

Sharing the Re-Power

The chairman of the Italian electricity exchange is promoting a juicy opportunity among Italian banks and industry players: rebuilding generation systems in the Balkans. It is raising strong interest

The European Bank for Reconstruction and Development (EBRD) recently stated that the potential value of the electric systems that need to be rebuilt in the Southern part of the Balkan Peninsula (i.e. countries like Romania, Bulgaria, Albania) can total up to EUR 7 bn. "The business is there, up for grabs. Italian companies just need to go in and get it," says Giorgio Szegö, chairman of the Italian Power Exchange. Szegö, who is also a professor of Financial Markets Theory at La Sapienza University in Rome, contributed largely to the incorporation of ItalEnergy, a partnership, sponsored by the Italian government, that groups leading Italian banks, the operator of the transmission net-

work, the power exchange and the Single Buyer (Acquirente Unico), which acquires power on the exchange on behalf of small retail consumers.

Lombard: Can you explain more in detail what the purpose of ItalEnergy is and how the agency will work?

Szegö: ItalEnergy is an association recently founded by the GRTN, the GME and the AU (all of them bodies in charge of the distribution of power and of the operation of the power market) under the sponsorship of the Ministries of Productive Activities and Foreign Affairs. The major players in the energy sector have also expressed their interest in joining. ItalEnergy's goal is to create an alliance be-

tween the Italian government, financial institutions and industries with the purpose of helping Italian companies operate in Eastern Europe. The reconstruction of infrastructures in the Balkan Peninsula and throughout all of Eastern Europe is big business. Some





of these countries recently joined the European Union and need to renew their power generation systems entirely. Others, like Croatia, have been growing very fast over the last few years and are on the waiting list to become members of EU. It is a situa-

tion that reminds me of Italy 60 years ago. There are countries to rebuild, but competition is fierce. German, French and Austrian companies are also interested. For this reason, companies should not be left alone in their efforts. They need the intervention of the

Italian government and of domestic banks.

Lombard: In which way?

Szegő: Banks are the first to know when a local government is preparing to launch an infrastructure project, since it needs financing. In this respect, Italian companies are lucky. Some of our major institutions, Unicredito Italiano and Banca Intesa in particular, have built a widespread network in those regions that entrepreneurs can take advantage of. When government authorities contact local banks for financial support, the institutions owned by Italian banking groups are among the first to know. Those groups in turn can inform ItalEnergy, which will line up Italian companies interested in bidding for the contracts. Correct intelligence and timing are fundamental.

Lombard: Have you already discussed this with Italian banks? What kind of feedback did you get?

Szegő: I mentioned the issue to Banca Intesa. I contacted them because it owns one of Croatia's largest banks, Privredna Banka Zagreb, and the management seems favorable. There is a lot of potential business in the region: project financing, loans and several other products. The Adriatic republic could be one of the first countries to renew its power generating system, and it is planning to build a series of coal-fired power generation plants. Moreover, let's not forget that Unicredito Italiano



AN ITALIAN WITH HUNGARIAN ROOTS

Born near Como in 1934, Giorgio Szegő, the chairman of GME and ItalEnergy, has Hungarian blood in his veins. In the late 1800s, his grandfather was a doctor in Budapest, who moved to Istria to create a hospital for children, near today's Croatian city of Rijeka (at that time both cities were part of the Austro-Hungarian Empire). Between the two World Wars, Rijeka became part of Italy, and Szegő's father left the border area to move further inside Italy. Szegő received a degree in Physics from the University of Pavia in 1956, and then spent six years between Germany – Technische Hochschule Darmstadt – and the United States, before starting his academic career as professor of mathematics in Italy. In 1975, he was appointed rector of the University of Bergamo, where he lectured financial mathematics. In 1984, he became professor of Monetary and Financial Market Economics at Rome's La Sapienza University, where he still teaches. An advisor of the International Monetary Fund in 1981 and in 1992, of the World Bank in 1982 and of the OECD in 1988, he was also chairman of the European Finance Association in 1988 and of the Italian institute of options and futures from 1990 until 1996.

controls another one of Croatia's large banks, Zagrebacka Banka.

Lombard: How should the Italian government become involved in this project?

Szegö: First of all, the government has singled out Eastern Europe as a strategic area in which Italian companies, not only of the energy industry, have the best opportunities to expand. This means that the government will back initiatives that go in this direction. The Treasury is still Enel's major shareholder and government approval is needed on many occasions. More importantly, moving in those countries is not easy, especially if the sectors in which you operate interface with local authorities a lot, and this is the case of energy companies. In this sense, diplomatic support is fundamental. ItalEnergy's main goal is to co-ordinate all these efforts. Then, there is another factor that could turn out to be critical.

Lombard: What is that?

Szegö: The European Union wants to create an Energy Community for Southeastern Europe, for which it has planned a common Secretariat. Its headquarters will not be located in any of the participating countries since relationships among them are often difficult and Brussels does not want to be regarded as favoring anyone. ItalEnergy is already trying to take advantage of this decision. One founding partner, the GRTN,

found a building in Rome that could host the headquarters of the Secretariat. This might help Italian companies since representatives of Southeastern European energy institutions will be staying here in Rome for long periods, increasing the chance of establishing good relationships with Italian partners.

Lombard: Are there other countries that present good opportunities?

Szegö: The Baltic countries are very interesting. Of course, they do not have the historical and geographical connections that the Balkan nations have with Italy. After their independence from the Soviet Union, Estonia, Latvia and Lithuania have been increasingly attracted by the Scandinavian countries. However, our Minister of the Foreign Affairs recently pointed out to me that these countries might be interested in diversifying their partners. For instance, one of the founders of ItalEnergy, the Acquirente Unico (Single Buyer) has performed some important tasks for the Lithuanian government. This also paves the way for another kind of intervention.

Lombard: What kind of intervention?

Szegö: The former centrally planned economies can rely on managers and technicians with excellent specific backgrounds. Italian companies can create joint-ventures in these countries providing capital and marketing skills. In

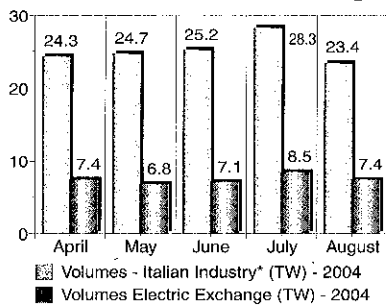
addition to that, these nations are important because they could represent as many launch pads for expansion in larger countries, such as Poland or Ukraine. The Italians supply the capital, the Lithuanians provide the know-how and the joint-venture can operate in Ukraine. Organizations like the World Bank and EBRD back such interventions because local governments don't view them as

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an act of economic "colonization" on the part of the more developed countries.

Lombard: You are also the chairman of the GME. The web-based Italian power exchange should become truly operational by the end of this year with the active participation of buyers. In the initial phase the market operated with the Acquirente Unico - a

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Around 30% Of Power Exchanged

*Including bilateral agreements between companies

special purpose company set up by GRTN, the operator of the national power transmission grid - acting as the only buyer. What is the current situation?

Szegő: We need to improve the financial guarantees backing transactions between buyers and sellers. This is why we are trying to close a deal with a clearing house. At the moment we are in contact with the London Clearing House, the largest in Europe.

Lombard: Which financial institutions seem the most interested in the Italian power exchange?

Szegő: All of the major groups, i.e. Sanpaolo IMI, Banca Intesa, Unicredito Italiano, Capitalia, but also Deutsche Bank, UBS, Goldman Sachs and Morgan Stanley. We know Bank of America, Barclays and JP Morgan Chase are also very interested in the market and making great efforts to get ready. In addition, on October 1, we will launch Simultrade, an internet-based system thanks to which any player planning to join the market can simulate trading activity, thus understanding how the power exchange works, before entering. This will be a sort of training ground for newcomers.

Lombard: What will the next steps of the Italian power market be?

Szegő: Derivatives. We would like to be able to trade forward and swap instruments a few months after the cash market is launched.