



Uncertain Future For Telecom Italia

There could not be a better warning of the risks of getting involved with Italy's national phone company: in late February, Telecom Italia said an investigation into alleged large-scale tax fraud and money-laundering involving Sparkle, its wholesale voice and broadband unit, and a rival broadband firm, Fastweb, had forced it to delay the announcement of its 2009 results by a month.

The pair are thought to have become embroiled in a scam orchestrated by the Calabrian mafia. This is while, discussions about Telecom Italia's future are coming to a head, with Telefonica, Spain's leading operator, expected to play a crucial role, reported The Economist.

> Buyouts

In 2007, in the aftermath of two leveraged buyouts which left Telecom Italia with a massive burden of debt, the government arranged for the Benetton family, Telefonica and a group of local financial institutions—Mediobanca, Intesa Sanpaolo and Generali—to take control of the operator.

Telecom Italia's controlling shareholder at the time, Pirelli, had been in serious talks about selling to America's AT&T and Mexico's América Movil, but the government had wanted to keep Telecom Italia in national hands.

Pirelli lost more than €3 billion (\$4.1 billion) on its stake in Telecom Italia, and the operator has proven a similarly disastrous investment for the present shareholders. The price of its shares has fallen by more than half since they took control due to declining revenues and concerns about its debt. That, in turn, has put pressure on the banks to write down their investment accordingly. They are now pushing for a drastic solution.

The most obvious exit, reckon some of the firm's Italian shareholders, is for Telefonica to buy Telecom Italia, deepening an industrial partnership which has already yielded some €1.3 billion of synergies since 2008.

Apart from its debt and some operational problems at its Italian mobile business that should not be too hard to iron out, Telecom Italia is in reasonable shape. It faces comparatively little competition at home, has healthy margins and cash-



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flow, and owns a Brazilian business that would complement Telefonica's.

In fact, the Spanish firm's chief aim when it invested in Telecom Italia in 2007 was to prevent América Movil from winning a dominant position in Brazil.

> Unacceptable

Politically, however, selling Telecom Italia to a foreign company is probably still unacceptable. Only one European telecoms incumbent, Sonera of Finland, has ever fallen into foreign hands. Because Telecom Italia's profits in both its fixed-line and its mobile business depend on regulation, good relations with the government are crucial. And Telefonica itself may be in no hurry to pounce on another

European incumbent with weak growth prospects.

After weeks of intense speculation about a merger with Telefonica, therefore, a messy Italian solution now looks likely. Intesa Sanpaolo has reportedly suggested to Italy's prime minister, Silvio Berlusconi, that the government buy Telecom Italia's fixed-line infrastructure, the most politically sensitive part of the business, ensuring it remains Italian and allowing the firm to pay down debt. The Brazilian mobile unit could also be sold.

If the government did buy the national network, Berlusconi's media company, Mediaset, could benefit, according to people close to Telecom Italia's main shareholders.

Mediaset, which currently relies on a conventional broadcast model, could strike a deal with the nationalized unit to start selling television via the latter's broadband network.

Breaking up the firm along these lines would turn the rump of Telecom Italia into a customer-facing retail business. The company's managers worry that shorn of its network, the firm would lose its competitive edge. They strongly oppose a breakup, as does Telefonica, although a dismemberment of Telecom Italia might give the Spanish firm opportunities to buy some or all of its component businesses.

Telecom Italia, one of Europe's pioneering telecoms firms in the 1990s, looks headed for an uncertain future for now.

Asian Stocks Surging

Asian markets rallied strongly on Monday, with resource sector stocks leading a broad-based advance on higher commodity prices and Australia's Arrow Energy surging after receiving a takeover bid.

"The bulls are back in business," said DMG technical analyst, James Lim in Singapore. "The consolidation period is now over and the trend has turned positive."

Japan's Nikkei Stock Average of 225 companies ended up 2.1 percent at 10585.92, while Australia's S&P/ASX 200 was up 0.9 percent, Dow Jones reported.

South Korea's Kospi gained 1.6 percent, Hong Kong's Hang Seng Index advanced 2.0 percent, China's Shanghai Composite climbed 0.7 percent, Singapore's Straits Times Index rose 1.6 percent and Taiwan's Taiex was 1.3 percent higher. In afternoon trade, India's Sensex added 0.6 percent.

Dow Jones Industrial Average futures climbed eight



points in screen trade.

In Sydney, shares of Arrow Energy soared 46.8 percent to finish at 5.11 Australian dollars (\$4.65) after

Royal Dutch Shell PLC and PetroChina Co. offered to pay around A\$3.26 billion, or A\$4.45 a share, in cash for the company.

Several other commodity stocks also ended up, riding on the back of higher commodity prices.

"Mining firms are up on higher oil prices, and their earnings prospects look good," said Zhang Gang from Central China Securities.

In Tokyo, shares advanced as sentiment improved on better-than-expected U.S. jobs data and the yen's recent weakness. Shinichiro Matsushita, market analyst at Daiwa Securities, said expectations the Bank of Japan will further ease monetary policy also continued to support the market.

Elsewhere in Asia, Philippine shares gained 0.8 percent and New Zealand's NZX 50 finished 0.3 percent higher, with Indonesian stocks gaining 1.9 percent. Thailand's SET Index shed 0.3 percent in afternoon trading.

International News

Chinese Firms Develop Iraq's Maysan Oilfields

Iraq has signed an initial deal with China National Offshore Oil Corporation (CNOOC) and Sinochem to develop the 2.5-billion-barrel Maysan oilfield complex.



Oil Minister Hussein Al-Shahristani was quoted as making the announcement on Sunday by Gulf News.

"A final deal with both companies will be signed in the coming days, after they accepted the government's proposed remuneration fee of \$2.30 for every additional barrel of oil produced," he said.

"The Chinese companies have accepted all our conditions for this field. We have an authorization from the Cabinet to sign the final deal."

CNOOC, together with Sinochem, made an unsuccessful bid for the three Maysan fields in Iraq's first auction of oilfield contracts last year. But since then, they had decided to accept the government's proposed remuneration fee of \$2.30.

CNOOC and Sinochem had projected plateau output of 450,000 barrels per day (bpd) when they first made the bid last year. The deal is one in a series of contracts with international oil companies that could boost Iraq's output capacity to 12 million barrels per day, rivaling top producer Saudi Arabia, from around 2.5 million bpd now.

The government is hoping that the deals will generate cash needed to rebuild Iraq's shattered economy after years of war, sanctions and economic decline.

WTO: G20 Holding Line On Protectionism

The G20 rich and emerging countries have been successful in holding protectionist pressures in check in recent months but must remain vigilant, the World Trade Organization (WTO) said on Monday.

"Most G20 members continue to manage successfully the political process of keeping domestic protectionist pressures under control, despite a difficult environment for some of them where employment levels and new job opportunities are shrinking," it said in a report, a copy of which was obtained by Reuters.

World trade growth appears to have resumed, with a strong recovery in the Asia-Pacific region in the past few months, after world trade volumes fell by about 12 percent in 2009, taking it back to 2006 levels, it said in the report, prepared with the Organization for Economic Cooperation and Development, and the United Nations Conference on Trade and Development.

Faster African Recovery Expected

African economies are recovering from the global downturn faster than the International Monetary Fund's forecasts, director Dominique Strauss-Kahn said on Sunday.

According to AFP, tighter fiscal policies in many African countries, South Africa's slow recession and a robust growth in Nigeria in the second half of 2009 have stoked the quick recovery, the IMF said.

South Africa and Nigeria are sub-Saharan Africa's biggest economies.

"We expected the Asian markets to recover quicker than the African countries but we are surprised even the African economies are recovering faster than we expected," Strauss-Kahn told reporters in Nairobi.

IMF's Africa division director, Antoinette Monsio Sayeh, said the continent would record around 2 percent growth against the predicted 1 percent.

"Our expectation was that this could be worse ... So we think we would be a little less than 2 percent rather than the 1 percent," Sayeh said.

"It is still the case that 2009 was a very difficult year for the region. The less than 2 percent comes almost after a decade of some 5 to 7 percent average growth for the region and significant increases as a result of the per capita income," she added.

Shell, PetroChina Bid \$3b For Australia's Arrow

Royal Dutch Shell and PetroChina jointly bid more than \$3 billion for Australia's Arrow Energy, marking a Chinese firm's first foray in the country's burgeoning coal-seam gas sector and sending Arrow's shares soaring by nearly half.

Brisbane-based Arrow said in a statement to the stock exchange it had received a nonbinding indicative proposal of A\$4.45 per share plus a share in a new entity comprised of Arrow's international business, AP reported.

Arrow was advising shareholders to take no action at the moment, and said the company had appointed financial and legal advisers to look at the proposal.

Shares in Arrow Energy surged more than 40 percent to A\$4.98.

Arrow Energy is an integrated energy company focused supplying coal seam gas to eastern Australia and Asia. It claims to have the largest coal seam gas reserves in Queensland state.

The company had been planning to list 20 percent of its Arrow International arm, retaining 70 percent, with the remainder already held by Royal Dutch Shell.

Iran, Oman to Form Investment Company

Iran and Oman plan to establish a joint investment company in the near future.

"Iran-Oman joint investment company's fund will be set up in the near future and the executive policies of the fund have already been worked out," said Mehdi Razavi, managing director of Iran Foreign Investment Company (IFIC), on Monday.

Razavi added that the two countries would hold a 50-percent share in the investment company, Fars News Agency reported.

He also said the company would

make investments in mines, shipping, transportation, trade, banking, agriculture, hotel construction, oil, gas and petrochemical industries.

"The formation of the fund was approved by the Omani government and we are waiting for the approval of the Iranian Cabinet," he said.

IFIC was incorporated in March 1998 as a private joint stock company to manage and expand Iranian holdings abroad. It provides financial services and makes investments around the world.

Call for Establishing Regional Fund

Foreign Minister Manouchehr Mottaki proposed the establishment of a joint investment fund among Asian countries, urging regional countries to increase convergence by forming the Asian Union.

The foreign minister was speaking at the inauguration of the Conference on Central Asia and Caucasus in Tehran on Monday.

Mottaki stressed that these countries must focus on the establishment of Asian Union, ISNA reported.

"Such developments enable South-South countries to pursue their interests

seriously, to preserve their common interests through regional structures and to solve inter-regional problems independently and peacefully," he said.

The foreign minister admitted that there is a long way to reach the desired convergence and that it needs extra efforts, expressing Iran's readiness to help achieve this objective. The Conference on Central Asia and Caucasus, scheduled for Monday and Tuesday, will focus on energy, water, food, transportation and other fields for boosting cooperation among the regional countries.