does not recognize the two republics of Lugansk and Donetsk. On the other hand the Western powers, which support Kiev's authority and blame Russia to stirring up the conflict²⁴.

How has the international community tried to find a lasting solution to pacification to the Ukrainian crisis? On September 5 2014, in the capital of Belarus, Minsk have been hosted "the consultations of the Trilateral Contact Group, consisting of the representative of Ukraine, Russia and the Organization for Security and Co-operation in Europe (OSCE), reached an understanding"²⁵ for the need to promptly cease the use of weapons, with the OSCE supervision also in the Ukrainian-Russian borders, the release all hostages and unlawfully detained persons, the promotion of national dialogue and the economic revival of the Donetsk region. This deal quickly collapsed and "came shortly after

²⁴ O. Egorov, 21 February 2017, *Cosa succede nell'Est Ucraina?*, RBTH; Web:http://it.rbth.com/mondo/2017/02/21/cosa-succede-nellest-dellucraina_707041

²⁵ Ministry of Foreign Affairs of Ukraine, 8 September 2014, *PROTOCOL on the results of consultations of the Trilateral Contact Group (Minsk, 05/09/2014)*; Web: <http://mfa.gov.ua/en/news-feeds/foreign-offices-news/27596-protocol-on-the-results-of-consultations-of-the-trilateral-contact-group-minsk-05092014>

loud booms of artillery were audible in the city of Mariupol, which Kiev's forces are defending against a possible rebel onslaught”²⁶.

By January 2015, full-scale fighting had broken out again and one month later, “on 12 February, after more than 16 hours of negotiations in Minsk, the leaders of Germany, France, Russia and Ukraine signed an agreement to end fighting in eastern Ukraine. The pro-Russian rebels in Eastern Ukraine also signed the 13 points deal, well known as Minsk II, which includes a ceasefire in eastern Ukraine, to begin on 15 February, followed by the withdrawal of heavy weapons”²⁷. However, few see any chance for the full implementation of Minsk II. Ukraine and the West insist on a full ceasefire before moving forward with the political elements of the deal. Russia, in turn, accuses Ukraine of failing in fulfilling and respecting its political promises. Domestically, the new elected Ukraine’s president, Petro Poroshenko, faced firm resistance to an agreement which grants Moscow most of what it wanted, offloading the responsibility to Kiev for the separatist territories while giving them enough autonomy to hinder Ukraine’s Western integration. Working group meetings continue in Minsk, but they remain extremely far from real progressions. Although the worst of the violence has reduced,

²⁶ *Ukraine ceasefire 'agreed for east of country' at Minsk peace talks*, 2014, The Guardian; web: <https://www.theguardian.com/world/2014/sep/05/ukraine-ceasefire-east-minsk-peace-talks>

²⁷ N.Bentzen and E. Anosovs, Briefing 12 February 2015, *Minsk peace agreement: still to be consolidated on the ground*, European Parliamentary Research Service; web: <http://www.europarl.europa.eu/EPRS/EPRS-Briefing-548991-Minsk-peace-summit-FINAL.pdf>

conflicts continue along the line of borders. Yet the status quo is not pacific and cannot be guaranteed that there will not be more war”²⁸. Nowadays, the real end of the conflict will depend not only on the European Union policy but on the substantial direction that the new elected president of United States Donald Trump will implement in Ukraine and in the relations with the Russian president Vladimir Putin.

There are many interpretations of Russian policy, first describing “Putin as imperialist”, by viewing Crimea only as part of a big project to gradually take back all the former territories of Soviet Union justifying the final objective to restore Russian global prestige by expanding country’s borders, and so preventing the Ukrainian approach to NATO. What Putin revealed in October 2015 in Sochi was that the operation of seizing the peninsula was not planned in advance, but was only the spontaneous reaction to a crisis, developed under a certain tension as a consequent worry of losing the naval base in Sevastopol²⁹.

In light of this situation, after more than three years of conflict, we can say that Russia has always had a solid strategy to follow with the objective of releasing from years of “uncertainty”. Russia is trying to benefit from this situation of European incertitude in Ukraine, sure that

²⁸ The economist, 14 September 2014, *What are the Minsk Agreements?*; Web:<http://www.economist.com/blogs/economist-explains/2016/09/economist-explains-7>

²⁹ D. Treisman, May/June 2016, *Why Putin took Crimea*, Foreign affairs; web: <http://www.foreignaffairs.com/articles/ukraine/2016-04-18/why-putin-took-crimea>

the West will not respond in any significant way to its moves because they are only waiting for the dissolution of the problem since that they did not developed a comprehensive strategy during the last years³⁰.

According to the Russian Minister of Foreign Affairs Sergey Lavrov, the Ukrainian crisis is not the representation of a randomness event, but rather the manifestation of the problem rose after the Cold War, above all the persistence of the West to frantically trespass the state burdens, despite the Russian commitments to establish an order based on security, through OSCE and the Council Russia-NATO. The Ukrainian arena is still only the mirror, in which the East and the West clashed³¹. From Moscow, the key point to reach a solution is the pacific dialogue between Kiev and the Donbas region and this is possible only if there is an authentic political will.

1.3 The EU Response: Sanctions against Russia and Vice Versa

The annexation of Crimea by Russia, on the 16th of March 2014, represents the trigger event, which brought United States, Europe, Australia, New Zealand, Canada and Japan to impose six rounds of sanctions against Russia. The Western retaliations have not astonished

³⁰ L. Coffey, June 13, 2016, *Putin Has Imperial (Not Soviet) Aspirations*, The daily signal; web: <http://dailysignal.com/2016/06/13/putin-has-imperial-not-soviet-aspirations/>

³¹ S. Lavrov, *'Il mondo visto dalla Russia'*, Limes, Il mondo di Putin 01/16.

the Kremlin; of course president Putin had already taken into consideration the possible consequences of the result of the Crimean referendum. Evidently, Vladimir Putin didn't want to let this territory escape because of the great opportunity he had to reconquer a significant piece of Russian neuralgic area from the cultural, economic, political and strategic point of view³². Despite the clear possibility for the Russian economy to suffer huge economic losses from this situation, the annexation of Crimea made sure the strengthening of the Russian establishment, cementing its determination to be the major power in the Eastern Europe and in the international sphere. What is clear is that Russia did not wait for a rapid response with the imposition of countersanctions.

Since the beginning of March 2014, “the European Union introduced and extended a range of diplomatic and economic sanctions against the Russian Federation in protest at Russian involvement in destabilising Ukraine and violation of Ukraine's territorial integrity”³³.

The leaders of the EU decided have laid-out a six-stage sanctions gradual and progressive process; the first was targeted primarily against

³² Fëdor Luk'janov, Promemoria per l'Occidente: la Russia è tornata. In Limes: L'Ucraina tra noi e Putin, n°4/2014

<http://www.limesonline.com/cartaceo/promemoria-per-loccidente-la-russia-e-tornata>

³³ Marcin Szczepański, October 2015, *Briefing: Economic Impact on the EU of sanctions over Ukraine conflict*, European Parliamentary Research Service; web:[http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS_BRI\(2015\)569020_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS_BRI(2015)569020_EN.pdf)

institutions and individuals through the suspension of the bilateral dialogue between the EU and Russia, the second step imposed a travel bans and assets freezes on a number of individuals and also restrictions on economic cooperation and finally, the third round of severe economic sanctions has to be seen as a result of the persistent escalation of the conflict in Ukraine³⁴³⁵. What was clear, after three years of sanctions, was that these rounds of first and initial restrictive measures did not produce substantial effects, that is the reason why on July and September 2014, the EU decided to impose other two rounds of sanctions that would have hit the energy, financial and defence sectors. The financial penalties applied in September 2014 included two ranges: first, for transactions made between August 1 and September 12, the time to debt maturity may not exceed 90 days, while for transactions entered into after September 12, the time to debt maturity may not exceed 30 days.

The restrictions have been applied to companies, banks and all subsidiaries of such enterprises based in the European Union. Moreover, they also targeted military sanctions, consisting of a total ban on arms exported before August 2014 to Russia. Secondly, the economic restrictive measures are also activated to Russian companies that may

³⁴ P. Ivan, March 21, 2014, *EU's sanctions against Russia-The need for clear goals*, Comments on the 20-21 March Council, European Policy Centre;

web: http://www.epc.eu/documents/uploads/pub_4285_eu_s_sanctions_against_russia.pdf

³⁵ Annex 1

neither buy dual-use technology nor technology for deep-sea oil recovery in the European Union. Further prohibitions apply to any technical assistance, support services or placement. In the case of dual-use technologies, a specific solution was introduced: in August, the export of such goods to Russia was banned, while in September, an additional list of Russian entities subject to the same restrictions (some being subject to repeat bans) was prepared. Simultaneously, exceptions were introduced for aeronautics and the space industry, and for the provision of related technical or financial assistance for non-military use and for non-military end-users, as well as to ensure the maintenance and safety of existing nuclear capability for civilian use within the EU³⁶.

From September 12, 2014, the Member States of the European Union reached an agreement on the new package of measures. It comprised a drag on loans to the first five Russian banks, Sberbank, VTB bank, Gazprombank, Vnesheconombank and Rosselkhozbank³⁷ and to the subscriptions of bonds issued by the six major groups in the defend and energy fields³⁸.

³⁶ J. Ćwiek-Karpowicz, S. Secrieru, Warsaw 2015, *Sanctions and Russia*, The Polish Institute of International Affairs; web: https://www.pism.pl/files/?id_plik=19045

³⁷ *Le sanzioni europee colpiscono le principali banche russe*, August 1, 2014, ANSA; web: http://www.ansa.it/europa/notizie/rubriche/economia/2014/08/01/le-sanzioni-europee-colpiscono-le-principali-banche-russe_df75685e-9ad1-411c-9943-e09e362c52c7.html

³⁸ *Ucraina, Usa con l'Ue: nuove sanzioni a Russia. Mosca: "Colpiremo settore auto"*, September 11, 2014, Il Fatto Quotidiano; web: <http://www.ilfattoquotidiano.it/2014/09/11/ucraina-accordo-per-nuove-sanzioni-contro-la-russia-saranno-operative-da-domani/1117691/>

There are many interpretations on what should be done to suspend the regime of sanctions: the first group of countries considers that, since their imposition was due to the violation of Ukraine's sovereignty, the withdrawal of Russian forces and the return of Crimea to Ukraine would be a necessary condition for the suspension of sanctions; on the other hand, the majority of the Member States believe that Crimea is already lost after the referendum and a third step of sanctions should be imposed to Russia only if it will intervene again on the ongoing conflict in Eastern Ukraine.

All these economic measures implemented by the Western countries, which could hardly fail to produce a Russian reaction that promptly took retaliatory measures. The spokesman of the Russian Ministry of Foreign Affairs declared that "*Russia will adopt all the necessary measures to cause comparable damages to those provoked to the Russian economy*"; moreover, the response to Western sanctions will include new restrictions to the sectors that in the last decades created strong partnerships and cooperation with the European Union, such as the automobile and the textile. Andrey Belousov, the Kremlin's financial advisor, announced at the Economic Forum in the Russian city of Samara, that they "*have a full series of non-agricultural products, where our, above all European, partners depend more on Russia, than*

*Russia on them” and “this concerns, for instance the import of automobiles, above all, used cars”*³⁹.

At first, Moscow decided to raise the price of natural gas in Ukraine to exert pressure on it and, at the same time reduced the gas exports to Poland, Slovenia and Romania. Afterwards, in August 2014, Russia imposed a one-year embargo on the import of agro-food products, meat, fish, cheese, fruit, vegetables and dairy products not only from the EU and the US, but also from Australia, Canada and Norway⁴⁰. The Russian president, Vladimir Putin has extended the food embargo against these countries till December 31, 2017, and the Agricultural Ministry has affirmed that even if the sanctions will be extended, the list of products will not change.

After these events, a lot of Russian companies found great opportunities to expand and improve their production in late May 2016, when he reiterated that *"this is excellent news for domestic agricultural producers. It allows us to plan investments in the industry and raise the quality and competitiveness of Russian food products"*⁴¹.

³⁹ J. Kanter and D. Herszenhorn, September 11, 2014, *U.S. and Europe Back New Economic Sanctions Against Russia*, The New York Times; web: <https://www.nytimes.com/2014/09/12/world/europe/eu-pushes-forward-with-tougher-sanctions-on-russia.html>

⁴⁰ Tatia Dolidze, No. 402/January 2015, *EU Sanctions Policy towards Russia: The Sanctioner-Sanctionee's Game of Thrones*, Ceps working document; web: <https://www.ceps.eu/system/files/WD%20402%20TD%20Sanctions.pdf>

⁴¹ June 29, 2016, *Russia extends food counter-sanctions until end of 2017*, RBTH; web: http://rbth.com/news/2016/06/29/russia-extends-food-counter-sanctions-until-end-of-2017_607435

Despite the objectives and the way that Russian government is trying to find out to enhance and renovate the Russian economy by finding benefits from this situation, Russia has always been highly dependent on the European market with 45% of its exports going to European countries and half of its budget coming from gas and oil sales to Europe. The economic sanctions brought to important impact on both economic systems, in Russia and in Europe, this is the reason why several Member States are now facing a dispute with the European Union, that is continuing to impose economic sanctions over Russia, even if this economic battle is leading to the worsening of the commercial and economic relations with one of their most important trading partner.

In the end of December 2015, the European Union discussed the renewal of sanctions against the Russian Federation but the confrontation revealed different and contrasting opinions on the question. Lithuanian position was clear that there was no need to procrastinate sanctions since Russia was still violating the Minsk agreement. The same opinion came from the Belgian Foreign Minister Didier Reynders who declared: *“if we don’t see real progress on the implementation of the Minsk agreement, then we need to go further”* and *“without that we need to prolong the*

sanctions”⁴². The Italian attitude was clearly up to delay the decision, the Foreign Minister Paolo Gentiloni said that, since Italy has strong economic partnerships with Russia, a transparent evaluation of the real violation of the ceasefire agreement should be conducted before arriving to a wrong and rushed decision.

In July 2016, having assessed the implementation of the Minsk agreements, fighting continued in Ukraine’s Eastern regions. The Organisation for Security and Cooperation in Europe (OSCE) has monitored the situation in Donetsk and Luhansk regions, reporting ongoing conflicts and several deaths. After the assessment of the situation, the Council of Europe prolonged of six months the sanctions until 31 January 2017, and in the end of 2016, after another meeting the Council decided by written procedure by unanimity to extend the sanctions against Russia until the end of July 2017⁴³. The decision to prolong the economic sanctions was a relevant watershed between the European Member States: for instance, Italy, Greece and Hungary have questioned the concrete need for extending sanctions against Russia. In the beginning of June, during the summit of business executives and

⁴² J. Kanter, *Italy Delays E.U’s Renewal of Sanctions against Russia*, December 14, 2015, The New York Times; web https://www.nytimes.com/2015/12/15/world/europe/italy-delays-eus-renewal-of-sanctions-against-russia.html?_r=0

⁴³ COMUNICATO STAMPA 794/16, December 19, 2016, *Russia: UE proroga le sanzioni economiche di sei mesi*, Consiglio dell’UE; web: http://www.consilium.europa.eu/press-releases-pdf/2016/12/47244652722_it.pdf

government officials at the St Petersburg economic forum, the Italian Prime Minister Matteo Renzi, speaking with Vladimir Putin firmly highlighted the need for cooperation and partnership that have characterized the Italian and Russian business relations since the last century. Matteo Renzi speech was based on real data and statistics that were undermining the strong economic and business relations between the two countries. In fact, European sanctions and the Russian retaliation, have weighed more than a little interchange between Italy and Russia. The 2014 coincided with the first real setback since the crisis of 2008-2009. Italian exports in fact fell by 11.6% to € 9.5 billion and Russian has lost 20% to 16 billion. It is not over: judging by the trend in the first months of 2015, the downward trend is widening. And in the first three months of the made in Italy, he showed a fall of 30 percent⁴⁴.

Nevertheless, expectations are growing that EU sanctions will be lifted in 2017 and the hope to “build a bridge” between Russia and Europe as affirmed by Jean-Claude Juncker, president of the European Commission. It is discussed in Brussels that possibly, the Brexit could

⁴⁴ June 17, 2015, *L'Europa estende per altri sei mesi le sanzioni alla Russia. E Mosca proroga l'embargo sull'alimentare*, Il Sole 24 ore; web:http://www.ilsole24ore.com/art/mondo/2015-06-17/l-europa-estende-altri-sei-mesi-sanzioni-russia-151908.shtml?uuid=ACu5cEC&refresh_ce=1

hasten their demise, as the UK has been one of the main supporters for sanctions⁴⁵.

Economic experts believe that the imposition of long-term economic sanctions against Russia imposed by Russia's major partners have only exacerbated the Russian structural problems and in the near future, can truly shake the Russian financial system and can also bring to a slowdown in modernization and scientific and technological progress.

Alongside with the economic sanctions, what is significantly affecting the Russian economic system is the sharp decline in oil prices that cost about 0.6 trillion dollars from 2014. In the first half of 2015 Russia faced an economic recession dropping by 3.6% it is facing a reduction on foreign direct investments and reduced opportunities for enterprises that want to make an investment there⁴⁶. As I have already underlined, Russia is highly dependent on the European market, with 45% of its exports going to the 28 Member States; furthermore, half of its budget comes from the gas and oil sales to Europe. On the other hand, the European Union dependence on Russian gas imports can be also undermined by sanctions.

⁴⁵ June 21, 2016, *EU to extend sanctions against Russia*, The Guardian;
web: <https://www.theguardian.com/world/2016/jun/21/eu-to-extend-sanctions-against-russia>

⁴⁶ О. Кувшинова, February 5, 2016, Экономика России лишилась 8,4% роста, Vedomosti;
web: <http://www.vedomosti.ru/economics/articles/2016/02/05/626922-ekonomika-lishilas>

To sum up, we may state that the measures taken by the Western countries and the Russian countersanction are leading to significant costs to both, Russia and European states. The year 2016, ended negative with a GDP at -0.5% a little better than the previous year (-0.6%)⁴⁷. Russian government and the major Russian trade partners, such as Italy, are waiting for the removal of sanctions in 2017. In the beginning of this year, Russian economy seemed to be in better shape than the beginning of the previous year when the price of an oil barrel was below than \$40. The first small sighting of the Russian economy since 2014, are visible only now.

Moreover, on the political and diplomatic level, the international sanctions brought to a stalemate for Russia that was in a critical moments in joining international organisations, for instance the Organisation for Economic Co-operation and Development (OECD) or in a significant moment where Russia was deepening and strengthening the relations with the West⁴⁸.

Europe represents Russia major economic and strategic partner but the growing tensions in global affairs are representing a test for this

⁴⁷ K. Rapoza, December 26. 2016, *Russia's Economy Goes Out With A 'Bang'*, Forbes;
web: <https://www.forbes.com/sites/kenrapoza/2016/12/26/russia-2016-economy-rosneft-putin/#3bc668e6dc73>

⁴⁸ Stanislav Secrieru, Warsaw November 2015, p. 7, *Russia under sanctions: assessing the Damage, Scrutinising Adaptation and Evasion*, The Polish institute of International Affairs, p. 7;
web: https://www.pism.pl/files/?id_plik=20910

partnership. Both countries have been suffering economic damages under sanctions. As underlined by Russian president Vladimir Putin ‘‘Russia is fully aware of the concerns of foreign businessmen who have invested hundreds of billions of dollars in Russia, have gained a perfect reputation and have been successfully worked but now have losses or have to yield their ground to rivals because of the politically motivated decisions of their governments.

The Russian idea is that it should be created an economic and humanitarian space from Lisbon to Vladivostok based on the security and partnership from the Atlantic Ocean to the Pacific. This point represents for Russia a due change in its strategy and partners; nowadays that a lot of European and American companies are not investing at all in the Russian territory, it should be evaluated new countries for example with China, India and Japan⁴⁹. From Lavrov’s interview, the rapprochement between Russia and China is only the result of the Russian multi-area policy in order to reach a broader collaboration with partner in all directions. With China, the strategic collaboration will bring the relationship between the two countries to be better than in the past. From 2010, they consolidated the trade collaborations, particularly in the high-tech sector: aeronautic, space, nuclear energy and arms

⁴⁹ S. Tyurin, E. Vladimirov, December 2014, *Russia and the world: the moment of the truth*, Russian Business Guide, Italian-Russian Chamber of Commerce

industry. Furthermore, they put more emphasis on investments and finance. Russia and China have reached an agreement in principle on the combination of the EU processes with the Chinese initiative “Economic Belt of the Silk Road”. To conclude, another fundamental common ground between the two countries is the respect for people and the respect of the right to choose for states their own path to development⁵⁰.

Due to the current state of affairs with the rising food prices due to Moscow’s retaliatory measure against EU imports, Russian society is prepared to accept sacrifices. The Western sanctions against Russian action in Ukraine, even if they have caused significant impact on Russia’s economy, from the Russian domestic point of view, they have only inspired strong nationalism and patriotism, that is to say that sanctions have risen the public support to Kremlin. As affirmed by Igor Yurgens, the President of the Russian think tank Institute for Contemporary Development, “*sanctions do not destabilize Russia’s regime; on the contrary, they help Putin mobilize nationalism among the political elites*”. Based on the opinion poll conducted in the beginning of 2015, by the independent Research Centre Levada, after Crimea incorporation and the conflicts in the east of Ukraine, 68% of Russians thought that their country is a superpower, playing an important role in

⁵⁰ S. Lavrov, *Il mondo di Putin*, Limes 01/2016

the international relations scenario⁵¹. Levada Centre's leading researcher Karina Pipyay, said that Russian citizens are proud of their country despite the events that are damaging Russian economy with inflation and other consequences for citizens. Despite the Russian economy is not living the more prosperous days, the political power in Moscow is not in discussion. To come of this crisis, the Russian government is trying to benefit from this situation by improving the qualified workforce and by pushing for an import substitution program.

Nowadays it is hard to comprehend the real consequences of these restrictive economic measures, but the overall impact on the European economy and Russian market has been rather limited, each country and sector has had its own impacts and has suffered different losses. However, what has been obvious is that the agro-food sector is the one that is experiencing huge losses the most from these events, especially the European exports to Russia⁵².

Trade between EU and Russia is ruled by a Partnership and Cooperation Agreement, signed in Cyprus in the end of 1997, renewed every year since 2007; only in March 2014, the European Council

⁵¹ V. Astapkovich, March 24, 2015, *Most Russians see their country as great power – poll*, RT Question more; web: <https://www.rt.com/politics/243481-russia-great-nation-poll-citizens/>

⁵² M. Szczepanski, Briefing October 2015, *Economic impact on the EU of sanctions over Ukraine conflict*, European Parliament Research Service; web: <https://epthinktank.eu/2015/10/19/economic-impact-on-the-eu-of-sanctions-over-ukraine-conflict/>

decided to suspend talks on a new agreement⁵³. This bilateral agreement between Russia and Europe was signed with all the conditions for a present and future economic cooperation, to stimulate an active political dialogue and “to create the necessary conditions for the future establishment of a free trade area between the Member States and Russia, covering substantially all trade in goods between them, as well as conditions for bringing about freedom of establishment of companies, of cross-border trade in services and of capital movements”⁵⁴. Certainly this agreement has been strongly supported because the situation was favourable to the increase of trade volume with the Russian partners but as a result of the events of the last three years, the imposition of sanctions, countersanctions and the recession in Russia, the total trade value declined (reduced) from €326 billion to €285 billion in 2014. “Trade between the two economies grew steadily until mid-2008, when the trend was reversed, mainly due to the economic crisis, which had negative impact on trade volumes. Growth returned in 2010, reaching the record levels in 2012. In 2014, the EU’s exports of goods to Russia fell by 13.5%”⁵⁵. Since the last six months of 2016, a recovery of the Russian economy has been recorded thanks to the production

⁵³ See note 50

⁵⁴<http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=201&back=203>

⁵⁵ See note 39

collaborations and investments that Moscow is maintaining with its most important trade partners, even if the desire of closer ties between the Member States with the Russian government is still clashing with the European interests and policies.

Chapter II

2.1 Insight on Italian-Russian Trade Relations

Italy and Russia have a rich, over five centuries history old underpinned by deep-rooted traditions and a successful track record of trade cooperation. As well as the strength of the longstanding diplomatic, cultural and business partnership has always been represented by the sense of mutual understanding and trust. Since the second half of the 18th century, Russian Empress Catherine II offered to Italians fishermen and farmers from Liguria, Sicily and Apulia, to settle on uninhabited Russian lands to export their expertise to the country and back in 1863 was signed the Russian-Italian Trade Treaty, the first document between the Russian Empire and the Kingdom of Italy. In the following century, late 19th century, early 20th, trade relations between the two countries grew to a noteworthy level, for instance when a group of Crimean farmers invited a farming community from southern Italy to cultivate citric fruit on the fertile lands of the peninsula, the climate of which reminded the conditions of the south of Italy. Furthermore, the first attempt to establish an institution to encourage and enhance a more intense and stable trade relation between Italy and Russia was in 1904, but in the end they reached an agreement only in 1964, when the Italian-Soviet Chamber of Commerce was founded. This institution was the very first

of the kind created by the Soviet Union jointly with Italy, which gave evidence of the good relationship preserved even in the Cold War era.

The major Italian companies, which signed the agreement for the creation of the IRCC (Italian-Russian Chamber of Commerce), were Edison, Pirelli, Fiat, Eni, Olivetti, Snia, Montecatini and nowadays, most of them are still important associates of this institution. The leading Soviet founders were Sojuzneftexport, Mashinoimport, Tekhmashimport, Vneshtorgbank and other relevant companies involved in the foreign trade.

A significant event in the relations between the Soviet Union and Italy took place in 1964, when the city of Stavropol'-na-Volge changed its name in Togliatti, in honor of the secretary of the Italian Communist Party Palmiro Togliatti. During the same year, the first contract of cooperation was signed by "The Lawyer" Gianni Agnelli, principal shareholders of the Italian company FIAT, with the Soviet government when they chose to settle a huge plant for the production of the "popular" cars to locate in the territory of this city. The Soviet Union and Italian Fiat concluded a collaboration agreement not only on conjoint development of an automobile design and car-making plant named Avtovaz (Volzhsky Avtomobilny Zavod), but also on the construction of a real city. Togliatti was destined to 400 thousand of inhabitants and the

new plant would have fabricated more than 600 thousand of vehicles per year. That was an ambitious joint challenge but still won: from Turin FIAT sent professional engineers in their thirties while the Soviet government sent the most excellent students from the Engineering University, the result of this prestigious project culminated in a city and car plant with the average age of twenty four years old.

The project, that at that time was defined "The Deal of the Century", consented to Italian and Russian to cross the Iron Curtain; for years employees went from Turin to Togliatti and vice versa to work and create a dense network, not only made of professional relationships but also strong friendships, all this in the midst of the Cold War. The entrance of the Soviet Union in the "Automotive Century" was an enthusiastic plan between Italy and Russia, which gave rise to the phenomenon of the individual car culture, affordable for almost everyone⁵⁶⁵⁷. The first outcome of this partnership was the achievement of the license to produce the '124 car', both in sedan and station wagon versions. The long-lasting connection between the Russian city of Togliatti and Italy has been again sealed in 1996, when the citizens were summoned to vote through referendum if to return to the old name of the

⁵⁶ http://www.russia-ic.com/business_law/Russian_companies/585/#.WL0wQaChqko

⁵⁷ Italian-Russian Chamber of Commerce, December 2014, *Italian-Russian Chamber of Commerce turns 50*, Russian Business Guide

city or to leave the name of Togliatti. The overwhelming majority, namely the 82% of the population decided to maintain the appellation of Togliatti, even if the participation was less than 50%⁵⁸. These data and facts reveal far beyond a durable industrial cooperation but also cultural and mentality bonds between the two countries.

The most recent development of cooperation between Togliatti and Italy is the park project to create a space for the urban development. The Togliatti Fund General Director explained that it is operating in the city since 1998 with the sponsorship of the local entrepreneurs to finance projects related to urban development. Since that time, it has financed more than three hundreds of projects for the value of 500 million rubles. One of the last projects promoted by Togliatti Fund, *Parco Italia* with the Monument of Palmiro Togliatti has been won by the Italian architect Andrea Scopelliti, who will bring to this area the connection between the Italian and Russian cultures, thanks to amphitheater, which will stage a huge variety of events. Moreover, according to many experts, the ‘cultural industry’ can really encourage the relaunch of the two

⁵⁸ La Repubblica, December, 3, 1996, *‘Togliatti non si cancella’*;
web:<http://ricerca.repubblica.it/repubblica/archivio/repubblica/1996/12/03/togliatti-non-si-cancella.html>

economies, which nowadays are dealing with new and further challenges⁵⁹.

Another important fact, which ties Italy with Russia is the technical-scientific collaboration agreement signed in 1967 between Olivetti and the Soviet Union⁶⁰. The company of Ivrea won a gigantic deal also in 1984, with a contract worth 100 million dollars for the great Leningrad plant. Here they would have produced the CPU (Control Power Unit), the "brain" of the numerical control machines⁶¹.

The long post-war history, which ties Russia with Italy is also particularly well-established in the energy sector; in fact, during 1960s, Italy started to import oil and gas from the Soviet Union, signing one of the first long-term gas supply contracts between a Western country and the USSR in 1969, when the Italian energy company ENI, partially state-owned, have established close contacts with the Russian Gazprom⁶².

According to the IRCC report, on the occasion of the celebrations of the 50th anniversary, this institution, along with other public bodies,

⁵⁹ Boris Albertovich Tzirulnikov-Direttore del Fondo Togliatti, Conferenza sulla *Presentazione delle Opportunità d'Investimento nella Regione di Samara e nella Municipalità di Togliatti* presso l'Ambasciata d'Italia a Mosca il giorno 16 Marzo 2017.

⁶⁰ Luca Di Trani, October 10, 2013, *Adriano Olivetti: un imprenditore che guardava al futuro*; web: https://it.sputniknews.com/italian.ruvr.ru/2013_10_18/Adriano-Olivetti-un-imprenditore-che-guardava-al-futuro/

⁶¹ Pierangelo Maurizio, August 24, 2009, *Tutti i traffici oscuri di Carlo De Benedetti: vendeva segreti all'URSS*, Il Giornale; web: <http://www.ilgiornale.it/news/tutti-i-traffici-oscuri-carlo-de-benedetti-vendeva-segreti.html>

⁶² M. Siddi, June 2016, *Privileged partners?*, The Finnish Institute of International Affairs, FIIA BRIEFING PAPER 197

such as the Italian Agency for the Promotion and Internationalization of Italian enterprises (ICE), have made a huge input in the improvement of bilateral trade and economic relations by assisting Italian and Russian companies to deal with commercial issues and bureaucracy, by supporting the stability of contacts, by providing necessary information and consultations and by arranging events which broaden and strengthen business and industrial partnerships⁶³. The Italian institutions, together with the Chamber of Commerce and Industry of the Russian Federation, always try to keep up with the times, overcome the challenges of the recent years and constantly develop modern and innovative opportunities to successfully cope with them.

As explained by the President of the Russian Chamber of Commerce and Industry, Sergey Nikolaevich Katyrin in 2014, the long history of diplomatic, cultural and economic collaboration with Italy and the Soviet Union before and with the Russian Federation after has always been characterized by stability and correspondence. This strong alliance has resulted in large-scale projects during the time, likely the one of Togliatti and in the creation of new industrial plants in the Russian territory in engineering, oil production, aircraft manufacturing, chemical and agricultural enterprises and other considerable sectors.

⁶³ R. Alessandrello, May 2014, *Cooperation longer than century*, Russian Business Guide, Italian-Russian Chamber of Commerce

Due to the historical and political events, the Soviet-Italian Chamber of Commerce was renamed the Italian-Russian Chamber of Commerce in March 1992 and two years after, the Treaty of Friendship and Cooperation recognized the IRCC as an “institution fostering the expansion of interstate trade and economic relations”. Despite the tough historical moment concerning the dissolution of the Soviet Union and the subsequent recent crises, such as the latest in Ukraine, the two countries have never stopped working together. Nowadays, Italian enterprises are engaged in the majority of sectors in the Russian market including oil refining, the production of auto parts, the chemical industry and construction⁶⁴.

Furthermore, tourism cooperation is growing between the two countries and the final objective is to boost the already significant tourist flows in both directions: “Russian tourism inflow to Italy is registering signs of revival, with significant developments in the ways of booking: 70% of Russian tourists coming to the country for holiday”⁶⁵. What should be remarked is that the tourism between the two countries has not diminished because of the political crisis of the recent years but only because of the ruble devaluation. Nowadays, that the currency situation

⁶⁴ Italian Chamber of Commerce, *Sergey Katyrin: Partnership tested by time* in Russian Business Guide, May 2014

⁶⁵ *70% of Russian tourists in Italy book their holiday online*, November 28, 2016, Tourism-review; web: <http://www.tourism-review.com/russian-tourists-rediscovering-italian-destinations-news5205>

is getting better, the Italian National Agency for Tourism Promotion (ENIT), is hastening the enhancement and the amelioration in this direction through an open dialogue between the two governments to easily release multi-year entry visa. The decrease of tourism from mid-2014, due to the uncertain socio-economic situation between Russia and the European Union brought to the decrease from 17.5 million of Russian tourists abroad per year to less than 12 million, with a collapse of the expense of 35%. Despite this critical condition, the ‘Russian tourist’ has remained one of the most important guests for our country; with 800 thousand of visitors, 6 million of overnights with an expense of around 850 million of euro.

Last March 14th, the *Mitt*, the Moscow International Travel and Tourism Exhibition, was inaugurated and the ENIT took actively part with different stands, hosting Calabria, Tuscany, Lazio, Piedmont, Apulia, Emilia Romagna and Marche regions. With this participation the Italian Agency for Tourism and Promotion is willing to promote different events, which will take place at the Italian Embassy in Moscow and also workshop on luxury tourism with various destinations in Italy⁶⁶.

Moreover, the Russian-Italian business Committee was founded consistent with the Treaty of Friendship and Cooperation in 1994 and it

⁶⁶ A. Lovelock, March 13, 2017, *Il 2017 sarà l'anno giusto per l'incoming della Russia?*; web: <http://www.lagenziadiviaggi.it/2017-sara-lanno-giusto-lincoming-dalla-russia/>

operates under the aegis of the Russian-Italian Council for Economic, Industrial, Monetary and Financial Cooperation. The Committee was created with the aim to assist in the solution of concrete problems and in the resolution of impediments related to business operations occurring in the territory of the two countries. The several sectors embraced by the Committee cover the energy, finance, bank, tourism and transport. Some of the most concrete and remarkable works carried out by the Committee are the facilitation of the visa issuing, work permits, expand the issue of transportation permits and simplify customs clearance procedures between businessmen of Russia and Italy. The traditional difficulties that rooted in the Russian businesses such as the security levels, bureaucracy and infrastructural costs seem that are not affecting the Italian companies that are operating in Russia, around 500 and representative offices of more than 40 major companies, among them Eni, Saipem, Finmeccanica and Bank Intesa are accredited to the Chamber of Commerce and Industry of Russia.

As previously mentioned, this is a cooperation with old roots. Since the Soviet Union, Bologna was well known as a symbol of production of consumer good, the Zhiguly car was the result of the combined work with the Italian company Fiat, and other well-known collaborations came from fashion and deluxe industries. During the last

two decades, Russians were introduced to the wonderful world of the Italian cuisine and nowadays, pizza, spaghetti, parmesan and mozzarella are part of Russian every day cuisine.

Thanks to the joint efforts of the main Italian representatives during these years, a lot of Italian entrepreneurs came to Russia, especially in Moscow to participate in exhibitions such as the biggest one in Sokolniki, which annually host a hundred of fairs primarily related to the packaging industry, publications and services for printing, mechanical engineering and exhibitions related to the wood industry.

It is very important to highlight that these relations and cooperation have specific and peculiar features that cannot be found with other countries: first, the Russian businesses benefited and continue to take advantage of the new technologies and expertise learnt by the Italian partners. Second, it is remarkable the persistence with which the Italian business community insisted in growing the relations with the Russian market in spite of the recent situation in Ukraine and the political events. This is manifested by an incessant exchange of delegations between Russia and Italy, with a high demand of various kind of conferences, seminars and roundtables and the arrangements of numerous events⁶⁷.

⁶⁷ Lev Kvyatkovsky, *Business Collaboration Reserves* in Russian Business Guide, Italian-Russian Chamber of Commerce, May 2014

The leader of Rossotrudnichestvo, Konstantin Kosachyov (Federal Agency for the Commonwealth of Independent States, Compatriots Living Abroad and International Humanitarian Cooperation) has explained their mission to promote the international trade and development. During the interview he also illustrated how sanctions modified Russian trade with third countries and how diplomatic, cultural and humanitarian channels remain crucial spheres to overcome the economic problems. As an example, the opening of the Russian Center of Science and Culture in Rome in 2011 was a meaningful event to link the two countries and cultures⁶⁸.

Back to the economic and trade sphere, a peculiar feature of this partnership is the huge amount of Italian direct investment towards Russia. Since 2013, Italian investments accounted for around 1 billion euro, including more than 730 million euro in direct investment; vice versa the Russian investments amount to 500 million euro, including 106 million euro in direct investment. Particularly significant are the partnership between Russian and Italian companies in the energy sector, primarily Eni and Enel or Finmeccanica for the technological market. Other relevant sectors of developing cooperation are related to car industries, production of household appliances and agribusiness. From

⁶⁸ Yegor Vladimirov, *Konstantin Kosachyov: Italy is a greatful cultural partner in Russian Business* Guide, Italian-Russian Chamber of Commerce, December 2014

the financial sectors successful partnership with Intesa Sanpaolo Group, UBI Banca, UniCredit Group. A great number of projects have been carried out by the joint Chamber of Commerce such as Simest and Merloni have helped opening a logistic hub, CJSC Dmitrov Industrial Park in the Moscow region, and Kerama Marazzi assisted in the launch of a construction material plant in Oryol.

The promotion of National Entrepreneurship Initiative is a national program aimed at fostering the climate in regions, drawing up proposals on better mechanism of investment projects based on public-private partnership, and taking part in the elaboration of initiatives towards better legislative regulations of investment activity on the territory of the Russian Federation on the federal and regional levels. A remarkable area of interest is the promotion of Italian investments in special economic zones and industrial parks, in which a lot of firms can find many benefits from their financial advantages⁶⁹.

No matter what winds may blow in international issues, political, business and cultural contacts between Russia and Italy have always been constant. Despite the cooling relations between the European Union and Russia, the relations with Italy remain special. However, developments in Ukraine made impossible the implementation of some

⁶⁹ D. Kurochkin, December 2014, *Russia-Italy: relations immune to varying conditions*, Russian Business Guide, Italian-Russian Chamber of Commerce

initiatives that had been planned between Russia and the European Union and many had been postponed indefinitely. The Russian Minister of Foreign Affairs Sergey Lavrov, affirmed that Italian and Russian has always had a strategic partnership and Russians feel good and very close towards Italian people, particularly to Italian entrepreneurs because *“Rome has opted for a measured and pragmatic approach, seeking to mitigate the negative consequences for our partnership potential after decades of progressive growth and development”*⁷⁰. As for Italy’s relations with the Russian Federation, they are, of course, a long way from the coziness that existed between Rome and Moscow under Conservative leader Silvio Berlusconi. However, the Renzi cabinet concurs that Russia remains a “strategic partner,” even if Renzi did not recognize the legitimacy of the Crimean referendum. The continuous dialogue is proved by the five meetings that Matteo Renzi and Vladimir Putin attended since October 2014. The Ukrainian crisis was not the reason for the cooling of our relations with the EU, but a symptom.

It is rather obvious that the last events affected also the relations between Russia and Italy; trade dropped for various reasons, including a sharp fall in hydrocarbon prices and the ruble exchange rate. Despite a decline in trade volume, as I have already explained, a lot of projects are

⁷⁰ I. Ponomarev, M. Drogoveyko, V. Pavlova, December 2015, *Sergey Lavrov: Solid traditions of cooperation*, Russian Business Guide, Italian-Russian Chamber of Commerce

developing between the two countries; for instance the upgrading of Pirelli Tyre Russia, ‘Rostec’ and Pirelli (Italy) joint venture, was established in November 2008 and will produce manufactures truck and passenger car winter tires for the Russian market. This represents only a symbolic example that witnesses the Italian successes in the Russian territory⁷¹⁷².

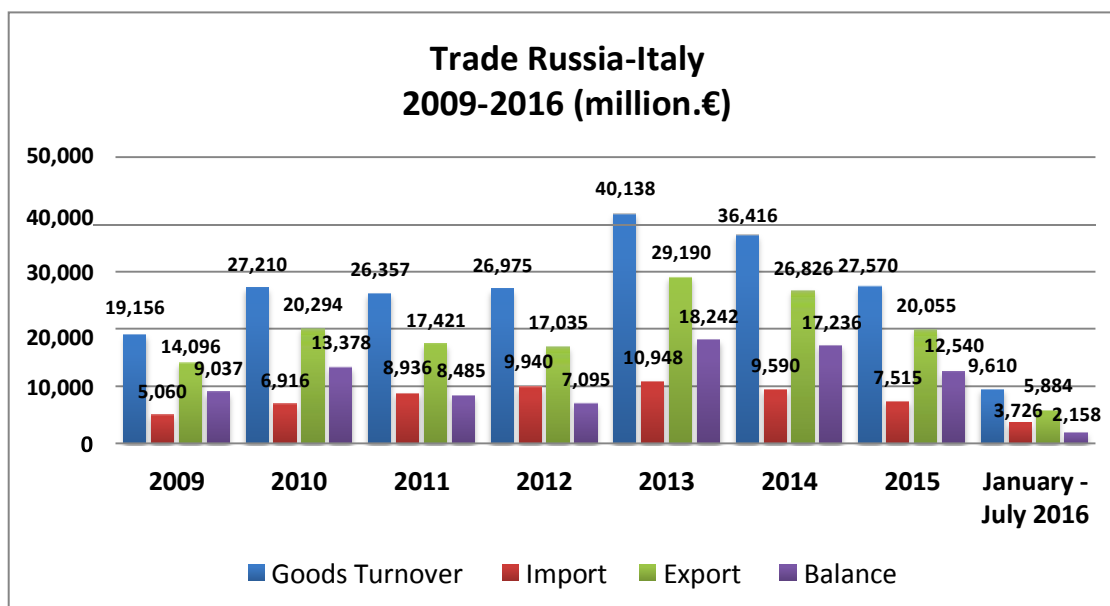
2.2 Comparative Analysis of the Sanctions Impact on Italian and Russian Cooperation

The Ukrainian crisis has been one of the most significant events of the recent years, which negatively affected the Italian-Russian trade. Italy is one of the most important and strategic partner for the Russian Federation and its market represents a great potential for Italy.

Especially after Russia’s economic recovery in the 2000s, bilateral trade experienced a renaissance, with over 500 Italian companies stably present and operating in Russia, 70 of which are related to the manufacture sector; large investments where carried out by ENI and Finmeccanica in the sectors of energy, defence and security.

⁷¹ Pirelli, Rostec; web: <http://rostec.ru/en/investors/partners/98>

⁷² MID.RU, *Russia-Italy: relationship of strategic scope* in Russian Business Guide, Italian-Russian Chamber of Commerce, May 2016



IRCC SOURCE

According to the Italian National Institute of Statistics (Istat) and Russian Federal Customs Service, in 2013, Italian exports to the Russian Federation have reached their all-time high, with 10.9 billion euros. It is moreover a high negative balance of trade, due to our imports from Russia (around 30 billion euros), mainly of hydrocarbons and raw materials. As affirmed by Professor Romano Prodi during a meeting with the Russian President Vladimir Putin, "*trade relations between Italy and Russia have never been so intense*". In fact, in 2013, despite the economic crisis, the amount of trade volumes between Russia and Italy, from January to September, grew over 24% compared to the same period of the previous year. Russian investments in Italy in the period 2009-2013, have quadrupled, touching share of 366 million euro, while the

tricolour investments increased to 730 million euros. The 2012-2013 ICE Report, noted that Italian-Russian trade had a volume of 28.3 billion euros, equal to 3.7% of the total Italian trade balance. During the first two quarters of 2013 it had already surpassed the 15 billion euros.

Antonio Fallico, President of Banca Intesa Russia and of the Association 'Conoscere Eurasia', in the course of the Eurasian Forum, which took place in October 2013 in Verona, stressed the need for the Italian industrial entrepreneurs involved in the Russian market to exploit all the possibilities coming from that country .

ITALIAN EXPORT TO RUSSIA



During 2013, Italy as exporter was second only to Germany among European Union Member States and we can also say that, before the introduction of sanctions, a steady growth in bilateral economic relations

was recorded between Russia and Italy at 8.5%. Essentially, Italian companies as always exported to the Russian Federation products related to fashion, such as clothes, footwear, knitwear and hosiery, jewellery, mechanical engineering, furniture and furnishing products, electrical appliances and metal products for industry and food.

Starting from 2014, Italy, as part of the European Union, suffered not only from sanctions on its own, but particularly from counter-forces, which for example, removed all the advantages that this country had in the agricultural sector and some of its directions very popular in Russia, such as table grapes (more than 50% grapes were imported from Apulia and Sicily), cherry tomatoes, parmesan and other kinds of cheeses. Russia's ban on imports of specific foods from countries that have imposed sanctions over the Ukraine crisis put at risk exports which were worth about 228 million euro in 2013, according to Coldiretti group, the Europe's largest rural professional organization for agricultural entrepreneurs. The ban does not affect alcohol, which should protect the wine and sparkling wine which made up 16% of Italy's agro-food and drink imports to Russia last year⁷³. Another sector, which was seriously harmed by countersanctions, was the textile and clothing sector. To date,

⁷³ August 9, 2014, *Italy counts cost of sanctions as Russia spurns pears, Grana Padano*, GMA News Online; web: <http://www.gmanetwork.com/news/story/374066/money/economy/italy-counts-cost-of-sanctions-as-russia-spurns-pears-grana-padano>

as a result of counter sanctions, Italy has lost about 12 billion euros and 200 thousand job employments⁷⁴.

On the other hand, if from the European states depart commodities, from Russia we mostly receive energy. The 30% of the gas consumed in Europe (and not only European Union) comes from Russia, and Italy, always after Germany, remains one of the main buyers.

ITALIAN IMPORT FROM RUSSIA



By now, in the energy sector, the link with Moscow remains indissoluble. At this time, the interdependence of Italy on Russia supply is around 15% of oil and 30% of gas supply. The Italian company ENI signed an agreement with the Russian Gazprom, in which Italy accepted

⁷⁴ Розарио Алессандрелло, January 15, 2017, *Италия — Россия: санкции вместо развития. Интервью с Розарио Алессандрелло*, EurAsia Daily;
web:<https://eadaily.com/ru/news/2017/01/15/italiya-rossiya-sankcii-vmesto-razvitiya-intervyu-s-rozario-alessandrello>

to buy Russian gas until 2035. In December 2012 the two countries started the construction of South Stream gas pipeline along 2,345 kilometres born of an agreement of 2007 between the Italian Ministry of Economic Development and the Russian Energy and carried out as a joint venture by the Russian Gazprom (50%) with Eni (20%), the French EDF (15%) and the German Wintershall (15%). This pipeline project would have shipped Russian gas not only in Italy, but also in the Balkans and Austria via the Black Sea. A joint work by the estimated cost of 12.2 billion euros, with the aim to put in direct connection European and Russian consumer's reserves. Despite all the good purposes to create the gas pipeline, which would have guaranteed the gas supply to the Southern European countries, on the eve of the inauguration of South Stream, the European Union, after the events in Ukraine has raised many obstacles to its creation. In the end, in the beginning of December 2014, the President of Gazprom Alexey Miller, along with the Russian President Vladimir Putin declared the cessation of the project with the arrest of its construction due to the EU's impediments, which had not permitted the creation of the gas pipeline *South Stream*⁷⁵.

⁷⁵ S. Bellomo, December 1, 2014, *South Stream, Putin mette la parola fine al progetto del gasdotto*, Il Sole 24 Ore; web: <http://www.ilsole24ore.com/art/notizie/2014-12-01/putin-russia-abbandona-progetto-gasdotto-south-stream--204015.shtml?uud=AB1gsVKC>



Proceeding over time, in line with *Istat* data, the Italian National Institute of Statistics, in the beginning of 2015 export has declined of 2.5% compared to data of December 2014 and by analysing different areas, trade with European Union countries and extra-EU countries, for the first group of country trade declined of 4.7% and 3.5% for the extra-EU countries⁷⁶.

In 2016, the Russian economy was marked by the shift from a situation of crisis, characterized in last year by a sharp drop of GDP (-3.6%) and high inflation rates (12.9%), to a condition of recover towards a stabilization. The ‘decline’ now seems to have halted; in fact the first data of April 2016, revealed a GDP decrease of 0.7%, significantly better than the expectations.

⁷⁶ <http://www.firstonline.info/News/2015/03/18/istat-commercio-export-e-import-4-2percento-su-anno/NWVIZjNkMzYtMDI5Yi00Y2M3LWFhMWYtNTU3MGM3M2U2NjY1XzlwMTUtMDMtMThfRk9M>

The recovery, albeit sluggish and not more than 1%, is expected for 2017. The medium-term outlook remains still uncertain due to the future oil prices and above all sanctions, which are having strong negative effects on the Russian productivity and on the capacity of investment⁷⁷.

MAIN SECTORS	TOTAL VALUE IMPORTED IN THE RF	% CHANGE 2015/2016
MACHINERIES	36.3%	-21.8%
SEMIFINISHED PRODUCTS	22.9%	8.1%
MODA AND ACCESSOIRES	13.0%	16.7%
AGRO-FOOD AND DRINKS	9.8%	8.5%
FURNITURE AND CONSTRUCTION	4.1%	-12.6%
TRANSPORTS	3.4%	14.0%
CHEMICAL AND PHARMACEUTICAL INDUSTRIES	3.3%	12.8%
BASE METALS	1.3%	6.0%

Russian Customs - Data Processing ICE- March 2017

As reported by the Italian Trade Agency (ITA) study, last year Italy positioned 6th both as a supplier and buyer after China in first position followed by Germany, United States, Belorussia and France.

⁷⁷ Infomercatiesteri, *Russia*, Ambasciata d'Italia a Mosca

In June 2016, *Istat*, in the report for extra-EU trade, pointed out that export presented a slight increase of 0.3%, instead of the import decrease of 0.5%. Trade surplus was largely higher (+ €3.462 million) with respect to data of the same month of the previous year (+€2.052 million)⁷⁸. The slight recovery of the Italian export towards Russia was registered only in the end of 2016 with an increase of 9.2%, but in accordance with the Russian Federal Customs data, the finale balance of trade between the two countries had still lost the 5.9%.

As showed in the table above, the Italian export variation to Russia in the last two years 2015-2016 led to the decline of the machinery sales, the main export in 2013, with an increase in the fashion and pharmaceutical products exported. An interesting fact, highlighting the special and continuous trade relations between Italy and Russia is the fact that, despite the countersanctions imposed by Moscow to the Western countries, the agro-food sector has gained an intensification of 6.5% with respect to 2015.

The collapse of the export Made in Italy to Russia concerns all the products and sectors affected by the embargo from the 6th of August 2014: fruits, vegetables, meat and fish from European countries, United States, Norway, Canada and Australia. In the agro-food sector, the

⁷⁸ <https://it.sputniknews.com/economia/201607223180127-commercio-istat-calo-russia/>

estimated damage is around 35-40 million euro. To this has to be added the loss of image of Italy due to the widespread use of imitation products made in Russia. The imports of Italian products in the Russian market have almost halved (-44.8%) in the first quarter of 2015⁷⁹.

As I have already mentioned, export and import data are only a picture of the direct effect of the lack of trade caused by the imposition of sanctions and countersanctions, recently renewed. In fact, the indirect impact of the events is not very easy to measure, but for sure this worries the most the trade between Russia and European countries, above all the Italian partners. Moreover, some Italian products have been exported in Russia through commercial triangulation practices with for example Germany and Holland. Thus, it is clear that the final amount of indirect trade losses is higher than the one taken over by statistics (ICE, Italian trade promotion agency).

The sector that most strongly affected Italy's interests, namely that of fruit and vegetables, is also one in which some of the importers, directly polled by ICE Moscow had particular problems. Of course, the most dynamic scenario is the one related to dairy products where, in addition to the road of increased imports by new and old suppliers such as Argentina, Brazil and Belarus, strong is the stimulus that European

⁷⁹ Agenzia ICE Mosca, *Misure Restrittive Federazione Russa e Sanzioni Unione Europea*, 29 Giugno 2015 (http://www.ice.gov.it/paesi/europa/russia/Misure_restrittive_Russia_Sanzioni_UE.pdf)

countries are recording on the possibility of strengthening or launch production activities in site concerning both fresh and aged cheeses, often at the hands of Italian entrepreneurs in the industry who want to seize this new opportunity. As far as the meat is concerned, the situation is surely more complex. Also in this case there are cases of local production at a good level, to which also draw some Italian restaurateurs, particularly attentive to the quality of products. However, the key is also in this case represented by historical suppliers of Russia (Brazil, Argentina and Paraguay) that continue to be mobilized to satisfy the increased supplies. That is why, in the face of this new emerging scenario, it is needed 'more and more' supervise over Italian counterfeiting product, which may appear more virulent even on this market.

As we have already discussed, the analysis of the Federal Customs Service showed that in 2013 Italy exported products today affected by sanctions to 108 million euros (-3% compared to 2012), while in the first half of 2014 the value reached was around 40 million euros.

The extension of sanctions by the European Union until the end of January 2017 will cause further damage to the Italian companies of the regular suppliers and subcontractors sector of Russian industry leading players. At a meeting held on May 28, 2015 in St. Petersburg at the

headquarters of Gazprom Neft at the presence of numerous Italian companies, it has been described the status of suffering faced by many Italian companies given the impossibility to continue their regular commercial collaboration with the local counterparts, with predictable effects in terms of loss of market share⁸⁰.

The engine slowly restarts, this is the main objective of the Russian and Italian governments and entrepreneurs. For the first time after three years, in 2017 the GDP of the country should reverse the trend up to 0.8% and Italy should stop collecting minus signs⁸¹. In the beginning of this year, the trade exchange volume between the two states is still feeling the lingering effects of the economic and financial crisis and sanctions, maintaining the negative trend of the previous two years.

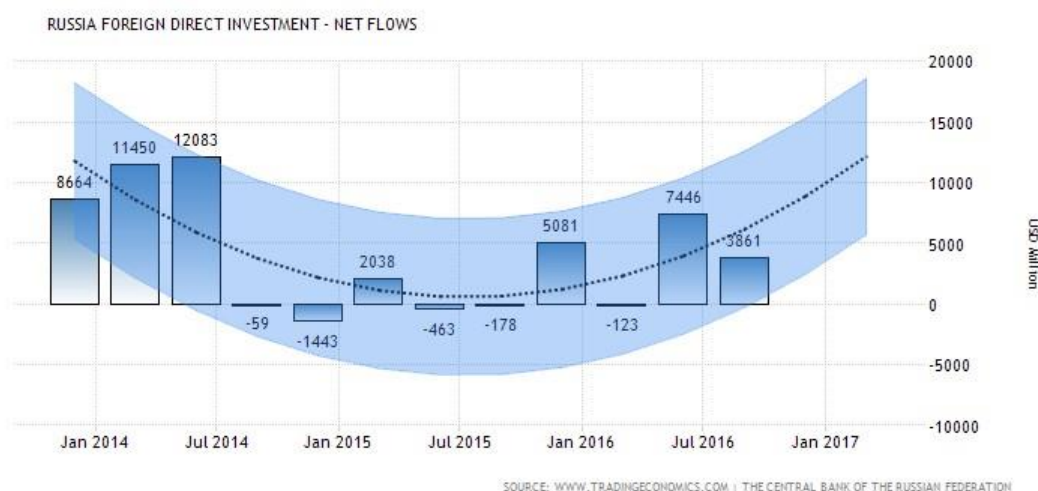
In accordance with Federal Customs data, in fact, there was a decrease of 41.4% in the interchange amounted to 12.7 billion euros which Italy settles, as already said, in sixth position both as a provider and as a customer. It also brought to lower imports from Italy (-6.8%, €4.9 billion), but above all, lower Russian exports to our country (-52.5%, €7.8 billion)⁸².

⁸⁰ Vedi nota 48

⁸¹ L. Cavestri, February 8, 2017, *La Russia torna nei radar delle imprese italiane*, Il Sole 24 Ore; web:<http://www.ilsole24ore.com/art/impresa-e-territori/2017-02-07/la-russia-torna-radar-imprese-italiane-181547.shtml?uuid=AEx6YMQ>

⁸² Ambasciata d'Italia in RUSSIA, Infomercatiesteri, RUSSIA; web:http://www.infomercatiesteri.it/public/rapporti/r_88_russia.pdf

Thanks to the reduction of duties on many products and due to the entry of Russia into the World Trade Organization, in 2017 is expected the economic recovery of the country.



In formulating the forecasts for the years 2017-2018 the specialists of the World Bank have admitted that, despite this no significant effects expected Russia in the next two years, will need the structural and institutional reforms to recover from the economic crisis and to aspire to a financial growth. Russia came in 2017 with rather favourable conditions, created primarily by the positive trend in the oil industry and agriculture advances, leading the economy to higher growth in 2016. In order to increase economic recover the government aims, in particular, to increase exports.

However, as pointed out by particular auditors of the Federal Court of Accounts, the Roseximbank, the main financial instrument of support

for exports, work inefficiently. That is why it has become essential a strong reform on this field⁸³.

Industrial production in 2016 increased by 1.1% on an annual basis after its decline 3.43% in 2015. It is expected that in 2017 the textile industry and chemical production will increase not less than 4% on an annual basis.

To conclude this comparative analysis from the thriving period preceding the imposition of sanctions on the Russian Federation by the Western countries, to the last period of slight economic recovery of trade between Russia and the other country, especially with Italy, it is reasonable to affirm that, even if international trade relations are suffering from the current situation, the foreign direct investment towards the Eastern Country is expecting to grow in 2017. Since both, import and export, has experienced a setback in the last four years, the companies have found new modern ways to keep up with the cooperation with Moscow. The Russian government is launching new projects of investment in the country to let companies to find ways to recover their economies and not to impede the conjunct efforts that they have reached during the prosperous period 2008-2013.

⁸³ Centro Italo-Russo RANEP, *Lo stato attuale delle prospettive di collaborazione delle piccole e medie imprese*, Mosca, March 2, 2017

Starting from 2016, investors returned to Russia thanks to the big amount of FDI project in the country, in fact they have grown of 61%, performing in the 8th position among European countries and this is the best results that the state has achieved since 2005. The main sector of attractiveness for foreign investors is represented by the manufacturing market and nowadays, despite the sanctions has not been lift and the current economic environment is making the trade and collaboration more difficult; Russia's largest foreign investor remains the Western European countries. Because of the great growth in FDI achieved by Russia, it attested first in the top ten European countries by number of FDI projects, directly followed by Poland with 60% and Netherlands.

“The top three European countries in terms of FDI projects in Russia are Germany (36 projects and 2076 jobs created), France (20 projects and 819 jobs created) and Italy (12 projects and 777 jobs created). US investors come after Europe by level of FDI in Russia with 29 projects (2868 jobs created) in 2015 – twice as many as in the previous year. Investors from Asia are still bracing themselves for greater involvement but the trend has shown an uptick. Chinese investors ventured to set up 12 FDI projects in Russia in 2015 – the largest number since 2005.

Putting this into perspective, there was only one Chinese FDI project in 2007 and in 2014 their number increased to seven. FDI inflows from other Asia-Pacific countries grew as well, pushing the number of projects up almost fourfold to 11”⁸⁴. As mentioned above, the manufacturing sector has always been the outstanding and most productive sector for trade between European Union and Soviet Union before and Russia now, but above all between Russia and Italy; only after the economic boom of the 1950s, there has been an upturn to the service industry, especially for the high-tech sector and so the focus has shift from the manufacturing sector to the tertiary one. It is rather clear that, this sector represented for a long time the engine of the Italian-Russian trade, with all the Italian exports of agro-food and fashion products, so appreciated by the Russian population and it is from here that the EU and Italy should restart strong commercial relations.

In 2000s the trade in the manufacturing sector represented the 18.8% of the total trade between the European Union and Russia, while in 2015, this exchange decreased to 15%. It will be also significant that this economic relaunch will be followed by a process of *industrial digitalization* and *green economy* that will bring on the Russian market cutting-edge technologies in the ecology, transports and other sectors to

⁸⁴ June 16, 2016, *Foreign investors return to Russia*, EY Press release; web: <http://www.ey.com/ru/en/newsroom/news-releases/news-ey-foreign-investors-return-to-russia>

be developed in Russia. In this situation, the Italian enterprises could really bring to Russian partners a plus, due to their strong and longstanding experience in the sector. In conclusion it is possible to affirm that, despite the significant differences between Russia and Italy, for instance the dissimilarities which tie the two economies; first, the Russian economic system is strong because of raw materials but lack of industrial expertise, while the Italian enterprises can offer to their Eastern partners the knowledge and technological and technical expertise to take advantage of their natural resources.

Moreover, from the practical point of view, during the last years, have been implemented modern solutions to respond to the economic situation: the cooperation now is developing through the creation of *mixed companies* that is to say with the collaboration of Italian and Russian entrepreneurs⁸⁵.

2.3 “Made with Italy” as a New Model for Future Partnerships

Last year, in June 2016 was held in St. Petersburg the International Economic Forum (SPIEF), under the auspices of the President of the Russian Federation Vladimir Putin. This event gathered

⁸⁵ R. Alessandrello, March 2, 2017, *Lo stato attuale delle prospettive di collaborazione delle piccole e medie imprese*, Centro Italo-Russo RANEPa;

more than 12.000 participants, representatives of 133 countries. The Forum aimed at informing the participants on Russian business operations and familiarize with the Project Investment in the country.

Italy had a leading position in the Forum; it had an entire pavilion at its disposal as the main guest country showcasing its industrial potential, design and culture⁸⁶. The Italian presence was important for both governments and industries to assess the impact of sanctions and the economic crisis and also to discuss the creation of different mechanisms to find a solution to the significant international issues.

The plenary meeting engaging the Russian President Vladimir Putin and the Italian Prime Minister Matteo Renzi from the subject ‘Capitalizing on the New Global Economic Reality’ saw the marvelous turnout of many Italian entrepreneurs and it was supported by the Italian-Russian Chamber of Commerce that reported a continuous interest for Italians and Russians to keep on the long-standing collaboration although the financial crisis and the recent events are still harming their business.

The Italian space was dedicated to the sectors of greater interest and engagement for the Russian market such as high-tech, agro-food industry, energy, finance and infrastructures.

⁸⁶ <https://www.forumspb.com>

Again, in the end of 2016, took place in Bergamo (Italy) the XXV Italian-Russian Task-Force, an institutional-economic forum operating for the promotion of the internationalization of the Small and Medium Enterprises (SME). The work was focused on the development of the cooperation of mechanical engineering sectors (equipment for agriculture, agro-food sector, machinery for processing, electromechanical plastics and rubber machinery for woodworking, textile machinery), chemical-pharmaceutical industry (technology, equipment for medical use, pharmaceutical products, and cosmetics) and system house (furniture and furnishing accessories, home automation, lighting, buildings, smart cities)⁸⁷. This meeting was a great opportunity for Italian and Russian entrepreneurs to put on the table all the possible partnerships and collaborations to be created or strengthened.

What has come to the fore from all these meetings among the major representatives of the Russia and Italy, round table discussions and economic forums, was the shift from the traditional “*Made in Italy*” to a more innovative and modern approach of “*Made with Italy*”: creating a preferential channel to meet the Russian demand with the Italian supply of technologies in a situation in which "the priority of the Russian

⁸⁷Comunicato Prot. 34268, August 18, 2016, XXV Sessione Task Force italo-russa , Ministero dello Sviluppo Economico; web:<http://www.mise.gov.it/index.php/it/commercio-internazionale/2035163-xxv-sessione-task-force-italo-russa>

Federation is to strengthen a production capacity that makes it less dependent on purchases from abroad"⁸⁸. According to Paolo Celeste, director of the Italian Trade Agency, the Import Substitution Policy inaugurated by the Russian government pushed the Italian entrepreneurs to empower their production directly *in loco* to avoid losing market share. Russia, in fact, decided to replace the import of a huge variety of goods, especially agro-food products with an increasing amount of domestic production. It is a multi-year plan aiming at changing significantly the production and distribution system of the country. Rosario Alessandrello, President of the Italian-Russian Chamber of Commerce affirmed that "*in the coming years there will be less and less rooms for imports of products typical of the 'made in Italy'*" such as food, so he accentuated the real need for a resolute turn into new and original strategies to penetrate the Russian market and not to lose the strong alliance which ties the two countries⁸⁹.

From Russia, after the S. Petersburg Economic Forum, the President of the Russian Chamber of Commerce, Vladimir Dmitriev, declared 'Made with Italy' the current and distinct model to improve the bilateral cooperation. In line with his thought, the experience of

⁸⁸ February 28, 2017, *Ice, una finestra sulla Russia per la tecnologia Made in Italy*, RBTH; web: http://it.rbth.com/economia/2017/02/28/sochi-una-finestra-sulla-russia-per-la-tecnologia-made-in-italy_711006

⁸⁹ L. Dell'Olio, December 25, 2015, *La nuova tendenza è il "Made with Italy"*, RBTH; web: http://it.rbth.com/economia/2015/12/25/la-nuova-tendenza-e-il-made-with-italy_554843

collaboration with Italian partners shows that one of the main conditions of long-term collaboration is the presence and the foundation of solid projects of investment. Italy and Russia are synergistic countries, there is no alternative to integration; no longer “Made in Italy” but “Made with Italy”, thanks to an added value made of know-how, quality and innovation between the integration of the industries of the two countries.

Despite the crisis Italy and Russia have already developed joint ventures on different products. As expected by authorities, nowadays Russia, even if modest, is experiencing an economic growth, due to the different and innovative approaches adopted by the country in facing the problems caused by sanctions, inflation and decline of oil prices.

A significant role in this particular moment could be played by *Small and Medium Enterprises* of the country. We can expect them to cooperate more closely with Italian small and medium-sized businesses, which have a huge work experience and makes a decisive contribution to the formation of the economic activity of Russia. Vladimir Dmitriev believes also that this cooperation between the Italian SMEs and the Russian ones will allow the more inexperienced Russian to develop new strategic techniques to be competitive in the international market.

In one hand, the Italian small and medium enterprises are bearers of a tradition of success and are appreciated as the representatives of the

Italian excellence worldwide, by number and vitality; SMEs account for up to 95% of the enterprises in Italy (the average European indicator is 90%) and in the SME sector, up to 80% of the economically active population of the country is employed. Such enterprises produce 67% of the value added, they account for 56% of exports and 22% of investments in research and development. At the same time, another important factor is the experience that the 35% of SMEs have in international cooperation (export of products, foreign investments, etc.). The share of Italian SMEs (from 50 to 250 employees) in GDP is over 61%, they occupy the first place in terms of labor productivity.

On the other hand, the problem of supporting small and medium-sized businesses in Russia, of course, is a bit more complicated. Thus, regulatory and legal frameworks for state support for these kind of businesses have been formed such as the Governmental Commission on Competition and Development of Small and Medium-sized Entrepreneurship.

In 2015, additional measures to support small and medium-sized companies were considered at a meeting of the State Council. Measures aimed at supporting self-employment and realizing the investment potential of small and medium-sized businesses are included in the list of priority measures implemented by the Government in 2015-2016 to

ensure sustainable development of the economy and social stability, thanks to new bilateral agreements with some European countries and the recovery of the ruble. Indeed, 7.5 billion rubles will be allocated from the federal budget in 2017 to support small and medium-sized enterprises, including those opened by young entrepreneurs. This support is guaranteed since 2005. In 2014 the government has allocated 20 billion rubles; in subsequent years, however, the support has significantly decreased. If the system and all the support institutions would properly work, small and medium-sized enterprises could really take advantage of low-interest loans. This government subsidy will contribute to greater involvement of foreign countries in Russian SMEs and to attract foreign investment, but underlines the need to introduce a system of identification to confirm the status of an external legal figure as a subject of SMEs. It is important to ensure that they are small business owners, and not the large companies, to be eligible for these benefits⁹⁰.

Noting that, the Russian economy should return to growth in 2017, it is relevant to catch and gather all the opportunities possible from this situation for Italian-Russian business in both countries. Italy can really make the difference in the Russian production since it has the know-how

⁹⁰ <http://www.ccir.it/ccir/lo-stato-attuale-e-le-prospettive-di-collaborazione-delle-piccole-e-medie-imprese/>

needed for their development. What is necessary at this time is the political and economic open dialogue between the two countries and an updating of the bilateral co-operation mechanisms, which were previously restricted to exports of ‘Made in Italy’ goods, whereas, from the recent years, it is strongly marked by the new trend, that is to say the “Made with Italy”.

Recently, on the 27th and 28th of March 2017 took place in Sochi the International Forum of Investments, on which participated an Italian delegation at the presence of the Italian Ambassador in Moscow Cesare Maria Ragaglini. The main discussion at the Italian-Russian Business Breakfast was to find strategic turning point to enrich and further enhance the cooperation between the two countries⁹¹. The future prospects explored during this meeting in Sochi underlined the need for Italian firms to increase the export to Russia but also to grow their presence in the country through the creation of new manufacturing plants jointly with Russian partners.

⁹¹ Ambasciata d'Italia a Mosca, February 28, 2017, *Partecipazione dell'Italia al Forum degli Investimenti di Sochi*;
web: http://www.ambmosca.esteri.it/ambasciata_mosca/it/ambasciata/news/dall-ambasciata/2017/02/partecipazione-dell-italia-al-forum.html

Chapter III

3.1 Opportunities of Investment in Russia

After years of crisis marked by the decline of the ruble, low price of oil and international sanctions related to the events in Ukraine, the Russian Federation's economy should return to growth in 2017.

In light of the analysis presented in the previous two chapters, it is now attainable to say that the Italian companies can benefit from the good bilateral relations, which lays on solid long-lasting cooperation. Oil and natural gas rich-country, the Russian Federation is the main supplier of hydrocarbons in the world; however it has an industrial base and a primary sector still relatively underdeveloped. This complementarity and proximity between Russia and Italy gave birth to many joint ventures, which inevitably facilitated the technology transfer between the two economies, especially in this critical historical moment. Italy can benefit from Russia of the abundant availability of raw materials and conversely Russia can really take advantage of the broad and diverse manufacturing and agribusiness productive system.

Not surprisingly, the modernization of the Russian economic system is nowadays considered a priority by national authorities, starting with some key sectors with high technological content, but including the modification of infrastructures needed for the development of the

country. Without forgetting that the restrictive measures of trade in food products, approved by the Russian Government in 2014 in response to European sanctions following the well-known facts in Ukraine, are intended to be an incentive for the development of agribusiness in the Russian Federation⁹².

In terms of economic cooperation, the Russian government, along with the Italian institutions in its territory is concluding different bilateral agreements to secure and improve the Italian-Russian trade relations and Italian investment opportunities in Russia.

Coming to the core of my research, the most important question to answer is: why an Italian entrepreneur should invest in Russia? According to the President of Confindustria Ernesto Ferlenghi, the main reason why it is convenient to invest in this country is represented by all the concessions and tax breaks that the Russian government is allowing to foreign investors. This new strategy will be crucial for Moscow in the course of the next years to recover after the recent events that shook its economy. Some sectors present farraginous procedures caused by certification and numerous documentation; of course it could be easier and the Russian government is working on that issue to speed up all the problem of industrialization that can be considered as an obstacle to

⁹² Diplomazia Economica Italiana, December 20, 2016, *L'Italia si ritaglia spazio nel nuovo corso economico russo*, Newsletter online a cura di MF/DOWIONES News, Anno XI

businesses. It is very important for Italian entrepreneurs willing to localize their business in Russia to do a proper market analysis on the interested sector and especially in the regions, which are representing an opportunity to figure out the best investments and profits.

Another crucial element for Italian companies is the support of Italian banks operating in the Russian territory, such as UniCredit, Intesa San Paolo and UBI Banca. The representative office of ‘UBI Banca’ is located in a very central area in Moscow and is driven by the Director Ferdinando Pelazzo. In the beginning of March 2017, during the conference “The current situation and prospects of cooperation of Small and Medium-sized enterprises”, organized by the Italian-Russian Chamber of Commerce with the participations of many Italian entrepreneurs operating in the Russian territory, he emphasized the great importance to offer financial support to the Italian companies which are willing to enter the Russian market, especially the SMEs. By affirming that there are many obstacles for firms, due to the procedures, the administrative processes and also the cultural barriers that sometimes can arise between the parties, Mr. Pelazzo reiterated that the collaboration of the banks to facilitate the credit access and transfer between the two countries is to guarantee preferential terms in order to create a

partnership with the sharing of two companies, Italian company in Russia and vice versa⁹³.

Anyway to be prepared and informed before entering the Russian market is the first element that will give more chances to your business to succeed and then grow.

New opportunities have been emerging and the Italian institutions in Russia are trying to facilitate the economic transactions and trade. An example is represented by ICE, the Italian Trade Agency, Trade Promotion Office of the Italian Embassy, working in the Russian Federation since 1967. Through its offices in the principal cities of the country, this governmental agency is covering four main areas of interest for business; first *information* for Italian and Russian companies on the new opportunities proposed by the two markets, second they also procure *consulting services*, third *promotion* through the organization of events explaining the great importance of collaboration with Italy, the organization of technical seminars and B2B meetings specific for certain industries. Finally they also provide *training* to sell the products in the market⁹⁴. “*We see the situations with two eyes: one eye for Italy and the other for Russia. Because if Russia grows, then Italy grows, too. This is*

⁹³ Speech of Ferdinando Pelazzo, Ubi Banca Russia, conference “Lo stato attuale delle prospettive di collaborazione delle piccole e medie imprese”, March 2, 2016, Mosca, Centro Italo-Russo RANEP

⁹⁴ Interview to Pier Paolo Celeste, December 2015, *Russia-Italy: frank and open approach*, Russian Business Guide, Italian-Russian Chamber of Commerce

our approach and this is frank approach. All Italian companies are still here, Italian investments are here. This means that Italian companies are not discouraged by the present situation. And everything that I see is in favor of better future”, this were the significant words spent by the Director of Moscow branch of ICE Pier Paolo Celeste.

The implementation of primary economic projects continue despite the current setback in relations; these include manufacturing and worldwide marketing. It is clear that there are immense opportunities of further promotion of trade and investment cooperation. Following this path, the partners are seeking to encourage the localization of manufacturing by Italian companies in the Russian Federation, in order to adopt the “Made with Italy” as the main principle of this collaboration⁹⁵. According to Lavrov, the Russian Ministry of Foreign Affairs, there is a huge number of tools created to promote business contracts, for instance the Committee of Entrepreneurs and working-groups on industry and high technologies, industrial areas and SMEs operating within the Economic Council. Many Russian regions and republics are now area of interest for many Italian companies, which are

⁹⁵ Foreign Minister Sergey Lavrov’s interview for “Russian Business Guide”, December, 2015; web: http://roma.mid.ru/web/roma_it/eventi/-/asset_publisher/j0hzWVTgsWil/content/foreign-minister-sergey-lavrov-s-interview-for-russian-business-guide-december-2015?inheritRedirect=false

willing to invest for the first time in Russia or just expand their business there.

As I have already mentioned in the previous chapter, in 2012, Russia has achieved two significant goals for the integration and the development of its economy with the rest of the world: first, the entrance in the World Organization of Trade (WTO), second the creation of the Custom Union that would have included in future all the former Soviet republics.

Moreover, the Russian Federal Law No. 116 of 22.07.2005 (updated in July 2013) establishes and regulates the creation of SEZs, the Special Economic Zones within the Russian Federation. Initially their maximum duration was 20 years, while now was prolonged to 49 years. The goal of the law was to provide a lasting and transparent framework for a more simplified and clear regulation.

SEZs by state of preparedness and type
 Nowadays, Russian Special Economic Zones represent a real investment attraction and opportunity for foreign companies.

Type of SEZ	In operation	In the formative stage	Planned	Total
Industrial	Alabuga, Lipetsk, Togliatti	Lyudinovo, Mogilno, Titanium Valley	Lotus, Vladivostok	8
Technology implementation	Dubna, Zelenograd, St. Petersburg, Tomsk	Innopolis		5
Port		Ulyanovsk-Vostochny	Murmansk, Sovetskaya Harbor	3
Tourist and recreation	Biryuzovaya Katun	Baikal Harbor, Gates of Baikal, Altai Valley, Northern Caucasus Resorts (two SEZs)	Northern Caucasus Resorts (seven SEZs), Russky Island (Vladivostok)	14
Total	8	10	12	30

Source: Special Economic Zones OJSC

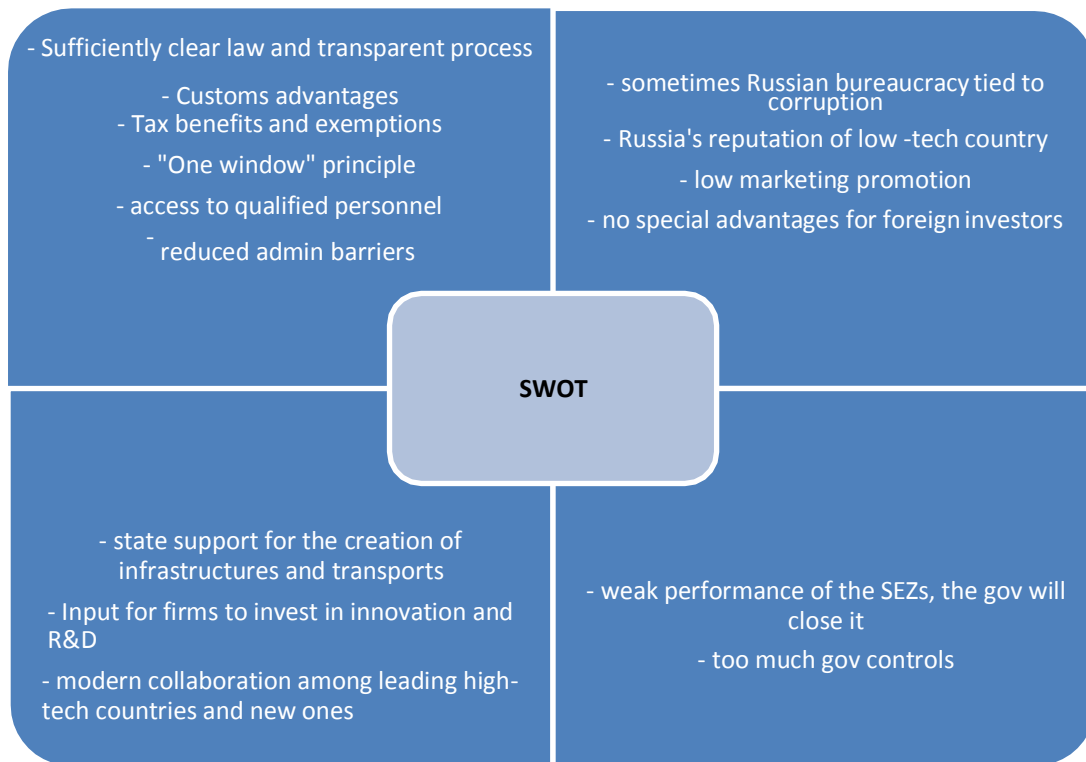
Nowadays the Russian government counts 28 Special Economic Zones, in the most developed areas of the country divided in four groups according to what the regions can offer and thanks to this program of development and innovation the country is currently hosting some of the most important leading foreign companies such as Ford, Yokohama, 3M, Air Liquide, Rockwool, Hayat, Novartis, etc., with a total volume of investment around 12 billion dollars in 2013⁹⁶. As registered in the beginning of 2015, the advanced development zones registered 375 residents employing around 13.000 people.

In order to understand better the concrete possibilities of investments in the Russian Special Economic Zones, especially for foreign investors I analyzed the pros and cons of these areas, along with the opportunities and threats that could be faced by the investors.

⁹⁶ *Special economic zones in Russia - which and where*, Integrated Foreign Economic Information Portal, Ministry of Economic Development of the Russian Federation; web: <http://www.ved.gov.ru/eng/investing/sez/>

STRENGTHS

WEAKNESSES



OPPORTUNITIES

THREATS

The SEZs represent for Italy a real channel of access to the Russian market. One of the main points stressed in many conferences and round tables between entrepreneurs and institutions of both countries is the deregulation ruling in these territories. In fact, if taxes may last not forever, the simplification of administrative and regulatory procedures can really make the difference. The huge number of benefits coming from exemptions or tax breaks, customs, real estate and administrative in favor of foreign companies willing to invest in excess of certain values is a significant feature of attractiveness. During 2014/2015, in Italy the

overall tax burden (income tax, employment taxes and mandatory contributions, consumption taxes) for companies amounted to 64.8% of commercial profits⁹⁷. On the contrary, companies in Russia are required to pay tax on profits of the total value of 20%, of which 2% payable to the federal budget and 18% to the regional budget⁹⁸. Registering and localizing your company in the SEZ territory is a necessary prerequisite to become a resident in this area. Again, the advantages coming from this status are disparate, from the fiscal point of view to the concessions in the granting of lands.

“Riding” the Russian import substitution strategy, aimed at developing and modernizing the national industry in many areas, with which Moscow has responded to Western sanctions, was drafted by the Italian Embassy and other institutions the guide for investments, comprised of 121 projects in 15 Russian regions. Nowadays the Russian regional governors compete to offer to foreign investors, financial instruments, tax plans, incentives to entrepreneurs through the aid of the Italian government and institutions in the Russian territory, such as the

⁹⁷ G. Parente, November 20, 2015, *Tasse sulle imprese, l'Italia è maglia nera: prelievo sui profitti al 64,8%*, Il Sole 24 Ore, Norme & Tributi; web: <http://www.ilsole24ore.com/art/commenti-e-idee/2015-11-20/tasse-imprese-italia-maglia-nera-073112.shtml?uuid=ACWqk0dB>

⁹⁸ *Federazione Russa-Sistema Fiscale*, Unioncamera, Camera di Commercio Italiana; web: http://www.mercatiakonfronto.it/index.php?option=com_content&view=article&id=24524&Itemid=4961

Italian-Russian Chamber of Commerce, the Italian Trade Promotion Agency and the Italian Embassy in Moscow⁹⁹.

What I would like to do in this final part of the thesis is to report the results of many conferences and events which took place in both countries presenting the principal and recent areas of interest for investments for the Italian entrepreneurs in Russia.

- Italian Mission to Lipetsk to promote investments: in the beginning of 2017, it was held in Moscow an event to present the Italian business mission in this region with the aim to establish joint ventures with local partners and also strengthening the Italian presence in this area. Currently, there are seven foreign companies operating in Lipetsk region, 400 km south of the capital city, and four of them are Italian. In accordance with the Italian Ambassador in Moscow Cesare Maria Ragaglini, Italian businessmen and investors *“may have a pioneer role, boosted by the establishment of the (Industrial) SEZ, in a region in which many Italian companies are already doing business”*. Furthermore, Lipetsk region boast of a well-organized administrative system, which strongly help foreign companies to

⁹⁹ A. Scott, March 29, 2016, *Una guida per investire in Russia*, Il Sole 24 Ore, Impresa & Territori; web: <http://www.ilsole24ore.com/art/impresa-e-territori/2016-03-29/una-guida-investire-russia-063613.shtml?uuid=ACSfkEwC>

enter this market¹⁰⁰. One of the Italian firms which should be mentioned is the ‘Sest-Luve’ plant dedicated to the manufacturing of heat exchangers for both commercial refrigeration and air conditioning fields. They are operative since October 2007, and the results achieved in this plant are completely in line with the products coming from the Italian factory, thanks to the investments done in resources and energy to train skilled personnel and to deliver to the customer an high-quality service¹⁰¹;

- Samara region is in third position in the ranking among all the Special Economic Zones and it represents one of the most economically developed regions of Russia. The municipality of Togliatti is one of the largest city in the Russian Federation and hosts a lot of foreign companies. During the conference at the Italian Embassy in Moscow, attended by Italian representatives of institutions and above all entrepreneurs, the mayor of Togliatti and Samara governor presented the new opportunities for the Italian investors.

¹⁰⁰ February 17, 2017, *Russian Federation-Italian mission to Lipetsk to promote investments*, Farnesina, Ministero degli Affari Esteri e della Cooperazione Internazionale; web: http://www.esteri.it/mae/en/sala_stampa/archivionotizie/approfondimenti/2017/02/federazione-russa-missione-italiana.html

¹⁰¹ SEST LUVE RUSSIA; web: http://www.sest.it/cms/view/il_gruppo/societ_produttive/sest/s15/c727

The mayor of Togliatti explained to the audience that nowadays, seventeen industries are registering the 60% of contribution of foreign direct investment. The most profitable sectors in the municipality are represented by automotive, chemical and distribution. The Italian entrepreneur Giorgio Verduci, General Director of the company “Autokomponent Engineering 2”, operating in Togliatti since 35 years with enthusiasm underlined that these zones offer real opportunities of growth with the preferential taxation and if thirty years ago he would have not opened a new plant in Russia, nowadays his firm in Italy would have already close. He stressed the need for Russian market of the Italian know-how and technologies by saying also that in Russia there is an opportunity for everyone, the only important things are the willingness and the ability to carry out properly the work or services. The peak of his success and enthusiasm arrived in the recent year when he received the “UMP Project” to create the interior of the governmental automobiles.

In this SEZ focus investments for every field but especially for the sectors related to the production of automotive components. Among tax and customs incentives, low labor costs and government incentives, Pakhomenko estimated that *"will save at*

least 30 percent on the initial investment capital". The residents are seventeen companies so far, including thirteen foreign industries, mostly American, Turkish and Spanish¹⁰².

Sergey Andreev, mayor of the Municipality of Togliatti, invited all the Italian firms to invest in his territory because all they want to export can be done there, but in the most economical way, from the automotive to the textile and agro-food sectors. Along with the governor of Samara region, Aleksandr Kobenko, if Italians are able to efficiently exploit the advantages offered by the region and the forms of support provided by the state, the investment projects will be successful and with the minimum risk. One of the most successful firm which is favorably addressing the economic crisis and the devaluation of the ruble is Cremonini Company with its own plant on site. As stressed by the mayor Andreev, *"The city of Togliatti has two parents: Italy and the Soviet Union"*.

- Even if not part of the Special Economic Zones, Novosibirsk, local capital of the namesake region, is one of the most attractive areas for Italian investors in the recent years. As witnessed by the “Institutional and Entrepreneurial Mission in Novosibirsk

¹⁰² M. Allevato, August 10, 2016, *Reportage da Togliatti, occasione persa in Russia*, Il Foglio; web: <http://www.ilfoglio.it/esteri/2016/08/10/news/reportage-da-togliatti-occasione-persa-in-russia-102659/>

Region”, held in 2016, organized by the Italian Trade Promotion Agency and the Italian-Russian Chamber of Commerce with the participation of the Italian Ambassador Cesare Maria Ragaglini, the Italian entrepreneurs operating there are 20, all specialized in different sectors, namely high-tech, chemical-pharmaceutical, biotechnologies, housing and food processing. The objective was to lay the foundations for greater Italian presence in the region through new investments and the creation of joint ventures with local Russian partners. This year, from the 20th to the 22nd of June, will be held in Novosibirsk Expo Center the V Edition of the International Forum for Technological Development “Technoprom 2017”. This forum represents an ideal platform for Italian and Russian entrepreneurs to discuss prospects of economic development and to introduce new technologies and tools in industry, transports and land management. The theme of 2017 will be "The New Industrial Revolution: Acquiring the Future" with a particular focus on the technology sector of the Russian economy and the promotion of high-tech investments and start-up¹⁰³.

On the Russian side, the regional authorities have presented the national support mechanisms to the credit and to tax breaks, in a

¹⁰³ January 7, 2016, 20-22 *Giugno 2017, Novosibirsk*, Italian-Russian Chamber of Commerce; web: <http://www.ccir.it/ccir/20-22-giugno-2017-novosibirsk/>

neuralgic region which is located midway between the European and Asian markets. For the next years it is expected a recover of the economy that in the last three years has strongly decreased. Alongside with the governmental initiatives, there are also opportunities for the exchange of students, professors and researchers for strengthening trade and cultural relations between the two countries¹⁰⁴.

Moreover, in 2016 was concluded a cooperation agreement between the Novosibirsk administration and the Lombardy government in Italy to give a strong impetus to contacts in innovations and other analogous fields. As stressed by many Italian entrepreneurs the project of direct investments in the region can really be transformed in company localization. As affirmed by Jari Colla, advisor of Lombardia region, *"the protocol will open new geopolitical perspectives I hope can soon lead to the abolition of the embargo to the Russian Federation. The interest and the enthusiasm shown by many companies has spurred me to promote*

¹⁰⁴ A. Scott, May 31, 2016, *L'Italia in Missione oltre gli Urali*, Il Sole 24 Ore; web: <http://mediaware.selpress.com/UILCA/it/IT/Read?art=167924&a=c2VncmV0ZXJpYUB1aWxjYWxvbWJhcmRpYS5pdA==>

*the Lombard excellence that thanks to this agreement will have access to this great opportunity"*¹⁰⁵

- Astrakhan region, Special Economic Zone of Industrial type, is established on the basis of shipbuilding and ship-repair facilities. Enterprises of shipbuilding, machine building and instrumentation areas can act as residents of the SEZ¹⁰⁶. On the 20th-21st of April 2017, will be organized the II International Technologic Forum “Technocaspian 2017”, with the participation of entrepreneurs, investors and scientists, representatives of research and development institutions and leading governments in hi-tech sectors, from the Russian Federation and abroad. The 2016 edition involved more than 3,000 professionals and nearly 100 prominent experts from different countries. At the fair, held in the framework of the Forum, were presented more than 80 high-tech projects in the following sectors: oil and gas, marine engineering, materials engineering, IT, biotechnology and aquaculture.

¹⁰⁵ January 13, 2016, *Lombardia: delegazione Regione in partenza per Novosibirsk*, Libero Quotidiano; web: <http://www.liberoquotidiano.it/news/economia/11867493/lombardia-delegazione-regione-in-partenza-per-novosibirsk.html>

¹⁰⁶ July 9, 2014, *Special economic zone Astrakhan. Russian Federation*, The Ministry of Foreign Affairs of the Russian Federation; web: http://www.mid.ru/en/maps/ru/ru-ast/-/asset_publisher/RDBx5EyvVJMi/content/id/678237

3.2 Selected Success-stories of Cases of Sanctions-driven

Localization

Despite the particular situation that the Russian Federation is living at this time, there are many Italian companies which represent successful examples of *localization* of their business in the country. Since the Western economic sanctions have been imposed to the Russian Federation during the last three years, this alternative practice has been widespread among the investors willing to continue their commercial relations with the country. The localization can be explained as “the practice of adjusting a product's functional properties and characteristics to accommodate the language, cultural, political and legal differences of a foreign market or country”¹⁰⁷. A lot of firms decided to pursue the noble aim to strengthening the Italian presence in the country, not anymore through exports, that reached their peak in 2013 but through a more direct form of investments to better meet the requests of the Russian customers. The interchange is no longer the main way to do business: in just over a year Italy recorded a decline of about 80% as a direct export to Russia. At this critical time, the Russian state has recognized that the principle of independence is necessary to develop its

¹⁰⁷ Definition of Localization, Business Dictionary;
web:<http://www.businessdictionary.com/definition/localization.html>

economy; and this is why the government is revolutionizing its inner economy.

At this point of the research what is essential is to show a couple of successful cases of the Italian-Russian cooperation during the years, in particular after the imposition of economic restrictive measures.

The first remarkable case, which represents the symbol of a long-lasting and prosperous relationship evolved over time to match the new requests coming from a different market, is personified in Ferrero Group. This company is one of the leaders of the world confectionery production with a consolidated turnover of 9.5 billion euros; it is well-known worldwide and last year, in 2016, Ferrero celebrated its 70th anniversary. The global successful story, launched from a small production in the northern Italy, soon expanded its distribution to other 160 countries.

In 1995, the Ferrero Group entered the Russian market, passing from being a small representative office to become nowadays a large commercial and production company with a development distribution network. In 2008, Ferrero Company opened a new and big plant in Vladimir, 180 km far from Moscow to meet the demand of a growing market, namely the Russian one. Covering an area of 80 thousand square meters, by creating work places for thousands of employees, both

seasonal and permanent, Ferrero after five years of its presence had already invested about 250 million euros, becoming immediately one of the most important foreign presences in this region. Easy and fast connections, good infrastructures, as well as valid and qualified staff: these are the trump cards of the region that pushed Ferrero to make there its own plant¹⁰⁸. All the major Ferrero products are now available in the Russian market and they received affection from Russian customers¹⁰⁹.

At this time, the plant in Vladimir represents for Italian companies one of the best and successful experiments of business in the Russian market.

The second case which can be used to better understand the real opportunity of business investments in the Russian Federation is embodied by *LAMINAM Spa*, an Italian company, “a young brand born from a refined industrial culture which combines state-of-the-art technology, entrepreneurial vision and typical Italian creativity, skillfully amplifying the format and potential of traditional ceramics, rendering it a latest generation eclectic material, surprisingly contemporary and in continuous evolution”. These are the special features which bring the company to always find innovative ways to satisfy different markets through the collaboration with important international partners.

¹⁰⁸ L. Bellino, *Ferrero da Vladimir lancia la sfida alla Francia*, RBTH; web: https://it.rbth.com/economia/2013/05/28/ferrero_da_vladimir_lancia_la_sfida_alla_francia_24385

¹⁰⁹ *Ferrero in Russia: success story*;
web: <https://www.static.ferrero.com/globalcms/documenti/2460.pdf>

On March 27, 2017, LAMINAM inaugurated the new plant in the Industrial Park Vorsino, located 100 km from Moscow in the Special Economic Zone Kaluga. By using innovative technologies, already experienced in the main production's plant in Italy, the new factory is only specialized in the production surfaces in porcelain stoneware in the format 1000x3000mm, in thicknesses of 3 and 5mm. Opening to the Russian market represents another step towards the internationalization of the company thanks to the uniqueness and high-quality of its products. As reported by the Managing Director of the company Alberto Selmi, *“With an investment in technology of 25 million Euros and an annual production potential of 1,000,000 m² of ceramic slabs, Laminam has created a new production site for ceramics in Russia, which is efficient and highly automated. It will also significantly increase the production capacity for our surfaces measuring 1000x3000mm, and will meet the growing demand on both a local and international scale”*¹¹⁰.

I chose this case because it represents the real possibilities that the Russian market is still presenting to the Italian companies, even if the conditions are not boosting and stimulating investments in the country. The company LAMINAM belongs to the Italian System Group, of which use modern technologies and machineries. The strategic position of the

¹¹⁰ Materials from the Italian-Russian Chamber of Commerce

plant will succeed with a great service level in the distribution of its products to the Russian customers and in all the republics of the Soviet Union.

As we all recognize, Italy is well-known over the world for its tasty cuisine, fashion, high-quality design and travel. Actually, Italy is also considered to be one of the leader in the medical and healthcare sector. During the years, the Italian medicine has developed modern machineries and treatments, becoming top-notch in medical aid.

In 2015, the company GVM Care & Research, an European network of hospitals, has signed an agreement with the Italian Medical Center “Wellness”, in Moscow since 1966 and therefore specialized expert in the Russian health system. The medical center has already opened its branch in the very heart of the Russian capital city, making its first investment in this market. Through the application of advanced technologies, medical innovations and highly qualified doctors, the center is specialized and designed to treat cardiovascular diseases (although the specialties are 42)¹¹¹. This case is also significant to stress the collaboration between Italians and Russians; in fact in the polyclinic, along with the Italian doctors permanently hired, work some of the best Russian doctors, luminaries in the treatment of disparate diseases.

¹¹¹ *La Dolce Vita in the Heart of Russia*; web: <http://gvmrussia.ru/news/la-dolce-vita-in-the-heart-of-russia.html>

Meanwhile, GVM Company is supposed to create a pool of 200.000 people, out of a population of 14 million of inhabitants in Moscow¹¹²¹¹³.

To sum up this insight on Italian-Russian partnerships, I would like to emphasize again the core of each collaboration.

The first case can be a banal but suitable example of a durable joint work between an Italian company and a Russian region. Despite the recent plant establishment in Vladimir dated back to twelve years ago and so it is previous to the imposition of sanctions and countersanctions, the Ferrero Group has not faced significant losses in the Russian market and has always tried to find strategic solutions of marketing to maintain the competitiveness on its sector. In the last 20 years, Ferrero products received an enthusiastic fortune among the Russian consumers and nowadays in this market the Italian company, can really offer high-quality products at affordable prices for everyone.

On the other hand, LAMINAM Spa can be taken as a relevant example of the good economic relationship existing between the two countries. Although the economic sanctions, and above all the devaluation of the ruble, the Italian company can benefit from the Italian know-how and expertise in a lot of sectors. The Special Economic

¹¹² *GVM Care & Research Network of Clinis soon be opened in Russia!*, Russian Business Guide, Italian-Russian Chamber of Commerce, May 2016, p. 44

¹¹³ December 20, 2016, *Tecnologie evolute e second opinion, la cardiologia a Mosca parla italiano*, L'Italia si ritaglia spazio nel nuovo corso economico russo, Diplomazia Economica Italiana, Newsletter online a cura di MF/DOWIONES News, Anno XI

Zones, created by the Russian government in 2005, in this case the Kaluga region, offer many economic advantages to the foreign companies which decide to establish there.

Last but not least, I selected the case of GVM Group as a representative for the new emerging sectors in the Russian Federation, such as the medical one. In fact, in 2015, the Kremlin allocated 3% of the GDP to support the National Healthcare Service, an effort that is considerably still far from the Western standards (i.e. in Italy is around 9%) but reveal a readiness to the modernization of the medical service and structures. Furthermore, to carry out this improvement the governments adopted new investment strategies in this field and to become competitive in the healthcare sector, Russia needs technical helps from the most developed countries in this field, innovative machineries, professional and innovative techniques for the treatment of the diseases.

3.3 Future Prospects and Partnership

In order to think of a new market to join, for Italian companies and institutions facilitating the internationalization of the enterprises should be appropriate to find some suitable answers to the following issues: first they should think of which are the most appreciated Italian products by

Russian customers, second it is important to emphasize the sectors in which the Italian industries can boast of tradition, specialization and innovative techniques of production. After having conducted this limited analysis the next step will involve a deeper market research in the country and especially through the individuation of opportunities of investment in the regions of the Russian Federation.

It would be a good starting point to examine and be conscious of “Italian strengths” in terms of sector of specializations, expertise, etc. and a good knowledge of the Russian administrative procedures to enter the market to start thinking of new investments or a new plant to localize the company in Russia.

The guide for investments in Russia, realized by the “Sistema Italia”¹¹⁴ in March 2016, is the result of the enthusiasm of Italian institutions to redirect, promote and ease Italian investments in some regions of the Russian Federation, remarkably to the Special Economic Zones and the region which present tax breaks for foreign investors.

The attention by the Russian government is mostly paid to those countries and companies which can effectively promote the diversification of the production, through the support of know-how, advanced technologies and high-skilled labor.

¹¹⁴ Annex 2

As indicated in the guide for investment in Russia, the sectors which are still attractive for Italian businessmen despite the critical economic situation are the agro-industry, equipment and technologies, energy infrastructures and machineries, healthcare and medical sectors¹¹⁵.

On the wake of what I have already said, among the products which make Italy renowned worldwide is undoubtedly wine. Italian wine is well-appreciated by Russian customers and the Russian numbers of import witnessed this profitable exchange.

On the 14th of November, was held in the center of Moscow the 13th editions of “Vinitaly Russia”, the annual B2B event gathering Italian wine producers and Russian importers. This annual meeting covers a significant role in the willingness of entrepreneurs and institutions to maintain the relations in this field as well. After the imposition of sanctions, inevitably the Italian volume of wine exports has had to be realigned with an eye to high margins and less expensive wines. Furthermore, owners of wineries have had to agree to suspend payments and offer deeper discounts to the Russian clients.

Nonetheless, the Italian wine producers are not ready to “through in the sponge” just yet. The B2B marks a hopeful beginning of a

¹¹⁵ “Sistema ITALIA in Russia”, Moscow, March 2016, *Investire in Russia*; web: http://www.ambmosca.esteri.it/ambasciata_mosca/resource/doc/2016/03/investire_in_russia.pdf

recovery in a country where the wine culture is exponentially growing but slowly coming out from the economic crisis. As reported by Clementina Cossetti, owner of Cossetti winery from Piedmont (Italy), *“we decided to invest in Russia conscious of the fact that each international market has its risks, the Russian market is very dynamic and the situation can rapidly change, mature and evolve”*¹¹⁶.

Considering the reasons reported above, it is rather clear that the driving forces which tightened the two countries in the export/import of wine will not stop consequently to the economic difficulties. Moreover, *“in January-July 2016 Italian wine has seen a timid yet promising recovery with an increase of +4,5%, against last year’s -28% for a total value of 28.8 million euros and 27% market share. Wine represents 24% of Italian agribusiness export to Russia, the equivalent of 27,7 million liters, with a 70% represented by still bottled wine and 27% by sparkling wines”*¹¹⁷. This positive trend of the Russian market involved more than 160 Italian wineries in the event held in Moscow last November.

¹¹⁶ November 18, 2015, *Vinitaly Russia: two thousand attendees in support of Italian wine*, Vinitaly International; web: <http://www.vinitalyinternational.com/it/node/2601>

¹¹⁷ November 11, 2016, *Vinitaly Russia returns to Moscow to support the timid, yet promising recovery of the Russian market*, Vinitaly International; web: <https://www.google.ru/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEWjAnfagv5nTAhVKEpoKHYfDBL8QFggjMAA&url=http%3A%2F%2Fwww.vinitalyinternational.com%2Fit%2Fnode%2F3342&usg=AFQjCNE2i5ob8ecLRjE5dOgjzHtKvyjgbQ&sig2=1-8074ur5eNd-1TO3wod5A&bvm=bv.152174688,d.bGs>

The most promising Russian region to invest in wine has always been Crimea. With a unique climate and soil, Crimea can boast of a great potential growth for wine sector and also for tourism. Italian agro-tech companies have apparently figured out a way to turn round the economic sanctions on Russian Crimea. Furthermore, in 2016, an Italian delegation visited Crimea in view of the sign of the cooperation agreement with Crimean officials¹¹⁸.

An example is the Italian company “Ecologia e Ambiente” which last year declared to be ready to invest more than 300 million euros in the viticulture and wine-making project in the Republic of Crimea, due to the fact that Italian requirements are suitable for growing grape in the peninsula.

Again, in October 15, 2016, an Italian delegation went to Crimea with the aim to establish a partnership, thanks to which the Italian producers would have guaranteed and provided the Crimean wine-makers the equipment, technologies and vine saplings. Nowadays there are around 30 wine-making enterprises in the Republic of Crimea and many of them use Italian equipment and the high-quality vine saplings.

The cooperation among Italian and Russian businessmen in the region were also favored by three advantages: first, no taxes because of

¹¹⁸ P. Butler, April 12, 2016, *Italian Firms Seek Investments in Crimea Vineyards*, Argophilia; web: <http://www.argophilia.com/news/italian-firms-seek-investments-crimea-vineyards/216181/>

the Free Economic Zone, second the possibility to work with friendly people and third, the opportunity to access always directly to region's top officials, as affirmed by Andrey Nazarov, chairman of the Foundation of the Yalta International Economic Forum (YIEF)¹¹⁹.

In the interest of the industrial sector, reflecting the fact that Italy is involved in the process of modernization of the Russian Federation, it is proper to mention the agreement signed in 2016 in Chelyabinsk, where at the presence of the Italian Ambassador Cesare Maria Ragaglini was inaugurated a plant for the design and production of oil transport pumps made in joint-venture between 'Termomeccanica Pumps', the Russian company Transneft and the Chelyabinsk company, Konar. The Italian company from La Spezia, represents the technological partner, as well as provider of the funding, designed the plant, whose construction and cost a total of around 50 million euros, tells the embassy said in a statement.

*"It is a perfect example of how Italy can contribute to the process of modernization and diversification"*¹²⁰ in accordance with the policies launched by the Russian institutions.

¹¹⁹ October 16, 2016, *Italian Businessmen Set to Develop Winemaking and Wine Tourism in Crimea*, Yalta International Economic Forum Foundation;
web: <http://forumyalta.com/news/7/?langswitch=en>

¹²⁰ April, 25, 2016, *Russia: Transneft inaugura fabbrica insieme a Termomeccanica*, AGI; web: http://www.agi.it/russia/2016/04/25/news/russia_transneft_inaugura_fabbrica_insieme_a_termomeccanica-720462/

Conclusion

Despite the imposition of sanctions on Russia by Western countries in 2014 and the prompt response of the Russian government with countersanctions has not discouraged the long-lasting relations between Italy and Russia.

The purposeful attitude of Italian institutions and entrepreneurs towards trade with the Russian partners is justified by the positive trend that the Russian economy has experienced in the recent period, starting from the last semester of 2016, and is confirmed by the predictions for the 2017. In fact, the great confidence and enthusiasm is supported by the surplus in balance of payments, and the recovery of oil prices, significant factor strictly connected to the reestablishment of the ruble value.

According to different statistic data, during 2017, the Russian GDP will slowly grow and reach a point of stabilization. Moreover, as declared by the Central Bank of Russia, the main objective is to bring the inflation rate to the 4%, sustainable goal given that in the beginning of this year it has already decreased to 5%.

Although at first glance the critical international circumstances are not certainly favoring the trade relations among the European countries

and the Russian Federation, the Italian and Russian entrepreneurs, along with the Italian institutions “Sistema Italia” are absolutely convinced that their relations should be preserved through the creation of different models of cooperation, by moving from the traditional import-export prototype to modern ways of collaborations, more compatible with the current economic situation.

In light of this overview on the business environment, I explained the alternative model which should respond better to the contemporary events. For the sake of clarity, I would like to point out the main features that the modern Italian-Russian trade relations are assuming since the sanctions have been imposed:

- “Made with Italy”;
- Localization in the Special Economic Zones and other investment attractive regions;
- Italian-Russian joint-venture seeking the complementarity of Italian know-how and Russian opportunities.

These points represent the core of my thesis. First of all the Russian Federal Law on import substitution has meant that the well-established and appreciated “Made in Italy” shifted to the “Made with Italy”, a closer partnership with the Italian companies. What should be

stressed is the fact that the “Made with Italy” will also be successful in avoiding the imitations that can arise due to the import ban imposed by the Russian Federation in 2014. Thanks to this solid model of cooperation, the Italian products will still survive in the Russian market and the Russian partner companies can benefit from the Italian know-how and expertise to offer high-quality products and services to the “loyal” customers.

As stressed by many specialists, although localizing in the Russian market is not the easiest direction to initiate a new business due to the long administrative processes and “chaotic” bureaucracy, the federal and regional governments are working on bilateral cooperation agreements with foreign countries to attract high-skilled labor and innovative technologies in Russia.

Furthermore the creation of Special Economic Zones in 28 regions and republics of Russia offer attractive opportunities for Italian investors. Through tax breaks, concessions and financial aids to entrepreneurs and residents, the SEZs represent the well-favored locations to localize firms. The Russian market must be faced with a local production project; the traditional export model is exhausted.

Moscow is paying more attention to the new model of industrial cooperation due to the fact that Russia wants to reduce dependence on foreign sources, and be less vulnerable to the sanctions regime. However, the effort to develop the domestic production does not exclude a fundamental role of foreigners, invited to contribute to the development of the country with technology, which still lacking in Russia and to relocate their production.

I picked also a couple of cases in chapter III, of which in my opinion, represent a successful cooperation between Italian-Russian companies in the recent period.

The final outcome of my research prove that, even if the economic crisis for sure affected their trade relations, Russian and Italian investors have merely found different models of cooperation, investments based by the exploitation of all the advantages that the Russian market offers and the success that the Italian products have always had in this country.

ANNEX 1

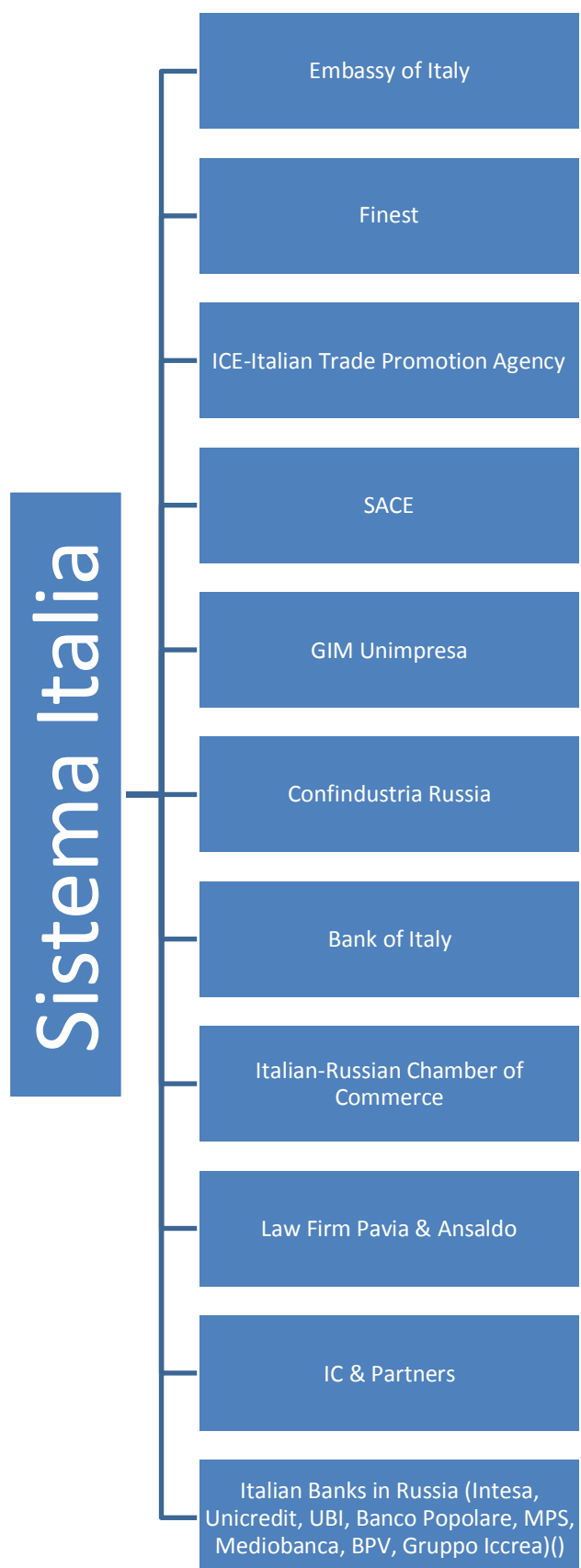
Sanctions EU	Italy goods-products	Countersanctions RF*
Economic and Financial Sanctions	Technology and machinery construction are hit the hardest. Those are Italy's main export sectors to Russia. Those companies providing Russia with the technology to explore and extract fossil fuels in such deep waters as the Arctic will suffer the most	
Import/export of weapons and material going to/ coming from Russia	Technology and machinery construction are hit the hardest. Those are Italy's main export sectors to Russia. Those companies providing Russia with the technology to explore and extract fossil fuels in such deep waters as the Arctic will suffer the most	Meat of bovine animals: fresh, frozen, chilled
Exports of dual-use goods and technology for military use in RF or to RF end-users	The main Italian investment destination remains the energy sector	Pork: fresh, frozen or chilled
Exports of certain energy-related equipment and technology to Russia are subject to prior authorization by the MSs	Agribusiness: export of food products to Russia has also suffered because Moscow has imposed its own counter-sanctions	Meat and edible offal of the poultry: fresh, chilled or frozen
Services for deep water oil exploration and production, Arctic oil exploration or production and shale oil projects in Russia may not be provided	The Italian presence also is growing in other areas - defence, household appliances, food processing	Meat salted, in brine, dried or smoked
EU states and companies shall not provide loans to 5 major RF state-owned banks		Fish and crustaceans, molluscs and other aquatic invertebrates
It is forbidden to buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 30 days (issued by 5 banks		Milk and dairy products (excluding lactose-free milk and lactose-free milk products)

and their subsidiaries, 3 major Russian energy companies and 3 Russian defence companies. Services related are also banned.		
		Vegetables, edible roots and tubers (excluding seed potatoes, seed onion, sugar maize hybrid for planting, peas for planting)
		Fruit and nuts
		Sausages and similar products of meat, meat offal or blood; final food products based thereon
		Food or finished products (excluding biologically active supplements; vitamin-mineral complexes; flavour additives; protein concentrates (of animal and plant origin) and their mixtures; food fibers; food additives (including complex ones)

*List of agricultural products, raw materials and foodstuffs originating from the United States, countries of the European Union, Canada, Australia and the Kingdom of Norway, that are banned for imports to the Russian Federation.

Exemptions from countersanctions Exemptions to the embargo include baby food, selected animal products (fat, meat offal) and live animals, as well as some prepared products in the fruit and vegetables sector (e.g. fruit juices or canned fruit). Furthermore, lactose-free milk and milk products, salmon fry, seed potatoes, onion sets, hybrid sweetcorn and dietary supplements are also exempt.

ANNEX 2



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