FINANCIAL TIMES
MONDAY JULY 19 2010

COMMENT & ANALYSIS
Letters

Italy could ease debt pressures by selling its stake in Eni

Sir, Much has been written about the implications of financial crisis spreading to other heavily indebted countries such as Italy. Indeed, your article "Italy prepares to pass austerity package" (Financial Times July 15) highlights the debate over unpopular spending decisions the government is proposing to implement.

However, as you identify, Italy has a problem that differs from Greece and some other European countries. It is not the budget deficit that concerns the financial markets, but the absolute level of sovereign debt. As long as growth remains anaemic, and is further reduced by austerity cuts, simple mathematics means it will find that the compounding of interest results in its level of debt to gross domestic product increasing. Fortunately, however, Italy is also in the position of having a potential solution to ease this pressure.

The Italian state directly and indirectly owns 30 per cent of Eni, Italy's largest company. Eni is made up of two very large and very different businesses. One is a major downstream utility business, in which it is entirely understandable that the government would wish to continue to have an important stake. The other, however, is one of the largest upstream oil and gas businesses in the world, whose value is enormously constrained by being part of this conglomerate structure. The separation of these two business provides the Italian taxpayer with a tremendous value opportunity (Knight Vinke, which is a shareholder in Eni, estimates the whole group is undervalued by up to €60bn as a result of this structure).

The value that could be released by the state being able to sell part or all of its holding in the upstream business would go a very long way to reducing investors' concerns about Italy becoming "the next Greece or Hungary".

Eric Knight
Chief Executive,
Knight Vinke Asset Management,
New York, NY, US