COMPETITIVENESS AND GROWTH

ITALY'S DELAYS IN FULFILLING THE LISBON TARGETS

CONFINDUSTRIA

In March 2000 in Lisbon, the European Heads of State and Government agreed to take up the challenge of decisive strategic economic reform with the aim of radically change the labour, products and capital markets and making Europe a more dynamic and competitive area.

This highly ambitious strategy is based on a far-sighted view of the single market and on a process of reform that will bring economic development ever closer to a model of social protection and fairness, which are seen as complementary aims to be pursued at an equal rate.

We believe that Europe has what it takes to fight and win this challenge. Significant progress has been made over the last three years, and five million new jobs have been created. Some countries have also pursued highly significant reform programmes that have allowed them to slash unemployment levels. Very high levels of employment have been achieved in others.

However, unfortunately these countries are oases in a sea of deep-seated structural problems that generate rising unemployment and persistently low levels of participation to the labour market.

Italy, in particular, is a country with a boundless entrepreneurial vocation (the number of new enterprises is higher than in any other part of the world) that nevertheless suffers from a severe lack of competitiveness.

We therefore need to come up with a new plan for our country that will release it from its rigidities and create conditions that will allow enterprises to grow and Italy to be more competitive. We must act through a clever mix of policies that will bring investments in infrastructures, energy, research and training. We also need to bring taxation right down and back this with severe current spending cuts and a new drive towards liberalisation. Only in this way will Italy be able to revitalise financial initiative, invest more in the capacity to create wealth and promote a more open and dynamic society based on a better balance between flexibility and security.

We continue to pay the price for the fact that our country is behind the field in terms of competition, and we must make up for this as quickly as we can. Significant steps have been taken and we are heading in the right direction, but much remains to be done. If we are to achieve the Lisbon targets in full, we must deploy more resources and find a way to focus on certain key sectors. In our opinion, we must concentrate on the following priorities in the coming months:

- **Action for a fully integrated single market** by proceeding without delay to deregulate Italian public utilities so that we can benefit from lower, more competitive costs. **Absolute priority** has to be given to the problem of infrastructure and East/West and North/South territorial integration within Europe.
- **Achieving a European financial market** by sweeping away legal barriers that limit access by enterprises and consumers to the financial services and capital market and also by promoting a new financial culture in Italy that focuses not only on credit but also on innovative tools and venture capital in particular.
- **Reducing fiscal pressure and the public deficit** by moving away from the old policy of putting off problems to another day and expressing a genuine willingness to implement the reforms required to control the main spending channels (pensions, health, administration, public employment). We must also act to simplify the tax system and reduce company taxation.
- **Stimulating the process of innovation** by ensuring that Italy no longer lags behind either the United States or our European partners. We must also resolve one of our main

weaknesses in the field of research and development, namely the low level of public and private investment.

- **Improving the labour market** because even though Italy can boast good results in terms of productivity, it is still the European country with the lowest employment level. It is therefore necessary to implement very rapidly the reforms already approved.
- **Bringing social security up to date** by launching a social security reform without delay that is able to ensure sustainability of public finances and assure satisfactory pension levels.
- **Promoting education and training** by creating the right conditions to give people the skills and competences they need and by forging stronger links between knowledge and the market.
- **Simplifying the regulatory system** by reducing the tangle of laws that affect companies and improving the general context within which such companies operate.
- **Reconciling sustainable development and competitiveness** by encouraging sustainable development policies that promote competitiveness in Italy.

One of the main challenges to be faced by Italy and more generally Europe is the need to make major decisions to encourage development and growth. Europe is old: we must rejuvenate its social structures, the way it competes in different markets and the very way it tackles its problems. All too often it seems to wallow in its history and its past, apparently unable to look to the future.

The Lisbon strategy's aim of making Europe a more competitive knowledge-based society is often seen as an empty gesture by Governments, the Commission and the European Parliament. It has not acquired the same level of moral and political cogency as the Maastricht process and the Euro. Yet the Lisbon strategy is an even more strategic and worthwhile process: it stands for work, development quality, and the challenge of intelligence – the very future of Europe.

Antonio D'Amato

President of Confindustria

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EXECUTIVE SUMMARY

The value of the Lisbon strategy, which was inaugurated by Heads of State and Government in 2000, lies in the identification of a medium-long term economic, social and environmental strategy for the European Union with specific targets that are within the reach of European potential.

The disappointing results achieved in the reform process are essentially due to a lack of political commitment by Governments that do not find the longer-term goals stimulating enough to encourage them to carry out the reforms.

Now that the process has reached its fourth year, the time has come to decide whether to continue on our current path of moderate growth that will involve a further loss of competitiveness against our main European competitors – in the East as well as the West – or implement a virtuous growth cycle that can create wealth and employment.

For this to happen, the Member States must meet the commitments in the Lisbon strategy that they set themselves in March 2000.

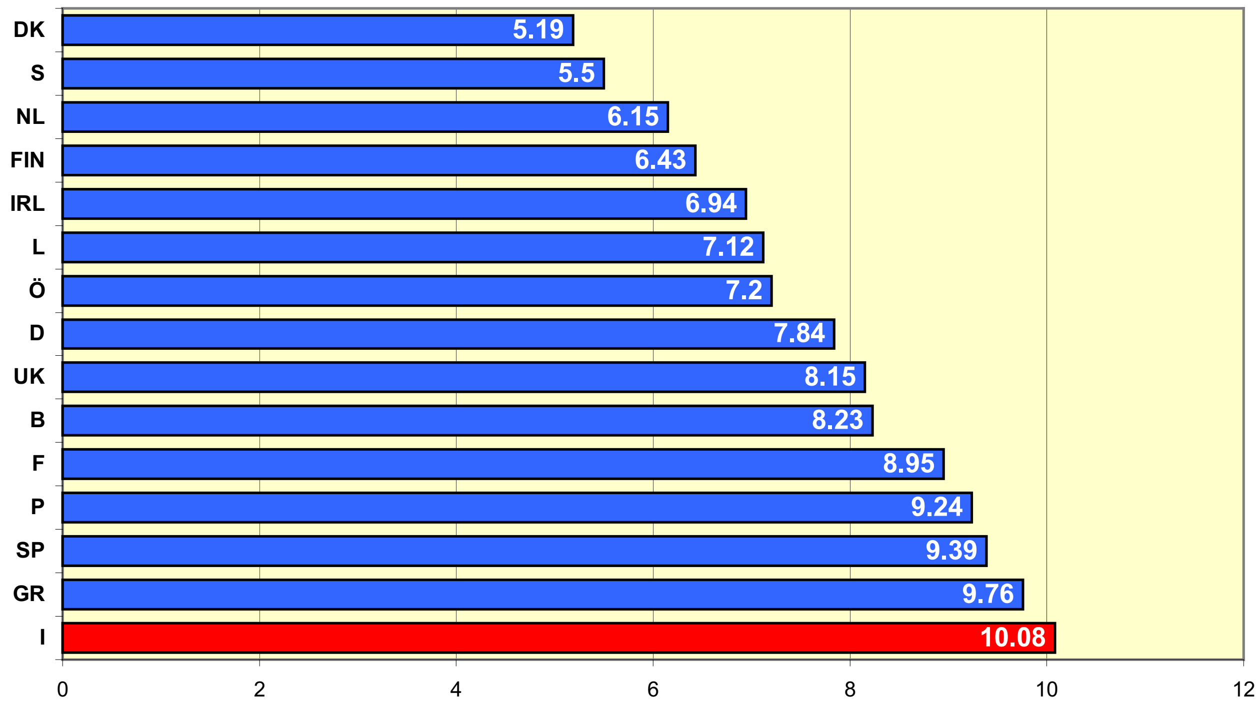
On this occasion, the scepticism that always precedes European Summits can give way to cautious optimism, not so much because the political framework in which governments operate has changed but because everyone is now well aware that the time for procrastination is over.

Many factors determine the need for reform. Firstly, the world economy trends and the international political context, so conveniently used as alibis and justification for delays, have revealed the vulnerability of the European economy as a whole and the detrimental effects on the economy of a lack of determination by Member States to drive through structural reform. Only countries that have made their economic systems more up to date and flexible are now able to face up to the financial situation and they will therefore have a competitive edge when the economy recovers.

The picture is made even more complicated by two further challenges that the European Union will be called upon to face in the next few years: enlargement and an ageing population. Enlargement has come about through a process of economic convergence between two areas that differ radically from one another in terms of income and productivity levels and also production and employment structures. Although this convergence process began during the 1990s, it is not yet complete and we are faced by a real risk that the European reform process for the products, capital and labour markets may be slowed by the arrival of the new Member States. Enlargement must not alter or delay the Lisbon goals. Instead it should represent an opportunity for the new Member States to strengthen their will to converge towards a true market economy. On the demographic front, an ageing European population means that the Member States will be forced to make radical changes to their health and pension systems.

In this context of grave uncertainty, Italy also lags far behind the other European countries in terms of competitiveness. This situation is long-standing and originates in the slowness with which structural reform is taking place. The delay is striking when we examine our country's average position on the basis of the list of structural indicators that the European Commission uses to measure the performance of individual Member States. Italy is in the top three for too few indicators. In others, it is so record-breakingly bad that it trails at the bottom of the league table of 15 European States.

The Italian delay: summary index of 88 structural indicators



Source: Eurostat 2003 structural indicators

Careful examination of the data reveals that Italy is afflicted by:

- **A growth problem** that depends essentially on the low level of employment in our country, which requires urgent implementation of labour market reforms;
- **A public debt problem** that has now risen to become one of the worst in Europe and requires immediate action on pension spending;
- **A problem of innovation and knowledge**: we are one of the weakest countries in the Union in this field. Specific action is required to support entrepreneurship and promote and disseminate technological knowledge.

We hope that the recommendations in this paper will prompt the Italian Government to act quickly to carry out the reforms so necessary to ensure our country's growth and create a favourable environment for enterprise development.

In their message of confidence in the future of Europe, the Heads of State and Government of France, Germany and the United Kingdom emphasised that enterprises are the main source of growth and employment. They went on to suggest a simple and widely shared solution to help stimulate renewed competitiveness in Europe and among European enterprises.

- Take down the barriers that still stand in the way of effective internal market operation;
- Avoid creating new legal obstacles to competitiveness;
- Liberalise the markets;
- Disseminate research and its results.

These aims are fully shared by all and we must ensure that they can be backed by firm action. Forget all the fine speeches and good intentions: this is the only way we can get back on track and achieve the Lisbon goals. Over the next year, the Member States will be judged on what they do, not on what they say.

The Italian Government, like the Governments of the other 14 countries in the EU, must display consistent commitment in defining a schedule for change and this must constitute the yardstick by which the government is judged.

SUMMARY OF CONFINDUSTRIA'S RECOMMENDATIONS

1. Taking action for a fully integrated single market

Confindustria is generally calling on the government to liberalise public utilities without delay and take action to ensure that all Member States adopt European regulations and that situations of unlawful competition due to partial liberalisation and the maintenance of monopolistic positions are eliminated.

Energy

- Overcome the main legal shortcomings in the Italian energy market during 2003 by implementation of the Marzano bill. This process must be correlated with the discussions currently in progress at European level over proposed changes to gas and electricity market directives and the cross-border exchange regulation.

Transport

- Make the infrastructure problem an absolute priority to ensure East and West are joined as soon as possible by building the V corridor that will join Lisbon to Kiev across the continent.

- Play a role in reviewing the priorities of the TEN to encourage the setting up of a transeuropean network that will break down the "barriers" dividing Italy and the Mediterranean from central and eastern Europe.

- Suggest, at European level, raising the community funding threshold to 30% (the threshold currently stands at 10% and the European Commission has proposed raising it to 20%).

- Subtract the share of public investment in major transeuropean networks from the accounting of the balance ratio for the Stability and Growth Pact of countries directly affected by the networks.

- Back the solutions discussed with private funding and other solutions such as gradual extension of charging for use of the infrastructures.

- Promote, at European level, the introduction of special fast track procedures for projects of European standing that will allow the works to be implemented quickly.

Telecommunications

- Transpose the new regulatory framework for the **telecommunications** sector because it contains a more flexible discipline that will more effectively ease the transition of TLC markets to full competitiveness. The transposition procedure must safeguard harmonisation between the different national markets.

- Ensure that transposition of the new regulatory framework is followed by its immediate implementation through actions to be carried out by the ANRs (particularly the conduction of market analysis). Implementation must also follow the general principle that regulation should be proportional to the level of competitiveness in the market. In fully competitive markets, the regulation must be antitrust in nature and technologically neutral.

- Devote particular attention to the preparation of a multiplatform policy that encourages the development of a competitive model for infrastructures that is capable of allowing sustainable growth in the medium term. This will be more effective than a competitive model based only on the differentiation of services and rate packages that would give easy short term results without ensuring stable increases in added value over time.

- Remove obstacles from the opening up of the telecommunications market by encouraging full transition to a fully competitive market system and considering the possibility - for the period strictly necessary - of maintaining ex ante regulatory constraints that could possibly help the management of existing bottlenecks in away that encourages competition.

- Support and upgrade current Italian and EU R&D investments to ensure long-term European competitiveness.

- Implement speedily the *e*Europe 2005 Action Plan to develop and use a secure state-of-the-art infrastructure able to provide up-to-date public services. By the end of 2003, Italy must undertake to launch an overall strategy to encourage the use of broadband and implement it by the end of 2005.

- Not impose any ex ante regulatory constraints on new information society services that could impair their development and thus adversely affect economic growth and employment.

2. Achieving a European financial market

- Promote a new financial culture based not only on access to credit but also on more extensive use of innovative funding models (venture capital, business angels, etc.).

- While awaiting the implementation of the Basel Accord, allow recognition of the *Confidi* and the risk mitigation guarantees they offer by drawing up an Italian national framework law that will allow the *Confidi* to work within a well-defined system.

3. Reducing fiscal pressure and the public deficit

- Make structural reforms to bring spending down. The most urgent of these seems to be that of raising the effective retirement age.

- Now that the State is reorganising itself into a more federal structure, it is essential for the new independent tax authorities to be designed so that local government departments are given great responsibility for spending.

- Approve the proposed reform to the tax system as a whole to simplify the tax system and reduce company taxation.

- Ensure greater simplification and transparency of State aid approval procedures with an extension of exemptions and controls at Member State level.

4. Stimulating the process of innovation

- Ensure the funding of the Financial Plan in the Guidelines of the National Research Plan

- Improve research financing trough:

  - public incentives for research;
  - identifying sources supplementing public ones for the funding of research and innovation;
  - facilitating voluntary donations for research;
  - creating closed funds financed from mixed capital

- Undertake a substantial reform of the selection and career processes in respect of researchers and university teachers.

- Attract, both in public and private research, the best foreign researchers and foster the return to this country of our foremost researchers.

- Speed up the legislative approval of the recent common position on the proposed regulation on the Community patent and review national legislation.

- Ensure coordination and complementarity between regional and national measures on the subject of research, innovation and technological transfer.

A number of proposals relate in particular to the development of the information society:

- stimulate the production of services, applications and contents that are capable of coping with the requirements of demand.

- adopt specific initiatives for the support of small and medium-sized enterprises with aid for the introduction of new technologies.

- try out the project financing system in the production of online public administration services.

- check the possibilities of a more effective use of regional European funds.

- define a national plan and the relevant lines of funding, for the full consolidation of an Information Society.

5. Improving the labour market

- Quickly prepare and approve the decrees implementing the delegation principles contained in the recently approved law. If the actions suggested by legislative measures do not begin to have an effect during 2003, it will be very difficult to achieve the employment growth targets required by the Government.

- Approve the measures agreed in the Pact for Italy, transposed into the draft of Law No. 848 *bis,* currently under examination by the Senate.

6. Bringing social security up to date

- Carry out social security reform quickly, taking into account the need to raise the effective pensionable age.

- Create a mixed public (distribution) and private (capitalisation) pension system by rationalising the basic protection system and strengthening the complementary system.

- Reduce contribution charges to promote the creation of new employment and thus increase the overall level of contributions flowing into the pension system.

- Develop complementary forms by increasing the flow of finance and hence sums payable.

7. Promoting education and training

- Complete the Moratti reform by the end of spring 2003.

- Work towards the creation of a general framework for life-long learning consistent with the Italian education and training systems and with the features of the labour market.

- Implement interprofessional funds (recently set up) to encourage a system of continuous vocational training.

- Improve financial and tax tools as incentives to investment in company training.

- Tackle problems of vocational training in general with particular attention to the following aspects: assessment of ICT skills gap, certification of ICT competences and training processes, deployment of training as an active labour policy, development of e-learning and setting up of public-private centres of excellence for ICT skills training.

- Complement and enhance the efficacy of vocational training policies by supporting corporate in-house training programmes through direct and/or organisational financial aid.

8. Simplifying the regulatory system

- As part of the European Commission's quantitative target plan, Italy should waste no time in stating its targets for administrative and legal simplification and also targets for other key enterprise policy sectors.

- Extend and accelerate e-Government plans for Government, the Regions and independent local authorities. The aim will be not simply to introduce new technology for its own sake but to simplify and streamline processes and procedures to make Civil Service departments more effective and keep public spending down, with evident benefits for public and private sectors alike.

9. Reconciling sustainable development and competitiveness

- As far as climate change is concerned, draw up comparison tables for the preparation of sector agreements as a matter of urgency if we are to achieve the targets set by the Kyoto protocol and outlined in the CIPE[1] (Comitato Interministeriale per la programmazione economica) resolution.

- Finalise the consolidation acts so that the environmental code can be updated to assure both a high level of environmental protection and a clearer legal framework for production activities and their requirements.

- Introduce the necessary waste management measures to ensure the Italian regions are equipped with incineration plants in all areas. This would allow us to achieve a more effective balance between the various waste disposal methods and bring Italy into line with the European average because Italy currently incinerates considerably less waste than many countries.

[1] Comitato Interministeriale per la programmazione economica

Chapter 1. *Taking action for a fully integrated single market.*

Public utility costs are higher on average in Italy than in the rest of Europe. This problem is mainly due to the fact that market liberalisation is still incomplete and also to the lack of favourable structural conditions.

The Lisbon strategy aims to:

- **speed up the liberalisation in areas such as energy, telecommunications, transport and post services ☑[*]**
- **public procurement accessible to SMEs**
- **update public procurement rules**

Progress achieved by Italy during 2002

- ***Energy***

Despite implementation of EU regulations for the liberalisation of the **electricity market** through the Bersani decree, Italian electricity market prices again failed to improve during 2002 due to the persistence of unfavourable structural conditions that include: an obsolete electricity generation pool with a low level of energy efficiency, the difficulty in differentiating the fuel mix, severe import congestion due to chronic shortcomings in the energy transport networks and a high level of concentration in the generation sector [2].

Strong institutional barriers are still in place to prevent companies entering the market, and these barriers are exacerbated *inter alia* by an imprecise distribution of competences between national and regional levels.

In the **gas** sector too, the liberalisation process set under way by the Letta Decree Law foundered due to persistent obstacles and barriers relating both to the specific way natural gas is produced and imported and to the considerable difficulties new operators face when they attempt to enter the market through contracts drawn up directly with producing countries.

Italian government proposals "Marzano bill" for energy sector legislative reorganisation represent a significant opportunity to reinforce the liberalisation process from the legal viewpoint. To do this, special attention must be paid to new laws for standardisation of Italian national electricity grid ownership and management, to procedures for allocating new gas capacities and to the simplification of authorisation procedures as well as the adoption of supply liberalisation measures. The bill still displays considerable shortcomings as far as gas market legislation is concerned.

- ***Transport***

As far as transport is concerned, the analysis must consider available infrastructures in the country and the extent to which sector liberalisation meets European Union requirements.

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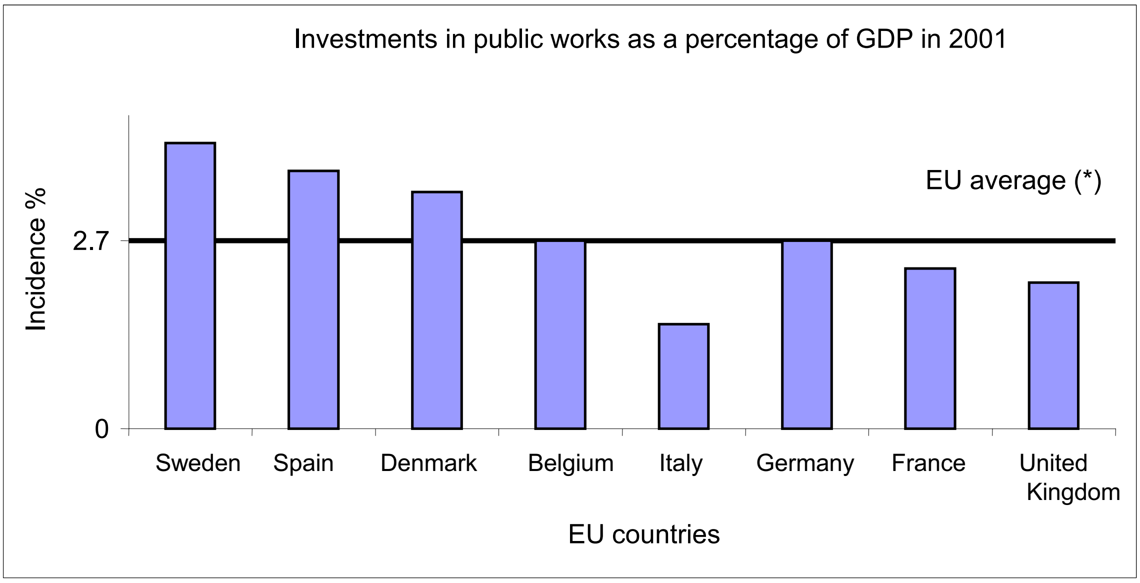
[*] ☑ Indicates the issues treated in each chapter, among Lisbon priorities.

[2] While Legislative Decree 79/99 provides for an ultimately more competitive supply model through plans to sell off ENEL's three generation companies, the high purchase price paid by ENEL's competitors will cause an even longer delay in the start-up of repowering investments.

With a 38% increase in the demand for goods transport forecast over the next ten years, Europe definitely needs an efficient transport network. For this reason, the Commission's proposal to liberalise the railway sector by the end of 2006 has to be supported. The European Council of Goteborg considers a changeover from road to rail to be desirable and the only incentive for this will be sector liberalisation and the consequent reduction in rail transport costs.

In recent years, there has been a strong acceleration in the liberalisation process at national level, compared with what was laid down by Community legislation, especially in the goods sector and in terms of local and regional transport. However, we should continue to support the process of opening up the markets at Community level. The gradual and uniform opening up of the national markets will remove the current distortions in terms of competition between companies operating in markets that are open to competition and companies enjoying legal and substantive monopolies within their countries.

A great gap exists between the Italian infrastructure and that of other European countries and Italy risks remaining on the fringes of the European transport network. Between 1996 and 2002, Ferrovie dello Stato [State Railways] maintained a growth in investment spending in terms of infrastructure of an average of 18% per annum, increasing from 2430 million euro in 1996 to 5400 million euro in 2002. Between 2003 and 2005, there will be an increase in the resources invested to more than 20% per annum. In spite of this, the level of investment in infrastructure in Italy has stayed below 1.5% of GDP for years despite the fact that the main EU countries average is 2.7% for the same period. Italy's geographical configuration means that the alpine passes represent a major hurdle to Italy really becoming part of the European transport network.



Source: Ance (Italian constructors federation).

(*) EU average refers to the Countries considered.

Three of the major TEN (*Trans European Network*) projects concern Italy but, of these, only the Malpensa Airport project has been carried out. The other two projects, i.e. the creation of a high-speed rail link joining Lyon/Turin/Venice/Trieste and the construction and extension of the Munich/Verona rail link through the Brenner Pass (with the proposed extension to Naples) are suffering long delays, particularly due to funding difficulties and difficulties in coordination with bordering countries over cross-border projects. These difficulties may mean that Italy ends up not being part of the great European transport links.

To speed up work at Italian national level, the Italian government has approved a "Legge obiettivo" for the main infrastructures sector that sets out to regulate major public works defined as "strategic and of pre-eminent national interest" organically and on the basis of innovative principles. As far as financial planning is concerned, "SPA Infrastructures" have been set up to provide resources and guarantees for the funding of the main infrastructures (recently the new all-Italian high speed train project was assigned to this institution).

➢ ***Telecommunications***

Telecommunications are one of the public utilities in which the liberalisation process has been most effective[3]. The opening up of the voice telephony sector to competition meant that users began to see prices fall from September 1998.

Strong dominant positions certainly persist on the markets, partly due to historical and financial reasons. It is no easy task to overcome the barriers set up due to the capital intensive nature of the activity of installing and running communication networks, while the bursting of the net economy bubble led to a shakeout in the sector due to the growing difficulties in funding new initiatives.

Nowadays the telecommunications sector faces new challenges due to connection speeds and network security. As far as connection speeds and the spread of broadband is concerned, the European Commission recently[4] drew attention to the fact that secure connections that use several platforms and operate at high speeds (broadband) will form the basis of the future knowledge economy.

The telecommunications sector is a special case because the process of liberalisation defined by European laws in 1997 has led to a higher level of competition than in other public utility sectors. This was acknowledged by the European Commission when it reported an improvement in the competitive situation in Italy in its 8th report on the implementation of the Telecommunications Regulatory Package[5]. With the New European Regulatory Framework, the telecommunication deregulation process should move on step forward to adjust sector regulation to a competitive environment and avoid regulatory barriers that could hinder the development of new Information Society services.

How Italy compares with its European partners

Data on energy sector prices in Italy confirm the persistence of a situation where prices are higher on average than in other European Union countries, which penalises the industrial sector heavily. An analysis of structural indices with particular reference to industrial users (2002) confirms that the average electricity price in Italy (0.08 euro/kWh) is higher than the European average (0.0612 euro/kWh). The average European price for the gas sector, again for industrial customers, is 5.42 (euro/Gigajoule) while the Italian average is 5.5.

As far as transport is concerned, no indicators are available to quantify the cost of the inefficiency and inadequacy of the Italian transport network (particularly road and rail). The infrastructural gap mentioned earlier is the most striking aspect of the negative impact on the country's production

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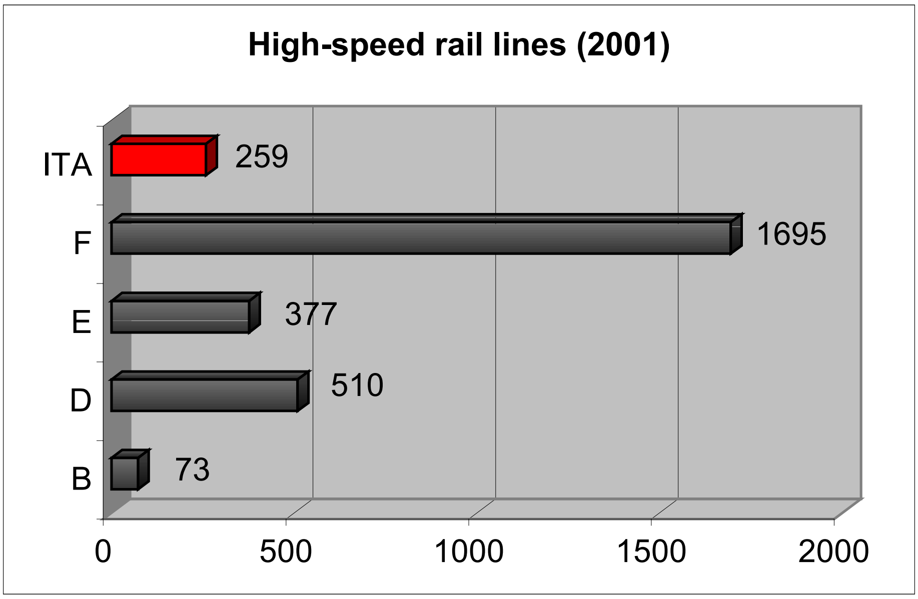
[3] The Italian government is arranging to complete implementation of the new regulatory framework by the planned deadline (24 July 2003).

[4] Electronic communications – road to knowledge economy" European Community Communication

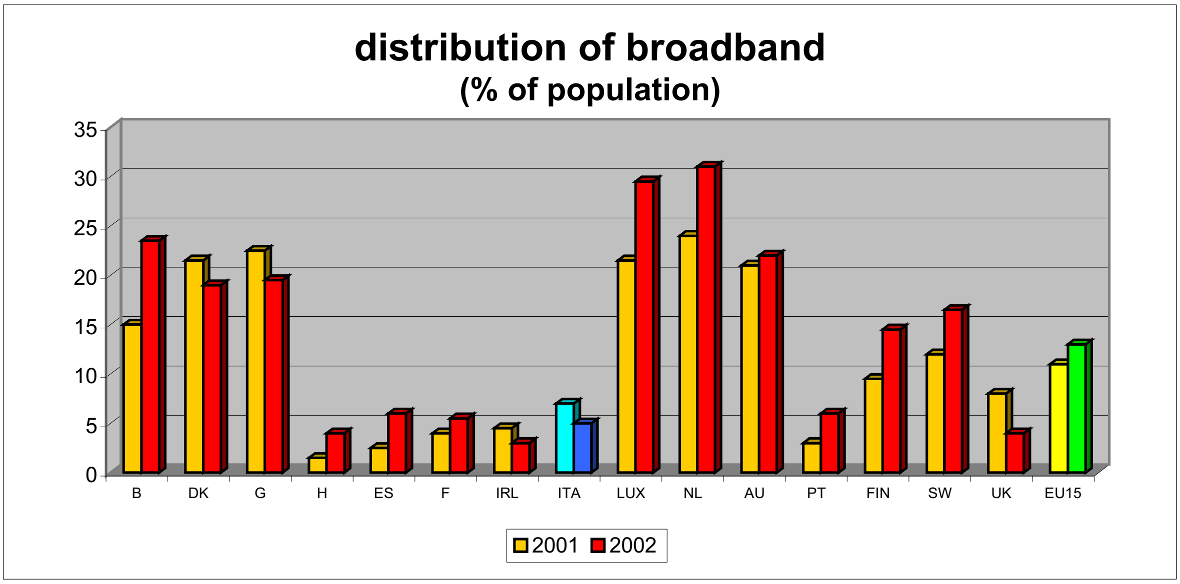
[5] European Commission: Eighth Report of the Commission on the implementation of the telecommunications regulatory package, Regulation and European telecommunications markets. 2002 Report – COM (2002) 695.

activity. The fact that Italy is lagging behind its main competitors in the high-speed rail sector illustrates this problem. It should be noted that investment spending increased from 496 million euro in 1996 to a final total of 2300 million euro in 2002, with plans to exceed 3000 million euro in 2003. However, there is still a large difference in comparison with other direct competitors (particularly with regard to high-speed train lines, a field in which Italy excelled for many years).



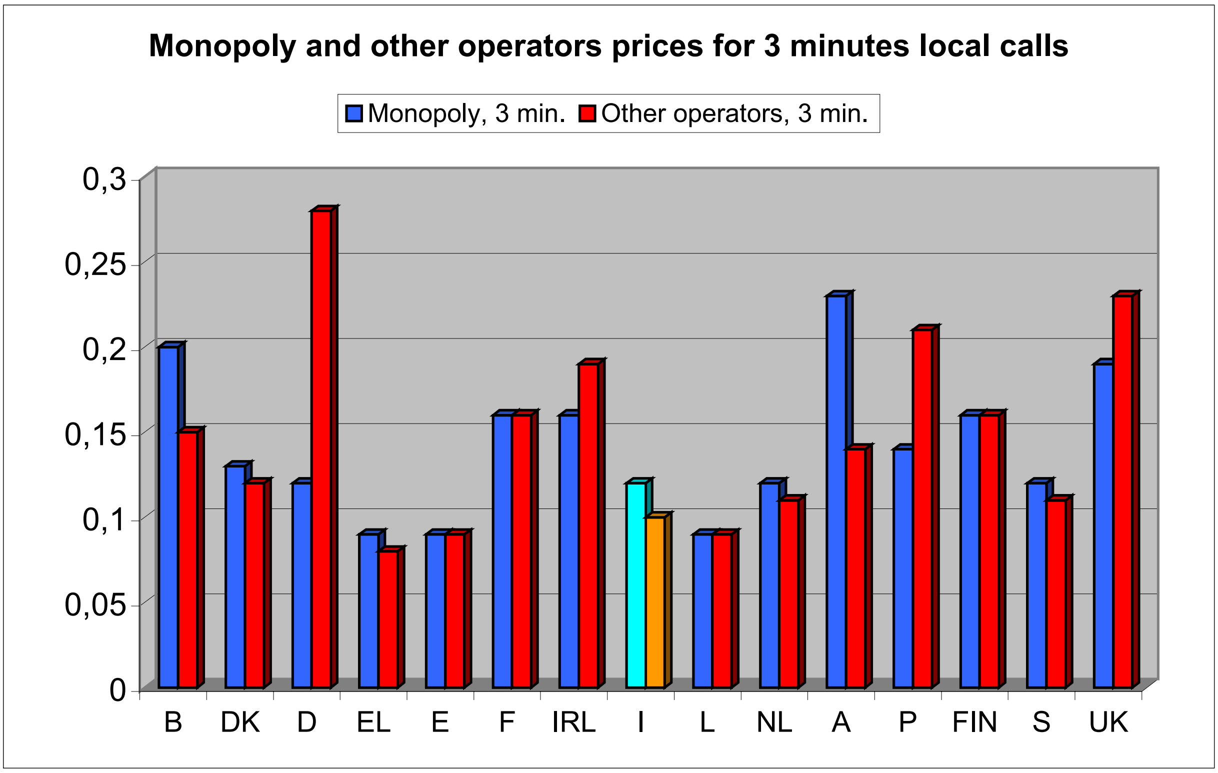
Source: Union internationale de chemins de fer

The problem of infrastructure crops up again in the field of telecommunications when we consider the distribution of broadband and find Italy again lagging behind its main European rivals.



Source: European Commission, DG Entreprise, Benchmarking enterprise policy, Results from the 2002 scoreboard

As far as telecommunication costs are concerned, the liberalisation effect, and consequently lower prices, has been noticed even if for some communication types a difference remains with European best performers. It must, however, be acknowledged that the opening up of the market has brought about a gradual but significant effects on the prices of the main operator[6] with consistent reductions for the final customer.



Source: European Commission,VIII implementation report

The last table shows that pricing changes determined by the burgeoning competition have led to overall price cuts to end users. The Italian Communications Regulatory Authority also highlighted these reductions in its latest annual report.

While on this subject, we should still remember that Telecom Italia is still subject to price caps that allow only limited changes in voice telephony rates (regulated system). It must also be considered that the levels described in the tables in the First implementation report do not take into account the numerous rate packages that cut prices to end users. Such packages save users money by offering a certain number of free local and long-distance minutes to residential and business users.

[6] Telecom Italia, during the considered period, has been subject to price caps (regulated system) that allow only limited increases in voice phone prices.

Confindustria's priorities for 2003

Confindustria is generally calling on the government to liberalise public utilities without delay so that industrial users and also domestic users can benefit from lower cost services. It is also, however, calling on the government to adopt Europe-wide measures to ensure that all Member States adopt European regulations and that situations of unfair competition due to partial liberalisation and the maintenance of monopolistic positions are eliminated.

Energy

Confindustria considers that the main legal shortcomings in the Italian energy market should be overcome by implementation of the Marzano bill. It also emphasises that this process must be correlated with the discussions currently in progress at European level over proposed changes to gas and electricity market directives and the cross-border exchange regulation.

Transport

Confindustria considers that the Italian government must make the matter of infrastructure an absolute priority in its dealings with Europe, particularly because Italy is about to assume EU presidency for six months. East and West must be joined as soon as possible by building the V corridor that will join Lisbon to Kiev across the continent.

Through its representative in the top-level group chaired by Karel Van Miert, the Italian government must play an active role in reviewing the priorities of the TEN to encourage the setting up of a transeuropean network that will break down the "barriers" dividing Italy and the Mediterranean from central and eastern Europe. As far as funding for the work is concerned, the Italian government could suggest, at European level, raising the community funding threshold to 30%. The threshold currently stands at 10% and the European Commission has proposed raising it to 20% of the cost of the work.

The share of public investment in major transeuropean networks must also be subtracted from the accounting of the balance ratio for the stability and growth pact of countries directly affected by the networks.

In addition to the solutions discussed, we must naturally also consider **private funding** and other solutions such as a harmonisation of the principles and criteria for **charging** for use of the infrastructure on the twofold principle that "whoever uses should pay" and "whoever pollutes should pay". Care must nevertheless be taken to ensure that road transport costs, which are already high, are not raised still further, in order not to increase the high costs that act as burden for some transport modes.

The government should also promote, at European level, the introduction of **special fast track procedures** for projects of European standing that will allow the works to be implemented quickly.

Telecommunications

Confindustria considers that action must be taken to place our country alongside the best performers in Europe because telecommunications are crucial to our future ability to compete in Europe. To achieve this, it is necessary to:

- Transpose the new regulatory framework for the **telecommunications** sector because it contains a more flexible discipline that will more effectively ease the transition of TLC markets to full competitiveness. The transposition procedure must safeguard harmonisation between the different national markets.

- Ensure that transposition of the new regulatory framework is followed by its immediate implementation through actions to be carried out by the ANRs (particularly the conduction of market analysis). Implementation must also follow the general principle that regulation should be proportional to the level of competitiveness in the market. In fully competitive markets, the regulation must be antitrust in nature and technologically neutral.

- Devote particular attention to the preparation of a multiplatform policy that encourages the development of a competitive model for infrastructures that is capable of allowing sustainable growth in the medium term. This will be more effective than a competitive model based only on the differentiation of services and rate packages that would give easy short term results without ensuring stable increases in added value over time.

- Remove obstacles from the opening up of the telecommunications market by encouraging full transition to a fully competitive market system and considering the possibility - for the period strictly necessary - of maintaining ex ante regulatory constraints that could possibly help the management of existing bottlenecks in away that encourages competition.

- Support and upgrade current Italian and EU R&D investments to ensure long-term European competitiveness.

- Implement speedily the *e*Europe 2005 Action Plan to develop and use a secure state-of-the-art infrastructure able to provide up-to-date public services. By the end of 2003, Italy must undertake to launch an overall strategy to encourage the use of broadband and implement it by the end of 2005.

- Not impose any ex ante regulatory constraints on new information society services that could impair their development and thus adversely affect economic growth and employment.

Chapter 2 *Achieving a European financial market*

European companies say that access to finance is one of the greatest limitations to their growth. In Italy, access to finance still nearly always means access to credit.

The Lisbon strategy aims to:

- **create a more competitive environment for business activities☑**
- **promote integration of financial markets and stock exchanges**
- **better functioning of government bond market**
- **eliminating barriers to investment in pension funds**
- **improve access to investment capital☑**

Progress achieved by Italy during 2002

The goals listed above are among the priorities indicated in the "Action Plan on financial services" prepared by the European Commission (1999).

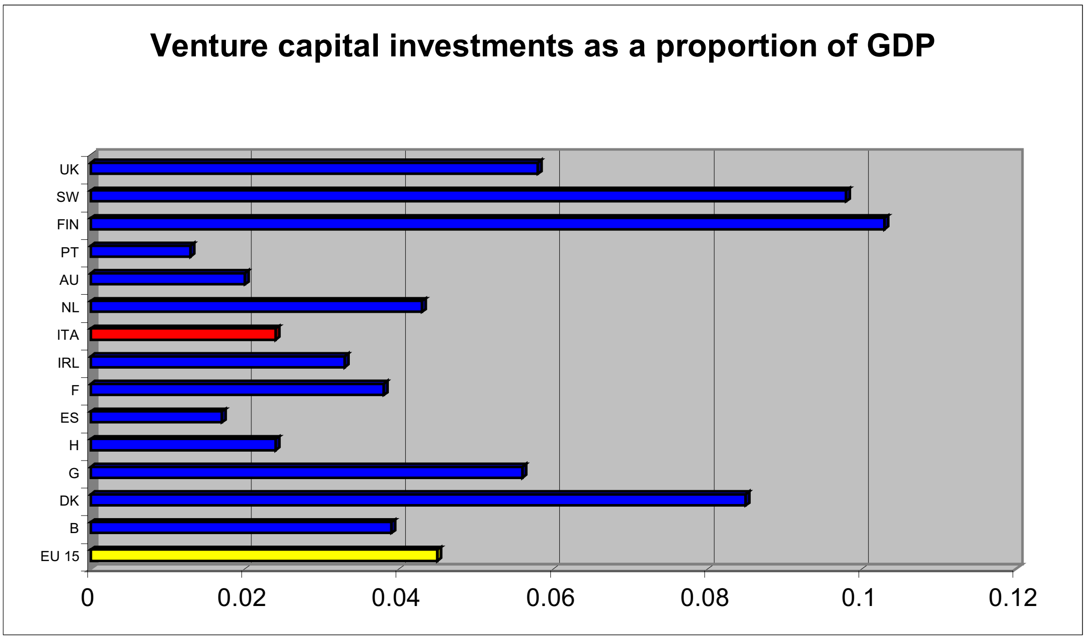
Italy is playing an active part in harmonising regulations at European level, and also in the subsequent removal of the legal barriers that limit access by companies and consumers to the financial services and capital market.

Italy reached a significant goal during 2002, namely the reform of company law, definitively approved at the beginning of this year, which introduced significant changes to the structure of companies, favouring the adoption of management models that are more suited to individual situations. The new discipline will certainly have positive effects on the competitiveness of companies as they will now also have the option of issuing new financial tools and bonds that enterprises define themselves to suit their own individual requirements and repayment possibilities.

How Italy compares with its European partners

In Italy, the difficulty in finding financial resources represents one of the main obstacles to the growth of small and medium-sized enterprises, particularly enterprises wishing to invest in new technologies and human resources to increase their competitiveness. The problem of finance (financing) is essentially due to the limited ability of small and medium-sized enterprises to finance themselves, the weakness of the local financial system (particularly in the South and some central areas) and the poor business background of financial intermediaries who still assess a company's reliability in terms of its available capital and assets and not in terms of its true business opportunities. Access to the capital market still remains an option open only to a small number of businesses due to a set of technical, financial and cultural barriers that must be removed as soon as possible. As part of its policy of enterprise benchmarking, the European Commission highlights the great differences at EU level between countries (particularly north European countries) with market-oriented financial systems and countries (with Italy as front runner) with essentially credit-based systems where the banks are the main source of business finance. Above all, however, Italy suffers from a lack of other finance mechanisms that are widespread in Europe, such as venture capital, or recourse to other innovative finance methods (e.g. business angels).

To allay difficulties faced by smaller companies seeking access to credit, the Italian entrepreneurial system promoted the setting up of Consorzi di Garanzia Fidi (CONFIDI). *Confidi*, which have now been in operation for more than 30 years, guarantee medium to long term credit for small and medium-sized companies. Since 2000, these *Confidi* have been able to apply for counterguarantees from the SME Guarantee Fund set up by the Minister of Production Activities. This has made it possible for them to increase their guarantees to companies, which in turn helps the companies gain access to more credit.



Source: European Commission, Structural indicators (2001)

Confindustria's priorities for 2003

Promote a new financial culture in Italy. Italian companies are still dependent upon credit-based finance models and are reluctant to introduce innovative resources (venture capital, business angels, etc.). Major changes to the credit system will be introduced with the adoption of the New Basel Agreements relating to bank capital, when companies will be forced to adjust to significant changes in the way banks manage credit activities.

Define an Italian framework law to govern the *Confidi* with greater certainty because these are not currently regulated by a specific discipline (the system has been calling for this for years). While awaiting the implementation of the Basel Accord (some banks have already adjusted to the new rules), a solution must be found to the problem of the *confidi*, ensuring that SMEs use them to defray risk without overturning the Italian mutual guarantee system that has contributed so much to the development of the SMEs.

Chapter 3 *Reducing fiscal pressure and the public deficit*

According to the European Commission's assessment during the implementation of broad economic policy guidelines (BEPGs), "Italy is among the Member States that, in overall terms, are considered to have given the least effective follow-up to the country-specific parts of the BEPGs. Only limited progress was made in following up to the public finance recommendations, notably because there has been no clear path of deficit reduction and doubts remain whether current steps of tax reform are consistent with reaching a close-to-balance budgetary position. Moreover, no new measures were taken to address critical aspects of the current pension system.[7]*"*

The Lisbon strategy aims to:

- **improve the quality and sustainability of public finances**☑
- **reform the administrative framework**☑
- **improve the contribution of public finance to growth and employment**
- **reduce fiscal pressure on employment**☑
- **reduce the level of state aid**☑

Progress achieved by Italy during 2002

The strategy adopted by the European Council of Lisbon in March 2000 allowed for an <u>average growth rate of 3%</u> for the period 2000-2010. In view of the gloomy economic trend during 2002 and 2003, this now seems a much harder task to achieve. It is therefore more pressing than ever to introduce structural tax reforms and embark on a specific process to cut public spending.

According to the broad guidelines, Italy's aim for 2003 is to achieve a situation close to balance according to the understanding reached during the Madrid Ecofin Council in June 2002: in other words 0.8% of the net burden of debt already allowed for by the EFPD. The government has nevertheless downscaled growth forecasts for the next two years: from 1.3% to 0.6% for 2002 and from 2.9% to 2.3% for 2003 (update to the 2003-2006 EFPD).

Considerable improvements in **<u>government deficit</u>** figures were mainly due to a reduction in interest expenditure (due to the favourable tax trend) and to the various items of extraordinary income guaranteed by <u>one-off</u> measures. Without the one-off measures, the government deficit for 2000 and 2001 would have remained at 3 and 2.8 per cent of GDP respectively and would also remain at around 3% in 2002 and 2003 if the new one-off measures were disregarded. In 2003, current spending net of interest again rose in relation to GDP despite the bonuses of de facto postponement of public contract renewals and very low spending on goods and services.

The reason this problem is so serious is that during the years of low economic growth, we lacked the will to make the necessary structural reforms to the major expenditure channels (pensions, health, government efficiency, public employees). Because of this, the effects we can make on public finance trends are restricted to costs for investment and employment incentives and costs for investments in public works. The end result will be a worsening in public spending quality in terms of improving growth potential.

In its Pact for Italy, the Government undertook to reduce the cost of labour in terms of the regional income tax (IRAP) tax base. However, the forecasts in the last financial analysis still do not indicate significant action in this direction.

[7] COM(2003) 4 final

In general, it would appear to be fundamentally important to reduce the **fiscal pressure**, which is currently higher than the European average, to free up resources that can be earmarked for development. This topic is one of the most important items on the current Government's agenda.

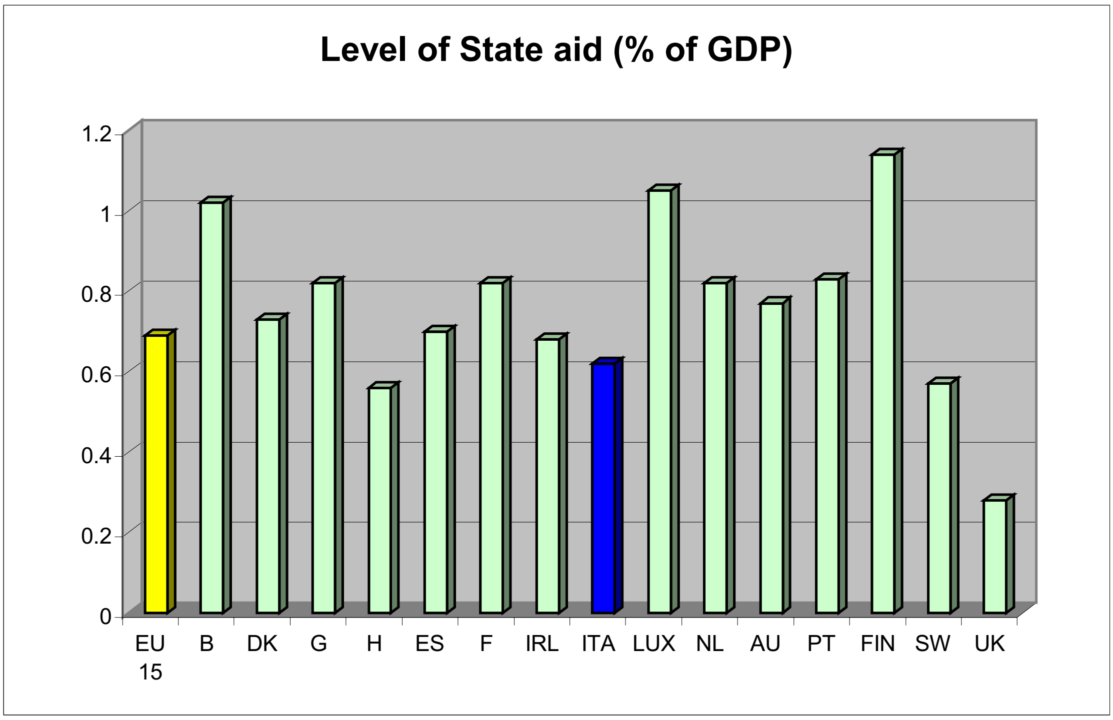
The bill filed in December 2001 outlined a plan for radical reform of the tax system. As far as company tax is concerned, the bill plans to cut corporate income tax (IRPEG) from 36 to 33%, change the definition of the tax base and gradually do away with regional income tax (IRAP). For individual income tax, the plan allows for a gradual reduction from the current number of five income scales to just two scales and conversion of tax deductions to taxable deductions.

The financial Law for 2003 ordered the implementation of some of the measures outlined in the delegation Law on fiscal reform. For individuals, the first three income scales and the relevant percentages will be altered and a no tax area will be identified up to a minimum income level of 3000 euros. This level increases to 7500 euros for employment income. As far as companies are concerned, the planned reduction in the IRPEG (corporate income tax) rate is complemented by measures to extend the IRPEG tax base and a significant downgrading of the DIT mechanism. Planned reductions in IRAP are of absolutely marginal importance for companies.

As for reform of the administrative system Italy successfully introduced a plan to computerise tax returns and supply on-line tax services for taxpayers back in 2000. The system is still beset by administrative problems due to slowness of procedures. This is particularly true of repayments and the computerisation of VAT communications.

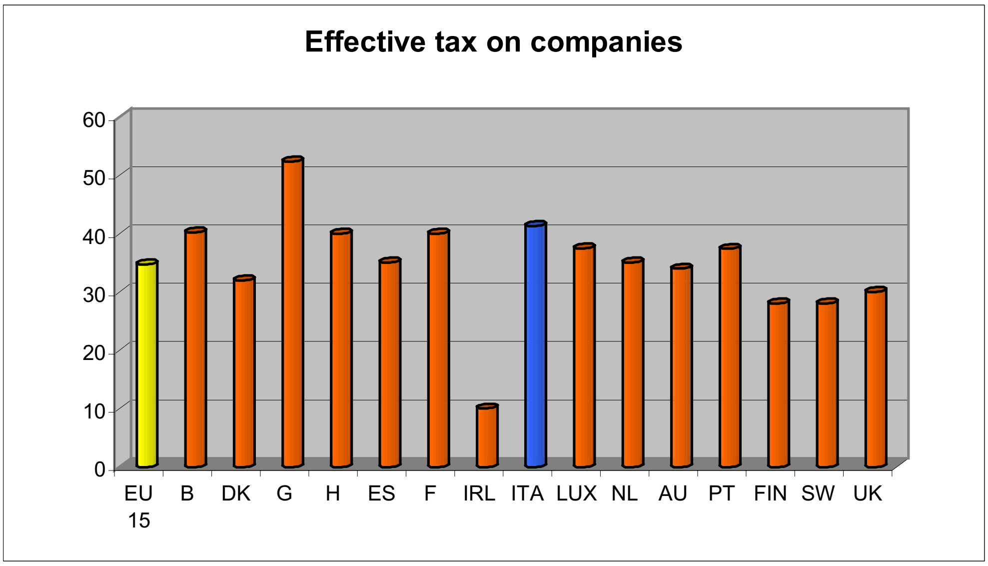
How Italy compares with its European partners

The reduction in **State aid** must remain a priority for the Member States in order to encourage full implementation of the Single Market. However, the presence of market failures and disadvantaged areas in Italy could justify an appropriate intervention with the lowest level of State aid. Italy cannot, however, agree with the decision to limit state aid if this precludes the balanced development of our production system within an extended Union. We must also take into consideration the fact that, as the following table shows, Italy's level of state aid (0.6% of GDP) is lower than the European average (0.7%) and higher only than Greece, the United Kingdom and Sweden.



Source: European Commission, Structural indicators (2000)

Italy is one of the top four countries in Europe for direct taxation on company income with an amount equal to 3.9% of GDP, just below Holland (4.2%) and the United Kingdom (4.7%). Italy's average tax rate (41.5%) is much also much higher than the European average (34.7%).



Source: European commission, Effective tax on companies in the internal market (2001)

Confindustria's proposals for 2003

Confindustria is very concerned about the fact that structural reforms that could affect spending have not yet been carried out. The most urgently needed reform seems to be that of raising the effective pensionable age. Instead, the State is reorganising itself into a more federal structure that could mean spending will be more difficult to control at least in the short term. It is essential for the new independent tax authorities to be designed so that local government departments are given great responsibility for spending. Another test of the credibility of government spending control policies will come with the imminent renewal of the public employment contracts because it is important not to exceed the Finance Law allocations.

As far as taxation is concerned, the high tax pressure and the complexity of the Italian taxation system are still a hurdle to the competitiveness of the Italian economy. To achieve the growth targets set out for 2003 and the Lisbon competitiveness targets, we must prioritise:

- measures to simplify the tax system;
- the reduction of the tax burden on companies.

The government has proposed a reform of the tax system that aims to make the Italian systen competitive, simpler and more in line with systems operated in other European countries However, it is essential for the reform to be approved as a whole.

As far as State aid is concerned, it is necessary to take into account the needs of our production system ensure balanced development of our manufacturing system, particularly in depressed areas of the country, which continue to be significantly influenced by the external negative economies, even in an extended EU. Furthermore, greater simplification and transparency of State aid admissibility procedures would also be advisable, along with an expansion of exemptions and checks at Member State level.

Chapter 4 ***Stimulating the process of innovation***

Italy lags behind the rest of Europe in nearly all the innovation indicators. A lack of investment in the public and private sectors puts us only slightly ahead of Spain and Greece.

The Lisbon strategy aims to:

- **develop appropriate mechanisms for networking national and joint research programs ☑**
- **improve the environment for private research investments ☑**
- **set up partnerships between schools, training centres and researchers**
- **improve the mobility of students, teachers and researchers☑**
- **make Internet access available to all☑**
- **ensure that a community patent is available by the end of 2001 including the utility model☑**

Progress achieved by Italy during 2002

The Guidelines for the 2002-2004 National Research Plan developed by the Ministry for Research and University Education establish a very specific goal: public spending in research and development equal to 1% of the Gross Domestic Product by the end of 2006.

The basic aim of Italian government guidelines for the development of the Information Society is to make Italy a prominent player in the digital age. The plan is to bring Italy up to date by promoting the spread of new technologies throughout public and private sectors. Competitiveness is to be promoted by speeding up the Net economy and developing an Information Society model based on innovation and knowledge.

The Finance Law of 2003, on the other hand, penalises the research sector despite an ad hoc measure to fund public research with a tax on tobacco. Company support Funds have been re-funded to a negligible extent despite the high number of projects already approved or awaiting approval. The Basic Research Fund was re-funded to the tune of just 100 million euros per year. The Italian Fund for the backing of technological innovation projects in the Civil Service and Italy as a whole (100 million Euros) is, on the whole, insufficient to allow the realisation of Italian government innovation Plans (apart from anything else, the Fund has been financed by cutting the Italian State IT spending fund by 8%). The 31 million Euros earmarked to promote the spread of broadband and digital landlines will hardly go any way toward promoting technological innovation in Italy.

This is primarily going to affect those small and medium-sized enterprises that have begun modifying their business strategies in recent years by investing in R&D, seeking collaboration with universities and public research bodies and engaging researchers.

A start has been made on the processes for the reform of the public research and university system. This is going well on the whole, though the sector needs to be more aware of the need for evaluation and efficiency and the world of manufacturing should be more involved.

A system for assessing research results is currently being devised by the Ministry of Education, Universities and Research. Greater attention has also been paid by the Ministry to the need to strengthen the Italian system of support for participation in European research programmes by both public and private individuals.

In 2002 overall, there was increased awareness of the theme of research and innovation in both economic and political debate. Still complex, however, is the practical application of measures drawn up which are capable of renewing the public system, sustaining the link with the production system and, above all, creating conditions for renewed development.

The Italian research situation remains a concern in general because it is beset by numerous problems. In particular, the Italian research sector has no tradition of results evaluation and technology transfer. Small and medium-sized enterprises are particularly unwilling to play an active part in research programmes and research activities.

Italy also needs to make up the technological innovation gap between itself and the other major European countries. It must do this by developing appropriate demand-led industrial policies and gearing campaigns to the real production situation and also the need for internationalisation.

As regards the development of the Information Society, the guidelines laid down by the Minister for Innovation and Technologies single out three areas of assistance to close the competitive gap with other countries:

- improving Government efficiency and effectiveness by recourse to technological innovation (e-government)
- contributing to the development of the Italian economic system by disseminating the use of information and communication technologies, or ICT, among citizens and enterprises
- promoting the spread of broadband connection technologies.

However, in the face of such broad areas of intervention, the 2003 Finance Law has provided for intervention on a modest scale[8].

When comparing the European programme indications contained in the 2005 e-Europe plan and relating to the following sectors: e-Government (online public services), e-Business (digitalisation of SMEs), e-Learning (training), e-Health (health), Broadband (broadband connections), Security (information protection infrastructures) with the Italian Government provisions for 2003, it is clear that the level of investment provided for is too modest.

E-Government and broadband - which are held to be priorities both in the Guidelines and in the Government's Economic and Financial Programming Document - have been extensively

[8] In particular:
- a fund of 100 million euros, primarily with governments in mind, has been set up to finance technological innovation projects;
- the "PCs for young people" fund, which provides for a 150 euro discount for 16-year-olds who purchase PC connected to the Internet in 2003, has been set up;
- a fund of 31 million euros has been instituted which provides for a 75 euro contribution towards the purchase or hire of modems for broadband internet access;

Other Government intervention measures during 2003 involve:
- e-government (through government co-funding for online public service projects of local bodies of a total of 240 million euros);
- e-commerce (through funding for enterprises to the tune of 100 million euros);
- The computerisation of small and medium-sized enterprises (approximately 32 million euros allocated by Article 8 of Act 273/2002).

redimensioned. The other sectors which are cited as fundamental in the 2005 e-Europe plan are not to be found in the law which is the vehicle for the Government's financial provisions for 2003.

The risk of increasing Italy's backwardness in the field of ICT use - a gap to which attention is drawn by the Government itself in the Guidelines - is a very great one.

How Italy compares with its European partners

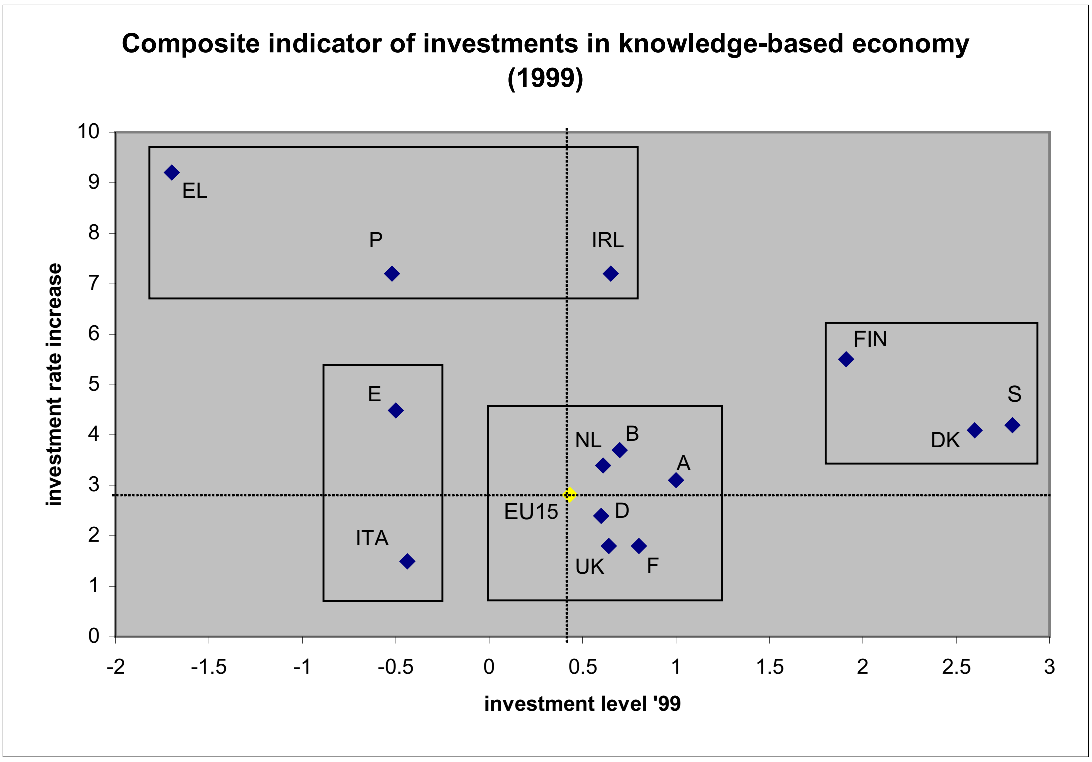
While Europe reports that it is lagging behind the USA in many innovation indicators, the situation in Italy is nothing short of an emergency.

Innovation leaders among Member States						
Indicator	EU Average	EU Leaders		ITA	US	JP
Science and Technology graduates (aged 20-29)	10.3	23.2 (IRL)	18.7 (F)	5.6	10.2	12.5
Population who have received higher education	21.2	32.5 (FIN)	29.7 (S)	10.17	36.5	29.9
Participation in life long learning	8.5	21.7 (UK)	21.6 (S)	5.1	--	--
Employment rate in the high-medium technology manufacturing sector	7.6	11.2 (D)	7.9 (S)	7.42	--	--
Employment rate in high-tech services	3.6	5.1 (S)	4.9 (DK)	3.05	--	--
Public R&D / GDP	0.67	0.98 (FIN)	0.94 (S)	0.53	0.66	0.87
Private R&D / GDP	1.28	2.84 (S)	2.68 (FIN)	0.53	2.04	2.11
High-tech EPO patents / population	27.8	137.6 (FIN)	95.1 (S)	6.2	49.5	36.6
High-tech USPTO patents / population	12.4	47.3 (S)	41.6 (FIN)	4.1	91.9	80.0
Venture capital in High-tech / GDP	0.24	0.57 (FIN)	0.46 (DK)	0.20	--	--
New capital obtained / GDP	1.7	10.8 (L)	7.9 (E)	0.67	0.8	0.0
Home internet access	37.7	63.8 (NL)	60.7 (S)	33.5	46.7	34.0
ICT Spending / GDP	6.93	9.85 (S)	8.62 (UK)	5.17	8.22	8.98
Added value of High-tech manufacturing sector	10.1	25.4 (IRL)	19.3 (FIN)	6.8	25.8	13.8

Source: European Commission, Innovation scoreboard 2002

One of the most significant indicators of Italy's weakness in the field of research and development must certainly be the level of investment, both public and private.

In 2000, the ratio between spending in R&D and GDP was 1.04%, compared to 2.29% for Germany, 2.18% for France and 2.84% for the United States. Our R&D investment situation is similar to that of Spain: investments are low (both around 1% of GDP) although Spain displays higher investment growth (6.9%) than the EU average (3.4%) while Italy is significantly lower (2.6%).



Source: European Commission, DG research, key benchmarking indicators 2002

As regards privately-funded research, Italy is one of the lowest-placed countries in Europe and we have also experienced the lowest growth rate in this sector since 1995. Private sector investments encourage economic growth and development but shortcomings in this sector are penalising Italy increasingly at European level and measures must be implemented to attract private capital (to date, only 43% of investments in research come from the private sector compared to a European average of 56%).

In addition, in terms of the proportion of State budget earmarked for research, Italy allocates only 0.58% of its GDP as opposed to a European average of 0.73% (USA 0.82%).

In 2000, however, there was, according to ISTAT (Italian institute for statistics) data, an acceleration in spending; provisional data point to such a trend being maintained in 2001 and 2002, despite the stagnating situation of the markets.[9]

To sum up, the situation of Italian industry's technological competitiveness is not reassuring but there is a growing awareness of the strategic value of innovation. The change is, however, at a critical stage: our economy continues to be weak and enterprises are having difficulty in sustaining their own investment plans; in addition, the national resources earmarked for research and innovation investments for the Centre/North have virtually been used up.

Italy is also lagging behind when it comes to the dissemination of information and communication technologies.

[9] These findings are consistent with the steep increase in recent years in the number of projects submitted for funding from the funds for the public funding of research and innovation. Similarly, the number of projects submitted by Italian enterprises under the 5th "Framework Programme" has gone up. In the latest Craft project calls for tenders, reserved for small and medium-sized enterprises, Italy, together with United Kingdom, accounted for the lion's share.

Indicator	Italy's position in Europe, 2001
% of household connections to the Internet	11th
% of broadband connections	12th
% of enterprises with a website	10th
% of enterprise sites with online ordering facility	12th
% of enterprises engaging in e-procurement on e-marketplaces	10th
% of public services available on line	12th

Source: Eurobarometer (DG Infosociety European Commission) - OECD

This generalised backwardness in adopting and using ICT limits the potential of Italy's economic growth.

Confindustria's priorities for 2003

Italy is among those countries which must commit itself more to achieving the European objective of research expenditure being 3% of GDP (European average), laid down by the Barcelona European Council.

It is vital to act immediately so that virtuous circles needing time to be consolidated can be triggered; medium/long-term policies therefore need to be framed, implemented straight away and taken forward in a consistent manner.

The analyses of the gap between the countries of the European Union and the other main competitors and the United States show the need to take direct action on the structure of production, so that the present situation dominated by small and medium-sized enterprises and medium/low technology sectors gives way to another characterised by the greater presence of high technology sectors with aggregates of hi-tech operators, closely linked with the system of small and medium-sized enterprises.

The prime objective of the policies must therefore be to recreate a context favourable to the development of a knowledge-based economy founded on research and innovation. Provision must be made for a policy mix to renew the entire research and innovation system so as to extend the economic and entrepreneurial system's capacity to use more profitably.

On the basis of these considerations, Confindustria has identified a number of measures that are a priority for research and innovation policy in Italy.

Confindustria's priorities for 2003

- To define, with immediate effect, public spending targets for research, innovation and technology transfer as a percentage of GDP for each of the three years from 2003 to ensure the goal of 1% by 2006 is achievable.
- Ensure the funding of the Financial Plan in the Guidelines of the National Research Plan
- Improve research financing trough:
- public incentives for research;
- identifying sources supplementing public ones for the funding of research and innovation;
- facilitating voluntary donations for research (this could be achieved by allocating eight out of every thousand Euros of income tax to support major research projects that aim to improve quality of life);
- creating closed funds financed from mixed capital
- undertake a substantial reform of the selection and career processes in respect of researchers and university teachers;
- attract, both in public and private research, the best foreign researchers and foster the return to this country of our foremost researchers;
- speed up the legislative approval of the recent common position on the proposed regulation on the Community patent and review national legislation;
- ensure coordination and complementarity between regional and national measures on the subject of research, innovation and technological transfer.

A number of proposals relate in particular to the development of the information society:

- stimulate the production of services, applications and contents which are capable of coping with the requirements of demand;
- adopt specific initiatives for the support of small and medium-sized enterprises with aid for the introduction of new technologies;
- try out the project financing system in the production of online public administration services;
- check the possibilities of a more effective use of regional European funds;
- define a national plan and the relevant lines of funding, for the full consolidation of an Information Society.

In the field of technological innovation:

- relaunch strategic infrastructures for Italian development to include ICT networks and production settlements. These measures could be enhanced by market incentive campaigns, e.g. in the case of the campaign to promote the use of Broadband, subsidies (for infrastructures, services and applications) for individuals and companies who connect to ADSL and optical networks and also for Satellite systems and digital landlines.
- Arrange campaigns to promote systems logistics and infomobility;
- Launch programmes and campaigns for the development of e-Commerce and e-Business.
- Start converting industrial districts to digital technology (company groups/communities, organised by goods sector and geographical area) to ensure maximum benefit from the Internet).
- Identify programmes to support technological innovation within SMEs. Create tax breaks for investments in technology and new tax benefits/reliefs for those who invest in the sector;
  - Promote the drive for internationalisation through widespread, strategic use of ICT technologies.
  - Create policies to ensure investments in safety are seen as guarantee of quality and trust for users.
  - Adopt special measures to promote the use of technologies in the tourism and heritage awareness sectors.

Chapter 5 *Improving the labour market*

A country's growth is measured in terms of productivity per employee and per job: Italy has good productivity levels but still suffers from the lowest employment rate in Europe.

The Lisbon strategy aims to:

- **Improving employability and reducing skills gap ☑**
- **Promoting special programs to enable unemployed people to fill skills gap ☑**
- **Reduce long-term unemployment ☑**
- **Increasing employment in services**
- **Furthering all aspects of equal opportunities including reducing occupational segregation**

Progress achieved by Italy in 2002

Confindustria has long stated the need for a more flexible labour market to be created and for certain aspects of a legal framework that severely hinders labour mobility and adaptability to be redesigned. In October 2001, one of the first actions of the new Government was to present a White Paper on the labour market that identifies targets to be achieved in terms of legislation, in order to increase employment rates and conditions and to improve the quality thereof, having as its main reference the social policy and employment targets laid down by the Councils of Lisbon and Stockholm. Later, the Government presented a "Bill to the Government relating to employment and the labour market", which was definitively approved by Parliament on 5 February 2003 and was designed to bring about significant changes in the rules governing the labour market and labour relations.

As far as the labour market is concerned, the appearance of private companies will be promoted as part of the measures to match labour supply to demand, in an activity that traditionally was characterised by public monopoly. To this end, it was also planned to abrogate the laws that are currently preventing labour mediation, at the same time proposing rules for the protection of the fundamental rights of workers.

With regard to labour relations, one of the measures designed to promote "adaptability" is the introduction of innovative contract types (job on call, job sharing, etc.), laying down for the first time the essential elements which characterise "parasubordinate" labour relations. Contracts with training content have been reordered and the discipline of part-time employment has been partly modified, as to date it had been penalised by inadequate legislation in terms of the organisational requirements of companies.

The approval of the bill for reform of the labour market resulted from the social "Pact" signed in July 2002 between the Government and all the organisations representing companies and workers – except for the CGIL.

Considering that Italy is the European country with the lowest level of employment and the highest level of imbalance between different areas and types, the social partners and government negotiated a set of reforms to stimulate consumption and growth and to promote a more active and dynamic society that is more equal in terms of social inclusion and more up to date in terms of rules, institutions and public utility services.

Further measures for supporting income, aimed at making the unemployment indemnity system more effective along the lines of a *welfare to work* logic, will therefore be adopted. This framework also includes temporary and experimental measures to support regular employment and growth in small enterprises to be implemented through temporary and experimental changes to the scope of the system for re-employment after suspension without due cause found to be illegal.

At the end of May 2002, prior to drawing up the Pact, the Government sent the European Commission the National Action Plan for Employment for 2002, strongly influenced by actions identified by the White Paper. In the Plan, the Government established an employment rate target of 58.5% (+5 percentage points) by the end of 2005. Within the overall rate, the aim is also to increase the employment rate for women to 46% (+5 percentage points) and the employment rate for the elderly to 40% (+12 percentage points). The target of 58.5% involves an increase in the employment rate of around five points in five years.

How Italy compares with its European partners

	Italy	**EU**	**European Position**
Total employment rate	54.9 %	64.1 %	15th
Employment rate for women	40.8 %	54.7 %	14th
Employment rate for elderly workers	28.1 %	38.8 %	14th
Employment rate for female elderly workers	16 %	28.6 %	14th
Continuous learning (adult participation in education and training)	5.1 %	8.4 %	12th
Long-term unemployment rate	5.8 %	3.1 %	15th

Source: Confindustria table drawn up on the basis of European Commission structural indicators (2002)

Confindustria's priorities for 2003

Confindustria considers it a priority to:

- quickly prepare and approve the decrees implementing the criteria in the recently approved Bill to the Government relating to employment and the labour market, which was recently approved. If actions established by legislative procedures do not begin to have an initial effect during 2003, it will be very difficult to achieve the employment growth targets required by the Government due to the unfavourable domestic and international economic climate forecast for next year. Management and the unions must both play a part in the process.

- the further measures agreed in the Pact for Italy, the contents of which have been transposed into the draft Law No. 848 *bis,* currently under examination by the Senate, are rapidly approved

Chapter 6 *Bringing social security up to date*

With the highest proportion of elderly people among current Member States (around a quarter of the population is over sixty) and one of the highest pension expenditures in Europe (equal to 13.8% of the GDP), Italy must introduce social security reform as quickly and decisively as possible to ensure sustainability of public finances and ensure pension provision is sufficient.

The Lisbon strategy aims to:

- **Adapt social protection to the ageing population and ensure long-term sustainability;** ☑
- **Improve access to pension funds;** ☑
- **Combat social exclusion;** ☑
- **Promote an effective health system;**
- **Promote exchange of experience and good practice on the basis of commonly agreed indicators**.

Progress achieved by Italy in 2002

The phenomenon of an ageing population is becoming increasingly significant in Italy due to the increased life expectancy and low birth rate. By 2000, almost one quarter of the Italian population was over sixty years old. This proportion is forecast to reach two-thirds in 2050. This will bring significant effects on a social level and also on a financial level, and the consequences may be combated only through decisive structural actions.

The first problem is the sustainability of the social security system. Pension spending now accounts for some 14% of the GDP and forecasts for the next few years indicate a further increase. The Italian pension system also works on the basis of distribution and is thus also strongly influenced by features of the labour market. Italian employment rates stand at particularly low levels, particularly due to the extreme age bands (young and old). It is also particularly difficult to fund the basic system because further increases in contribution levels cannot now be envisaged. On the contrary, the high labour cost levels are a great impediment to development of the employment base.

Confindustria is therefore in favour of the measure for social security reform currently under discussion in Parliament. This aims to introduce incentive mechanisms for the creation of new permanent employment through a reduction in contribution costs for new permanent employees.

The reforms introduced during the Nineties, particularly those designed to modify the pension service calculation criteria, have brought major changes, but these are not yet enough to make a difference. Older pensioners still receive unusually high pensions even today. The average age of access to pensions therefore remains very low.

We must therefore act to encourage an extension of working life. The reform proposed above envisages the introduction of mechanisms to encourage those who are entitled to social security payments (certification of pension rights, assistance with contribution and tax payment if a decision to retire is postponed) to remain in work. Confindustria believes that it will be necessary to introduce more effective systems, e.g. even actuarial mechanisms, to correct the payment amount to take into account the different ages at the time of access to payment.

The persistence of a distribution pension system and the reduction in coverage guaranteed by the basic system means we urgently need to develop the complementary social security system, particularly for younger workers. In Italy, no legal limits currently exist for access to additional forms of social security. Some sectors (e.g. the public sector) are still largely lacking in this facility. We therefore need to promote distribution while also reinforcing funding flows.

To this end, the reform bill plans to introduce more consistent tax benefits but above all provides for use of the staff severance payment for this purpose. This payment is currently held as a reserve by companies and companies should be adequately compensated for the use of these funds.

How Italy compares with its European partners

Data regarding pension spending and projected possible future trends clearly revealed the incidence of this expenditure on public finance. In EU Member States, only Austria has a higher spending percentage than Italy, where the pension spending represents 13.8% of GDP. Other sources reveal that contributions earmarked for social security are also the highest in Europe and represent a high proportion of labour costs. In Italy, social security contributions amount to 32.7% of salary (behind Spain with 28.3%, Austria with 22.8% and Sweden with 18.5%, with the lowest available figure being Denmark with 4.8%).

Public spending for pensions in % of GDP. Projections based on legislation in force during 2000

	2000	**2010**	**2020**
Belgium	10	9.9	11.4
Denmark	10.5	12.5	13.8
Germany	11.8	11.2	12.6
Greece	12.6	12.6	15.4
Spain	9.4	8.9	9.9
France	12.1	13.1	15
Ireland	4.6	5	6.7
Italy	**13.8**	**13.9**	**14.8**
Luxembourg	7.4	7.5	8.2
Netherlands	7.9	9.1	11.1
Austria	14.5	14.9	16
Portugal	9.8	11.8	13.1
Finland	11.3	11.6	12.9
Sweden	9	9.6	10.7
United Kingdom	5.5	5.1	4.9
EU 15	**10.4**	**10.4**	**11.5**

Source: Economic Policy Committee (2001)

Confindustria's priorities for 2003

Confindustria considers it a priority to:

- Create a mixed public (distribution) and private (capitalisation) pension system by rationalising the basic social security system and strengthening the complementary system.
- Carry out fast, effective social security reform to move in this direction, taking into account the need to raise the effective pensionable age; reduce contribution charges to promote the creation of new employment and thus increase the overall level of contributions flowing into the pension system; develop complementary forms by increasing the flow of finance and hence sums payable. For this reason, it is essential that government plans to approve the social security bill before summer are respected.

Chapter 7. *Promoting education and training*

"Knowledge is an important factor in releasing the potential of the Lisbon agenda. The knowledge captured in new technologies and processes can drive growth, competition and new jobs and deliver a cleaner environment. But knowledge must be treated as part of the wider framework in which businesses grow and operate. Equipping people with the right skills is a key tool in overcoming risks of exclusion and improving cohesion. Establishing the bridge between knowledge and the market place and backing it by the right environment for innovation is the new competitiveness challenge "[10].

The Lisbon strategy aims to:

- **Substantial annual increase in per capita investments in human resources ☑**
- **Adapt education and training to new technological and IT developments ☑**
- **Redefine future teaching system targets☑**
- **Promote the mobility of the young, teachers and researchers☑**
- **Make life-long learning a priority and promote agreements for the alternation of training and employment☑**
- **Develop jobseeking skills☑**
- **Promote cheap local Internet access with better training**

Progress achieved by Italy in 2002

Recent data show that Italy already allocates considerable sums to the field of investment in human resources. The annual expenditure for each student is some 10% higher than the European average. Italy is, however, still failing to meet targets established at European level and to achieve the performance levels of other Member States (45% of the population aged between 25 and 34 have no qualifications and the level of qualification in the scientific sector is one of the lowest in Europe). Present problems of efficacy and allocation of public expenditure should be resolved by focusing on the field of innovation and infrastructure while also aiming to improve the skills of teachers and improve the quality of traditional teaching methods.

The benefit of the education reform currently in progress in Italy (Moratti reform) undoubtedly lies in *strengthening the dialogue between school and workplace*, by forging systematic links between the demand for skills by companies and access to professional experience based on training and guidance and also through the promotion of alternate periods of school and work.

It is essential to overcome the traditional divide between learning and work, and to do this we need to forge a strategic alliance between school, professional training institutes and the world of work. Better use of the available financial resources could therefore help strengthen the integration between formal and informal places of training.

Europe is on its way to becoming a knowledge-based society where learning and working methods are undergoing radical changes. As a consequence, European educational institutes must be changed and made into life-long learning systems. In particular, we need to create a general framework for life-long learning that is consistent with educational and training systems and also with the labour market. The Italian government has recently made a step in this direction by setting up

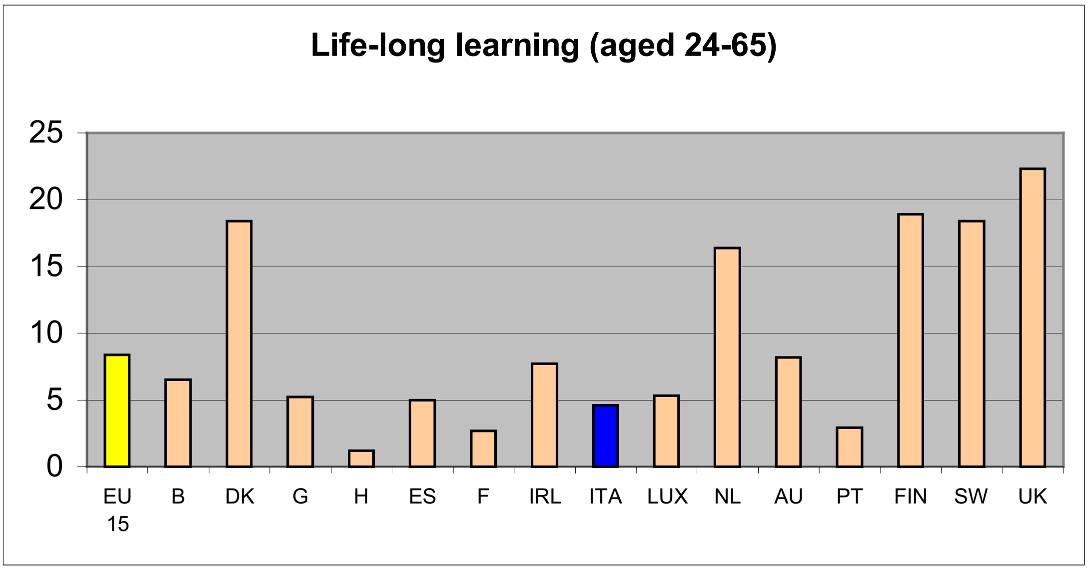
[10] Commission communication: Choosing to grow: knowledge, innovation and jobs in a cohesive society COM 2003(5).

interprofessional funds to promote a life-long professional training system. The funds are now awaiting implementation.

How Italy compares with its European partners

The results that emerge from the structural indicators processed by the European Commission indicate the inefficiency of the Italian educational system. The proportion of the Italian population aged between 18 and 24 who leave school with lower secondary school education is 24.3% (2002 results) compared with a European average of 18.9% (only Portugal (45%), Spain (29%) and Ireland (27.1%) are worse than Italy).

We are not doing well in the field of life-long learning either – and this is the cornerstone of our drive to become a knowledge-based economy in 2010. The following table shows Italy in a low position (with results lower than some of the new candidate countries).



Source: European Commission, Structural indicators (2002)

Italy must strive to ensure that training in innovation and new technologies is seen as a means of paving the way to a modern, competitive Italy. The availability of Internet connection software and hardware is essential to ensure the spread of an IT culture. Italy must avoid the risk of a digital divide by making it possible for as many people as possible to participate in the Information Society. Vocational training to meet the growing need for new ICT jobs and skills is an equally important requirement.

Confindustria's priorities for 2003

Confindustria hopes that the Moratti reform will be completed by the end of spring 2003 to help us work towards achieving the Lisbon targets. It is also essential to:

- work towards the creation of a general framework for life-long learning consistent with the Italian education and training systems and with the features of the labour market;
- implement interprofessional funds (recently set up) to encourage a system of continuous vocational training;
- improve financial and tax tools as incentives to investment in company training.
- Tackle problems of vocational training in general with particular attention to the following aspects: assessment of ICT skills gap, certification of ICT competences and training processes, deployment of training as an active labour policy, development of e-learning and setting up of public-private centres of excellence for ICT skills training.
- Complement and enhance the efficacy of vocational training policies by supporting corporate in-house training programmes through direct and/or organisational financial aid.

Chapter 8 *Simplifying the regulatory system*

Member States are increasingly aware of the need to improve the general framework within which companies operate by taking action at European and national level to streamline the tangle of regulations that companies have to deal with.

The Lisbon strategy aims to:

- **Create an environment and culture that encourage entrepreneurship** ☑
- **Simplify laws and regulations with new, more flexible approaches** ☑
- **Simplify dealings with governments**
- **Improve the implementation of EU directives**

Progress achieved by Italy during 2002

It is widely recognised that the regulatory and administrative framework is crucial for an effective business climate. Most Member States have therefore put bureaucratic and legislative simplification at the top of their list of strategic priorities.

Italy is no exception and is working to reduce gradually the administrative hurdles that companies face. The streamlining carried out to date has affected more than one hundred procedures. One of the procedures that will bring the greatest degree of simplification for customers is the abrogation of the procedure for ratifying company papers. In addition, self-certification procedures and a reduction in the number of administrative forms to be filled in have reduced the number of certificates required to register a company by 14%.

The creation of one-stop shops for companies where all company services can be carried out is one of the actions carried out in recent years. Recent estimates for the number of projects financed indicate that the number of towns with one-stop shops increased from 48.7% in January 2001 to 62.7% in December 2002. The population served must therefore have increased accordingly from 68.6 to 79.5%. In Southern Italy, 81% of towns and 89% of the population must now be served by one-stop shops.

The Italian government launched a major streamlining action in October 2001 when a bill for the reordering, coordination and integration of environmental legislation was filed with Parliament.

The aim of the new law, which will reinforce *inter alia* the process of sustainable development, is to formulate a new legislative framework through legislative decrees and possibly consolidation acts. The new framework will embody legislative principles and tools for environmental protection currently existing in Italy to ensure a simpler, more streamlined legal system. The bill addresses the following action sectors: a) refuse and cleaning of contaminated sites, b) safeguarding and management of water and water resources, c) soil and the fight against desertification, d) management of protected areas and species, e) flora and fauna, f) compensatory safeguarding against environmental damage, g) VIA and IPPC, h) air and atmospheric emission reduction.

Italy continues to encounter obstacles to the implementation of EU directives due to our inability to increase EU directive transposition levels. After significantly reducing the number of non-transposed directives, the Italian situation has worsened: the last "Single Market Evaluation Framework" shows that the transposition deficit increased from 1.7% in November 2001 to 2.6% in

November 2002. This is essentially due to an increase in the number of directives awaiting implementation.

The number of infringement procedures has increased in all EU countries. Italy and France remain the countries with the highest number of procedures in progress.

How Italy compares with its European partners

In 2002, the Commission and the Member States embarked on a procedure to improve the business climate by setting a set of quantitative targets in seven priority company policy sectors, namely: entrepreneurship; administrative and legal environment; access to funding; access to human capital; spread of innovation and knowledge; access to IT; open, efficiently operating markets.

As part of this action to define "quantitative targets", numerous Member States have communicated their own specific targets within the sectors mentioned.

Although Italy has declared its main current priorities to be administrative simplification and decentralisation, it has so far not announced any quantitative targets and it does not appear that Italy will be able to set targets in other sectors for the immediate future.

For the time being, Belgium, Denmark and the Netherlands are top of the league table because they have undertaken to reduce the administrative burdens on companies by up to 25% by 2010.

Some progress has been made in Italy: for example the time and cost for setting up a sole proprietorship in Italy has clearly improved. The minimum time is estimated to be 2 working days and the minimum cost is about 20 Euros (although a sole proprietorship can be registered free of charge in Denmark, Spain, Austria and the United Kingdom). However, the time and cost for setting up a limited liability company are still high compared to the other European countries: 35 working days (bottom of the table of the 35 Member States) and 1600 Euros (third from bottom). Italy is better placed, however, for the number of procedures required to hire the first employee with a total of 3 procedures compared to an EU average of around 3.5.

Efficiency and simplification may be furthered signficantly by the setting up of Italian ministerial e-Government innovation and technology programme that will allow the Italian Civil Service to move toward greater efficiency and transparency. The process will also make the country's industrial system more competitive by forging a new relationship with the public and private sector. Market research carried out by Accenture in 2002, reported by the Department for innovation and technology, showed Italy to be in 21st place out of the 23 countries that are most advanced in the field of e-Government. Proper resources and usable tools will be needed on both supply and demand sides if the situation is to improve.

Departmental efforts to implement the massive e-Government plan are still hindered by the fact that.resources are still entirely insufficient to ensure plan implementation. The project will be extended in time and scope – and special efforts willl be devoted to the process of Civil Service staff training. To ensure services and applications are accessible, we must promote the spread of access procedures and technologies with a range of useful functions and transactions. Some of these may require the use of personal user ID numbers and passwords.

Confindustria's priorities for 2003

Confindustria considers as a priority:

- that Italy should set targets for administrative and legal simplification and also targets for other key enterprise policy sectors as soon as possible as part of the "quantitative target project". If carefully chosen, quantitative targets could act as a tool to help us move more effectively towards a better business climate in the EU and ensure policies are followed through because individual Member States would be bound to adopt the necessary measures to ensure targets are achieved with full respect for the principle of subsidiarity:

- Extend and accelerate e-Government plans for Government, the Regions and independent local authorities. The aim will be not simply to introduce new technology for its own sake but to simplify and streamline processes and procedures to make Civil Service departments more effective and keep public spending down, with evident benefits for public and private sectors alike.

Chapter 9 *Reconciling sustainable development and competitiveness*

If implemented with respect for the balance between the three factors (economy, environment and society), sustainable development policies could represent a competitive factor for companies and the country.

The Lisbon strategy aims to:

- **Define a national strategy for sustainable development and appropriate national consultative processes** ☑
- **Make progress in combating climate change** ☑
- **Improve transport sustainability** ☑
- **Protect public health**
- **Improve resource management**

Progress achieved by Italy during 2002

In line with the Community undertakings, the government adopted during 2002 the *national strategy for sustainable development*. The strategy identifies the main targets for the next decade and actions for 4 priority areas: climate, nature and biodiversity; quality of the environment and life in urban environments; sustainable use and management of natural resources and waste. The strategy also includes sustainable development indicators to measure the achievement of the targets set[11].

As far as the combating *of climate change* is concerned, the Government ratified the Kyoto Protocol in June 2002 (Law 120/2002) and subsequently adopted the policies and national measures for reducing the emission of greenhouse gases. With this initiative, the Government planned the actions to be taken by 2010 to achieve the target set by the Kyoto protocol for Italy (emissions 6.5% lower than 1990 levels by the end of 2010).
Meeting this target will require a reduction of 92 million tons of CO2. The Government expects that it will be possible to achieve a reduction of 52 million tons by means of the decisions and actions already taken, while a reduction of a further 40 million tons should be achieved by new measures.

Considering that more than 50% of the above emissions are attributable to the energy and transport sector, reduction targets can only be achieved if legislative measures are backed by policies designed to bring the organisation of these sectors up to date. These policies should provide incentives for:

1. In the energy sector the setting up of new combined cycle systems and new routes for the import of gas and electricity from abroad to encourage the entry of new operators, improving energy efficiency and creating the climate essential for reducing electricity and gas prices as part of the policy to liberalise the energy markets;

2. integrated area and environmental management to exploit renewable energies through the setting up and efficient management of integrated industrial processes with particular reference to the use of wind energy, waste management and biomass exploitation.

[11] The Government has also set up a Forum for sustainable development that will allow consultation with interested parties.

3. in the transport sector, carrying out infrastructural work to encourage the use of sea and rail over roads and reduce pollution caused by wheeled transport;

4. the use of Information and Communication technologies to make the logistical chain more streamlined and efficient, which will bring the benefit of lower environmental impact.

These policies have been greatly delayed due to the lack of sufficient financial resources and also due to the slowness of local authority authorisation procedures.

As far as *renewable energy* is concerned, the decisions of the Italian Government are in line with the increased contribution policy set out in European directive 2001/77. In view of current difficulties in setting up new plants, by 2004 we need to confirm the Marzano proposal to encourage demand for green certificates by increasing the proportion of electricity from renewable energy resources added to the Italian national grid by 0.35% each year.

How Italy compares with its European partners

As far as emissions results are concerned, taking 100 as the 1990 reference level (baseline year for the Kyoto protocol), the increase in percentage emissions for Italy (104) is higher than the European average (96).

Despite increasing emission levels, Italy maintains a good level of energy intensity gross domestic consumption of energy (equivalent kg of oil) / GDP (1000€), with a level settled at 190.8 compared to a European average of 193.9 (1995=100).

In the waste sector, though satisfactory laws have been adopted to replace landfill sites with heat treatment plants, the 1999 results show that the use of landfill is considerably higher than the European average and the use of incineration plants is lower. The delay in the construction of heat treatment plants is often due to local difficulties where public opinion is against the construction of plants of this type and to bureaucratic difficulties involved in the granting of the required permits.

The results confirm that the use of heat treatment plants is still lower than the European average (37 kg per person per year compared to the European average of 101 kg per person per year) and the prevailing use of landfill: the Italian average is 377 kg per person per year compared to 292 at EU level.

Confindustria's priorities for 2003

- As far as climate change is concerned, Confindustria believes we should begin drawing up comparison tables for the preparation of sector agreements as a matter of urgency if we are to achieve the targets set by the Kyoto protocol and outlined in the CIPE resolution

- Confindustria also believes we urgently need to finalise the consolidation acts governing simplification so that the environmental code can be updated to assure both a high level of environmental protection and a clearer legal framework for manufacturing activities and their requirements

- Finally, Confindustria considers it important that the government introduce the necessary waste management measures to ensure the Italian regions are equipped with heat treatment plants in all areas. This would allow us to achieve a more effective balance between the various waste disposal methods and bring Italy into line with the European average because Italy currently incinerates considerably less waste than many countries.