

## INTERNATIONAL

Italy

# Renzi rocked as Five Star surges in polls

Populists overtake ruling party after calling for a referendum on the euro

JAMES POLITI — ROME

The populist Five Star Movement has emerged as Italy's leading political party, overtaking Matteo Renzi's ruling Democratic party (PD) in four opinion polls that expose the growing vulnerability of the centre-left prime minister.

Five Star, which is led by comedian Beppe Grillo, has called for a referendum on ditching the euro. Its lead reflects a shift in public opinion against Mr Renzi that has heightened fears of a return to political instability and uncertainty in the single currency's third-largest economy.

Investors are concerned about the banking system, which is under heavy pressure because of the large number of

bad loans even as the economy has recovered from a lengthy recession.

Five Star's surge in popularity will also set alarm bells ringing about an autumn referendum on constitutional reform on which Mr Renzi has staked his political career

"A government collapse is more than just a possibility; it is a scenario that we are looking at very closely," said Federico Santi, analyst at the Eurasia consultancy. "It is hard to see what it could take for Renzi and the PD to make a comeback."

According to polls yesterday from Ipsos, 30.6 per cent of Italians support Five Star, compared with 29.8 per cent for the PD. Similar polls in January had Mr Renzi's party leading by nearly 6 percentage points.

In the 2014 European elections, shortly after Mr Renzi took office, the PD defeated Five Star by nearly 20 percentage points.

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Mr Grillo's party won important mayoral elections in some of Italy's leading cities last month, with Virginia Raggi and Chiara Appendino winning in Rome and Turin respectively, Italy's largest and fourth-largest cities.

Both had positioned themselves as youthful voices promising to deliver practical change to disaffected citizens, while shying away from some of Mr Grillo's angrier tones.

The boost to Five Star from the mayoral wins appears to have continued after the UK's decision to leave the EU, suggesting that Italians may be shrugging off any fears about handing over power to political novices.

Mr Renzi challenged PD members to stick with him this week, and called for aggressive campaigning in support of the October vote. "The referendum is not crucial for the destiny of an individual, but for the future credibility of the Italian political class," he said.

The prime minister's position has been further complicated by a furore engulfing Angelino Alfano, his interior minister, over the hiring of his brother by the Italian postal service, which triggered resignation calls from opposition parties. Meanwhile, centrist members of the coalition have threatened to drop their support in the Senate.

Mr Renzi remains hopeful that most Italians will back his reforms as the best chance to streamline the administration of the country and strengthen its economy. A referendum win would also help him regain political momentum.

Beneath the surface, however, there is increasing talk of what might happen should his efforts fail.

It was more likely that a technocratic government would have to take charge than that there would be a quick move to fresh elections, said Mr Santi.

No clear candidate has emerged who would take the reins.

Brexit. Policy trade-offs

## 'Swiss way' gives UK pause for thought

Arrangement with EU hard for Bern to maintain, let alone for London to follow

RALPH ATKINS — ZURICH

Micheline Calmy-Rey, a former Swiss president, thinks she knows what lies in store for Britain after its historic vote to leave the EU last month. She believes the UK has little option but to follow Switzerland itself.

"There isn't what you can call a 'Swiss model'; there is a 'Swiss way'," says Ms Calmy-Rey, who now teaches at Geneva university, referring to the more than 120 bilateral deals that provide Switzerland access to EU markets without some of the burdens of membership.

"I think it is inevitable that the UK will go the same way," she adds. "I can't see any other alternatives working."

Such a path might prove highly attractive for a UK government pondering life after the EU and keen to establish controls over European immigration while minimising economic damage. The Swiss are one of the wealthiest nations in the world, their 8m-strong country a stable, low-tax democracy.

Christoph Blocher, a veteran Swiss People's party politician, argues there are parallels between Brexit and his successful campaign against Switzerland joining the European Economic Area — a way station to membership — two-and-a-half decades ago. "It was the same in our 1992 referendum," he says. "All of the experts had predicted it would be our downfall. It would be an economic disaster, we would be isolated. None of that happened."

And yet Switzerland's arrangement with the EU may be difficult for Bern to maintain, let alone for the UK to replicate. While Europe's leaders scramble to deal with the UK, the Swiss are frantically seeking ways to preserve a web of trade and other accords while implementing the outcome of a referendum that has caused problems of its own.

In February 2014 the Swiss voted narrowly for quotas on EU immigration — in contradiction to the principle of free movement of people across the EU.



Campaign posters in Lausanne before the 2014 vote on immigration quotas. Below, Micheline Calmy-Rey

Denis Balibouse/Reuters



"Like in the UK, nobody has a plan," says Max Stern, co-founder of Foraus, a Swiss foreign policy forum. "There are ideas about what we might do but we don't know how the EU will react. It's a super high-risk situation."

UK Brexiters might in any case object to the way Switzerland pays into EU programmes and has to adopt many of the rules — without having a say over them.

But with Switzerland formally abandoning its goal to join the EU, Brussels has refused to deepen ties further until the country has signed up to a broader deal to adopt EU rules as they evolve. Swiss voters would almost certainly reject any agreement to obey rulings of the European Court of Justice — also one of Brexiters' chief causes of complaint.

If Bern also reneges on free movement of people, many of the most important existing bilateral deals with the EU could also become void. Already, the stand-off has

cast doubt on future participation of Swiss universities in EU research. To the dismay of Swiss banks, talks on a financial services deal have been shelved.

Some Swiss see the UK vote as helpful in finding a way out. "Great Britain is a bigger power, it has leverage," says Ms Calmy-Rey. "Switzerland could benefit from Brexit because it gets a de facto ally in its negotiations with the EU."

When it comes to scientific research programmes, "the EU will not want to exclude the UK's world-class universities", argues Thomas Aeschi, one of a new generation of Swiss People's party leaders. So there would be concessions too for top Swiss institutions, he says.

The debate over the UK could open possibilities that would work for Switzerland, Mr Aeschi adds. "The EU has to recognise that it needs models which allow different countries to move at different speeds — including on the free movement of people."

But the timing of the UK vote was bad for Switzerland. A three-year deadline

for implementing the 2014 referendum result expires next February.

"Brexit will mean a bumpy ride because of the spillovers," says Alexis Lautenberg, former Swiss ambassador to the UK. "Short term, it will penalise Switzerland because we don't know the policy trade-offs that will be decided for the UK — and won't for some time."

Swiss officials are working on compromise solutions, such as an "emergency brake" to halt immigration if the country becomes overwhelmed. A solution might have to be temporary pending resolution of the UK's own immigration concern. To break the stalemate, Switzerland will probably need another referendum on its EU relationship.

"Up until now we could always find compromises that were in the interests of both sides," says Christa Markwalder, a senior politician in the liberal FDP party. "I don't know whether the pragmatism on the EU side is still there."

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Europe must fix its banks page 11

Barcelona footballer

## Messi handed 21-month jail term for three counts of tax fraud

TOBIAS BUCK — MADRID

Lionel Messi, the Barcelona footballer, has been sentenced to 21 months in prison by a Spanish court after being found guilty of three counts of tax fraud.

Mr Messi's father, Jorge, who acts as his adviser and manager, was also sentenced to 21 months in prison. In addition, the four-time world footballer of the year was ordered to pay a fine of €2.09m, and his father €1.6m.

Legal experts said that neither man was likely to spend time in jail, as Spanish judges habitually suspend jail sentences of less than two years for first-time offenders. Mr Messi and his father also have the right to appeal against the decision, which was handed down by a criminal court in Barcelona, to Spain's Supreme Court.

But the judgment is a blow to one of the world's most admired and best-paid sportsmen. It follows hard on the heels of his decision to retire from the Argentine national team after losing last month's final of the Copa América, his third successive final defeat with the national side since 2014.

According to the ruling, Mr Messi "failed to declare to the Spanish tax authorities in his personal income tax statements in the years 2007, 2008 and 2009 the income obtained from the exploitation of his image rights". The actions taken by Mr Messi and his father were part of a "strategy", the court added.

The footballer, who appeared in court last month, was accused of defrauding the tax authorities by using offshore accounts to conceal earnings in a trial that centred on the alleged unlawful activities of his father. But authorities said the Argentine player knew enough to also be charged in the case.

The pair were accused of using companies in Belize and Uruguay to avoid paying taxes on €4.16m of income earned through the sale of the footballer's image rights between 2007 and 2009. The income related to contracts with Banco Sabadell, Danone, Adidas, Pepsi-Cola, Procter & Gamble and the Kuwait Food Company. Both men had denied any wrongdoing.

In August 2013, the pair made a voluntary "corrective payment" of €5m — equal to the alleged unpaid tax plus

interest. Mr Messi's lawyers had argued that he had "never devoted a minute of his life to reading, studying or analysing" the contracts.

The judges acknowledged this argument in yesterday's ruling: "[Mr Messi's] line of defence has always been the same... he only played football, all the decisions were taken by the lawyers, and he never asked his father anything because he trusted him."

But the ruling also argued that Mr



Lionel Messi and his father, Jorge, in court during their Barcelona trial

Messi had signed numerous papers relevant to the tax fraud over several years and concluded that his "lack of knowledge was the result of an earlier decision, more or less conscious, not to acquire it."

The judges added: "This was no error and it cannot lead to the avoidance of responsibility. You cannot err about something that you had no interest in knowing."

There was no immediate response from Mr Messi and a spokesman for the player did not return a call. FC Barcelona gave both Mr Messi and his father their full support.

Legal experts pointed out that the verdict was unlikely to have a direct impact on Mr Messi's playing career.

"In cases where the sentence is less than two years in prison, the judges can suspend the jail term provided there are no previous convictions and that the civil penalty has been paid," said Javier Cremades, chairman of Cremades & Calvo-Sotelo, the Spanish law firm. That approach was taken in "99 per cent of cases", but Mr Cremades cautioned that judges in a recent fraud case involving a Spanish flamenco singer had decided to impose a jail term regardless.

GLOBAL INSIGHT

BRUSSELS

Alex Barker



## European project's bonds of trust show signs of wearing thin

Europe's political troubles are legion, from migration and the euro to Brexit and swaggering populists. Sitting uncomfortably astride them all is Jean-Claude Juncker, the embattled European Commission president.

Long accustomed to being the fall guy for national politicians, the EU's executive arm is once again in the line of fire. But this time it is confronting a different order of challenge, both to its leadership and credibility as an independent enforcer of the bloc's common rules.

The latest Brexit vote has created an open season on sniping against the commission, stretching to calls for Mr Juncker's head from some disgruntled eastern Europeans.

Politicians invariably harbour grievances over being "lectured by the schoolteacher" in Brussels, as Matteo Renzi of Italy bluntly put it. But this has taken a different tinge with four referendums — in Greece, the Netherlands, Denmark and UK — on EU issues in the past 12 months alone, all of them defeats for Brussels.

Ever sensitive to threatening swings in political mood in capitals, Mr Juncker's commission has begun to bend. On Tuesday Mr Juncker ducked a confrontation over the Canada trade deal, giving national parliaments a veto.

He has also tried to find a middle way on fiscal discipline, showing leniency and delaying a reckoning with Spain and Portugal for breaking budget rules, while still claiming the commission is applying the rule book. It is a balancing act that is probably impossible and certainly thankless.

The grievances against Mr Juncker have taken many forms, from complaints about his style, work rate and erratic moments, to unhappiness with his tendency to favour the oldest EU members states, while neglecting relative newcomers in the east.

But most worrying of all for the guardians of the EU project is a defiant, will-not-comply attitude taking hold in some member states. That is a bigger issue than Mr Juncker. The European project rests on good faith and respect for the law, and on several fronts those bonds of trust are wearing thin.

Take the dissent voiced by Manuel Valls, the French prime minister. He has threatened to "no longer apply" the EU's laws on workers posted from one EU country to another unless they are changed to stop cheap expatriate workers allegedly undercutting French standards.

Meanwhile, eastern Europe is still up in arms over the commission's drive, inspired by Germany, for mandatory refugee quotas. The law was passed, but in practice little happened. Fewer than 3,000 refugees have been relocated since the law passed in September.

Mr Renzi is meanwhile struggling with Italy's banking vulnerabilities and blaming the EU's curbs against state rescues. In the past he has likened EU discourse to being nagged by "an old boring aunt". To tackle Italy's banking crisis, he tells aides he is willing to act without its approval if necessary, following an Italian interpretation of EU rules.

Then there is Germany. While Mr Juncker's migration policies fit Berlin's agenda, his softly-softly approach to fiscal rules has upset Wolfgang Schäuble, Germany's finance minister. Over the weekend he gave the commission the cruelest message of all: get stuck in with practical solutions to Europe's problems or national governments will "take matters into our own hands".

Mr Juncker's allies hope that what they see as a bout of score-settling will pass. While there is some discontent in Berlin, Angela Merkel, German chancellor, is not expected to give a final push to Mr Juncker. One senior EU official wryly noted that only one thing Berlin hates more than a weak commission president is a strong one. But as David Cameron discovered last month with the Brexit vote, Brussels bashing can backfire. No national politician is an island when it comes to the EU. As Frans Timmermans, commission vice-president, warned national leaders on Tuesday: "Brussels is a metaphor for all of us."

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