**2000 Country Reports on Economic Policy and Trade Practices**
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2001

# ITALY

## Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

| | 1998 | 1999 | 2000 1/ |
|---|---|---|---|
| *Income, Production and Employment:* | | | |
| Real GDP 2/ | 1,146.6 | 1,162.9 | 1,196.1 |
| Real GDP Growth (pct) 3/ | 1.5 | 1.4 | 2.8 |
| GDP (at current prices) 3/ | 1,190.5 | 1,170.6 | 1,054.7 |
| GDP by Sector: | | | |
| Agriculture | 30.4 | 29.6 | N/A |
| Manufacturing | 306.4 | 297.7 | N/A |
| Construction | 56.9 | 54.4 | N/A |
| Services | 796.8 | 791.6 | N/A |
| Per Capita GDP (US$) | 20,839 | 20,584 | 18,548 |
| Labor Force (millions) | 23.2 | 23.4 | 23.5 |
| Unemployment Rate (pct) | 11.8 | 11.4 | 10.5 |
| *Money and Prices (annual percentage growth):* | | | |
| Money Supply (M2) 4/ | 5.6 | 5.2 | 4.1 |
| Consumer Price Inflation | 2.0 | 1.7 | 2.5 |
| Exchange Rate | | | |
| (Lira/US$ annual average of market rate) | 1737 | 1818 | 2100 |
| *Balance of Payments and Trade:* | | | |
| Total Exports FOB 5/ | 245.4 | 230.5 | 115.8 |
| Exports to U.S. 5/ | 21.2 | 21.9 | 12.0 |
| Total Imports CIF 5/ | 218.1 | 216.9 | 117.1 |
| Imports from U.S. 5/ | 10.9 | 10.6 | 6.2 |
| Trade Balance 5/ | 27.3 | 13.7 | -1.3 |
| Balance with U.S. 5/ | 10.3 | 11.2 | 5.8 |
| External Public Debt | 71.7 | 71.0 | N/A |
| Fiscal Deficit/GDP | 2.6 | 1.9 | 1.3 |
| Current Account Surplus/GDP (pct) | 1.9 | 0.5 | -0.9 |
| Debt Service Payments/GDP (pct) 6/ | 9.4 | 6.8 | 6.1 |
| Gold and Foreign Exchange Reserves | 53.6 | 45.2 | N/A |

1/ 2000 estimates based on data available through June.
2/ 1995 prices; GDP at factor cost.

3/ Percentage changes calculated in local currency. Exchange rate changes account for discrepancy between rising GDP figures (calculated in local currency) and falling current price GDP (calculated in dollars).

4/ 1999 and 2000 data are the growth rate of M2 in the euro area through December 1999 and June 2000.

5/ Merchandise trade. 2000 data through June.

6/ Represents total debt-servicing costs.

*1. General Policy Framework*

Italy has the world's sixth largest economy, having grown into an industrial power in the last 50 years. Italy maintains an open economy, and is a member of major multilateral economic organizations such as the Group of Seven (G-7) industrialized countries, the Organization for Economic Cooperation and Development, the World Trade Organization, the International Monetary Fund, and the European Union.

Italy is one of the 11 founding members of the European Economic and Monetary Union (EMU). Beginning in January 1999, EMU member countries adopted the euro as their currency and the new European Central Bank as their monetary authority. National currencies are being phased out and only euros will be used beginning in 2002. Public opinion polls consistently rank Italy as one of the most "pro-euro" countries in Europe.

Italy has a private sector characterized primarily by a large number of small and medium-sized firms and a few multinational companies with well-known names such as Fiat and Pirelli. Economic dynamism is concentrated in northern Italy, resulting in an income divergence between north and south that remains one of Italy's most difficult and enduring economic/social problems.

The Italian government has traditionally played a dominant role in the economy through regulation and through ownership of large industrial and financial companies. Privatizations and regulatory reform since 1994 have reduced that presence somewhat. However, the government retains a potentially blocking "golden share" in all the industrial companies privatized thus far; the government and the Bank of Italy continue to shape merger and acquisition activity involving Italian financial and non-financial firms considered "key" to the economy and/or employment; and business surveys continue to cite a heavy bureaucratic burden as one of the main impediments to investing or doing business in Italy.

For years, government spending has been inflated by generous social welfare programs, inefficiency and projects designed to achieve political objectives. The result has been large public sector deficits financed by debt. Beginning in the early 1990s, Italy started to address a number of macroeconomic problems in order to qualify for first round EMU membership. The public sector deficit fell further from 2.6 percent in 1998 to 1.9 percent of GDP in 1999, and is expected to be 1.3 percent at end-2000, aided by higher than expected tax revenues. The level of public debt, second highest among the EMU countries as a share of GDP, also started to decline but remains over 100 percent of GDP. The Italian government plans to reduce the debt level gradually to the EMU target level of 60 percent of GDP in 2016.

Up to December 31, 1998, price stability was the primary objective of monetary policy; the Bank of Italy carried out a restrictive monetary policy in an effort to defeat Italy's long-term inflation problem. Now all these powers have been transferred to the European Central Bank, with the Bank of Italy retaining banking supervision responsibilities. Consumer inflation increased only 1.7 percent in 1999, but is expected to accelerate to 2.5 for 2000, fueled by higher oil prices, a weakening euro and worsening of terms of trade. Producer prices are also expected to accelerate from minus 0.3 percent in 1999 to 5.6 percent in 2000, because of higher prices of petroleum and other raw material and of the strengthening of the dollar versus the euro.

*2. Exchange Rate Policy*

On January 1, 1999 Italy relinquished control over exchange rate policy to the European Central Bank.

*3. Structural Policies*

Italy has not implemented any structural policies over the last three years that directly impede U.S. exports. Certain characteristics of the Italian economy impede growth and reduce import demand. These include rigid labor markets, underdeveloped financial markets, and a continued heavy state role in the production sector. There has been some progress at addressing these structural issues. Privatization is reducing the government's role in the economy. The 1993 "Single Banking Law" removed a number of anachronistic restrictions on banking activity. Italy's implementation of EU financial service and capital market directives has injected further competition into the sector.

U.S. financial service firms are no longer subject to an incorporation requirement to operate in the Italian market, although they must receive permission to operate from the government's securities regulatory body.

U.S. financial service firms and banks are active in Italy, in particular in the wholesale banking and bond markets. In general, U.S. and foreign firms can invest freely in Italy, subject to restrictions in sectors determined to be of national interest, or in cases which create anti-trust concerns.

*4. Debt Management Policy*

Although the domestic public debt level is high, Italy has not had problems with external debt or balance of payments since the mid-1970s. Public debt is financed primarily through domestic capital markets, with securities ranging from three months to thirty years. Italy's official external debt is relatively low, constituting roughly 5.6 percent of total debt. Italy maintains relatively steady foreign debt targets, and uses issuance of foreign-denominated debt essentially as a source of diversification, rather than need.

*5. Significant Barriers to U.S. Exports*

In general, EU agreements and practices determine Italy's trade policies. These policies include preferential trade agreements with many countries.

Import Licensing: With the exception of a small group of largely agricultural items, practically all goods originating in the United States and most other countries can be imported without import licenses and free of quantitative restrictions. There are, however, monitoring measures applied to imports of certain sensitive products. The most important of these measures is the automatic import license for textiles. This license is granted to Italian importers when they provide the requisite forms.

Services Barriers: Italy is one of the world's largest markets for all forms of telephony and the largest and fastest growing European market for mobile telephony. More than 60 percent of Italy's population of 57 million employs mobile phones. In recent years, the Italian government has undertaken a liberalization of this sector, including privatization of the former parastatal monopoly Telecom Italia (formerly STET); creation of an independent communications authority; and allowing both fixed-line and mobile competitors to challenge the former monopoly (which Olivetti acquired in a hostile takeover in 1999). Following the EU's January 1, 1998 deadline for full liberalization of its telecommunications sector, Italy issued more than 140 fixed-line licenses, including to new entrants (with U.S. participation). Omnitel Pronto Italia, which is partly U.S.-owned, began offering cellular service in December 1995.

In August 1997 Italy established an independent regulatory authority for all communications, including telecommunications and broadcasting. Concerns remain regarding upcoming licensing and frequency allocation for "third generation" mobile carriers, regulatory due process, transparency and even-handedness in general. Nevertheless, the Italian market is much more open to services exports in this sector than it was prior to implementation of the EU telecommunications directive.

In 1998 the Italian Parliament passed government-sponsored legislation including a provision to make Italy's national TV broadcast quota stricter than the EU's 1989 "Broadcast Without Frontiers" Directive. The Italian law exceeds the EU Directive by making 51 percent European content mandatory during prime time, and by excluding talk shows from the programming that may be counted towards fulfilling the quota. Also in 1998 the government issued a regulation requiring all multiplex movie theaters of more than 1300 seats to reserve 15 to 20 percent of their seats, distributed over no fewer than three screens, to showing EU films on a "stable" basis. In 1999 the government introduced "antitrust" legislation to limit concentration in ownership of movie theaters and in film distribution, including more lenient treatment for distributors that provide a majority of "made in EU" films to theaters.

Firms incorporated in EU countries may offer investment services in Italy without establishing a presence. U.S. and other firms that are from non-EU countries may operate based on authorization from CONSOB, the securities oversight body. CONSOB may deny such authorization to firms from countries that discriminate against Italian firms.

Foreign companies are increasingly active in the Italian insurance market, opening branches or buying shares in Italian firms. Government authorization is required to offer life and property insurance; this authorization is usually based on reciprocal treatment for Italian insurers. Foreign insurance firms must prove that they have been active in life and property insurance for not less than 10 years and must appoint a general agent domiciled in Italy.

Italy imposes some limits on foreign ownership in banks. According to the Banking Law, a foreign institution wanting to increase its stake in a bank to above five percent needs authorization from the Bank of Italy.

Some professional categories (e.g. engineers, architects, lawyers, accountants) face restrictions that limit their ability to practice in Italy without either possessing EU/Italian nationality, having received an Italian university degree, or having been authorized to practice by government institutions.

Standards: As a member of the EU, Italy applies the product standards and certification approval process developed by the European Community. Italy is required by the Treaty of Rome to incorporate approved EU directives into its national laws. However, there has frequently been a long lag in implementing these directives at the national level, although Italy has been improving its performance in this regard. In addition, in some sectors such as pollution control, the uniformity in application of standards may vary according to region, further complicating the certification process. Italy has been slow in accepting test data from foreign sources, but is expected to adopt EU standards in this area.

Most standards, labeling requirements, testing and certification for food products have been harmonized within the European Union. However, where EU standards do not exist, Italy can set its own national requirements and some of these have been known to hamper imports of game meat, processed meat products, frozen foods, alcoholic beverages, and snack foods/confectionery products. Import regulations for products containing meat and/or blood products, particularly animal and pet food, have become more stringent in response to concerns over transmission of Bovine Spongiform Encephalopathy (BSE). U.S. exporters of "health" and/or organic foods, weight loss/diet foods, baby foods and vitamins should work closely with an Italian importer, since Italy's labeling laws regarding health claims can be particularly stringent. In the case of food additives, coloring and modified starches, Italy's laws are considered to be close to current U.S. laws, albeit sometimes more restrictive.

U.S. exporters should be aware that any food or agricultural product transshipped through Italian territory must meet Italian requirements, even if the product is transported in a sealed and bonded container and is not expected to enter Italian commerce.

In August 2000 Italy has banned the commercialization of four biotech corn varieties. The ban, which appears to be contrary to EU regulations, has not been seriously enforced to date but remains a potential concern.

Rulings by individual local customs authorities can be arbitrary or incorrect, resulting in denial or delays of entry of U.S. exports into the country. Considerable progress has been made in correcting these deficiencies, but problems do arise on a case-by-case basis.

Investment Barriers: While official Italian policy is to encourage foreign investment, industrial projects require a multitude of approvals and permits, and foreign investments often receive close scrutiny. These lengthy procedures can present extensive difficulties for the uninitiated foreign investor. There are several industry sectors which are either closely regulated or prohibited outright to foreign investors, including domestic air transport and aircraft manufacturing.

Italian antitrust law gives the government the right to review mergers and acquisitions over a certain threshold value. The government has the authority to block mergers involving foreign firms for "reasons essential to the national economy" or if the home government of the foreign firm does not have a similar anti-trust law or applies discriminatory measures against Italian firms. A similar provision requires government approval for foreign entities' purchases of five or more percent of an Italian credit institution's equity.

Government Procurement: In Italy, fragmented, often nontransparent government procurement practices and previous problems with corruption have created obstacles to U.S. firms' participation in Italian government procurement. Italy has made some progress in making the laws and regulations on government procurement more transparent, by updating its government procurement code to implement EU directives. The pressure to reduce government expenditures while increasing efficiency is resulting in increased use of competitive procurement procedures and somewhat greater emphasis on best value rather than automatic reliance on traditional suppliers.

*6. Export Subsidies Policies*

Italy subscribes to EU directives and Organization for Economic Cooperation and Development (OECD) and World Trade Organization (WTO) agreements on export subsidies. Through the EU, it is a member of the General Agreement on Tariffs and Trade (GATT) agreements on agriculture and subsidies, and as a WTO member, is subject to WTO rules. Italy also provides extensive export refunds under the Common Agricultural Policy (CAP), as well as a number of export promotion programs. Grants range from funding of travel for trade fair participation to funding of export consortia and market penetration programs. Many programs are aimed at small-to-medium size firms. Italy provides some direct assistance to industry and business firms, in accordance with EU rules on support to depressed areas, to improve their international competitiveness. This assistance includes export insurance through the state export credit insurance body, as well as interest rate subsidies under the OECD consensus agreement.

The Italian peach processing sector receives subsidies to compensate it for having to pay the EU minimum grower price for its raw product. It is recognized that this grower price is above the world market price for peaches and a U.S.-EU agreement is in place to monitor the level of subsidies paid. However, there is concern that the processors may receive extra benefits from loopholes in the system.

The Italian wheat processing sector (pasta) in the past received indirect subsidies to build plants and infrastructure. While these plants are still operating, there are no known programs similar to the initial subsidies operating at present.

*7. Protection of U.S. Intellectual Property*

Italy is a member of the World Intellectual Property Organization, and a party to the Bern and Universal Copyright Conventions, the Paris Industrial Property and Brussels Satellite conventions, the Patent Cooperation Treaty, and the Madrid Agreement on International Registration of Trademarks.

In August 2000 the Italian Parliament enacted the long-awaited "anti-piracy" law, providing for higher criminal penalties for IPR violations. Italy has since been moved from the U.S. Trade Representative's Special 301 IPR "Priority Watch List" to the "Watch List." According to American film, music and software industry representatives, enforcement against piracy has been improving over recent years. With this new legislation, law enforcement agencies and magistrates are empowered with more effective tools to combat piracy and are, according to the industry, already obtaining very good results. The United States will, however, continue to closely monitor developments in this area.

8. *Worker Rights*

a. *The Right of Association:* The law provides for the right to establish trade unions, join unions, and carry out union activities in the workplace. The unions claim to represent between 35-40 percent of the work force. Trade unions are free of government controls and have no formal ties with political parties. The right to strike is embodied in the constitution and is frequently exercised. In April a new law changed provisions of a 1990 measure governing strikes affecting essential public services (e.g., transport, sanitation, and health). The new law defined minimum service to be maintained during a strike as 50 percent of normal, with staffing by at least one-third the normal work force. The law established compulsory cooling off periods and more severe sanctions for violations. Besides transport worker unions, the law also covers lawyers and self-employed taxi drivers. These changes enjoyed the backing of the three major national trade union confederations, which sought to avoid inconvenience to tourists and the traveling public alike during the Catholic Church's Jubilee year.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right of workers to organize and bargain collectively, and these rights are respected in practice. By custom, although not by law, national collective bargaining agreements apply to all workers, regardless of union affiliation. The law prohibits discrimination by employers against union members and organizers. It requires employers that have more than 15 employees and who are found guilty of anti-union discrimination to reinstate any workers affected. In firms with less than 15 workers, an employer must provide the grounds for firing a union employee in writing.

If a judge deems the grounds spurious, he can order the employer to reinstate or compensate the worker.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced or compulsory labor, including that performed by children, and generally it does not occur. Some illegal immigrants and children were forced into prostitution, however, and trafficking in illegal immigrant women for prostitution and forced labor, as well as trafficking in illegal immigrant children, are problems.

d. *Status of Child Labor Practices and Minimum Age for Employment:* The law forbids the employment of children under age 15 (with some limited exceptions). There also are specific restrictions on employment in hazardous or unhealthful occupations for men under age 18, and women under age 21. The enforcement of minimum wage laws is difficult in the extensive underground economy. Estimates of the number of child laborers differ, ranging from 30,000 to 300,000 (the most probable figure may be in the area of 50,000). Most of these cases involve immigrants, but instances involving Italian children also have been reported. The footwear and textile industries have established a code of conduct that prohibits the use of child labor in their international as well as national activities, applicable to subcontractors as well. In 1999, a child labor clause was attached to the national labor contract in the health sector, whereby the parties committed themselves not to use surgical tools produced by child labor. The law forbids forced or bonded labor involving children. Italy ratified ILO convention 182 prohibiting the worst forms of child labor following completion of parliamentary action in May.

e. *Acceptable Conditions of Work:* Minimum wages are not set by law, but rather by collective bargaining agreements. These specify minimum standards to which individual employment contracts must conform. A 1997 law reduced the legal workweek from 48 hours to 40. Most collective agreements provide for a 36- to 38-hour workweek. The average contractual workweek is 39 hours but is actually less for many industries. Overtime work may not exceed 2 hours per day or an average of 12 hours per week. The law sets basic health and safety standards and guidelines for compensation for on-the-job injuries. For most practical purposes, European union directives on health and safety also have been incorporated into the law. Labor inspectors are from the public health service or from the ministry of labor. Courts impose fines and sometimes prison terms for violation of health and safety laws. Workers have the right to remove themselves from dangerous work situations without jeopardizing their continued employment.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ from those in other sectors of the economy.

**Extent of U.S. Investment in Selected Industries**—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

| Category | Amount |
|---|---|

| | | |
|---|---|---|
| Petroleum | | (1) |
| Total Manufacturing | | 9,394 |
| Food & Kindred Products | 813 | |
| Chemicals & Allied Products | 3,394 | |
| Primary & Fabricated Metals | 98 | |
| Industrial Machinery and Equipment | 1,019 | |
| Electric & Electronic Equipment | 996 | |
| Transportation Equipment | 913 | |
| Other Manufacturing | 2,162 | |
| Wholesale Trade | | 2,129 |
| Banking | | 390 |
| Finance/Insurance/Real Estate | | 1,656 |
| Services | | 2,397 |
| Other Industries | | (1) |
| TOTAL ALL INDUSTRIES | | 17,595 |

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.