Throughout 2008, the crisis of Alitalia filled the headlines and the news programs as the state-owned airline lurched closer to final bankruptcy, while politicians, unionists, and business leaders argued and negotiated over its fate. It was one of the principal issues of the election campaign: Silvio Berlusconi came out strongly against the proposed sale of the company to Air France-KLM, vowing to keep the airline in Italian hands. He eventually induced an Italian consortium to step in and take over the company, but in January 2009 the new Alitalia signed a partnership agreement with Air France-KLM, which made the Franco-Dutch company the largest single shareholder and was very possibly a prelude to a future takeover. In the meantime, however, Berlusconi’s efforts to preserve the appearance of Italian control cost the taxpayers up to 4 billion euros more than the original deal with Air France.

Why did Berlusconi go to such lengths to keep Alitalia “Italian,” an enterprise that often seemed nearly impossible? He no doubt believed that it would be electorally profitable to champion the *italianità* (Italian-anness) of the national airline. But the Alitalia issue was also closely intertwined with the political conflict over the fate of Milan’s second airport, Malpensa. The Northern League, a key member of Berlusconi’s coalition, strongly opposed the Air France-KLM bid because Air France intended to make Rome’s Fiumicino airport Alitalia’s sole hub, thereby
downgrading Malpensa in northern Italy. To keep his coalition together, Berlusconi had little choice but to oppose the French offer. At the same time, throughout the drawn-out process of preparing and negotiating the terms of the “Italian solution,” he attempted to involve as many other interests—business leaders, unions, and politicians—as possible, strengthening his own position while weakening potential opposition.

In this chapter, we shall first analyze the roots of Alitalia’s dire financial situation, including the plan to make Malpensa a second base for international flights. Then we shall trace the Prodi government’s attempts to privatize Alitalia, culminating in Air France-KLM’s failed bid. This will be followed by an account of the lengthy and difficult gestation of the Italian solution promoted by the Berlusconi government. Finally, we shall draw some conclusions about the meaning of the Alitalia affair in the context of the Italian political system.

The Roots of Alitalia’s Crisis: Financial Losses and the Malpensa Issue

Alitalia is a prime example of what Rigas Doganis, former CEO of Olympic Airways, has called the “distressed state airline syndrome.”2 The root of the syndrome is government interference in the management of the company, which has led to shifting managerial strategies. Organizational failures, low productivity, and loss of market share to more aggressive rivals, rather than wages and salaries, explain Alitalia’s high per passenger costs.3 Alitalia’s lack of competitiveness seriously undermined its viability after the deregulation of air travel by the European Union over the period 1987–1997.

In 1985, to address the overcrowding of Linate, Milan’s original airport, the Craxian Socialist mayor, Carlo Tognoli, launched an ambitious plan to expand the city’s second airport at Malpensa, near Gallarate in the province of Varese, some 50 kilometers northwest of the city’s center. The project was one of the main sources of corruption uncovered in the “Clean Hands” investigation, but eventually in 1998 the upgraded airport was opened. While the vast majority of business travel originates in northern Italy, there were many problems with the decision to develop Malpensa. Alitalia, under political pressure, agreed to shift many intercontinental and international flights from Rome’s Fiumicino airport to Malpensa, adopting a “two-hub” strategy.4 However, maintaining two hubs was a very costly burden to impose on the state airline. Furthermore, Malpensa labors under significant handicaps: it has poor road and rail links; it suffers from serious competition from Linate, a convenient 20 minutes from the city center, and other regional
airports such as Bergamo, which is the principal airport in the North for RyanAir and other low-cost airlines; and heavy winter fogs in the Po Valley often lead to flight delays. In addition, although the North generates more business travel than the rest of the country, Rome is the chief hub for the more significant tourist trade.

The Prodi Government Plans for Privatization

As a result of its manifold problems, Alitalia found itself in serious financial difficulty from the early 1990s onward. It lost 256 million euros in 2000 and over 900 million euros in 2001; made a small profit in 2002, due only to damages paid by KLM for breaking an alliance agreement; and lost 520 million euros in 2003, 850 million euros in 2004, 167 million euros in 2005, 625 million euros in 2006, and 495 million euros in 2007. The company was able to survive in the face of such poor results only thanks to periodic infusions of government aid: from 1996 to 2007, it received about 3.2 billion euros in state assistance, in the form of increases in capitalization subscribed by the state and a “bridging loan” of 400 million euros in October 2004. These infusions were permitted by the European Union as exceptions to its prohibition of “state aid” to industry as part of a rescue plan that would prepare the company for privatization, and some were also made conditional on the ending of practices that the EU viewed as anti-competitive.  

However, Alitalia was prevented from abandoning its costly new hub at Malpensa by new political pressures, chiefly from the Northern League, which relished the opportunity to pose as the defender of the interests of the North against “Roman” machinations. The differences between the League and other components of Berlusconi’s majority, such as the National Alliance (AN) with its strong Roman base, as well as the Alitalia’s weak financial position, which prevented an immediate privatization, account for Berlusconi’s failure to deal with the issue during his 2001–2006 governments.

The new Prodi government, elected in April 2006, failed to act quickly on the Alitalia dossier, and, as we shall see, its delays eventually proved fatal. After breaking off negotiations with Air France, it opened a tendering process that failed spectacularly when the last remaining bidders withdrew on 17 July 2007. A major factor discouraging potential buyers was Alitalia’s contract with Alitalia Servizi, the company in charge of managing ground services, maintenance, and call centers that had been spun off and sold to the state-owned Fintecna in 2005. This contract was to extend until 2012 and provided for fees that were 30 percent above the market price.
Two major consequences ensued from the failure of the tendering process: the adoption of an emergency strategic plan to save the company from imminent bankruptcy, and the opening of a new bidding process conducted by Alitalia itself. At the end of August 2007, Alitalia’s president, Maurizio Prato, revealed a cost-cutting plan that included reducing personnel, dropping money-losing routes, and abandoning Malpensa as a base for intercontinental flights. Over a two-month period, beginning in January 2008, intercontinental flights would be shifted to Fiumicino. On the other hand, more flights from Malpensa to European capitals would be added.

This plan led to an extraordinary political conflict over Malpensa that continued throughout the following five months and became part of the 2008 election campaign. The issue divided both the governing center-left and the opposition center-right, as regional and partisan divisions appeared within each. Among the leaders of the opposition to Alitalia’s plan were the mayor of Milan, Letizia Moratti (Forza Italia, FI), and the regional president of Lombardy, Roberto Formigoni (also FI). On 6 September, Moratti issued a “Manifesto for Malpensa,” calling on Alitalia to produce a new strategic plan. The campaign was supported by a “transversal” (cross-party) coalition in Lombardy, including the regional employers’ confederation, Assolombarda, the regional federations of the three major union confederations, and the left-wing opposition in the regional council. In addition, some ministers in the center-left government in Rome defended Malpensa, including Minister of Infrastructure Antonio Di Pietro (Italia dei Valori, IdV), Minister of Welfare Paolo Ferrero (Rifondazione Comunista, RC), and Minister of Transportation Alessandro Bianchi (Partito dei Comunisti Italiani, PdCI), who were responsive to the unions’ concerns about job losses at Malpensa.

The Northern League naturally exploited the issue to the full. It seemed yet another example of the sort of regional grievance that had led to the League’s founding—a decision by the “Roman” center-left government to prop up a failing, tax-supported state company at the expense of the North. When the election campaign began, the League’s paper, La Padania, called Malpensa “the mother of all battles,” and the party organized a rally to save the airport, which is situated in its electoral heartland. Since there was no love lost between it and the national flag carrier, some League spokespersons demanded that Alitalia leave Malpensa at once, so that foreign companies could serve northern travelers properly. As the ex-minister Roberto Maroni said, “Let it go to Fiumicino or to Africa, for all we care!”

Generally, the government defended the plan as a short-term response to Alitalia’s financial crisis (now aggravated by the rise in the cost of oil) that was necessary in order to make the company saleable. At the
The Privatization of Alitalia

same time, the AN, with its deep roots in Rome, was inclined to support the concentration of Alitalia’s flights at Fiumicino, to the point that it endorsed the Air France bid despite its strong Italian patriotism. Even within the Northern League itself, federations in provinces with their own airports competing with Malpensa, such as Bergamo, were not aligned with their party’s position. In 2008, opposition to the government’s plan coalesced around a demand for a moratorium of three years on the transfer of flights to Fiumicino. In addition, the SEA, the city-owned company that managed the Milan airports, sued Alitalia for 1.2 billion euros in damages for the loss of income resulting from the proposed transfer of flights to Fiumicino.7 This made the sale of the company more difficult, as the damages would be a potential liability that the buyer would have to assume—unless it agreed to the moratorium.

Alitalia as an Election Issue

In the meantime, Alitalia had admitted six bids in its new tendering process, including the second Italian carrier, Air One, the Russian airline Aeroflot, Air France-KLM, and Lufthansa. On 21 December 2007, it chose Air France as the prospective buyer and entered into exclusive negotiations with it. At the end of January 2008, however, the Prodi government fell in the Senate, and the sale of Alitalia became an election issue. It was still closely linked with the question of Malpensa because Air France-KLM indicated that it would continue to implement Prato’s plan to abandon the Milanese base. While Lufthansa had let it be known that it would be prepared to make Malpensa a hub, its other conditions for a merger were not known: it had withdrawn from the tendering process.

As the electoral campaign intensified, the political forces defending Malpensa put pressure on Berlusconi to announce that, if elected, he would veto the Air France-KLM deal. At one point, he said that he favored a nationally owned company, but the following day he went back on this position, stating on television that “a public company with KLM and Air France is possible” under certain conditions, including the retention of two hubs.8 He had good reason for making this correction: throughout the two rounds of tendering, no other group with solid financial backing and airline experience had stepped forward. It was easier to let the Prodi government take responsibility for selling the company to foreign interests. In fact, early in the campaign Berlusconi told the unions privately that the sale to Air France was inevitable.9 At the same time, as we have seen, his own coalition was not united on the issue. Gianfranco Fini, leader of the AN, stated that his attitude on the Air France purchase was “tendentially positive.”10 Then on 14 March,
Air France presented its offer, with surprisingly hard terms for the Italian company: the purchase price was only 138.5 million euros (10 euro-cents a share); about 2,150 jobs would be cut; the cargo division, based at Malpensa, would be axed; intercontinental flights would be transferred from Malpensa to Fiumicino; the fleet would be reduced from 188 to 137 planes.\(^1\) Although its price was low, Air France was prepared to take on all of Alitalia’s debts—1.28 billion euros in financial debt, plus nearly 500 million euros owed to suppliers—and to provide 850 million euros in new capital, with more to come in the following years. Air France’s offer was conditional on the agreement of the government and the unions and on the withdrawal of SEA’s lawsuit. The pilots’ unions, previously favorable to the sale, became the most strongly opposed, and Fini decided to reverse his own position, in light of the terms of the Air France offer.\(^2\) Then, on 19 March, less than a month before election day, Berlusconi decided to come out decisively against the sale to Air France, stating that he would veto it if elected. He labeled the French bid “colonial style,” called the proposed sale a “sell-out” (svendita), and promised to defend the italianità of Alitalia. He said: “I am convinced that my veto will convince them [Air France] to throw in the towel.”\(^3\)

The French offer and Berlusconi’s new position left the center-left in an awkward position because of divisions in its own camp, including the unions’ opposition to Air France. Walter Veltroni, the center-left’s candidate for prime minister, said that an Italian bid would be welcome and that he hoped for a bipartisan solution.\(^4\) While the center-left denounced Berlusconi for demagogically exploiting an issue that should be kept out of the election campaign, its own position was electorally weaker, despite having the virtue of realism. While Berlusconi could portray the center-left as willing to “sell out” the national airline to foreigners, its most convincing response was that Berlusconi could not produce an Italian consortium ready to buy Alitalia and that Air France was therefore the only alternative to bankruptcy.

At the same time, the far left, campaigning under the banner of the Democratic Left (SD), called the Air France bid “unacceptable,” thereby aligning itself with Berlusconi, even if for very different reasons. On the other hand, Berlusconi’s ally Umberto Bossi, the leader of the Northern League, expressed doubts about the possibility of finding an Italian consortium, and, repeating the arguments of his followers in the Malpensa campaign, suggested selling the company to Lufthansa.\(^5\)

Meanwhile, the Prodi government accepted the Air France offer, and Prodi attempted to persuade SEA to withdraw its suit. Berlusconi’s threatened veto did not immediately put a stop to the purchase; indeed, he realized that if a deal were completed before he took office, it would be difficult to undo. But he was planning to demand the retention of
the hub at Malpensa and the entry of an Italian investor into the new company. However, Air France still had to negotiate with the unions, and Berlusconi hoped these negotiations would fail to avoid himself the embarrassment of being faced with a done deal. He even contacted the unions in the hope of influencing the talks. The talks between Air France President Jean-Cyril Spinetta and the unions did in fact break down on 2 April. After the UIL (Union of Italian Workers), possibly influenced by Berlusconi, had already left the table in protest against Air France’s conditions, the other eight unions representing Alitalia workers had presented a counter-proposal, which sought to have Alitalia Servizi return to Alitalia with Fintecna, its current owner, participating in its recapitalization. This request was a complete surprise to Air France. The unions also wanted to reduce the number of planes to be sold, a bid that was directly related to the number of layoffs, and to keep the cargo division operative. Spinetta found these demands impossible to meet and abandoned the negotiations.

The failure of the Air France offer was caused by both Berlusconi and the unions, with some possible collusion between them. The unions sought to limit the number of layoffs and to protect the maintenance workers of Alitalia Servizi, who made up the major base of the three national confederations, the CGIL (Italian General Confederation of Labor), the CISL (Italian Confederation of Workers’ Unions), and the UIL. They were surprised that Spinetta could not show more flexibility, but with Alitalia so close to bankruptcy, he had little room to maneuver.

The Berlusconi Government and the Formation of the Italian Consortium

Eleven days later, the center-right, led by Berlusconi, decisively won the general election. Berlusconi needed to ensure that Alitalia would survive long enough for him to put together an Italian consortium. The Northern League wanted to let the company fail (ideally, while the Prodi government was still in office), but Berlusconi aimed at all costs to fulfill his election promise and requested that the outgoing government give Alitalia a bridging loan of 300 million euros. While several ministers were opposed to offering yet more state aid to give Berlusconi time, others were concerned about the loss of jobs, if the company were allowed to fail, and that negative public reaction would be a factor in the impending run-off election for mayor of Rome. They argued that refusing state assistance would be irresponsible and would jeopardize the future of the entire company. Several cleavages in the center-left became apparent in this discussion, with most of
those sympathetic to Malpensa supporting the requested loan. The government as a whole did not want to give Berlusconi the opportunity to assign it the responsibility for the company's bankruptcy, and bankruptcy could make it easier for the incoming prime minister to fashion an Italian solution. Hence, the Prodi government agreed to the loan. In order to justify the loan as an exception to the EU prohibition on state aid to industry, it cited the need to maintain the continuity of the service and reasons of "public order." The loan immediately came under the scrutiny of Jacques Barrot, the commissioner for transport of the EU, who sent a strongly worded letter to the Italian government, requesting an explanation and directing it not to pay out the loan until the Commission had approved it.18

Fortunately for Berlusconi, Italy's European commissioner, Franco Frattini, had run for FI in the general election and had been elected. Hence, he had to resign from the Commission, and Italy needed to appoint a new commissioner. At the request of the Italian and French governments, Barrot was transferred to Frattini's Justice and Internal Affairs portfolio, leaving his post as commissioner for transport vacant for Berlusconi's nominee. The president of the Commission, José Barroso, was happy to oblige the two governments, whose support was crucial if he was to be reappointed in 2009.19 On 8 May, Berlusconi chose Antonio Tajani, FI leader at the European Parliament and a man in whom he could have complete confidence, for the vacant position. While Tajani would not be able to secure favorable decisions from the Commission on the Alitalia file, he could influence the procedure and timing, for instance, by delaying a verdict on the bridging loan.

Throughout the summer, as the workers became more preoccupied and losses continued, Berlusconi worked to put together an Italian consortium. He was assisted in this by Corrado Passera, the president of Banca Intesa, which already had loans outstanding to Air One that it wanted to see guaranteed. Eventually, on 27 August, the new group, called the Compagnia Aerea Italiana (CAI, Italian Airline Company), was announced. It was composed of 16 investors, including Banca Intesa; Roberto Colaninno, the president of Piaggio and the chairman of the new company; the Benetton group; Marco Tronchetti Provera; Emma Marcegaglia, the president of Confindustria; and the Ligresti, Riva, and Caltagirone groups. Some had other interests that could benefit from favorable treatment by the government (e.g., Benetton's Autostrade had been granted a toll increase in June), and the suspicion was voiced that they had been subjected to strong pressure to join in the rescue effort, which was dubbed il piano Fenice (Phoenix). Another important investor was Carlo Toto, the owner of Air One, which was to be merged with Alitalia. The second Italian airline was
committed to purchasing many new aircraft, and the “Phoenix” plan was a solution for its financial problems as well.

Moreover, the conditions on which Alitalia was offered to the CAI were much more favorable than those offered to Air France. A “bad company” would assume all the debts of Alitalia, including liability for the SEA suit, and the personnel and assets not wanted by the new “good company,” the CAI, which would purchase the valuable assets, such as aircraft and slots, and would hire the Alitalia workers it needed. The liabilities of the bad company would ultimately fall on the government—that is, the taxpayers. The government amended the Marzano law on “extraordinary administration” (roughly equivalent to the US’s Chapter 11 bankruptcy protection laws) in order to provide more flexibility for Alitalia, which was put under this regime on 5 September. As Air One and Alitalia were to merge, they would now hold a monopoly position on the lucrative Milan-Rome route. The government therefore suspended the operation of the anti-trust laws for six months. In addition, it promised compensation for the small private shareholders in the old Alitalia.

These concessions, including the fact that the “good company” was to be sold by private negotiation to a chosen group of entrepreneurs, were condemned as “scandalous” by the prestigious Frankfurter Allgemeine.\textsuperscript{20} There was the suspicion that the private investors would enjoy a de facto government guarantee of their investments. In addition, it was not clear that the sale would pass scrutiny by the European Union, as it arguably involved substantial de facto state aid, as well as limits on competition. Competitors such as RyanAir were ready to launch suits over violations of European law. Critics of the government’s plan were quick to point out how much more costly it was to the state—and therefore to taxpayers—than the Air France offer of the previous March.\textsuperscript{21} This can be explained partly by the deterioration of the business position and finances of the airline in the intervening five months, and partly by the need to convince the partners of the CAI to invest. The deal, which involved the “privatization of profits and the socialization of losses,” seemed a very heavy price to pay for the italianità of the company.

The new company’s business plan involved a drastic reduction in Alitalia’s activities, with 36 percent fewer planes and 28 percent fewer destinations. The number of long-range aircraft would be cut from 27 to 18. The CAI aimed to cut labor costs by 40 percent in 2009, with both a new contract that increased hours of work and an unspecified number of layoffs (later estimated at 4,500). Instead of two hubs, the new company would have six “bases” (Rome, Milan, Turin, Venice, Naples, and Catania), and the number of intercontinental flights from Milan and
Rome, respectively, would depend on the choice of a partner airline. The CAI’s offer was conditional, however, on an agreement with the unions, and this proved much more difficult than Colaninno and his newly appointed president, Rocco Sabelli, expected. The proposed salary reductions, in the neighborhood of 6–7 percent for the flight crews, were not the major stumbling block, nor was the reduction in the number of holidays and rest days. The unions that were most opposed to the proposed new contract were those representing the pilots and the cabin crews, which were autonomous from the national confederations. They had little confidence in the CAI and its plan, which they saw as a face-saving operation mounted by the government, and they were much more severely affected by the proposed layoffs than the ground crews. The pilots also resented the CAI’s refusal to sign a separate contract with them. The negotiations were carried on in a climate of mobilization, with daily demonstrations, marches, and impromptu meetings of personnel at Fiumicino and elsewhere in Rome.

Finally, on 25 September, the left-wing CGIL added its signature to those of the other national confederations, after obtaining some concessions: the number of layoffs was reduced to 3,250 (about 20 percent of the permanent employees of Alitalia and Air One, including about 36 percent of the pilots, 28 percent of the cabin crews, and only 10 percent of the ground crews); for the contract workers, there was a guarantee of the right of first refusal for a quota of new positions when they opened up; the pay cut of 6–7 percent for the flight crews could be made up by working longer hours; and the period in which the night work premium was paid to the ground crews was extended. The pilots’ unions still held out, but the next day a marathon bargaining session, presided over by Gianni Letta, undersecretary in the prime minister’s office, produced an agreement with them, as well, which provided for hiring another 139 part-time pilots. The unions representing the cabin crews then also signed, but at the end of October, all of the autonomous unions refused to sign the final complete texts of the contracts, claiming that they did not reflect the agreements reached at the end of September. The CAI then decided that the signatures of the four national confederations would be sufficient. It proposed to hire the pilots and cabin crews individually, on the terms set out in the proposed contracts. The autonomous unions responded with a “work to rule” campaign and a 24-hour strike on 10 November. These steps, along with the other uncertainties of the transition period, including many canceled flights, contributed to the major fall in passenger numbers that the airline suffered in November, which was greater than the average decline for European airlines.

The CAI had held its founding meeting in Milan on 28 October, at which 6 new partners joined the original 16. Its offer was also
conditional on a favorable ruling from the EU on the state aid issue. This was forthcoming on 4 December, when the European Commission agreed that the price that the CAI was to pay for Alitalia’s assets, eventually set by consultants at 1,052 million euros, was a fair market price. The bridging loan of 300 million euros was ruled as state aid that had to be repaid, but it would fall on the budget of the “bad company.”

In the meantime, negotiations continued with potential foreign partners. Although Malpensa was the main issue that had prompted Berlusconi’s intervention in March, Air France remained the most likely choice. For the CAI, faced with increasingly bleak revenue forecasts, this choice was attractive because leaving the Sky Team alliance with the French airline would entail costs: a penalty of 200 million euros, plus technical adjustments that could cost nearly an additional 100 million euros. Furthermore, because of the alliance, there was already considerable integration of routes with the Franco-Dutch airline. In late November, perhaps in response to Berlusconi’s statement that both he and the German chancellor viewed Alitalia-Lufthansa collaboration with “much favor,” Spinetta offered to increase the number of flights from Malpensa. However, Air France’s edge was clear, so much so that Lufthansa never advanced a concrete offer of partnership after the formation of the CAI. Instead, on 26 November, it announced the creation of Lufthansa Italia, with a doubling of the number of flights from Malpensa and a plan eventually to base a number of aircraft there.

While Moratti pushed the government to favor Lufthansa as a partner, the Northern League proposed, as an alternative, that Italy renegotiate the bilateral treaties with non-EU states so that foreign airlines (e.g., Lufthansa) could take over the international routes from Malpensa that Alitalia had abandoned (the “old” Alitalia, still headed by the extraordinary administrator Augusto Fantozzi, had cut back its flights from the airport by half for the winter of 2008–2009). This became an insistent demand of the supporters of Malpensa. The League also supported an opposition motion calling on the government to monitor the use of the slots vacated by Alitalia; the government was defeated on this motion by 271 to 212. On the other hand, the CAI and Air France were clearly unwilling to allow competitors to fly from Malpensa, as they hoped to be able to serve passengers from northern Italy via the hubs of Fiumicino or Charles de Gaulle, with connecting flights from the Milanese airports. In response to the complaints of the League and other northern politicians that Malpensa was being downgraded, Colaninno stated that he was prepared to restore it to hub status if all international flights were shifted from Linate to Malpensa and if ground links to the Varese airport were improved.
This position divided the supporters of Malpensa, as Moratti, for one, refused to consider shifting flights from Linate.

In spite of his statements in favor of a Lufthansa alliance, Berlusconi became convinced that, from an economic point of view, a partnership with Air France was the only viable alternative, as it would allow the CAI to break even within two years. The worsening situation for the airline industry in the face of a worldwide recession and the precipitous fall in Alitalia’s passenger revenue (filled seats fell from 70 percent to 40 percent) made the CAI even less willing to take any business risks, and Berlusconi was well aware of this. However, he still had to deal with the opposition from within his own coalition. He had one major card to play: the Northern League’s primary objective for the legislature was the enactment of fiscal federalism—the devolution of taxing and spending powers to the regions. He knew that they were unlikely to threaten the survival of the government until they had attained that goal. To offer them a concession, Berlusconi promised to accelerate the timetable for fiscal federalism, which the League hoped to see approved before the June 2009 European election. Finally, at the last moment, the government introduced an amendment to its law containing measures to combat the economic recession that accepted the League’s demand on the liberalization of the slots at Malpensa: the amendment asked the government to renegotiate bilateral treaties “in order to increase the number of airlines permitted to operate international and intercontinental flights.” While this amendment did not bind the government, it marked a significant concession to the League. In the final days of negotiations with Air France, it became clear that the League was not prepared to push the issue to a crisis. At a crucial meeting on 8 January, Bossi, the League’s leader, eventually recognized Berlusconi’s economic arguments, declaring in a resigned tone, “OK, do as you like.”

As a result, the lengthy affair of the privatization of Alitalia finally came to at least a provisional conclusion on 9 January 2009, when the board of directors of Air France-KLM officially approved its partnership offer to the CAI, whose board then met on 12 January to accept it. Air France offered 322 million euros for 25 percent of the share capital of the CAI as part of the deal to reinforce collaboration between the two groups. In the new company’s plans, Fiumicino is destined to become the principal hub, with 13 intercontinental destinations as opposed to only 3 for Malpensa (New York, Sao Paulo, and Tokyo), and a similar preponderance in international and national flights. In a further attempt to sweeten the pill for the pro-Malpensa forces, Colaninno repeated his offer to restore the Varese airport’s hub status if certain conditions were met in more forceful terms, announcing that it was the CAI’s “strategic priority” to shift international routes there. The total
number of flights per day fell by 36 percent, compared to the combined total of Alitalia and Air One flights a year previously. The official handover of the assets of the old Alitalia to the CAI was scheduled for 13 January, when a break in service of a few hours for technical certifications and other administrative changes would mark the discontinuity between the “old” and the “new” company, which would continue to operate under the name “Alitalia.” The future of the new airline remained uncertain, but many industry observers predicted that Air France would aim for complete control, once the four-year limit on the sale of the original investors’ shares to non-Italians expired.

While 98 percent of the CAI’s job offers to former Alitalia and Air One employees had been accepted, the official start of the new company was marred by continuing union action. On 8 January 2009, 135 of 350 flights were canceled as a result of assemblies and demonstrations within Fiumicino airport by ground crews, who were protesting the criteria used in choosing the workers who would be kept on by the airline and the lack of job security guarantees for the cleaning and cargo employees, whose work was being contracted out. Further actions were threatened for the first days of the new company. The continuing climate of worker unrest did not augur well for passenger loyalty and commercial success.

**Conclusion**

It would be easy to conclude that the whole Alitalia affair has been a tragedy that illustrates a principal vice of the Italian political system—political interference for partisan ends in decisions that, for the public good, ought to be left to market criteria. Berlusconi eventually conquered his hesitations and came out during the election campaign as the champion of *italianità*. This was his response to significant pressure from the Northern League, an essential element in his electoral coalition, to defend Malpensa. There is little evidence that the defense of Italian ownership in itself had any significant impact on the voters. Enrico Morando, the program coordinator of the Democratic Party (PD), asserted during the campaign that “Alitalia counts for nothing electorally,” and the public opinion expert Renato Mannheimer stated that only well-informed voters who had already made up their minds were following the issue. An ISPO poll taken in September showed that 75 percent of respondents thought that Italian control of Alitalia was better for the interests of the country and its citizens, but 79 percent of the same respondents agreed that the only criteria to be followed in privatizing the airline should be efficiency and improvements
in service.\textsuperscript{34} National identity did not have a strong ideological appeal in this case.\textsuperscript{35} The League and its supporters, however, did have strong feelings on the Malpensa issue, which dramatically pitted the North against “Rome” in a way that dovetailed perfectly with the League’s ideological leitmotifs.

For Berlusconi, the Alitalia outcome was not just an issue of winning northern votes or those of Alitalia workers; above all, it was a matter of attaining equilibrium within his own coalition. The sale to Lufthansa, as proposed by Bossi, was not a viable position to take in the campaign, as the German company had withdrawn its interest. However, an undefined but promised consortium of Italian entrepreneurs—one that did not cater simply to northern interests—could be presented as a possible alternative to Air France. This was the equilibrium position that Berlusconi finally adopted on 19 March, after Fini had shifted his stance. The Italian solution allowed him to put off the issue of Malpensa until after the campaign and hence to keep his coalition together, even if the danger of fragmentation was always present. As the Prodi government had already made a clear choice, the left was even more divided.

The Alitalia episode demonstrates the power of the minority components of larger coalitions—in this case, the Northern League and its supporters—to push their own priorities onto the program of the coalition, even when they lead to solutions that are extremely costly and arguably run counter to the larger group’s general interests. The fact that these particularistic interests can gain the upper hand is a fundamental problem that faces all democratic systems: concentrated groups, who have a great deal at stake in a government policy, end up putting more political resources into supporting that policy than the general public, who have less to gain or lose. In this case, northern (and more specifically Milanese) interests were magnified by a political party, the Northern League, whose principal stock in trade is the uncompromising and demagogic defense of those interests—an approach amply rewarded by the election results on 14 April, which nearly doubled its popular vote to 8.6 percent nationally for the Chamber of Deputies.

In contrast to his espousal of abstract free-market principles, Berlusconi was ready to bend the rules of the market by providing significant state assistance to the “new” Alitalia and to risk the censure of the European Union for violating those rules in order to achieve his political goals. But in the Alitalia affair, Berlusconi was not only concerned with maintaining partisan alliances within his own coalition. He also used the Alitalia privatization to strengthen his relations with the business community. When Berlusconi first entered politics, he was not fully accepted by the business establishment—the “good
In this context, the participation of Confindustria’s president, Marcegaglia, as an investor in the CAI was emblematic, indicating that Confindustria was aligning itself with the government. At the same time, Berlusconi’s daughter was elected to the board of Medio-banca, the traditional citadel of the “good salon.” When the alliance with Air France appeared more or less certain, Moratti and Filippo Penati, the center-left president of the province of Milan, accused the Milanese business establishment of deserting the “cause” of Malpensa because their leaders had been persuaded to take part in the CAI. The CAI itself, born with massive government assistance and given a monopoly on the Rome-Milan route, is a prime example of the protected capitalism that is so common in Italy. Several of its investors already occupied protected markets in public services or else looked to government contracts for major business. And both Toto, owner of Air One, which had very large financial commitments, and Passera’s Banca Intesa, to which Toto owed significant sums, benefited in a very direct way from the merger of Air One with Alitalia.

Berlusconi also attempted to involve, or at least neutralize, the center-left opposition, which was in any case divided over the issue. He kept open a channel of communication with the union confederations, and once their agreement to the new contracts was secured, the operation went ahead. In this way, Veltroni (PD), the leader of the opposition, became involved when he brought together Colaninno and Guglielmo Epifani, secretary of the leftist CGIL, at his house during a crucial point in the negotiations. Both Colaninno and, in particular, Passera were known for their sympathies for the center-left. This openness to collaboration with the opposition was not typical of Berlusconi’s behavior in the past, but in this case, perhaps because he was under fire from so many quarters, he sought as many allies as he could find.

In contrast, the center-left, while it was in government, was remarkably persistent in following a transparent and open free-market procedure in privatizing Alitalia and in supporting the Air France bid when it appeared to be the one that made the most business sense. In part, this may reflect the fact that the minister most directly responsible, Tommaso Padoa-Schioppa, minister of the economy, was a “technician” rather than a politician, with a prestigious banking career that culminated in membership in the Executive Board of the European Central Bank. But it also stemmed from the center-left’s genuine commitment to introducing more efficient, free-market criteria, consistent with the spirit, as well as the letter, of EU rules. Among other things, this led it to try to reduce the privileges of protected groups such as taxi drivers and pharmacists, as the Prodi government did in 2006. While Berlusconi attempted to conciliate and involve as many interests and
groups as possible, Prodi’s approach was less “consociational” and more “decisionist.” Similarly, in the 2008 election campaign, Veltroni rejected becoming entangled in electoral alliances, and the PD ran in alliance only with Di Pietro’s IdV. Unfortunately, this approach was responsible in part for the left’s electoral failure. In the campaign, its support of Air France made it vulnerable to the attacks of the League and Berlusconi’s defense of Italian identity. As Penati said after the election: “We are the ones who always defend the European Union no matter what, even when it hurts our people.”

It is not surprising, in this context, that significant elements of the center-left opposed the Air France solution to the very end, although Berlusconi’s final acceptance of the inevitability of an alliance with the Franco-Dutch carrier found the majority of the center-left in substantial agreement with the result—while of course being critical of the way it had been reached and the costs to the state.

Berlusconi, unlike the center-left, was prepared to risk a conflict with the EU by the support he offered to the CAI. To protect his position, he placed Tajani in the post of commissioner for transport, and President Barroso is not anxious to incur his displeasure. Suits from competitor airlines will take some years to reach the European Court, if they are indeed pursued, by which time Berlusconi will have long since reaped the political credit for “saving” Alitalia. The Alitalia affair demonstrates that Europe cannot impose modernizing solutions on the Italian economy: achieving such solutions depends on the balance of domestic forces. European laws and the force of the European idea may provide tools for the pro-modernization forces in Italy, but they cannot directly force major change. The indirect effect of Europe—through the deregulation of the airline business, the resulting formation of giant carriers such as Air France-KLM, and the prohibition of state aid—has been crucial, but how Italy reacts to the new competitive situation, as we have seen, is still a matter for it to decide.

In the end, the final result for Alitalia may be substantially the same as it would have been if the Air France bid had been accepted in April 2008. The business plan of the company is virtually the same, and Air France-KLM may acquire majority control (beyond the power it already wields as the largest shareholder) within four years. It is not certain that significant competition from Lufthansa Italia and other foreign carriers flying from Malpensa will be permitted. However, the cost of the CAI operation—to save the façade of *italianità* of the company for Berlusconi’s political purposes—was substantial for Italian taxpayers. One well-informed observer estimated it at about 4 billion euros, composed of nearly 3 billion euros in debts assumed by the “bad company” that would fall on the state, and at least 1 billion
euros in social security payments for the workers who had lost their jobs and in many cases were guaranteed up to seven years of benefits. By contrast, Air France’s offer of March 2008 would have involved its assuming the debts of the company (which were smaller at the time) and the loss of about 1,880 fewer permanent jobs, with correspondingly lower social security charges.39

The tormented story of the privatization of Alitalia is illustrative of an attempt by Berlusconi to fashion a broad alliance with as many political and economic forces as possible in order to attain and keep power. In the process, Berlusconi has confirmed and reinforced many of the worst features of the Italian “model” of capitalism, neither Anglo-Saxon nor fully “Rhenish,”40 in which state protection and assistance have been the most secure route to profits, and consumers and taxpayers have footed the bill for these mutually beneficial arrangements between politicians and businesses. While in the long run Alitalia may become efficient and profitable in alliance with Air France, the cost has been high, thanks to Berlusconi’s efforts to keep his coalition together and to bring other allies into the game as well. This is not an inevitable result in the current Italian political system, as the very different line followed by the Prodi government demonstrates, but it is the ruling formula of the center-right under Berlusconi.

Notes

1. “Here we construct Alitalia or we die!”
3. In 2002, for instance, average annual costs per employee, including social security charges and overtime, were 77 percent of those of SAS (the highest-cost carrier), while those of Air France were 89 percent and those of British Airways were 76 percent (Doganis, The Airline Business, table 5.5, 134). Cf. L. Iezzi, La Repubblica, 9 September 2008, indicating a starting salary for pilots of 68,000 euros, considerably lower than Air France’s 89,000 euros.
4. In fact, Malpensa is not a real hub because passengers generally arrive there not from connecting flights but via ground transportation.
11. Ibid.