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explains that this is due to concessions and rebates, as well as rising spot prices in the past couple of years.

Gazprom has been adjusting to the new terrain. Although its bosses insist that oil indexation will remain, it already sells some gas on spot markets and has expanded its trading operations from a handful of people in the suburbs of London to 900 around the world.

However, it is far too soon for Europe to declare victory. It is buying more from Gazprom, not less. In 2013 the company expected to export 160 billion cubic metres (bcm) of gas to Europe, the most since 2008. It has the potential to send another 90bcm. By ensuring that it will remain Europe's marginal supplier, Gazprom can influence spot prices, according to Howard Rogers of the Oxford Institute for Energy Studies.

It has the pipes as well as the gas. The struggle between Russia and the EU for political influence in Ukraine partly reflects the country's importance to both sides as a conduit for Russian gas. But Gazprom appears to have started work on an alternative route: South Stream, a $38 billion pipeline with a capacity of 63bcm in the "Southern Corridor", bypassing Ukraine via the Black Sea. Nord Stream, under the Baltic Sea, already gives Gazprom plenty of capacity beyond what its current long-term contracts require, says Peter Hughes, an industry analyst. The company also has plans to add more storage in Europe, allowing it to release gas swiftly onto the market.

Gazprom will still deliver plenty of gas on long-term contracts. Though these will be based on the spot gas price rather than the oil price, its position as Europe's marginal supplier will give it influence over spot prices—and hence on what its customers pay. Gazprom may have a say on European gas prices for years yet.

The EU's policymakers, obsessed with renewables but still presiding over the burning of lots of coal, have not given gas the attention it deserves. Their efforts to liberalise gas markets look good on paper but implementation has been too slow. Interest in encouraging alternative gas supplies has waned. Support for Nabucco, another pipeline, which would deliver gas from Central Asia to Europe, fell away. In December investment was finalised for a much smaller pipeline, proposed by a rival consortium, to bring gas from Azerbaijan. Its lack of capacity is unlikely to encourage the development of supplies from Iraq, the Kurdish region and Turkmenistan.

European policy seems to be to encourage the transition to spot prices and wait for competition to Gazprom to come along. High prices will eventually encourage more supplies, but this will take time. More mature markets for trading gas and derivatives would also help to reduce buyers' risks. Meanwhile, Gazprom will still have plenty of opportunity to cash in. ■

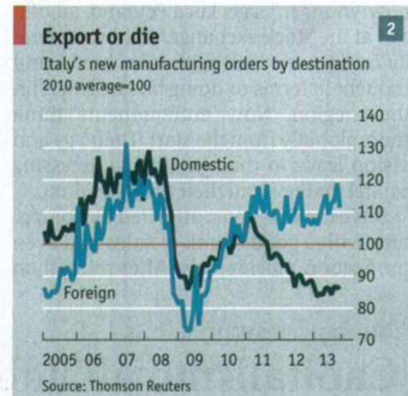
Italian business

Brave old world

MILAN

Backs to the wall, Italian companies are turning to the markets

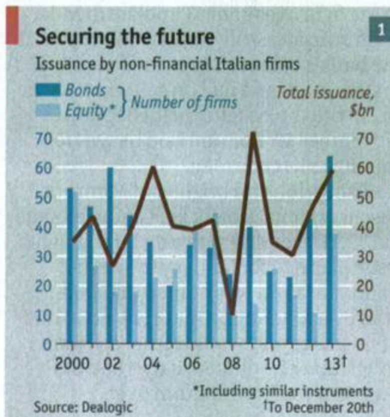
PAYING €1,000 ($1,374) for a down-filled jacket is a fashion statement of some magnitude. Paying 24 times 2012 earnings for the company that makes it is an even bigger one. Moncler's shares were richly priced even by the standards of luxury-goods firms when they made their debut on the Italian Stock Exchange at €10.20 on December 16th. They closed on December 30th at €15.80, valuing the company at over €3.9 billion and making its boss and main shareholder, Remo Ruffini, a paper billionaire. It was Europe's most successful initial public offering of 2013.



For a country that is supposed to be on the brink of economic collapse Italy has surprisingly busy capital markets. As chart 1 shows, more companies are issuing shares and bonds. Private-equity and venture-capital outfits are soliciting money again with an eye to Italian buy-outs. Analysts at banks, including Credit Suisse and HSBC, are urging investors to have a good look at Italian companies.

The big family-owned manufacturers which once dominated Italy and thrived abroad—Fiat, Indesit, Benetton—have been in retreat. On January 1st Fiat said it would buy the 41.5% of Chrysler it does not already own, averting the need for a Chrysler share issue. Given the dire state of Europe's car market, Fiat's prospects would be even bleaker without its control of Chrysler. But a number of firms, many of them in luxury goods and almost all focused on exports, are advancing, and turning to the markets for finance.

Moncler's investors are betting that the firm will enjoy the same success as other fancy Italian brands: the share prices of Salvatore Ferragamo, an upmarket shoemaker, and Brunello Cucinelli, a fashion house, have trebled since the companies went public in 2011 and 2012 respectively. Turnover at Moncler has risen from €45m in 2003, when Mr Ruffini took over the company, to an expected €569m in 2013, and the share of sales outside Italy has grown from 10% to 75%. The initial public offering will let the company's private-equity backers pay back their investors and attract new ones.



Small firms are trotting to the stock exchange's junior market. Italia Independent, a maker of spectacles, struggled to find bank finance, despite having several years of profits and an Agnelli heir as co-founder and chairman (Lapo Elkann, whose brother, John, is a director of *The Economist*'s parent company). Going public provided money to expand internationally and gave the firm a bit more credibility abroad, says Andrea Tessitore, its chief executive. Around 65% of sales have come from within Italy; Mr Tessitore expects that next year less than half will be domestic.

Rudolph Gentile of Safe Bag, which wraps and electronically tags luggage at airports around the world, was similarly outraged when bankers would not lend him the money to exploit a lucrative new contract in Miami. He floated 10% of the company's shares in September and is thinking of increasing the percentage.

In a country that has long relied heavily on bank finance, turning to the markets is logical, if overdue. Since the crisis, banks everywhere have lent less to small and medium-sized firms. In Italy, 90% of companies fall into that category, and banks' balance-sheets are in particularly bad shape. The government, the stock exchange (owned by the London Stock Exchange ▸▸

Group) and several banks are doing what they can to encourage other sorts of financing, lightening taxes when unquoted companies issue debt securities and nurturing a market in "mini-bonds" for smaller firms.

For most firms, many of them family-owned, bonds are a more comfortable route to the capital markets than selling shares and thus diluting control. But the landscape is changing. "Entrepreneurs are now younger," says Luca Peyrano, an official at the stock exchange. "Old-style family businesses dealt with local banks and thought in terms of doing business within their region. Now entrepreneurs think more globally from the start. Their age and vision leads to their interest in accessing capital markets and their ability to do so."

Investors are most attracted by companies with a good chunk of sales and even production outside Italy. After more than two years of recession, Italy's economy is expected to have shrunk by 1.8% in 2013, returning to wan growth this year. Domestic consumption has plunged and most companies that depend on it are struggling.

Exports, however, are growing, especially to countries outside the EU. As chart 2 shows (see previous page), foreign industrial orders are piling up while domestic ones are dwindling. Italy's continuing ability to win orders abroad is in spite of the many drags on Italian firms' competitiveness, from the thick tax wedge between what they pay for labour and what workers receive to borrowing costs estimated at 250 basis points higher on one- to five-year loans than those German rivals face.

Hence the drive by many companies to expand not just exports but activities abroad. The Marcegaglia Group, a large maker of specialty steel, has invested over €1.2 billion in China, Poland, Brazil, Russia and Romania to escape overcapacity closer to home and to be nearer to growing markets. In the past such investments were financed by cashflow and bank loans, says Emma Marcegaglia, its co-chief executive; now bonds look increasingly attractive.

Does it matter whether those Italian firms that survive the recession turn to the markets for finance? Yes, says Mr Tessitore of Italia Independent: "Going public means being clear about where you are heading, being transparent." In other words, it requires a different approach to management. For those scratching their heads over why Italy, so good at designing products, has been so bad at designing durably world-beating companies, the long reliance on loans from friendly bankers can be only part of the answer—but it is a part that is now being put to the test. ■

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