

Interview: Carlo Tamburi, Enel

‘Globalisation is a one-way street for us’

Italian Enel is no longer all that Italian, these days. Head of International Division Carlo Tamburi explains in Rome how ‘global’ the Ente Nazionale per l’Energia Elettrica has become. ‘We are going to be even bigger.’

| by Maarten Veeger

Fear. Carlo Tamburi can now laugh about it, but until a couple of years ago that was the most important motive for Enel managers to take small steps across the border. Cautiously some initial acquisitions were made in Eastern Europe. It took some getting used to. ‘We mainly bought in Eastern Europe because we wanted bargains’, remembers Carlo Tamburi at his office a stone’s throw away from the Coliseum and the Pantheon. Tamburi is responsible at Enel for international strategy activities, a position which was, until recently, carried out as ad interim by the chief executive officer, but has now become too wide-ranging to ‘do on the side’.

If any European energy company has changed in the 21st century then it is certainly Enel. From a local monopoly Enel has developed into a major player in 21 countries. For the time being, Italy is still the most important market, and after years of necessary down-sizing there is even a slight growth in the home market. But the real fireworks were across the border.

As in Spain, where after a two-year fight with different attempts from other potential buyers, Enel stole Endesa from under the noses of the Germans of Eon. By now, the Enel ‘elettricità’ stretches from Russia to Peru and from the United States to Greece. Turnover in 2007 amounted to €44 billion and the EBITDA (earnings before interest, taxes, depreciation and amortisation) to €10 billion. A quarter of that profit comes from over the border.

In the nineties it was quite different. National monopoly Enel started to diversify with the first wave of liberalisation and privatisation, resulting in the purchase, among others, of a large telecom company, water and waste activities and real estate. ‘We also bought some energy activities in America and Europe’, remembers Tamburi. ‘However, we didn’t actually have an integrated plan. We simply had to do something with our money’.

That changed in 2002, however, with the arrival of the new ceo Paolo Scaroni. ‘We focused on core activities (electricity and gas) and a dual-energy policy. The first foreign acquisitions were made. But it was the fear of remaining a local player that brought us across the border’, says Tamburi. ‘This also forced us to buy whatever was available, because there was not that much. And usually not in Western Europe because that was too expensive.’ Enel had, however, already realised that it had to be smart to invest in countries where wide-sweeping changes were about to occur in the political system, in the liberalisation of the energy markets and in the growth of the economy, such as Romania. ‘In the field of energy the present Romania is now where Western Europe was fifteen years ago. That can only grow’. Tamburi expects to profit from the catch-up situation that Eastern Europe is experiencing. However, some countries are ignored deliberately. ‘For example, we never got into Turkey because liberalisation has stopped there. The same applies to France.



The Italian electricity firm Enel in viale Regina Margherita in Rome. Photo: EPA/Francesca Ruggiero

And neighbouring Switzerland seems logical for geographical reasons, but is expensive and there was nothing for sale. We also wanted to avoid getting into something which would not be completely under our control’.

Big fish |

With Scaroni’s move from Enel to the Italian oil company Eni, Fulvio Conti became the top man at Enel. Under his management the hunger for takeovers became even greater. ‘It was time for a big fish. The telecom division Wind had been sold and we had about €30 billion available for takeovers. The market was ready for it. More and more companies came into the picture as potential prey. A new consolidation race had started and some countries were even open to crossborder takeovers.’ However, the attempt to take over French Suez came up against a wall of French chauvinism. In Spain, however, Enel was successful. In spite of the fact that the Germans of Eon had already been in the race for much longer and had more money at their disposal, Enel managed to take over Endesa. ‘Eon came across as “too hostile” in the fight’, says Tamburi. ‘We cooperated with the Spanish Acciona which already had an interest in Endesa. And we were seen as the knight in shining armour that came to buy Endesa. They were afraid that the Germans would impose their will on the company too much. We had a better rapport with them’.

Tamburi forthrightly admits that national policy is also partly responsible for a favourable environment. ‘Italy and Spain had a good relationship at government and business level. What also helped was that in the same period, the Italian Autostrada came into the hands of the Spanish Abertis, and part of Telecom Italia (in Brazil) was sold to their Spanish counterpart.’ One good turn deserves another.

The purchase of 67% of Endesa cost Enel €28 billion. Tamburi admits that that is a lot of money. ‘It will take some time to earn that back.’ Observers think 5 to 7 years. ‘But that is not how we look at it. The time scale is long in our industry. And we have bought Endesa as a long-term investment. We don’t sit

‘We form an association of independent producers in Russia. We are not alone’

and wait for the day when we have recouped our costs. We already profit from it now and will invest heavily in Endesa’. Moreover, Enel has sold the European part of Endesa (10 GW of installed power capacity, specifically in Italy and France) to Eon.

Russian success |

Not long after Endesa had been landed, Enel had a success in Russia. There, the company acquired an interest of 59.8% for €2.6 billion in ODK5, one of the groups of power stations privatised by the Russian state whose main presence is in the western part of Russia and the Urals. And with that it became the first vertically integrated energy company in Russia. "Upstream" Enel has, together with Eni, a 40% interest in SeverEnergya, one of the largest gas fields of the country. "Midstream" there is ODK-5 with 8.7 GW gross capacity which is fuelled 50% by gas and 50% by coal. And finally "downstream" there is an interest of 49.5% in RusEnergSbyt, a commercial enterprise which sold 35TWh in 2007. Enel therefore has its own gas for its own power stations and a sales channel for the electricity produced.

'Russia is currently the most attractive market', says Tamburi. The country is so interesting because Enel can keep production in its own hands and the market is growing rapidly. 'Megawatt sales are rapidly rising and in addition to that, sales prices are rising briskly as well. Much new infrastructure is being built and in the near future a great deal more power will be consumed. Moreover the state has not invested in power stations for the last twenty years. All very attractive for foreign investors, but also for the Russians, because we bring in knowledge and money and improve the market conditions'.

Yet the investment in Russia also has a downside. 'Russia is still Russia. Democracy is still young. The country is stable, but a small group of people control everything. Market regulation is yet to be completed. These are risks, we are aware of that. The current trend towards liberalisation may also be delayed'. Tamburi trembles at the mention of the example of Shell on Sachalin where the Dutch-British oil company was forced to sell

over half of its exploration activities to the Russian Gazprom. 'Yet the balance is in the right direction when we weigh things against each other. There are risks but there are also profits to be made.'

Just like Enel, Eon and the Finnish Fortum have plunged into Russian power stations. It gives Enel a sense of security to see other Europeans venturing into the east. 'With them we form an association of independent energy producers in Russia. This means we are not alone.' According to Tamburi Enel is, however, ahead of the pack in Russia. 'As Enel alone, we bring in almost €7 billion in investments. Putin has also communicated this to German Chancellor Angela Merkel. In order to encourage the Germans to do more, he said that "Enel invests more than all German energy companies together".'

Vertically integrated |

Enel tries to be vertically integrated in as many countries as possible. In Russia that means extraction of gas, electricity production and sales to a wholesaler. In other countries it is production, distribution and sales. By being present at every link in the chain the company believes it suffers less from market fluctuations. With Banat and Dobrogea, Enel is already one of the largest energy distributors in Romania and has a market share of approximately 15%, reaching about 30% with the forthcoming acquisition of Muntenia Sud. For this reason Enel is now looking in Romania for a suitable electricity producer (nuclear or coal) to take over. In Bulgaria Enel has a production company and is looking for take-over candidates downstream. In Slovakia, with Slovenske Elektrarne, Enel already has a large producer (6 GW) but there is no search for a distributor. 'We are large in production in that market and so for anti-trust reasons we skip the distribution in Slovakia', says Tamburi. 'Otherwise the authorities will not agree because we would become too strong.'

Enel attaches great importance to the Slovak project because of the generation mix which includes also a nuclear plant. The Italians can now benefit from knowledge of current Russian technology. So, with the Endesa nuclear plants and the EPR nuclear power project in France, Enel is completely up to date in spite of a ban on nuclear power in its own country. In Greece Enel is present with 80 MW of capacity in renewables. Expansion into the Balkans is being considered due to the possibility of better connections with Italy. Enel believes in a presence in central Europe due to the geographical position and growing interconnectivity.

Finally Enel is present in France with renewables capacity and as a wholesaler. It is also involved in the project to build a European Pressurised Reactor (EPR) for nuclear power. In the US the company is active in renewables. With the takeover of Endesa, Enel has become the largest private market player in Colombia, Peru and Chile in both production and distribution. The first office in China was recently opened to exploit the market of emission permits as well as to benefit from low-cost local producers of electrical components.



Photo: Roberta Vivenzio

'We must all speak the same language. I therefore see my main task as one of consolidation', says Enel's Head of International Operations Carlo Tamburi.



ENEL high tension insulators. Photo: AFP / ENEL HO

Same language |

In recent years, Enel has more than doubled its debt up to €50 billion with its acquisitions. According to Tamburi it is possible to achieve synergy between the many Enel companies in such fields as procedures, purchasing, export and the cross fertilisation of best practices. For Enel the exchange of knowledge between the various nuclear plants across the world, often built using different technology, is also of great value. Tamburi sees yet more work ahead of him. 'We must all speak the same language. I therefore see my main task as one of consolidation. Only after 2012 can we think of other things again, such as new acquisitions. I will also have quite a challenge in improving the profitability of the international division. According to our objectives the EBITDA for Enel International (excluding Iberia and Latin America) is targeted to increase from €800 millions now to €2.7 billion in five years. 'Russia will be responsible for the greater part of that increase in profit. From €16 million now to €1.2 billion.'

In addition to upstream gas, new clean coal technologies and renewed interest in nuclear power, renewables are also becoming more and more important to Enel. The company has already been one of the largest producers of clean energy for decades thanks to the many hydro-electric power stations and geothermal energy stations in Tuscany. In its own country Enel is facing problems with the construction of wind and solar power plants due to oppositions from local authorities. The renewables

branches of Enel and Endesa will be re-structured and in June, following many competitors, a newco will be created. 'We have a need for a new and distinct renewables organisation', says Tamburi. 'There is a lot of interest from analysts. We do not yet know whether we will take that newco to the stock exchange.'

Tamburi is happy about the steps that his company has taken over the past years. 'In the past we were large in Italy. We then had to downsize over there. Back then it was diversification, and now it's globalisation. That globalisation is a one-way street for us. We want

'We didn't have a strategy. We simply had to do something with our money'

to remain one of the largest players in Europe and for this reason we must stay in the race. And we will continue to grow. For the time being organically, apart from a few small acquisitions. And in a couple of years perhaps with something big again. Today energy remains an activity which is organized on a country by country basis or by regions. In the future, there will be more and more interconnections and with our operational portfolio we are very well positioned to play a central role in this market evolution.' ■