The rise of the shareholding state in Italy: A policy-oriented strategist or simply a shareholder? Evidence from the energy and banking sectors' privatizations

Abstract

The shareholding state in Italy emerges following the partial privatizations of State-Owned Enterprises (SOEs) in the 1990s. As today, it is still debated whether the Italian state is using its control shares in former SOEs to pursue policy objectives, or if it is acting passively as other financial shareholders. The limited contributions in this field find that states retaining a minority share are unlikely to influence corporate strategies, while the opposite occurs when a majority share is held. This paper suggests that minority shares may serve state interests too even if the company's statute does not envisage the state to play an active role. This issue is explored through a case study of the partial privatizations of the majority-owned CDP and the minority-owned Eni, operating respectively in the banking and energy sectors. Their different level of financialization unveils the diversified strategies adopted by the Italian state to preserve national interests.

Keywords

State-Owned Enterprises; State-Invested Enterprises; Partial privatization; Industrial development; Energy security

1. Introduction

The rise of the shareholding state in Italy dates back to the early 1990s, when large-scale privatizations were launched across key sectors of the economy. It reflected a major paradigm shift in the approach to state intervention in the economy. Globalization and European economic integration were key drivers of this process of change, inducing the Italian state to reshuffle the ways political and economic interests were structured under consolidated forms of governance. The privatizations of former State-Owned Enterprises (SOEs) were either full or partial, and they were implemented along with the liberalization of markets in which SOEs operated.

In case of partial privatization, significant equity stakes have been retained by the Italian state in former SOEs. This was done mainly to prevent potentially destabilizing effects resulting from the governance change. However, what is less evident is whether the state has been using its privileged position as major shareholder also to pursue a policy agenda, or if it is only passively earning its dividend as many other shareholders. Another question concerns the nature of majority or minority stakes held by states, and whether these indicate a major or minor influence on the board and the intent to pursue policy objectives.

To answer these questions, it is important to reconstruct the process of SOE reforms, including the emergence of State-Invested Enterprises (SIEs)[1], and understand their current nature. Their corporatization, and subsequent listing in stock exchanges, has entailed the entry of private shareholders and the change of their statutory objectives and governance, from being policy-oriented to targeting profitability as the primary objective. The goal was to improve operational efficiency, while at the same time reducing political interference in the management. In addition, privatization was functional to reducing public debt and take advantage from the opportunities provided by the globalization. Abundance of financial capital globally made it possible to increase market capitalization and the scale of production. Increased dimensions and reduction of barriers to trade made it possible for their internationalization, restructuring and reorganization as multinational corporations.

However, the partial nature of most privatizations entailed that important equity stakes were retained by the state. This resulted in a peculiar ownership structure known as "mixed" (public-private) ownership and characterized by the coexistence of state and private shareholders. Mixed ownership can occur both in SOEs, in which the state retains a majority stake of more than 50%, and in SIEs, in which the state retains a minority stake of less than50%. Although mixed ownership in SOEs has precedents in the Italian history, and particularly in the State holding *Istituto per la Ricostruzione Industriale (IRI)*, the model of SIEs is today dominant among large corporations in which the state is a shareholder.

The literature on the policy implications of the shareholding state operating in SOEs and SIEs is limited. Most of the contributions focus on the performance of SOEs vis-à-vis Private Enterprises (PEs) (Boardman and Vining, 1989; Domberger and Piggott, 1994; Megginson and Netter, 2001). In recent years there has been a return of interest on SOEs and SIEs, on their importance to boost

[1] SOEs are business enterprises in which states exercise substantial influence through full ownership or by retaining a majority stake (superior to 50% of the total shares). By contrast, SIEs are commonly identified as business enterprises in which states retain a minority stake (inferior to 50% of the total shares) (Clò et al., 2017).

investments during economic crises (Bance and Bernier, 2011; Bance, 2012), on their contribution to national security (Millward, 2011) and to the services of general interest (Christiansen, 2012; Florio, 2013; Bance and Obermann, 2015).

A question that is still largely unexplored by the literature, and that is addressed by this paper, is whether and to what extent SIEs can, on behalf of states, pursue industrial policy objectives that were traditionally pursued through SOEs. Few recent contributions have explored this direction. For example, Cardinale (2017; 2019a; 2019b; 2020; 2021) shows that the Italian state can pursue energy security through its own SIEs, but only if private shareholders benefit from it. Clò et. al (2017) show that Mergers & Acquisitions (M&As) carried out by SIEs are mainly motivated by profitability, while M&A carried out by SOEs are more often driven by industrial policy objectives. In a similar vein, Bass and Chakrabarty (2014) argue that SOEs are active in the global energy markets mainly to supply the domestic market, while SIEs do not explicitly pursue energy security.

Considering the increasing importance of financial shareholders in partially privatized SIEs, the paper bridges the body of literature on SOEs and SIEs with the strand on financialization of the economy. Financialization studies the exponential growth of the financial sector in the economy and its pervasiveness and influence in different sectors (Krippner, 2011). A strand that is directly relevant for this paper studies the increasing penetration of financial shareholders in non-financial firms (Lazonick, 2011; Froud, Haslam, Johal and Williams, 2000; Lazonick and O'Sullivan, 2000), and how this led executive managers to prioritize short-term profitability at the expense of long-term growth and innovation (Deutschmann, 2011: 358; Lazonick, 2012). However, little attention has been paid to whether and how financialization affects SOEs and SIEs and particularly the state's interests connected to them. Previous studies showed that, in other forms of public-private governance (Belotti, 2021; Lagna, 2016), financialization does not necessarily prevent the state's ability to pursue policy objectives, but whether and how this occurs in the transition from SOEs to SIEs is still unclear.

To do this, the paper explores the relation between state and private (financial) shareholders in today's SOEs and SIEs in Italy. This is done through a comparative case study[2] of Cassa Depositi

[2] The findings of this case study do not aim to reach generalizable conclusions for the rest of Italian SOEs and SIEs, as each company has witnessed a different process of privatization, due to sectoral specificities. However, the insights deriving from this analysis may prove a useful starting point for further empirical analyses of other privatized

e Prestiti (CDP) and Eni, which are among the largest Italian SOEs and SIEs operating in the banking and energy sectors, respectively. The comparison shows similarities and differences that help interpret the current strategy of the Italian 'shareholding state'.

CDP and Eni maintained significant state shares in their ownership structure. However, they introduced managerial practices from the private sector that prioritized performance and profitability, while reducing state interference to a minimal level. Although one can argue that this approach is rather passive and that the state could play a more active role in co-designing SIEs' strategies with private shareholders, it is equally evident that the current stakes (majority or minority) retained in former SOEs allow the state to play a role. For example, they make it possible to ensure financial stability, to veto potential hostile takeovers, or to co-design long-term corporate strategies that reconcile industrial policy objectives along with profitability.

The paper finds that the decision to retain a majority share in CDP while retaining a minority one in Eni can be explained by important sectoral specificities between the banking and energy sectors and different state objectives connected to them. A majority share of 83% in CDP is necessary to ensure financial stability and a strategic vision compatible with state objectives, because CDP plays a systemic role in the Italian economy as a controlling shareholder in most Italian SIEs operating in strategic sectors (energy, infrastructure networks, high-tech). In addition, CDP's majority stake can be a useful bargain vis-à-vis the private shareholders, which are Italian banks with rooted interests in the country and a clear industrial vision. For this reason, the paper defines the privatization of CDP as a case of 'strictly controlled financialization'.

By contrast, a minority state share of considerable dimensions in Eni, namely 30% of which 25% retained through CDP, is sufficient to reconcile private and public interests. This can be explained by the fact that Eni's production and transport infrastructures that are key for Italy's energy security are also guaranteeing lucrative returns to private shareholders, which would unlikely advocate to divest from these assets and embark on alternative, uncertain investments. In addition, differently from CDP, Eni has a fragmented shareholder base owning maximum less than 2%, which makes it easier for the state to avoid board decisions that are potentially harmful for national interests. Therefore, the paper defines Eni as a case of 'moderate financialization'.

Lastly, the paper provides further insights over the transformation of the two companies by

companies. See Dion (2003) and Yin (2009) for further details on the methodology of the comparative case study.

exploring some aspects of their relations. For example, it explains the rationale for the acquisition by CDP of some of Eni's former subsidiaries operating in the Italian transmission and distribution energy markets, and why their capital has been opened to financial investors to a greater extent comparing to companies, thus being subjected to a process of "advanced financialization".

The paper is structured as follows. Section 2 reconstructs the reform of the banking sector and the emergence of the banking foundations. Section 3 shows how the partial privatization of CDP has led to the rise of a new public-private governance in the Italian banking sector, in which the banking foundations and the state are key players. Section 4 shows how the partial privatization of Eni was done by considering the importance of the international dimension of its business and its critical role for energy security. Section 5 analyses the rationale for the state to consider a different approach to privatization of companies operating in the domestic market, particularly those operating transmission and distribution energy networks. Section 6 provides concluding remarks on the rise of the shareholding state in Italy and on the different strategies of privatization pursued in the banking and energy sectors.

2. The reform of the banking sector and the rise of banking foundations

As non-profit financial actors, the banking foundations played a major role in the reform of the Italian banking sector started in the early 1990s. Gradually, they became key players in the newly emerged governance, particularly because of their increasing influence on CDP, in which they purchased important shares in occasion of its partial privatization in 2003.

The reform of the Italian banking sector occurred under the pressure of financial globalization and European economic integration. Privatization and consolidation of the banking sector enabled domestic banks to scale up their lending activity and face increasing competition resulting from the deregulation of international financial markets. In addition, privatization of state-owned banks was part of a wider effort by the state to contain public debt and meet the prerequisites for joining the European Monetary Union.

Prior to reforms, until the1980s, the Italian banking sector was dominated by public saving banks and state-owned banks, which accounted for almost 60% of the sector's total assets, as well as by cooperative and mutual banks. By contrast, private banks and other branches of foreign banks were a marginal segment of the domestic credit system. The banking sector reform (see Figure 1) favored the transition from a state-dominated, highly fragmented, and regionally restricted system to a system characterized by the removal of geographical and functional separation between retail and investment banks, the rise of large domestic private banks, and the entry of foreign investors (Fiorentino et al., 2009).

Figure 1. Privatization and consolidation of the Italian banking sector (Fiorentino et al., 2009).

1990	**Number**	**Asset share (%)**
Public banks	93	59.6
Private banks	106	20.5
Coop/mutual banks	823	18.5
Foreign banks	37	1.6
Total	1084	100

2004	**Number**	**Asset share (%)**
Public banks	0	0
Private banks	243	79.3
Coop/mutual banks	475	14.9
Foreign banks	66	5.8
Total	784	100

The privatization of the public saving banks[3] was a driving force in this transition. The reform envisaged each public saving bank to split into two separate entities, a listed bank and a banking foundation. The foundation assumed a dual nature as both the majority shareholder of the listed bank, and a non-profit philanthropist, taking over the bank's traditional role of promoting local economic and social development. On the one hand, the banking foundations were entrusted with the role of leading the process of restructuring of their respective banks. They gradually opened the capital of the newly formed private banks to national and international financial investors, while pursuing mergers and acquisitions with former domestic state-owned banks. On the other

[3] As a result of an initiative by local governments or groups of savers, public saving banks in Italy emerged in the XIX century as local credit providers promoting individual saving, charity work, and economic development (on the historical development of the Italian saving banks, see: De Rosa, 2003).

hand, they were conceived as temporary entities expected to sell their stocks over time, gradually reducing their influence in the banking sector, while only maintaining their role as local philanthropists with dwindling financial resources (Di Nunzio and Gandolfo, 2020).

However, the banking foundations resisted the state's provisions on their spin-off from the newly formed private banks (National Laws 474/1994 and 461/1998) and on reasserting state influence over their management (National Laws 448/2001). The result was that the banking foundations sold just part of the shares held in the banks, while increasing revenues from alternative investments, mainly in the capital markets. This allowed them to continue their investment activities for social development and emerge as key local philanthropists in non-profit sectors, preserving their influence on the corporate governance of the Italian banks. As key shareholders, they have often acted in synergy with state bodies to preserve national interests, for example preventing hostile takeovers by foreign investors.

The privatization of the banking sector gave the banking foundations the chance to develop managerial independence. However, they have evolved as peculiar actors, as the law requires their board to be diversified and include appointed members from the banking sector as well as civil society and local institutions. This made them 'interstitial spaces' (Arrigoni, 2019) where representatives of interests from the financial and political circles interact and reconcile their goals. Embodying a complex balance between multilevel public and private interests, the banking foundations became a link between the national banking sector and local institutions operating at the regional level, traditionally dominated by the public saving banks. Thanks to their dual nature of local philanthropists and key shareholders in the largest Italian banks, they could preserve some of their prerogatives for local development, which historically has represented an important dimension of the Italian credit system.

The increasing influence of banking foundations in the governance of the banking sector is evident in the controlling shares held in the largest domestic banks, in addition to those held in CDP.

Figure 2. Major shareholders (including banking foundations, in grey) of the largest Italian banks Intesa-San Paolo (2020) and Unicredit (2020)

Unicredit	**%**
BlackRock Inc.	5,06
Capital Research & Manag.	5,02
Norges Bank	3,01
A.T.I.C. S.I. Investment	2,02
Delfin	1,93
Fondazione Cariverona	1,79
Fondazione CRT	1,74
Allianz SE	1,13
Others	78.3

Intesa-San Paolo	**%**
Compagnia di San Paolo	6,12
Black Rock Inc.	5,01
Fondazione Cariplo	3,95
Norges Bank	2,1
Fondazione Cariparo	1,79
Fondazione CR Firenze	1,68
Fondazione Carisbo	1,26
JP Morgan Chase & Co	1,13
Others	77

3. Strictly controlled financialization: the corporatization of CDP

The corporatization of CDP, the Italian state's Development Finance Institution, can be interpreted as a process of 'strictly controlled financialization'. In fact, only a minority stake was privatized, and the investors targeted were national, namely the banking foundations. This strategy of privatization can be explained by the systemic role of CDP as major shareholder across several large Italian companies operating in key sectors, including finance, energy, and infrastructure. It was functional to foster a new form of coordination between the domestic credit system, dominated by the banking foundations, and the state. Beside the banking sector, this model of corporate governance was adopted in other key companies operating in the energy and infrastructure sectors, in which both CDP and the banking foundations are major shareholders.

CDP was created as a state-owned saving bank in 1850. It has played a central role in financing public infrastructures since the foundation of the Italian state (Bricco, 2020). The turning point in its development occurred in 1878, when the state assigned CDP the role to collect the postal savings, enabling a substantial increase in the investment capacity. In subsequent years, the role of CDP in serving state interests continued to increase. In 1898, CDP became a Directorate General of the Treasury, while after World War II, its mandate was extended to financing public infrastructures and industrial development.

Since 2003, legislative changes (National Law 326/2003) led to the corporatization of CDP, which became a joint-stock company. However, this major change did not prevented CDP from serving state interests. In fact, the new mission was to purchase large stakes in private companies or former SOEs to boost growth in strategic sectors, especially where the state had lost its ability to intervene directly due to the privatizations. As a result, the corporatization of CDP made it possible for the state to pursue two main objectives of budgetary and strategic nature. First, the state could reduce the public deficit as CDP's corporatization entailed the introduction of budgetary constraints as well as its financial independence from the state budget. In addition, the acquisition by CDP of substantial equity stakes in former SOEs has helped the state to reduce public debt. Second, CDP's acquisitions in former SOEs made it possible for the state to be able to still exercise an indirect influence on them and to potentially pursue industrial policy objectives, thanks to its majority share of 83% in CDP.

Given the systemic importance of CDP, the offering of stocks was not open to the public, but to selected investors. In particular, a group of banking foundations was selected to purchase a stake of 30% (which was subsequently reduced to around 18%), due to their central role in the Italian credit system. The corporatization of CDP became a mutually beneficial deal for both the state and the banking foundations. For the state, the inclusion of banking foundations in the shareholding of CDP was a chance to create a bond with key shareholders in the largest Italian banks and increase coordination among public and private interests in the credit system. The banking foundations, in turn, could benefit from CDP's generous dividends and compensate for the missing revenues from the private domestic banks, from which they were encouraged to divest, following the reform of the banking sector. The banking foundations' entry in the capital of CDP increased their financial strength and reinforced the alliance with the state, making them more resilient and able to withstand the hostile takeovers from foreign investors targeting domestic banks (Bricco, 2020). Despite the corporatization gave large independence to the management of CDP in defining the corporate strategy, it also made CDP a crucial instrument of 'meta-governance', which provides the state with indirect means to strengthen the credit system and to pursue the growth of key industrial corporations through equity investments.

The state, CDP, the banking foundations, and the domestic banks, have increasingly acted in a coordinated way within this framework, as shown for instance by the cases of the Atlante Fund and the Housing Investment Fund. In 2016, the Atlante Fund raised around 4.25 billion euro in subscriptions and bought securitized tranches of bad loans to recapitalize Italian banks, helping the credit system to recover from the 2007 financial crash. The Housing Investment Fund has provided investments for 2.28 billion in affordable housing since 2009 to support quasi-market rental housing policy (Belotti and Arbaci, 2020). In the two cases, Fondazione Cariplo, the largest Italian banking foundation, and a key shareholder of Intesa Sanpaolo, was a leading player. Its influence was evident as it retained a control share in the Atlante Fund, and it was able to nominate part of the management in the investment vehicle that owned the Housing Investment Fund (Belotti, 2021) Other banking foundations took part in these initiatives as investors, while CDP provided substantial equity financing. Italian banks were important investors as well as beneficiaries to a different extent.

CDP's financial initiatives, however, were no longer the univocal expression of the coordinating action of the state towards objectives of public interest. The corporatization of CDP also enabled the banking foundations to exert their own influence on CDP's decisions and contribute to determine its investment strategies.

4. Moderate financialization: the partial privatization of Eni

Eni was a vertically integrated SOE operating in the Italian oil & gas sector until the late 1990s, and the main producer and importer of hydrocarbons for the country. By the 2000s, 70% of Eni's capital was owned by national and international financial investors, while the state retained a 30% minority share, most of it through CDP. Albeit minority, the state share grants a *de facto* control over the company, which is arguably desirable due to Eni's importance for the Italian energy security. The paper refers to it as a case of 'moderate financialization', and it argues that this was suitable to preserve Eni's long-term growth strategy and its contribution to energy security.

In 1953, the National Law 136/1953 established Eni as public body operating in the oil & gas sector. The aim was to reorganize and expand the Italian energy sector to meet the growing demand of energy from a booming national industry. The acquisition of existing energy companies and some exclusive concessions granted by the state made it possible for Eni to become a vertically integrated SOE dominating all phases of the Italian oil & gas supply chain – upstream, midstream, and downstream. While developing the national transmission gas system, its quasi-monopoly position was strengthened further with the acquisition of Italgas in 1967, the monopolist over gas distribution and sales. The activism in exploration and production activities abroad consolidated its monopoly also over imports. In addition to the core business, Eni played a leading role in the chemical industry, as well as in other sectors including system engineering, mechanical, metallurgical, and even textile. An important dimension of Eni's mission to ensure abundant and affordable energy supplies to the Italian industry and households concerned the energy relations with producing countries, which benefited from continuous synergies with diplomatic bodies of the state (Cardinale, 2019a).

Between the 1970s and the 1980s, against the backdrop of Italy's deep industrial crisis, Eni participated in the rescue of several firms under financial distress. This effort, however, diverted substantial resources from the core business and resulted in record-high losses. Eni's financial difficulties exacerbated by the early 1990s, leading to a liquidity crunch in 1993 (Bernabè and Oddo, 2020). Italy's adhesion to the Maastricht Treaty and major political reversals in the domestic political system (Lagna, 2016) were additional decisive factors that created consensus around the idea to reform deeply the corporate governance of Eni. The Decree Law 333/1992 changed the legal status from a public body to a joint-stock company controlled transitorily by the Treasury, and the company started a process of corporatization and partial privatization.

The corporate restructuring began with the spin-off of subsidiaries outside the core business. In parallel to the reorganization of the chemical subsidiaries, Eni sold about 50 firms and undertook the liquidations or mergers of other 57 firms between 1992 and 1993 (Bernabè and Oddo, 2020). After a decade of corporate restructuring, by the early 2000s Eni engaged in several international acquisitions to consolidate its market position as an integrated energy company able to compete on a global scale.

Recapitalization through listing part of its capital in the stock exchanges of Milan and New York by 1995 was key to improve firm's performance. In fact, unlike CDP, Eni allowed national and international private investors to retain about 70% of the shares and orient the corporate strategy towards the prioritization of profitability. This was possible also thanks to statutory changes that granted the management with great autonomy from the state. As a result, the corporate strategy was increasingly affected by a diversified base of profit-oriented private shareholders.

However, the corporatization and partial privatization did not caused the entire loss of influence by the state on Eni's corporate governance. In fact, CDP replaced the state as the major shareholder by controlling 26% of the shares. This superiority vis-à-vis the remaining shareholders grants *de facto* control to the state and the possibility to retain special powers to prevent hostile takeovers and veto board decisions that run counter to state interests, as specified by the provisions on the Golden Share[4]. For example, thresholds on the purchase of significant shares were introduced to avoid excessive influence by financial investors with a short-term investment horizon. In addition, the control share granted to the state the right to appoint most of the board members, both executive and non-executive, including the chief executive officer.

The entry of private shareholders, hence, did not neutralize the influence exerted by the state. It rather modified the mechanisms through which this was exercised. In other words, the Italian state realized that long-term strategic objectives could be reconciled with profitability for private shareholders. The reason lies in Eni's business and positioning in the international energy market. Its physical assets grant long-term financial returns while at the same time are conceived to serve Italy's energy security. These include gas pipelines connecting producing countries to Italy, as well as upstream facilities for the production and export of hydrocarbons to Italy. It is unlikely that private shareholders advocate to divest from these assets and to launch new investments with uncertain returns. In fact, Italy is a very lucrative end market, considering the high-income levels as well as the sustained energy demand due to a large industrial base. Eni's market power in Italy is thus a guarantee on profitable returns, but also a milestone for energy security.

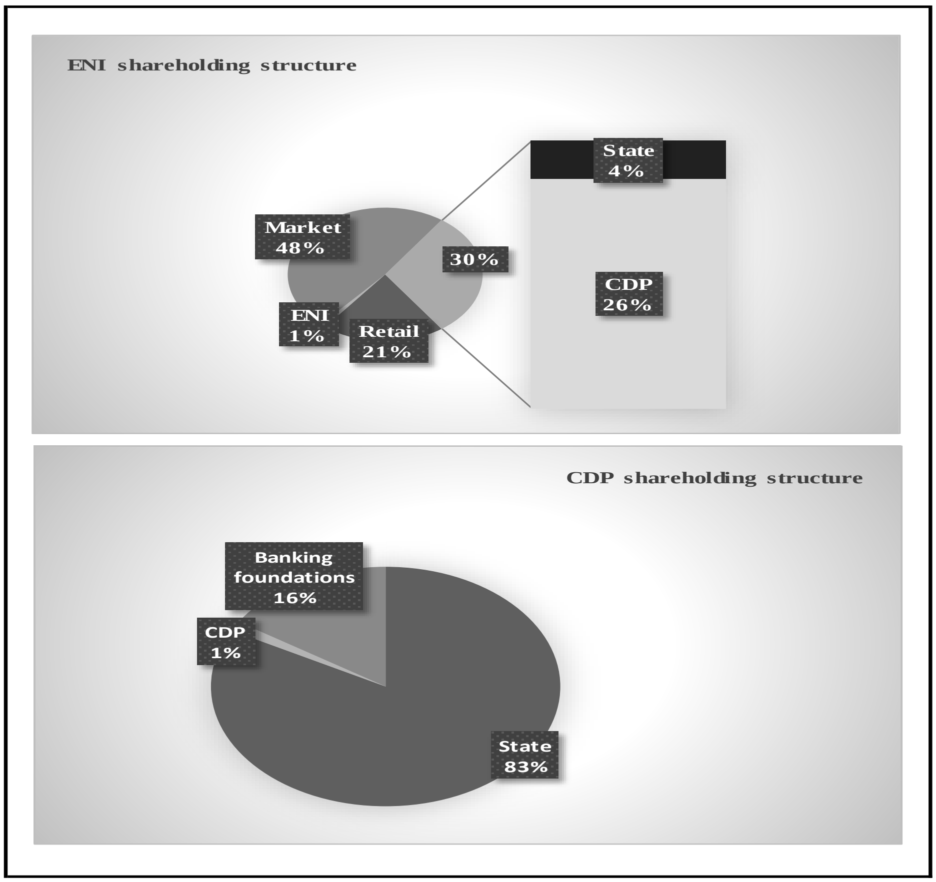
In addition to the interest alignment that the state and private shareholders realize, the state can benefit from the high level of fragmentation among existing shareholders and the fact that they are oriented by one main objective, which is to realize long-term returns. In principle, the fragmentation makes it easier for the state to prevail even with a minority (albeit predominant) share over the remaining shareholders.

Since the 2000s, Eni has undertaken a corporate strategy based on long-term yields for the shareholders. It avoided aggressive dividend policies while prioritizing the generation of cash flows for debt reduction and long-term investments (Eni, 2019). This approach favored long-term investors and discouraged the speculative short-term ones such as hedge funds, which are often a

[4] This included the prohibition for private shareholders to have shares exceeding 3%, the state's prerogative to express preferences on private shareholders with significant shares, veto decisions entailing dissolution, merger or relocation of the company or a change in the corporate purpose (article 2, National Law 474/1994, 30 July 1994). However, most of these special rights have been removed by the legislation on the Golden Power, introduced in 2012, which has reduced this broad set of powers with specific prerogatives concerning only national security (Cardinale, 2017).

source of financial instability. Despite that, international investment funds in some cases retain shares up to almost 2% and can be influential on the executive management. Despite there should be an interest alignment in principle, it is still uncertain whether their goals can be always reconciled with state and public interests, and the nature and extent of their influence in the corporate strategy.

Figure 3. The shareholding structure of CDP (2020) and Eni (2020)



5. Advanced financialization: the liberalization of the Italian gas sector

The liberalization of the gas sector witnessed a decisive acceleration in 2012 with the decision to implement a spin-off of Snam, Eni's subsidiary owning and managing the national gas transmission grid. Through the joint venture CDP Reti, CDP and the banking foundations purchased a majority stake in Snam and in the other major grid companies, namely Italgas and

Terna, which operate the gas distribution and electricity transmission networks, respectively. Foreign investors were allowed to purchase major (albeit minority) stakes in CDP Reti. This granted them extensive influence in the board, although inferior comparing to the stake retained by the Italian state through CDP. The paper defines the reorganization of the domestic gas market as a case of advanced financialization.

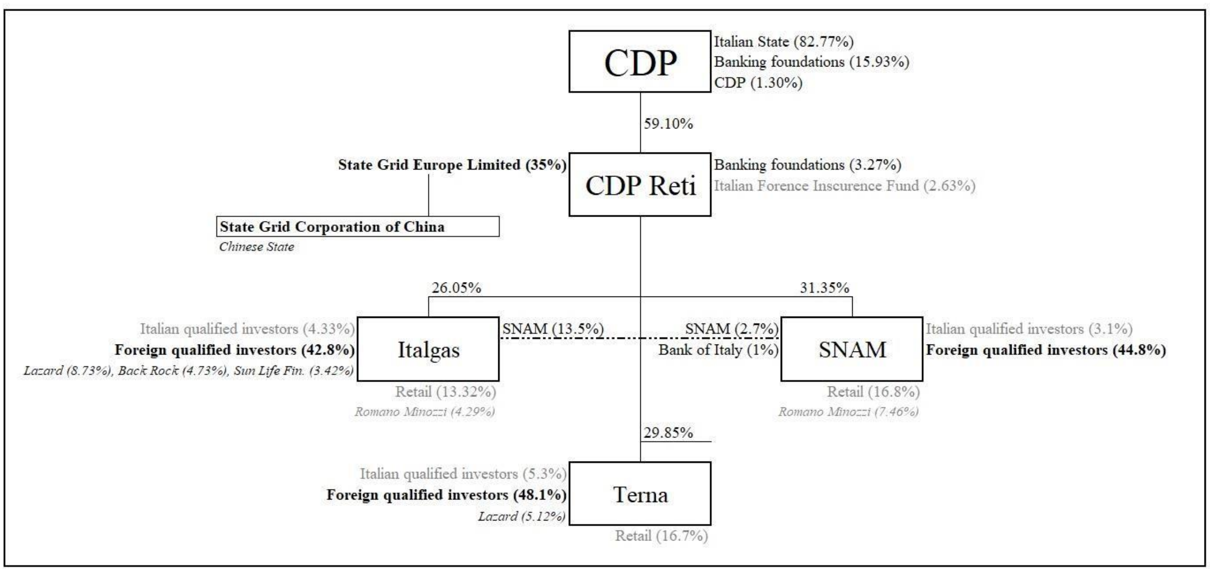
The liberalization of the gas sector led former monopolists to abandon their vertically integrated structure and quasi-monopolistic market power. To encourage market competition, thresholds on market shares were set across the whole supply chain, including gas import, transmission, wholesale, distribution and retail. Eni was prevented from importing more than 75% of the total gas imports, and from selling more than 50% of gas consumed domestically. Thanks to the recognition by the state of Eni's role for energy security, and the lack of specific binding regulations at the EU level, the company could retain exclusive ownership of outstanding gas import contracts, although control stakes in pipelines for the import of gas from Russia had to be sold to competitors.

However, the most relevant spin-offs occurred in the domestic supply chain. The spin-off of Snam from the parent company Eni was conceived to comply with the EU regulation on the liberalization of energy markets (EU Directive 98/30/CE, 30 June 1998), which was executed through specific measures at the national level (Decree Law 164/2000; National Law 40/2007). The regulation envisaged the unbundling of transmission and distribution infrastructures from the former monopolist Eni. Moreover, the new legislation introduced a transitory regime of coexistence between 'free market' and 'regulated market' contract options to protect vulnerable consumers from price fluctuations. It also established the Italian Regulatory Authority for Energy, Networks and Environment (ARERA), in charge of monitoring the progress of liberalization, the quality of service, price affordability for consumers, while regulating access to new entrants and tariffs applied by network operators.

Since 1953, Snam was Eni's subsidiary in charge of building and managing transnational and domestic gas infrastructures. In 2001, the company was listed on the stock exchange and started a new strategy of growth, which also consisted of a series of acquisitions, including the acquisition from Eni of the largest Italian gas Distribution System Operator Italgas in 2009. In 2012, Snam S.p.A. became a separate company from Eni, and a holding corporation, transferring gas infrastructure activities to its subsidiary Snam Rete Gas.

In this process of transition from vertical integration to unbundling, CDP played a key role in securing control over strategic infrastructures, while providing continuity to long-term investment. This was done in 2012 by establishing the investment vehicle CDP Reti, which acquired control over the main energy network operators – Snam, Italgas and Terna. The ownership structure of CDP Reti in principle would have granted CDP a leading and coordinating role in the investment strategies of the Italian energy networks. This would have been desirable due to the importance of energy networks on various dimensions of the public interest. However, CDP Reti's shareholding structure and those of its subsidiaries (Figure 4) changed in 2014 when a 35% stake was sold to State Grid Europe Limited, a subsidiary of State Grid Corporation of China, while 3.27% was sold to the banking foundations. Considering the wide-ranging public objectives that Chinese SOEs might pursue on behalf of the Chinese state (Cardinale, 2021), their increasing influence in the governance of Italian critical infrastructure has raised some concerns.

Figure 4. Ownership structure of Italian companies operating national energy networks (CDP, 2020; Italgas, 2020; Snam, 2020; CDP Reti, 2019).



The high level of financialization in the domestic networks is evident from the remarkable investments by international financial investors. For example, although CDP Reti remained the controlling shareholder of both Snam and Italgas, with 31,4% and 26%, respectively, international financial investors were allowed to purchase the remaining stakes in their capital. Some investors such as Black Rock and Lazard own stakes above 5%, allowing them to potentially exercise a decisive influence in the corporate strategies. As a result of the increasing presence of private and foreign financial interests in the capital of Italian network companies, the ability of the Italian state to pursue the public interest might have been reduced. The decline of the state's influence in the energy sector was accelerated also by the fragmentation of the gas supply chain (see figure 5), following the policies of market liberalization.

Although the unbundling and financialization of key companies in the domestic gas supply chain has apparently reduced the state's influence on a greater extent than in other segments of the energy supply chain, the strict regulation to which domestic energy grids are subjected to by the national legislation may compensate for this. By contrast, the state arguably still retains a controlling share (although a minority one) in Eni to compensate the lack of national jurisdiction and the geopolitical uncertainties that affect extra-EU markets.

Nevertheless, further research is needed to understand whether, for companies operating in the domestic market, the 'soft' coordinating action of CDP Reti and the national regulation is sufficient to reconcile profitability of private shareholders with public interests. The issue is even more relevant under the current energy crisis, which requires a diverse range of policy interventions, starting from an increasing diversification towards renewables and the introduction of decentralized approaches to energy management (Tricarico, 2019), but more importantly the development of an effective approach to energy diplomacy with producing countries.

6. Concluding remarks

This paper finds that both the banking and energy sectors have been reformed by following a similar logic of corporatization and partial privatization via listing in stock exchanges. In both cases, the goal was to reform the previous governance, based on full state ownership, into a system that suits the interests of private shareholders too. Ultimately, the state decreased its influence in key national companies to pursue a major strategic goal, namely, to upgrade their governance to suit worldwide changes such as the increasing globalization and financialization.

The paper shows that the reforms of the banking and energy sectors were not only launched in a parallel way to pursue sector-specific purposes, but also with an overall, inter-sectoral vision to trigger a system-wide transition to a governance that ensure continuity of state action in key sectors of the economy.

For example, the liberalization of the banking sector has witnessed the rise of the Italian banking foundations as key actors in the governance of the national credit system, despite their peculiar nature of non-profit financial entities. As a result, when the partial privatization of CDP occurred in 2003, the banking foundations were allowed to purchase major equity stakes, acquiring a crucial function of link between CDP, as the state vehicle in charge of boosting the growth of strategic sectors, and the private credit system, another fundamental engine of growth for the Italian economy. This peculiar entanglement between state and financial interests is a crucial aspect to understand the way through which the state maintained a certain influence in the economy despite large-scale privatizations.

The paper also shows the rationale for the Italian state to implement different strategies of privatization depending on the specificities of each SOE and the context in which they operate. The majority state share of 83% retained on CDP, and the remaining shares conceded to the banking foundations, is here explained by the need to ensure the financial stability of a holding controlling most of the former Italian SOEs and currently the largest enterprises in Italy, thus, to preserve influence into a player of systemic relevance. For this reason, the paper defines the privatization of CDP as a case of 'strictly controlled financialization'.

Different is the case of Eni, where the state minority stake of about 30% (of which 26% retained through CDP) is a *de facto* controlling share and may be adequate to ensure the pursuit of state strategic interests. In fact, Eni is a company managing mainly physical assets with long-term financial returns. Therefore, it would be unlikely that private shareholders would advocate to Eni's management to divest from such assets, embark on alternative investments whose return is highly uncertain, thus jeopardizing Italy's energy security. Furthermore, Eni's shareholders are highly fragmented among financial actors of different countries and their main goal is to maximize financial returns. The fragmentation makes it easier for the state to prevail among smaller shareholders even with a minority stake, while a mere financial interest can be more easily reconciled with potential state policy objectives. In this way, the state has succeeded to increase Eni's market capitalization to better face international competition in the energy sector, but also to maintain control in a company of strategic interest for the country. For these reasons, given the shareholding state's strong hold on Eni and despite the large involvement of international investors, the paper defines Eni as a case of 'moderate financialization'.

Lastly, the paper analyses the different levels of financialization in Eni's former subsidiaries. It shows that subsidiaries owning and operating transmission and distribution networks, despite their strategic relevance for the state, have gone through an extensive process of financialization, here defined as ‘advanced financialization’. This is the case of CDP Reti, an investment vehicle created by CDP in 2012 that owns a minority share in the national energy networks along with other financial investors. More specifically, CDP Reti has seen a single foreign investor in its capital, State Grid Corporation of China, increasing its stake to an unprecedented level of 35%, vis-à-vis a 59% stake retained by CDP. The paper interprets this as an attempt by the Italian state to open new channels of industrial cooperation with strategic partners, in the idea that the strict regulation to which energy grids are subjected by national and EU laws can prevent excessive foreign interference. However, further research is needed to assess whether strict regulation alone can compensate for the increased influence of foreign investors on corporate decisions.

Whether or not the action of CDP will be effective in ensuring the interest alignment between financial investors and the state, its role in the financialization of the banking and energy sectors in Italy shows a common pattern. This exposes a specific mode of governance characterizing state intervention in financial capitalism, where the state operates indirectly as a major shareholder that keeps diversified levels of control over SIEs operating in strategic sectors. Diverging from dominant assumptions about the phenomenon, the paper does not interpret financialization only as an external pressure that states as more or less passive recipients may resist or favor. Rather, at least in the Italian case, the state has used financialization in different ways according to different goals, modulating corporatizations case-by-case to leave financial investors with greater or more limited room to purchase equity stakes depending on the importance of each SIE for national interests.

To conclude, the process of corporatization and partial privatization of former SOEs made it possible for the Italian state to continue playing a role in large national firms of systemic interest. However, in the newly emerged governance, corporate strategies must be negotiated and co-designed with private shareholders. Depending on the nature and challenges posed by the sector, such as the domestic or international nature of the supply chain and end markets, the domestic abundance or scarcity of the good produced and traded, as well as the objectives and bargaining power of the private shareholders, the state may opt to keep either a majority or a minority share in the former SOE. However, beside the bargaining power resulting from the share retained, a successful and effective state action throughSOEs or SIEs heavily depends on the state’s ability to develop a clear industrial strategy for them. Since the launch of the privatizations in the 1990s, often this strategy has shown the lack of a consistent direction. Despite this, the current positioning of the Italian state in SOEs and SIEs is certainly an important starting point to develop an industrial strategy for the 21st century which reconciles the interest of the private sector with a long-term vision for the country.

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