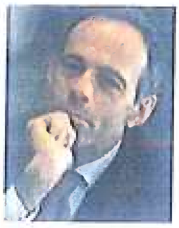
Fire sale

Italy is caught in a paradox, says Alberto Saravalle, between wanting to protect its treasured domestic businesses from foreigner 'looters', while needing to raise as much cash as possible to service its massive sovereign debt



Alberto Saravalle is the managing partner of leading Italian law firm Bonelli Erede Pappalardo

Italy is trying to have its cake and eat it in response to a political and public outcry over the loss of several 'national treasures' to the clutches of foreign companies – Parmalat and Bulgari being the two most egregious examples.

On the one hand, ministers considered putting a series of protectionist measures in place; on the other, the government may need to sell some of its holdings in state-owned companies to reduce the huge deficit that is putting the country's solvency at risk.

French raids

In the past few months, the acquisition of Parmalat — one of the biggest Italian listed companies in terms of market capitalisation — by the French dairy group Lactalis, has caused huge debate in the financial and political communities. The announcement of the acquisition came soon after yet another French multinational, luxury goods conglomerate LVMH, acquired Bulgari. At the same time, other major French businesses were seeking to acquire control of insurance and power companies.

When Lactalis increased its stake in Parmalat to around 29 percent, the Italian government tried to place certain hurdles to delay the French takeover, hoping in the meantime that Italian banks would find a group of industrial partners willing to act as 'white knights'. The government also considered the possibility of issuing a decree granting it new powers to block foreign bids for companies deemed 'strategic'.

However, ultimately, as there was no strong Italian industrial partner willing to enter the fight, Italy decided to abandon Parmalat to its fate, and Lactalis managed to complete its takeover bid.

But following the thunderstorm of that acquisition, the government has taken steps to make it easier to defend its 'national champions' in the future, without incurring the wrath of the European Commission. The Ministry of Economy has promoted the establishment of a new fund to invest in companies of 'significant national interest', a definition that is interpreted broadly and heralds a new age of protectionism.

The fund has been established by the *Cassa Depositi e Prestiti*, which is expected to invest some €4 billion. It will be off the state's balance sheets as its funding does not actually come from public debt. It is open to banks, insurance companies and other institutional investors but, interestingly, it is also anticipated that in the near future participation will be open to foreign private investors.

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Particularly interesting about the establishment of the fund is its illustration of how government policy has shifted from introducing restrictive measures aimed at deterring foreigners from taking over Italian companies, to the more far-reaching goal of stimulating the market for domestic mergers and acquisitions, so as to counter foreign competition. This latter goal is clearly more ambitious in the short term. However in the longer term, it is obviously more desirable and consistent with Italian obligations under European law.

So far so good – the fund seemed sufficient to satisfy the immediate requests of those factions within the government that believe the country is undergoing a 'looting' of its strategic assets. Unfortunately for them, however, the euro crisis is forcing Italy to find a means of reducing its huge sovereign debt, which might well entail selling some of its 'crown jewels', including large stakes in strategic companies. Thus, the paradox is that while the ministry is promoting a fund to acquire Italian companies at risk of falling prey of foreign investors, the government may be forced to put on the market its interests in large Italian companies that it already owns.

Chinese take-away

This shift in its industrial policy caused by the current debt crisis is also evident from the change of attitude shown by the former Minister of Economy, Giulio Tremonti, *vis-à-vis* Chinese investments in Italy. In his 2008 book *Fear and Hope*, Mr Tremonti warned of the dangers of globalisation and the impact of Chinese exports on western economies.

However, before handing over the reins to Mario Monti, Mr Tremonti forgot the past and met the head of China Investment Corporation, the country's sovereign wealth fund, to urge the Chinese delegation to consider buying Italy's sovereign debt and making strategic investments in Italian companies.

The current euro crisis may force Italy to face reality and let go of its recent protectionist approach. To put it in the words of Lorenzo da Ponte, the opera librettist for Mozart's *Così fan tutte*: 'Non può quel che vuole, vorrà quel che può.' – He can't do what he wants, but he'll want what he can do.