

Alitalia “the never-ending privatization”

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- EU air transport liberalization implemented on April 1st 1997, completely revolutionized passenger's air transport
- Ryanair and Easyjet are the main European low cost carriers and entered into the Italian market in the beginning of 2000
- The coming of new competitors led to crisis a company which already was facing difficulties, Italian flag carrier Alitalia (the majority of its capital controlled by Italian Economy Department)
- Alitalia has been continuously accumulating operating budget losses. Different Italian governments, were they center-left winged or center-right winged, have always been giving aid to the flag company by continuous recapitalization

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- At the period when flagship company privatization process started, the company were by then in a position of extreme weakness not only financial, but even on the presence on the market side
- During the period 2000-2007, Italian market passed from 68.7 million passengers to approximately 107 million.
- The 40 million passengers variance have been totally carried out by carrier competitors to Alitalia, and mainly by low cost companies.
- Low cost company's market share has been substantially increasing during the first years of 2000. If during 2002 those carriers were carrying in Italy less than 6 per cent of passengers, their share during 2007 had increased enough to reach European level, that is 27.6 per cent.

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Italian Passenger Air Transport Market in 2007

Data: millions of passenger

	Market		
	Domestic	International	Total
Alitalia	11.1	13.5	24.6
Italian Market	27.9	78.8	106.8
Market Share Alitalia	39.8%	17.1%	23.0%

Font: Assaeroporti and Alitalia

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- During the period 1999-2008, air company operating results highlighted losses amounting to more than 3 billion euro
- On the whole during the 12 years preceding privatization, 2 billion euro have been put in by center-right winged governments and 2 billion euro by center-left winged

Alitalia: Net Result from 2003 to 2008							
<i>Data: million Euro</i>							
	Year						Total
	2003	2004	2005	2006	2007	2008	
Net result	-512	-844	-168	-626	-495	-760	-3405
<i>Font: Alitalia's Balance Sheet</i>							

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- Focusing of Alitalia towards European international market instead of intercontinental is a further element helping to explain the bankruptcy of the company.
- Traditional companies, taking advantage from the “*oligopoly*” derived from bilateral agreements signed between contracting States
- In summer 2007, Alitalia's long haul network was under developed towards all main competitors, having less than 150 flights per week
- Alitalia had a network structure really particular, double hubbed: in Milan Malpensa and in Rome Fiumicino. This kind of structure couldn't meet to any economic logic, but was needed to political purposes and to meet the needs of Milan and Rome lobbies.

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Long-haul weekly Flights in summer 2007

Data: weekly flights

Carrier	Weekly Flights
Air France-KLM	954
British Airways	668
Lufthansa	592
Iberia	157
Alitalia	142

Font: Industrial Plan Alitalia

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- During the long privatization process, contrasts in between the center-left winged majority had led to the flop of two stages of privatization and only in the beginning of 2008, when Prodi's government fell, Air France carried out its offer.

1. First Privatization (October 2006- August 2007) – No offer

2. Second Privatization (September 2007 – April 2008) – Center-right wings was against AirFrance offer

3. Third privatization (April 2008 – January 2009) – After the bankruptcy of Alitalia at the end of August, CAI supported by Banca Intesa bought flag-ship carrier's assets.

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- There was several problem in this third privatization:
 - Banca Intesa was the advisor of the privatization and at the end of this process became the second stakeholder of new airline
 - Alitalia assets was sold at a discounted price; in particullary aircraft was evaluated 1 billions of euro, but balance's sheet value was 1.7 billions of euro
 - No value for the slot (also in London Heathrow airport)
 - Italian election campaign have been won in April 2008 by Silvio Berlusconi with the purpose of keeping the flagship company in Italian hands. At the end of the process first stakeholder was AirFrance (25 per cent)

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- New Alitalia has been born on January 2009, with the fusion between Alitalia and AirOne, second Italian traditional carrier, which was in serious financial straits. This merger has been allowed by Italian government by suspending the Antitrust Rule with law 166 of 2008. This law enables fusion between the two companies, even if they had a market share higher than 80 per cent on 18 of 25 main domestic routes.

- The whole privatization has been handled with no efficiency criteria and during the privatization the company kept on weakening on both the financial side and the market side

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During the first eight months of the year, until Alitalia bankruptcy, the market share of the company decreased to 18 per cent, while during the seven privatization trimesters the carrier accumulated operating budget losses higher than 1.4 billion euro

Endless Privatization		
<i>Data: millions of Euro</i>		
Year	Quarter	Net Loss
2006	Fourth	185
2007	First	178.75
	Second	83.75
	Third	90.75
	Fourth	141.75
2008	First	220 (1)
	Second	200 (1)
	Third	340 (1)
<i>Privatization Net Loss</i>		<i>1440</i>
<i>(1) Andrea Giuricin Estimation</i>		
<i>Font: Alitalia Balance's sheet</i>		

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- New Alitalia's network has been arranged on the structure proposed by ex CEO Maurizio Prato in September 2007 between first and second stage of privatization.
- That industrial plan eliminated the double hub structure which, with about 20 long-haul airplanes, was responsible for annual losses higher than 200 million only for the “feeding”. This strategy has also been conditioned by the agreement with Air France, which was proposing to eliminate Milan Malpensa hub because not coherent with previous positioning in Paris Charles De Gaulle and Amsterdam Schiphol
- New Compagnia Aerea Italiana had so decided to confirm this strategy, positioning its hub in Rome Fiumicino and targeting to Leisure customers