



*Ministero degli Affari Esteri*

# L' ITALIA C'È

*Noteworthy data about a worthy country*

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### THE ECONOMIC AND FINANCIAL OUTLOOK

Italy is the 8<sup>th</sup> world economy and the 7<sup>th</sup> largest market among developed countries (IMF – World Economic Outlook, September 2011). Italian GDP (2,117 \$ billion, at current prices in 2010) follows US, China, Japan, Germany, France, UK and Brazil. IMF estimates that 2011 will confirm this ranking. Our economy has important strengths. Notably the small budget deficit, the low debt of the private sector, the solid financial condition of households, the soundness of the banks, and a limited foreign debt.

**Italy's budget deficit (4.6% of GDP in 2010) is fairly low** (Germany is at 4.3% and France at 7.1%) and is expected to drop off to 4% in 2011. **Our primary net borrowing in 2010 was one of the lowest (0.1% of GDP) among EU Member States** (Germany -1.8%, France -4.6%). In the Euro area, only Estonia has registered, in the same period, a net lending (+0.3% of GDP).

According to the Bank of Italy (update: 17th October 2011), **if the fiscal consolidation targets are met, the ratio of public debt to GDP should come down or stabilize** even if interest rates on government securities were to undergo significant increases. Italy indeed maintained fiscal discipline during the recent financial crisis. By analyzing the GND (Gross National Debt composed of households, non financial institutions, government) it is evident that in 2012 Italy will be best positioned to service its GND compared to other leading western economies. Italy's coverage ratio in 2012 is second to none.

It is important to note that **a large part of the public debt is held by Italian families and institutions**. Less than a half, 42%, is in fact held by foreign residents (the Euro zone average is 52.1%). This is a great shield against the types of hostile speculative attacks that can create an artificial liquidity crisis.

**Italian households' total net wealth is in fact particularly high by international standards**, estimated at about eight times disposable income

in 2010, and 178% of the size of GDP - which is the highest in Europe (compared for instance to 137% and 132% of France and Germany) and second only to Australia. In the three years 2008-2010 total net wealth increased by 1.7 per cent; the growth was the result of the flow of saving, which, though declining, more than offset the effects of the small losses caused by the fall in the value of financial assets.

**The financial condition of households is also solid**. On the whole Italian households are financially sound. Their indebtedness is modest (45% of GDP lower than the 66.3% average in the Euro area including Germany and France, and than the 91.7% of the US); their substantial wealth consists largely of low-risk assets. The risk of a significant increase in interest expense is limited. The value of Italian households' financial assets as a ratio to disposable income (3.5) has remained unchanged and is higher than the ratio in the other main euro-area countries. The impact of the crisis was cushioned by the low degree of risk of households' financial portfolios, which contain a high proportion of deposits, public and private bonds, and insurance and pension reserves. Furthermore, ownership of riskier assets is concentrated in quite a small proportion of high-income Italian households: the small percentage owning shares (6%) belongs largely to the highest quartile of the distribution of equivalent income (a measure that takes household size into account). Ownership of less risky financial assets makes it possible to attenuate the impact of a drop in income on consumption. About a tenth of all households have no financial assets; only a fraction of these households are indebted. Real assets make up more than two thirds of this aggregate; given the stability of Italian house prices, this composition has protected households from the turmoil of the markets.

**The most recent cyclical indicators point in fact to stable conditions in the Italian real estate market in the months ahead**. Construction firms' confidence, as measured by Istat in the summer, has remained unchanged. In Italy the risk of an overvaluation of properties is still low. The ratio of prices to rents is close to its long run level, and the affordability index is at a

much more favourable level than the long period average. The absence of signs of prices being overvalued is supported by econometric analyses that relate prices to the main determinants of supply and demand for houses, such as households' disposable income, rents, the cost of buildings, dwelling surface area per resident inhabitant, and the cost of credit. Estate agents polled in the latest survey confirm that the risk of sharp adjustments in prices over the next few months is limited; in particular, the October survey indicates that about half of the agents expect prices to remain stable.

Because of what stated above, it is then fundamental to stress that Italian economy in this global crisis **is defined by a lower drop in household net wealth**, which in Italy is also better distributed than in other countries. Moreover, since 2003, **Italy's unemployment rate stayed below the Euro area average**, and remained fairly low even through the crisis years (in the 2008-2010 triennial **respectively 6.7%; 7.8%, 8.4%** compared to Euro-17 averages of 7.6%, 9.6% and 10.1%). The latest data available (September, Eurostat) register **8.3%**, which is to say 1.9 percentage points lower than the Euro-17 average. Also, according to ISTAT data **Italian inflation is overall under control** levelling off at 2.6% for 2011 (although September registered a rise at 3%, in line with European levels). Looking at household wealth and unemployment, Italy is shown to be significantly more resilient during the crisis than other western economies.

As regards **the Italian banking system**, the Financial Stability Report of the Bank of Italy (n.2, November 2011) particularly emphasizes that **it is not a source of instability**. Its capital position is sound, and will be strengthened further as part of the initiatives under way at European level. The system has a relatively low foreign exposure and as a whole can count on very substantial assets eligible as collateral with the central bank. Further capital strengthening is under way - Italian banks have boosted their capital bases significantly this year thanks to their capital increases and retained earnings. This action will continue, as part of European initiatives. Stronger capital buffers will enable Italian banks to withstand shocks and maintain a sound capital position and reactivate wholesale funding. The five Italian banking groups (62% of total national banking system assets) that

participated in the European stress test (Intesa San Paolo, Monte dei Paschi di Siena, Banco Popolare, UniCredit, and UBI Banca) thoroughly passed the 5% reference value. The test confirms the adequacy of Italian Bank capitalization and the ability to absorb the impact of an eventual heavy deterioration in the current macroeconomic and market conditions.

**In the money market, collateralized transactions and those intermediated by the central counterparty predominate.** Interbank trading has contracted and been concentrated on the contract types best able to contain counterparty and liquidity risk. For the most part funds are traded through collateralized operations with the interposition of the central counterparty.

## **FINANCIAL STABILITY AND GROWTH MEASURES**

The global economy is at a critical juncture, the most critical since Lehman Brothers collapse. Global growth is weak and uneven. Downside risks have increased: in Europe, because of the negative linkages between sovereign debt and financial markets; in the US, due to households and public debt sustainability; globally, because of negative spill over effects and heightened risk aversion of investors, stretching also towards emerging market economies. All in all, **the risk of a dangerous new phase in the world's economy remains high**. It would hit everyone, as we live in an interconnected world. The main message which came out the Cannes G20 Summit is two-fold: first, our urgent action is required; second, it has to be done now and together. The full range of policies outlined in the Cannes Action Plan for Growth and Jobs is broad and comprehensive. Differentiated fiscal consolidations; accommodative, and if needed unconventional, monetary policies; financial sector repair and effective regulation and supervision; growth enhancing structural reforms. These are all necessary at the same time. Otherwise, confidence would not be credibly restored, as the needed adjustment would be undermined by a sluggish, if not negative, growth.

Europe is an essential part of this policy response. The July meeting of the Heads of State and Government committed to do *“whatever is necessary*

*to safeguard financial stability in the euro area*' and agreed on a major package of policy measures to this end. Fast and full execution of all decisions is vital to bring stability.

Despite no change in fundamentals and the acknowledgement of our efforts by the international community, markets have turned against us with unprecedented violence. We had to react and we did it promptly. **According to its Stability Programme, approved by the Government on the 13th of April 2011 and approved by Parliament at the beginning of May 2011, the Italian Government committed to reach the Medium Term Objective of close-to-balanced budget in 2014.** This would have implied an additional fiscal adjustment corresponding to a cumulated 2.3pp of GDP in 2013- 2014 or a steady 0.8pp adjustment per year in cyclically-adjusted terms. Italy's GDP was projected to rise 1.1% in 2011, 1.3% in 2012, 1.5% in 2013 and 1.6% in 2014. **These budget plans were approved by the EU Council on the 12th of July 2011 and commented positively by all major international organisations which recognised Italy - alongside Germany - among the EU Member States with the most virtuous fiscal behaviour.**

Consequently, in July the Italian Government introduced the planned fiscal adjustment by Decree Law no. 98/2011 then converted into Law no. 111/2011. **Budget measures amounted to a cumulative €48 billion, allowing the achievement of a close-to-balance budget by 2014, as agreed at European level.** Then, in mid-August, with the resurfacing of tensions in financial markets and the widening of Italy's government bond yield spreads, **the Government introduced a supplementary fiscal package** by Decree Law no. 138/2011. The additional package increased the cumulative fiscal adjustment to €55.4 billion, frontloaded the adjustment to 2012 and 2013 and **balanced the budget already in 2013, one year in advance than previously expected.**

We take our responsibility and commit to deliver. Yet, the challenge is global and so has to be the solution. Emerging economies, particularly the surplus ones, have to be part of the policy response: first, because global demand rebalancing is essential to achieve a strong, sustainable and

balanced growth; second, because they are not immune from contagion and decoupling is largely a myth. **Boosting domestic demand and allowing exchange rates to adjust to market forces** would be a major contribution to solve the current problems. More importantly, it would highlight that the international community is united to deliver the cooperative solution the markets are asking for.

**The outcomes of the Euro Summit and of the European Council on October 26th marked a significant change of pace among EU Member States,** and significantly among Euro area Member States, in framing the policy response to tackle the present sovereign debt crisis. The European response aims at being broad and comprehensive, following four mutually enforcing guidelines, in order to provide an appropriate answer to the complexity of the ongoing situation:

- **an agreement to secure the decline of the Greek debt** to GDP ratio with an objective of reaching 120% by 2020, with a nominal discount of 50% on national Greek debt held by private investors;
- a comprehensive set of measures to raise confidence in the **banking sector**;
- a significant optimization of the **resources of the EFSF**;
- an ambitious set of measures to improve the **governance of the Euro area**, in order to strengthen the quality and the effectiveness of mutual fiscal coordination and surveillance among Member States.

## **THE NEW GOVERNMENT'S MEASURES**

In this framework, the new Italian government's response is ambitious and determined, building on the path of **fiscal austerity** which has been actively pursued in the last two years. At the same time, the Monti government knows very well what needs to be done to reach the core objective of reducing imbalances while achieving a **sustainable growth**. This is why an even stronger package of reforms and adjustments has been immediately presented at the beginning of December:

- **The overall fiscal adjustment now amounts to a cumulative €59.8 billion, the equivalent of around 3.4% of GDP.** Taking into account forthcoming revisions of

macroeconomic projections, this is consistent with the balance budget target for 2013.

- **On the expenditure side**, measures include **cuts in central government expenditure**, implementation of the public spending review, **reform of the tax system and welfare** by way of an Enabling Act. Consolidation targets of the Enabling Act are ensured by law through a safeguard clause which provides for automatic cuts in tax expenditures if forthcoming measures do not provide the expected savings (leading to €4.0 billion cumulative savings in 2012, €16.0 billion in 2013 and €20.0 in 2014). Measures include a **wage freeze in the public sector until 2014**. Moreover, reductions in social security spending are achieved by means of a payment delay in severance pay for seniority pensions.
- **Sustainability of Italy's pension system is improved by strengthening eligibility requirements**. As from 2014, the **statutory retirement age of women working in the private sector** will be gradually increased from 60 to 65 so as to align it with that of men by 2026. Furthermore, the introduction of an automatic mechanism for early and old age pensions as well as for old age allowances **linking the statutory retirement age to expected developments in life expectancy**, previously foreseen to start in 2015, is **brought forward to 2013**. Compared to previous legislation, this measure will structurally increase the age requirements by 4 months as of 2016. In addition, for pensioners retiring earlier with 40 years of contributions, regardless of the age eligibility criterion, new measures foresee a **further postponement of the so-called 'exit window mechanism'**, by increasing the contribution period by 1 month in 2012, 2 months in 2013 and 3 months in 2014. In addition, in 2012 and 2013, pension benefits five times above the minimum **will not receive any indexation to price inflation** for the part of the pension exceeding three times the minimum. Up to this threshold, the indexation to price inflation will be reduced to 70%.
- **On the revenue side, there is an increase in the ordinary VAT tax rate from 20 to 21%. Taxation on financial assets is set to 20%** (with the exception of public debt instruments which remain taxed at 12.5%). The increase in taxation on oil products, which has been introduced on a temporary basis, is now permanent. Further measures have been introduced to fight tax evasion, including limiting cash transactions and imposing harsher penalties in case of payment of professional services without proper invoicing. In addition, higher revenues are expected from lottery and excise taxes. A special tax on the energy sector is introduced to lighten the burden of cuts to local governments in the first year and then contribute to the overall correction later on. A 3 percentage point tax surcharge is introduced for incomes above €300,000.
- **Significant reforms are introduced to enhance potential growth. The structure of central and local government and administration is considerably simplified and its costs reduced**. A constitutional amendment is foreseen for the elimination of one layer of government, i.e. Provinces. **Competition in local public services** is strengthened by limiting the direct ownership of public utilities by local authorities and incentivising **privatisation of publicly-owned companies**. Other measures relate to the reduction of red tape for firms and the allowance of **more flexible labour contracts, strengthening the company level bargaining**. A mandate is **given to the Government to reorganise the structure of judicial offices with the aim of cutting expenditure as well as increasing efficiency**.
- Finally, the Government has already started the **Constitutional** process of introducing a **balanced budget rule**.

The Monti proposal has been unanimously praised by the markets and foreign press.

## A Leading Exporter With a Unique and Competitive Industrial System

Italy has a broad and balanced industrial base, one of the broadest in Europe, encompassing both traditional and innovative sectors. **Italy is the world's fifth manufacturing country** in terms of added value, after the US, China, Japan and Germany. In Europe, we are the **second industrial manufacturing base after Germany**. In the last decade, Italian business significantly increased its foreign trade surplus in machinery and transport equipment, but also in lifestyle products such as fashion, footwear and furniture, marked by high intangible values, such as creativity and innovation. Italian magnificence in arts, history and culture is at the base of its attractiveness for tourism but also represents the background of Italian well-known design, innovative attitude and its brand in the world.

The major driving forces of the Italian manufacturing, where a significant foreign trade surplus is recorded, are four: 1) Industrial machinery and high tech specialised suppliers; 2) Fashion (including apparel, leather goods, footwear, jewellery, eyewear, cosmetics); 3) Furniture, ceramics and building materials; 4) Food and wines. Each year these sectors contribute for over 65% to Italy's **overall manufacturing** value added, underscoring a trade surplus still belonging to the world's highest.

In spite of a general situation of crisis, data for the early months of 2011 and available forecasts for the entire year confirm a moderate recovery in export. **In the period January- April 2011, Italy's merchandise export share in the euro zone total slightly increased** and spread across all main markets, although it remained lower than pre-crisis level. Particularly, bilateral trade improvements were registered with France, UK, US, Switzerland and Turkey. Yearly forecasts point to a continuing recovery at a relatively moderate pace. **Export recovery in the manufacturing sector has been important and brisk in some sectors (chemicals, motor vehicles)** and relevant also in food products, beverages and tobacco and in products of straw and woven materials. A recovery has taken place also in agriculture, fishing and forestry and in mining products.

A country like Italy, which in the middle of the severest world economic recession since 1929 is still achieving **one of the largest foreign trade surpluses in the world** in manufactured products, is not a declining one. The trade surplus of Italy's 4Fs (its traditional strengths of Food, Furniture, Fashion and Ferrari) is consistently higher than that of Germany in its traditional strength in road vehicle exports. These remarkable results are possible because in those traditional sectors Italy covers the niche of the higher-value-added segments, thus distinguishing us from the lower-value articles from developing countries. Meanwhile, Italian business is a niche leader in technology and quality, with products ranging from luxury yachts to cruising ships, from Ferrari cars to helicopters, from industrial machinery to domestic appliances.

In the first nine months of 2011, Italian brands of very high standards increased sales home and abroad. Besides motor vehicles and Ferrari that registered + 18.9% in sales, we can quote Baldinini and Lattanzi for shoes (+20% and + 50% expected this year) and of course Prada, Ferragamo (around +25%) and many others. Our internal market benefits of an important flow of tourists who are good buyers and in foreign markets, **Italy's shift towards higher-value-added productions and personal luxury goods (clothing, leather, jewels, watches and cosmetics) sacrificed volumes but increased the value of our exports**. The case of our footwear industry is paramount: in less than a decade, we have halved the quantity of shoes produced, whilst increasing the overall turnover. Italian luxury firms are demonstrating their ability to penetrate growing rich foreign markets (traditional, new and very new ones from emerging countries, such as Indonesia, Turkey and Brazil). Today Italy has a 30% share (together with France) of the world luxury production, followed by US (20%) and Switzerland (8%). Italy is also likely to have perspectives of good performances thanks to the recovery of growth in trendy sectors such as luxury hotels, high class furniture, beverages and prestige wines, delicatessen, super yachts. Even if it is difficult for major firms to maintain the Italian ownership, **Italy's specific capitalism made of medium and medium-large**

**enterprises still leads our export.** Also, small exporting firms showed strong resilience during the crisis. There is an ability of those Italian enterprises to successfully take up the challenge of international competition which is increasingly identified with their desire to be involved in transnational production networks. A global reorganization of their economic activity is taking place and is shown by a growing emphasis on production and trade of intermediate goods and services. Just beneath the surface of a challenging economic picture is a vibrant Italian economy where SMEs account for 80% of GDP. Italy's strengths are in those SMEs and their evolution (dimension and capitalization), as opposed to the idea of a the need of a "scale revolution" that is not only impossible in Italy but would destroy the capabilities, the flexibility and the talents that have made the "Made in Italy" brand so prominent around the world.

**Italian SME'S give a sound economic contribution and guarantee our prominence in World Export.** Those are 5 million enterprises that employ 90% of the Italian work force (15,8 m employees) and constitute the backbone of the Italian export-led economy. These companies are known for their niche specialization and the quality and reliability of their products. Their value added equal to 70% of the total, their exports is equal to ~70% of the total internationalization and their export propensity higher than Germany. In R&D SME's have more than 50% of total Italian patent applications at the EPO (European Patent Office). Italy has competitively adjusted its sectors to cope with the introduction of the Euro and the asymmetries perpetuated by Asian (and particularly Chinese) competition. It has established a globally competitive operating model that builds upon the specialization in niches across sectors, the flexibility of these small and medium sized companies, and cooperation within the clusters or industrial districts, known in Italy as "*distretti*". The SMEs' *distretti* or clusters are the open secret of

Italy. Intesa Sanpaolo, a leading Italian bank, identifies 110 traditional clusters and 18 techno clusters. It is the phenomenon of the Italian *distretti* that underlies our position of global production leadership.

**Italy has also an interesting, upcoming start-ups charter.** The 2010 survey of 237 start-ups by the *Mind the Bridge Foundation* describes the profile of the new generation of start-up. There is a new wave of Italian businesspeople who are learning to overcome these challenges by looking at how other countries have surmounted these obstacles. Often this new wave of entrepreneurs is thinking globally, as they start and grow their businesses both in Italy and abroad. These entrepreneurs are able to go beyond the traditional boundaries, providing the vanguard to make Italy globally competitive and innovative (45% are Web-based firms, 16% are incubated in a technology park, 19% are an academic spin-off, 62% has a scientific/technological background, while 38% has a business/humanistic education, 42% holds a Ph.D. or MBA and 13% of them got it abroad, 35% has prior entrepreneurial experience).

In the case of **green technologies**, innovative SMEs are key drivers of eco-innovation, by both providing new solutions and spreading new eco-friendly technologies in sectors such as renewable energy, wind and solar installations, building refurbishment, energy saving management and battery technologies.

Our firms engaged in **construction and public works** are operating in challenging environments such as North Africa, Middle East, Central Asia and Sub-Saharan Africa. Especially in energy infrastructure, our expertise in build-operate-transfer (BOT) projects is highly appreciated. Many of the best turnkey contractors operating in the oil and gas industry are Italian, even in remote, deepwater and offshore areas.

Italy has a **long tradition in technology and research**, which dates back to the ancient world. These are crucial priorities for the country, as it is shown by a number of public policies that have been implemented in the past few years to stimulate innovation.

According to OECD statistics, R&Ds as a percentage of GDP in the period 2003 – 2009 **raised from 1.11% to 1.27%**, while occupations for human resources in science and technology grew strongly from 1996 to 2006 (averaging over 4% a year, compared to around 3% for the EU19).

For 2007-09, a **tax credit** has provided up to 15% of the costs of pre-competitive industrial R&D (and up to 40% if the costs involve contracts with universities or public research entities). A **Fund for Competitiveness and Development** was created to support industrial innovation projects in such areas as energy efficiency, new technologies for “Made in Italy” products, new technologies for life, and innovative technologies for cultural heritage.

However, statistics of R&D and Innovation performance of Italy as a whole (and of Italian firms in particular) do not catch all the aspects of the innovation capacity of the production system of the country. The explanation of this situation comes from an insufficient analysis of the Italian productive structure.

As a general remark, it is worth to remind that Italy is characterized by the **predominance of small and micro firms**, which in many cases carry out relevant innovation activities, not reported in the official statistics of R&D. Moreover, there is a large portion of industrial sectors for which the prevailing paradigm of innovation is **“design” or “creativity” driven rather than “technology”** driven.

If we consider other indicators, such as the balance of foreign trade either of goods and of technologies, we get a much more positive outlook of the innovation capacity and technological level of Italian firms.

A few data show this. The **ratio of export in these sectors on the total Italian exports are 18.9% for the manufacturing system, and 11.1% for clothing and textiles**. These are the highest

of all manufacturing sectors, which also give rise to a higher surplus. Moreover, the **Balance of Technological Payments of Italy is positive (0.06% of GDP)** and this is mainly due to the export of technological services.

Both sectors clearly show the strong innovation capabilities of Italian firms. Manufacturing systems integrate a large number of different advanced technologies and their development requires a relevant R&D capacity. Furthermore, most firms in this sector are SMEs and are able to compete successfully in the international market.

Italian **fashion products** (clothes, textiles, shoes, glasses and so on) are appreciated all over the world and come out from the creativity of Italian designers. Certainly, these products are manufactured with a clear focus on quality, but they also apply advanced technologies (first of all, new materials), which allow to incorporate special features and performances for the users.

The so called “Made in Italy” sectors are more and more a **mix of design and technology** - in terms of both products and manufacturing systems. In particular, firms producing manufactures have been able in many cases to become world leaders, due to their technological innovation policies and to positive interactions with local end-users.

Besides, Italian firms have a **comparative advantage in a number of advanced technology sectors, such as aerospace, biotechnologies, automation**, for which a widespread cooperation between firms and scientific institutions is at the basis of innovation and success in the market. On this issue, a special focus should be granted to nanotechnologies.

According to the Italian Nanotechnology Census, published by AIRI/Nanotec in 2009, the **strategic importance of nanotechnologies** is widely recognized also in Italy. In particular, the 3rd Census - reporting data for the period 2006-2009 - confirms this finding and the growing commitment in the field of industry.

The activity in nanotechnology is in Italy rather intense and growing gradually. The Census points out the presence of some 180 structures doing R&D in this field. This number has since further increased and now the structures that in Italy are involved in nanotechnology are **more than 200**.

Around 55% refer to public institutions and the remaining 45% to private enterprises. The spectrum of the R&D activity is a rather ample and the objectives do not differ much when one compares industry and public research. Structural and functional materials, biotech and life sciences, nanoelectronics & optics (ICT), instrumentation/equipments, chemical-related products and processes are the fields in which the research is essentially focused. All major public research organisations (CNR/INFN, INSTM, INFN, ENEA) and University play a pivotal role to promote nanotechnology in the Country. As said, to them belong roughly 55% of the structures active in the field.

A final key priority for Italy in this field is investing in **the knowledge economy**.

Overall, Italy's educational performances appear **in line with OECD countries**. Graduation rates for men are slightly above the average while doctoral graduation rates slightly below. New doctoral degrees in science and engineering represent a higher share (45%). This evidence may be linked to the wage premium from tertiary education, which in Italy remains slightly higher than for the OECD average.

More specifically on the public research sector, it is worth noting that **the scientific productivity of Italian public researchers is at the top of ranking in Europe (0.49 scientific publications for researcher in 2007)**. Hence, the knowledge output of the research sector might potentially be a vast source of technological innovation for Italian firms of any size and sector.

## A Reformed Public Administration

Since 1993, the Italian Public Administration has gone through a process of reform aimed at **improving efficiency and effectiveness of public sector** and raising the quality of public services, while keeping under control the total expenditure devoted to the P.A. Several reforms implemented between 1993 (Legislative Decree 29/1993, Law 20/1994) and 1999 (L.D. 58/1998, L.D. 286/1999) established a framework of managing civil servants based on collective bargaining and a control system aimed at enhancing both productivity of public servants and the performance evaluation process of managers.

More recently, a new comprehensive design of reforms was adopted (Law 15/2009) in order to improve efficiency and **increase productivity of public sector and accountability of public servants**. The reform approach has been inspired by the exit/voice paradigm, with new opportunities and rights given to citizens (voice) and new market-type mechanisms (exit) conceived as a set of possibilities to access the same service in various ways or from different service providers connected directly or indirectly with the public sector.

Listed below the pillars on which the reform design is based.

### **Innovation and Digitalization**

The e-Gov 2012 Plan, in line with the “Lisbon Strategy 2020”, focuses on ICT adoption inside each public entity, enhancement of online services – aimed at reducing administrative burden for firms and citizens – and interoperability within the public sector. The Plan aims to foster both an easier and cheaper way to access public services and a bidirectional channel of interaction between the provider (P.A.) and the consumers (citizens and firms), while boosting widespread innovation and enhancing transparency and accountability.

Special attention has been devoted to developing certified electronic mail systems (PEC), with about 2,800,000 mailboxes existing in July-August 2011 (about 20,000 pertaining to public offices) and more than 52,000,000 mails sent.

In implementing ICT, **high priority is being given to instruction** (e.g. already 20,000 electronic whiteboards installed), **health care**

(e.g. only electronic certifications within 2012) **and administration of justice** (e.g. digitalization of civil proceedings and notifications).

### **Performance and Accountability**

A new system of **assessment and evaluation has been established** (L.D. 150/2009), both at individual and organization level, under the control of the National Commission for Evaluation, Transparency and Integrity. In order to implement meritocracy a new selection mechanism for economic and career incentives was introduced with a view to rewarding the most skilled and worthy employees, encouraging commitment and deterring malpractice.

The system envisages, among other aspects: an annual award for innovation, a wage increase based on merit, access to high level training and selective distribution of incentives through certified assessment systems.

Moreover, according to L.D. 198/2009, citizens and companies may file a collective action against the relevant public administrations and public service providers in case of inefficient services (so called “class action” against the P.A.).

### **Controlling expenditure**

Although Italian expenditure for public sector appears to be on average with European levels, with approximately 3,250,000 civil servants (3,375,000 in 2008) with an average salary of 34,650 € (5.7% of population compared with Germany’s and Spain’s 5.5% and France’s 8%), in the last three years **several constraints have been introduced in order to curb expenditure, both reducing the number of civil servants and limiting salary increase**. Managers’ emoluments have been reduced by 5% for the range of pay between 90.000 and 150.000 € per year and by 10% for higher amounts, while for the rest of the personnel contract renewals has been blocked, without recovery, until 2013.

In 2010 the total expenditure for the public sector decreased, for the first time, from 167,9 bn to 165,9 bn and after 13 years during which the public-private wage gap has gradually expanded, in 2013 there will be a substantial realignment of the two sectors’ level of salary-growth.

## A Leading European Region: Lombardia

The Lombardy Region belongs to the group of the four **European Economic Engines**, together with Baden Wuttemberg, Catalogna and Rhones-Alpes.

Lombardy is the 1<sup>st</sup> Italian Region in terms of population (almost 10 millions) and the 4<sup>th</sup> in terms of surface area (24,000 sq km). But Lombardy shines especially when it comes to **economics and business**: one quarter of Italy's total GDP (over 310 billion euros in 2009); more than 16% of Italian enterprises; 50% of foreign investment inflows to Italy; low unemployment rate (5.6% vs 8.4% at the national level and 9.6% at the European level in 2010). In addition, Lombardy's export is at least the double of any other Italian Region, thus representing the main Italian gateway to foreign markets; a bridge between Europe, North Africa and Middle East (a potential market of 780 million consumers).

Such a strong economic record and its outward-looking attitude enable the Lombardy Region to achieve outstanding results also in **socio-economic terms**: Lombardy's per capita GDP comes close to 32,000 euros (more than 25% of the Italian per capita GDP and 34% of the average European GDP) and the rate of population at risk of poverty and exclusion is low (15% vs 24.7% at the national level and the lowest rate of population at risk of poverty in Europe).

In many respects, **Lombardy** may be easily viewed not only as a big - if not the biggest - Italian Region, but also **as a mid-size European country**. Data show that its GDP is greater than that of Austria, Greece and Denmark and is almost double that of Portugal and Ireland. Moreover, its product exports are greater than those of Ireland and Denmark (its export as a percentage of GDP is higher than that of France and the United Kingdom), while its GDP per capita is ahead of Germany, France and the United Kingdom.

The reasons behind the strengths of the Lombardy Region or, in other words, the **sources of its competitiveness** mainly stem from: skilled human resources (cost of management lower than in Paris, Frankfurt, Berlin, London); good business environment (starting a new business takes 6-8

days); central and convenient position in Europe together with strong business/institutional relations with the Mediterranean area; world-wide famous exhibition pole (the second in Europe with 470,000 sqm of total surface and a well-filled calendar of events); outstanding artistic and cultural heritage attracting visitors from all over the world.

Building on these sources of competitiveness, Lombardy's **business sector** has developed 16 industrial clusters characterized by a high concentration of export-oriented small and medium enterprises and 6 metaclusters (biotech, green biotech, design, fashion, ICT, new materials).

In particular **Milan**, Lombardy's capital, is the main business city of Italy. It hosts over 283,000 active companies (5% of national total with a growth rate of 2.3% in 2010 versus the national average of 1.2%). Milan is the second largest city in Europe for number of organizations promoting innovation and links between scientific research and production. It is the main Italian location for both **industries** and **R&D activities**.

As far as industries are concerned, Milan hosts almost 550 companies, 17 specialized institutes and the 'Salone Internazionale del Mobile' in the **design industry**. It is also considered a **world fashion capital** thanks to over 15,000 companies, 45,000 employees, 13 dedicated trade fairs and 140,000 buyers and industry professionals during fashion trade shows. Other sectors are extremely important for Milan: **ICT & multimedia** (over 11,700 companies and significant technology parks, such as 'Kilometro Rosso'), **life science & biotechnologies** (26% of Italian companies operating especially in three sectors: healthcare, food and environment). Particular attention should be devoted to the **financial services** as Milan is Italy's finance capital with 125 financial Institutions (half of which foreign-owned), as well as numerous financial and consulting companies. Milan is also the site of the **Italian Stock Exchange** which is one of the top five financial centres in Europe and Italy's only portal to the international capital markets. Following an agreement signed in June 2007, the Borsa italiana is now part of the London Stock Exchange

Group, thus contributing to the creation of a truly global hub for financial markets.

When it comes to **education and R&D activities**, Milan hosts 80 research Institutes and is the 6<sup>th</sup> city in Europe in terms of R&D laboratories contributing to 40% of Italian new innovation patents (equal to Boston's annual production). Milan has 8 Universities, some of historical and prestigious tradition, including the Bocconi University (among top 20 global business schools and top 30 global schools), Politecnico di Milano (among top 40 world engineering and architecture schools) and San Raffaele (1<sup>st</sup> Italian medical school). Last but not least, Milan is strongly investing on its future thanks to **EXPO 2015**. Feeding the planet, energy for life'. This international event will host over 7,000 events in a 6 months programme, 181 exhibitor countries and

21 million expected visitors, thus providing great opportunities in food sector, green and red biotechnologies, life science, education, renewable energies, real estate, logistics and infrastructures.

The city has also a rich offering of **major cultural centres**, such as La Scala Opera House, the Piccolo Teatro, the Art Biennial, the Triennale del Design. Besides, Milan has 60 museums, including the Pinacoteca di Brera and the Ambrosiana, wich hold 11% of Italy's artistic and cultural heritage, in addition to 150 art galleries and ateliers.

The international standing of Milan is proved by the number of **Consulates** located in the city (2<sup>nd</sup> in the world after New York) and the high number of think-tanks and NGOs located in the city.

Of the 20 Italian regions, **9 from the Centre and the North (Aosta Valley, Emilia-Romagna, Friuli-Venezia Giulia, Lombardy, Marche, Piedmont, Trentino-Alto Adige, Tuscany, Veneto)** show top index performances compared to other European economies, specifically GDP per capita, industrial vocation and export propensity. In these top 9 regions the GDP per capita at purchasing power parity is above 10% and unemployment below 20%, both of which compare favourably to the European average.

As for the **Mezzogiorno**, if we look at the dynamics of a fundamental Italian sector such as manufacturing in the **(Abruzzo, Apulia, Basilicata, Calabria, Campania, Molise, Sardinia and Sicily)**, the inadequacy of internal demand in the local market makes internationalisation the only possible choice. A better performance is shown by services, tourism, food and agriculture, chemicals and oil industry. The slight recovery in Italian exports of the first months of 2011 was echoed in all the Italian Regions, with varying intensity that could also be attributed to the different performance of some sectors. The highest rates of growth were recorded by some Mezzogiorno regions, such as Sicily and Sardinia (petroleum products), followed by Abruzzo (motor vehicles) and Apulia (iron and steel, chemical, food and agricultural products).

Recent studies stress **the potential of the Mezzogiorno area**, to be exploited through policies of innovation, internationalisation and infrastructure development. **The Mezzogiorno has Great Opportunities to leverage three pillars:**

- **Tourism.** The Centre and North of Italy is a mature area in tourism, that has very limited space for growth. The **Mezzogiorno instead has a great underexploited production capacity.** Between 1998 and 2008 the Mezzogiorno has registered a growth in the number of visitors of **28.2%** (from 59.1 to 75.7 millions), compared to 23.9% of Centre and North. The best results have been achieved in Apulia and Calabria, (+70.8% and + 58.5%). In terms of tourism

potential, the touristic attractiveness index takes into account a number of factors: cultural heritage, historical, artistic, environment, landscape and traditions patrimonies, events and social attractors. Campania is ranked 3rd in the Italian tourism potential attraction index and Sicily is ranked 8<sup>th</sup>. Tourism is closely linked to Culture and Food. If functioning in a supply chain and integrated system, those three sectors, can produce synergic results and mutual growth.

- **Innovation and High-tech Sectors.** R&D has significant presence in pharmaceutical and aerospace in Campania (which is above national average for R&D intensity); Information and Communication Technology in Catania (Sicily); aerospace in Apulia. **Renewable energy is also an important sector to develop.** In the Energy sector, the Mezzogiorno produces 37% of the national gross production, more than it consumes (ranking first are Apulia and Calabria, followed by Sicilia, Molise and Sardinia). For green energy **98% of eolic is produced in the Mezzogiorno** (26% in Apulia, 22% in Sicily, 18% in Campania). The percentage is of 64% if we include solar, biomasses and biogas. Of the 140,000 estimated “green” workers in Italy, 25,000 are employed in the eolic sector in the Mezzogiorno. The area can play a fundamental role to achieve important goals in the energy sector, even in traditional sources, such as oil. The Basilicata oil reserves could contribute to lower the Italian foreign energetic dependence, cutting down oil costs for Italy of about 10-15%. For green sources, there is a potential for developing geothermics in the Southern Tyrrhenian shore, Campania, Sicily, Sardinia and Apulia. In geothermics there is a comparative advantage of the Mezzogiorno towards the rest of the Country.
- **Logistics.** Italy has a strategic position in the Mediterranean and 54% of container traffic in Italy is handled in ports. In the south there are three national hubs (Gioia Tauro, Cagliari, Taranto) and multi-functional ports of excellence (Napoli,

Salerno), plus a Relevant Interporto (Nola). Italy registers the greatest volume of exchange, including oil products with the other Med countries (a total +59% in the years 2001-2009); 28% of the commercial exchange of Italy with the Med area involves the Mezzogiorno.

The Mezzogiorno represents an additional unexploited asset whose taxonomy is less homogeneous compared to the Centre and the

North. Nonetheless it shows cases of excellence in the aerospace segment and represents a strategic location, being at the centre of the Mediterranean traffic as an inter-modal logistic hub. The traditional strength in tourism has already attracted capital to upgrade infrastructure and amenities, attracting high end segments from around the world. One may say then that the Mezzogiorno could even become the new force of the Italian Economy.

At a time when Italy is being called upon to confront structural problems such as the public debt, the North-South gap and stagnant growth, a new idea of the future is needed in order to regain the position we deserve in the international community. Necessarily, we have to depart from the Italy that exists, exploiting its best energies and identifying the roots of a new challenge that will lead to opportunities for change and, first among these, the need to **marry economic progress, territorial and social concerns and environmental sustainability**.

One response to this challenge lies in the green economy, a new production paradigm that uses **environmental impact as an index of the efficiency of economic activity** and, more in general, of the competitive capability of the business system. The green economy should be considered not as a sector of the economy but as a new way of governing, organising, producing and distributing.

Either as a limitation or as a duty, the environment has become an essential factor in economic growth, the deterioration of which can jeopardise a firm's ability to compete and stay on the market.

### **Green = employment**

*Green* is a synonym for **dynamism on the employment front**.

That is why the new challenges to the system need to invest in human capital, and that is why, in early 2011, Italian firms provided for **no less than 227,000 of all jobs** associated with the green economy, which is nearly 40% of the overall professional requirement.

More than 88% of the jobs related to the green economy, and the 82% of those strictly green, would be **engaged in greening activities**: which means the majority of the personnel are required not for new green activities, but for the process of converting previously existing activities into environmentally friendly ones, which is confirmed by the widespread eco-sustainable conversion of core production business.

In response to the demand for workers with new and broader skills is an **increase in the offer of training**. It is estimated that each year nearly 2,000 training courses, run by over 400 public and private entities (schools, training centres,

universities, consortiums, associations, businesses), are attended by approximately 50,000 persons.

### **Italian growth in renewable energy**

The Italian renewable energy sector is enjoying an upward trend, with a record increase in the solar panel sector of **181.7% in the last year**. Given such data, we will likely have no problem achieving the 17% renewable energy production goal set by the EU for 2020 in its ambitious Directive no. 2009/28/EC of obtaining 20% of its entire energy needs from renewable energy sources such as sun, wind, water and biomasses.

Over the past year, with almost \$14 billion, **our country took 4<sup>th</sup> place in the world in terms of new investments in the sector, following only China, Germany and the United States**, and rose to first place in annual investment growth.

As for the production of photovoltaic cells and modules, China is the leader, at least as regards the production techniques used thus far. If Italy wants to continue to compete, it is going to have to do so by concentrating resources and human capital in innovative products. Eastern Sicily is becoming one of the most interesting areas for the solar energy industry and research. ENEL, StMicroelectronics and Sharp opened the largest Italian solar panel factory, the 3Sun, in July 2011 in Catania, to which each firm contributed in equal measure.

Italian companies should concentrate on a series of high-tech and specialised niche component markets such as **inverters**: devices for the conversion of electrical current from continuous to alternating that are the heart of the photovoltaic system, and for whose production Italian industry has been able to win a major position in the world.

**Biomasses** make up another form of renewable energy with a growing potential for development in Italy. They include forests and the derivatives of energy farming, as also those from farming residues and food production, organic and zoo technical waste and wood processing.

According to the data of the national action plan for renewable energy, 45% of all the renewable energy expected by 2020, as the sum of power for electricity, heat and transport, will come from biomasses.

## Introduction of the green economy into traditionally strong sectors in Italy

For Italy, even more than for other countries, the green economy is becoming an extraordinary key for regenerating entire divisions in our top areas of manufacturing. The peculiarity of the Italian green economy lies precisely in the eco-conversion of traditional staple industries more than in the development of innovative sectors associated with renewable energy.

More and more firms are making environmental consciousness a competitiveness factor that allows them a place in higher-end market segments and enhances the corporate image consumers perceive. These are gradually investing in policies that reduce the environmental impact both of their production processes and products, becoming the laboratory of a green Italy with a frontline manufacturing system. This has been possible thanks to a new outlook: no longer sector-confined or concerned solely with final impact, but capable of integrating territory and production, including all the production phases, from raw materials to final issue, products included.

Standing out among **manufacturing activities**, in addition to chemicals and activities associated substantially with energy (petrol products and public utilities), is the production of machinery, vehicles, electronics and precision instruments, along with the processing of non-metallic minerals, where one firm out of three invests in reducing the environmental impact of its production. In any case, despite the current financial uncertainty, Italian manufacturing is preparing to face the challenges of the future: one firm in three is betting precisely on the green economy for a continued future on the market, and whose image and quality will increasingly be a reflection of its commitment today to environmental sustainability. One third of firms that invest in green technology (34.8%) boast a presence on foreign markets, which is almost double that of firms not concerned with environmental sustainability (less than 2 in 5, or 18%). New development and consumer models based on a series of cardinal principles are taking root in the **agricultural sector**, such as environmental protection, enhancement of biodiversity, promotion of productive traditions and local cultures, environmental sustainability, innovative forms of information and in the exchange of goods and services. By way of example, the reduction in the

transport of foodstuffs, the so-called 0-kilometre, and the short food production chain, the establishment of direct sales markets in defence of the origin of raw farm products through special policies and obligatory labels, the fight against GMOs in order to impede the present and future delocalisation of production. Italy is not only the world's largest exporter of organic products (for a value of over \$1 billion in 2010), but is also number one in Europe for the number of farms that have chosen bio-methods. The "bio" sector is highly innovative in Italy, especially when compared with our general agricultural situation: a high percentage of business women (25%), young people (50% are under 50 years of age), educational level (50% have a high school diploma, 17% a university degree), and openness to new technologies (52%).

Italy's second most important manufacturing division in terms of number of firms, and third in terms of sales, is **wood and furniture**, one of those sectors where the environmental challenge is becoming a major factor in competitiveness, an added value for Italian production that affords the recognition of those markets where sensibility to the issues of sustainability is more widespread.

The **automotive industry** is making significant progress at European level in the reduction of atmospheric emissions. Italy ranks third in Europe among countries distinguished for low CO<sub>2</sub> emissions thanks especially to the widespread use of small diesel-fuelled cars. First in line among the Italian firms that design, build and distribute those vehicles is the **FIAT Group**. The ranking of the most virtuous automobile manufacturers in Europe places FIAT in the lead (126 grams CO<sub>2</sub>/km), followed by Toyota (130 grams) and Peugeot-Citroen (131 grams), which comprise Europe's most efficient fleet and closest to achieving the 2015 emissions reduction target.

The Community objective of 130 grams of CO<sub>2</sub> seems close. Moreover, in September 2011, for the third consecutive year, FIAT S.p.A. was acknowledged a sustainability leader: the Turin firm, along with BMW, received a maximum score of 94/100 compared with an average of 72/11 among other division firms.

The problems keeping the electric automobile from taking off in Italy are infrastructure-related and also associated with an inadequate supply distribution network. To remedy the situation the Energy Authority has launched five new projects to lay the foundations for establishing a real

situation on the market, with electrical cars in use in cities and various business options for those who supply power and service. Over one thousand electrical “pumps” will be installed in nine Italian regions between now and 2014.

### **The importance of the small and midsize enterprise**

The green economy does not only concern new sectors associated with renewable sources, energy savings and low impact transport but, and above all, thousands of small and midsize enterprises that have seized this opportunity for development. A sign of the new “green light” on the horizon consisting of that 30% of small and small-to-mid size enterprises that last year invested in green technologies and products manufacturers, lies in its mass diffusion: **approximately 60% of those firms are in the process of going green today** in order to more effectively overcome the crisis, render their products more efficient and thereby intercept new demand segments and raise the bar on quality through innovation and creativity.

One firm in four, of all those operating in industry and services, has invested over the past three years or will do so this year, in green technologies and products. A direct and concrete commitment by **370,000 firms**, acting on the increasingly firm conviction that the green economy, today more than ever, is a major factor in competing on international markets.

### **A greener and greener Italy**

Clearly the green economy has increasing value within the Italian productive fabric. This is no longer simply a question of “virtuous” behaviour dictated by the need for greater efficiency in a difficult economy, but rather of developing a new production model capable of raising the qualitative level of processes and products and, more in general, of seizing new opportunities for business and acquiring new consumers and new markets both inside Italy and, especially at this moment, abroad.

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<sup>1</sup>Excerpt from the GREEN ITALY 2011 Report – The green economy against the crisis, produced by Unioncamere in collaboration with Symbola.

## Italy, a Cultural Superpower

The Canadian-American economist John Kenneth Galbraith, to explain the miracle of post war Italian reconstruction, claimed that “the real reason is that **Italy has incorporated in its products an essential component of culture**, and cities such as Milan, Parma, Florence, Siena, Venice, Rome, Naples and Palermo, while having very poor infrastructure, display in their standard of living a huge amount of beauty”.

This is the source from where the creativity of our production system, based on beauty and harmony, originates. Italian design and the greater part of what is considered beautiful in the world **identify with Italian products**.

There are certainly other, more ancient civilizations, but surely, no other has steadily produced as much as Italy throughout the centuries. And even in periods of decadence, there were no interruptions in the creative process in all fields; from the visual arts to architecture, engineering, music, literature, cinema, philosophy, law, the political and social sciences, the exact sciences, in contexts that have spread out throughout the world absorbing contributions from other civilizations.

The Etruscan roots, Greek-Roman and Judeo-Christian, the contribution of Islam, the immensity of the Renaissance, have all taken from the world, then elaborated, enriched and returned to the world the highest in knowledge and creation. This ability is typical of the greatest civilizations, although none have done so with such intensity as our peninsula.

Italy is the country that counts **the highest number of UNESCO cultural and natural sites** (47 in a world list of 936). From the North to the South, all sites - well beyond those surveyed by UNESCO - testify this magnitude. A tremendous responsibility: a great heritage to be preserved. This great historical and artistic heritage makes Italy the first in the world despite its rather limited size - about 60 million people who reside in an area of just 300 thousand square km -.

But if culture is well rooted in our past, it is also a pillar of the present, of progress and sustainability. The **cultural industry** is a significant part of the

production of wealth and employment in Italy : **4.9% of GDP, 1,400,000 employees, 400,000 businesses involved**. The Italian film production industry is the third in the world. In the last ten years as much as 1207 films have been put on the market. Book industry is also a strong asset: Italy counts a very high number of publishing companies (7,590 in 2010); the De Agostini Group is ranking 10th in the world for sales. Turin, with the “**Salone Internazionale del Libro**”, hosts the second largest book fair in Europe, the first one since 2006 for the number of visitors.

Not to mention the indirect but powerful (not easily measurable) effect of culture on the promotion in the world of Italy as a top tourist destination. Italy’s heritage draws more than **45 million visitors every year**, making tourism our primary industry, accounting for 8.6% of GDP and makes Italy a brand of quality and beauty.

Besides, Italy has been supporting **archaeological, anthropological and ethnological missions** abroad for many years. These missions are not only scientific, but are also a valuable tool for training of local operators and provide technology transfer in some sectors, such as archaeology, restoration and protection of cultural heritage, in which Italy has an internationally recognized level of excellence. This activity also represents a commitment to actively contribute to intercultural dialogue and development policies in many countries, even remote areas, where missions are sometimes the only Italian cultural presence.

Italy is second only to China in the export of design products, for a **global value of \$ 24,802** millions. It is also second (to Germany) for the number of registered patents (2003-2009).

It is no coincidence that our quality products are the ones that **suffer the highest number of imitations and counterfeits**. It is not only that which is made in Italy or has an Italian brand that attracts, but often also what just ‘sounds Italian’, often causing serious damage to those who produce ‘genuine’ Italian products. From the depths of Italian culture derive great clothes, houses, furniture, gardens, landscapes; a ‘wellness’ that accompanies the image of our country, the flavours of the territory, the benefits of scientific

production and potential for innovation in all fields.

It is because of this evocative power that the **Italian language** is one of the most popular in the world - holding the fourth place - even though it is only the mother tongue of the inhabitants of the peninsula and few others. We promote the language through the action of 89 cultural institutes, 180 Italian public and private schools, 111 Italian departments in foreign schools and 303 universities.

Italy counts **19 Nobel prizes** and has a great list of personalities who represent our excellence in the world, in all fields of culture. Among the contemporary ones, let us just remember Rita Levi Montalcini, Carlo Rubbia, Umberto Veronesi and Antonio Zichichi in science; Roberto Benigni, Roberto Bolle and Riccardo Muti in music and performing arts; Umberto Eco and Dario Fo in literature and philosophy; Renzo Piano, Gae Aulenti and Maurizio Cattelan in art and architecture.

A long economic and financial crisis, like the one we are globally facing, and its uncertain outcome with potential serious social consequences, call for the best energies of the country. The contractions

of the budgets will force Italy to rationalize, but, with innovative methods and tools, it will continue to respond to this great desire for Italy. This should happen in synergy with the guidelines set by the Lisbon meeting in 2000, which outline a matrix conceptual framework for policy makers anchored on **four key themes**: entrepreneurial creativity, development of new opportunities related to the creative sector; formation of creative clusters; integrated planning creative places.

In this direction goes for instance the effort of some Italian business personalities, such as Diego Della Valle (Tod's) and Luca Cordero di Montezemolo (Ferrari), who are convinced of the absolute priority of **protecting Italy's global image** "as their business rely on the prestige of the country". This is why they engaged in saving Italy's heritage with cash donation and sponsorships: Della Valle has donated this year \$7 million for the Scala Theatre of Milan, that he defines as one of the 10 top symbols of Italy's cultural excellences, and \$36 millions for the renovation of the Coliseum in Rome. Moving from the awareness that **"culture is our core business"**, Montezemolo has recently launched an initiative to sponsor projects across the country involving all actors who rely on the "Made in Italy reputation".

## Italy and the European Union

### Italy and the origins of the European Union

Italy is one of the **six founding members of the European Economic Community (EEC)** which has evolved into the European Union (EU). The treaty establishing the EEC itself was signed at the Capitol, **in Rome, on 25 March 1957**. Italy has constantly provided both inspiration and leadership to the process of European integration through some of the most prominent figures of its political and cultural life and through a pro-European sentiment which is strongly rooted in its civil society and which has constantly been reflected in very high turnout rates at the European elections (65% in 2009, against an average of 43% for the 27 Member States).

### Italy and the European Union today

Italy is actively engaged on major substantive issues of both the **internal** and **external** EU agenda.

On the **internal agenda**, efforts are at present particularly focussed on the common response to the economic and financial crisis which is so crucial for the future of the Union itself.

Over the last two years Italy has contributed constructively to the efforts aimed at strengthening the economic governance of the EU and the economic convergence within the euro area, as well as at improving fiscal discipline and deepening economic integration. The signature of the treaty establishing the **European Stability Mechanism (ESM) in July 2011** is one concrete example of such commitment. Strong common institutions and full recourse to the community method are key to Italy's approach. For this reason Italy has favoured the implementation of innovative tools such as Eurobonds, as a means to reinforce the common currency and the Eurozone's financial stability.

The re-launch of the Single Market is a critical strategic objective for the EU, to be pursued with renewed political determination. Italy has fully supported the process inspired by **Professor Monti's report of May 2010**, which should lead by 2012 to the implementation of the twelve priority actions contained in the Single Market Act.

Italy is the third economy of the Euro zone in terms of GDP and the second considering only the manufacturing and industrial sector. Italy's share of the EU trade (7.6% of intra-EU trade and 11.3% of EU trade with third countries) is also significant. Such relative weight of the economy is reflected in the contribution to the EU budget, which in 2010 amounts to 15.3 billion Euros (13.1% of total budget) making of Italy **the third largest contributor**, and in the status of third largest shareholder of the European Central Bank (12% of total).

Officials of Italian nationality hold high level responsibilities in the EU institutions and agencies. Since November 1<sup>st</sup> Mario Draghi, former Governor of the Bank of Italy, is **President of the European Central Bank**. Vittorio Grilli, Director General at the Italian Ministry of Economy and Finance, chairs the **Economic and Financial Committee (EFC)** of the Council. Six **Director Generals** of the European Commission are of Italian citizenship; Stefano Sannino, Director General for Enlargement, is a career diplomat. Italian officials are heading some European regulatory agencies, such as the European GNSS (Global Navigation Satellite System) Agency (responsible for the management of activities related to Europe's satellite positioning and navigation programmes, Galileo and Egnos); the European Agency for the Cooperation of Energy Regulators (ACER) and the European Medicines Agency (EMA) are led by Italian officials. Andrea Enria chairs the European Banking Authority (EBA), one of the three newly established supervision Authorities on the financial markets. Within the EEAS, there are currently six Italian Heads of Delegations (Albania, Uganda, Tanzania, OCDE/UNESCO, Jamaica, UN in Geneva), one Managing Director (Crisis Response and Operational Coordination), one Head of Department (Department of Western Europe, Western Balkans and Turkey) and ten Heads of Division.

Furthermore, **two EU agencies** are based in Italy. Turin hosts, since 1994, the European Training Foundation (ETF) which aims at fostering education in EU partner countries. Parma hosts, since 2003, the European Food Safety Authority

(EFSA) which provides independent scientific advice on food safety.

In the field of **external relations**, Italy is committed to strengthen the external projection of the European Union in the international context in the broader effort to support the initiatives aimed, especially after the entry into force of the Treaty of Lisbon, at providing the EU's external action with a high degree of coherence and consistency establishing it as preeminent and reliable political player on the world scene.

Within this framework, the **enlargement process** and the **EU strategy in Mediterranean** are of crucial importance. Italy has provided impetus to the elaboration of the European enlargement strategy through several initiatives, among which the presentation, in the spring of 2009, of an "eight-point Plan for the Western Balkans". The conference held in Sarajevo in June 2010 (on the tenth anniversary of the Zagreb Summit which launched the stabilisation and association process), organised under Italian initiative and inspired by the "eight-point Plan", represented a crucial occasion to give fresh momentum to the accession process. The path of the **Western Balkans** towards accession has since undergone a notable acceleration, leading to the conclusion of the negotiations with Croatia; to the granting of the candidate status to Montenegro and to the proposal to start accession negotiations with this country; to the proposal by the Commission to grant the candidate status to Serbia, and the visa liberalization in favour of Albania and Bosnia-Herzegovina; finally to the proposal to launch the visa dialogue with Kosovo by end of 2011. At the same time, the role played by Italy in favour of the European path of Turkey has stimulated the submission by the Commission of an agenda to strengthen EU-Turkey cooperation and to relaunch Ankara's accession process.

Such initiatives are joined by a constant attention to the **Southern Neighbourhood**, aimed at reaffirming its strategic importance for the EU. The combined action of Italy and its EU partners in the Mediterranean has made it possible to achieve in 2011 a balanced review of the European Neighbourhood Policy that took into due account the extraordinary crisis that hit the Mediterranean partners.

Enhanced cooperation with the Administrations of enlargement countries and neighbourhood partners through the **EU twinning instrument** is

part of the Italian Government's wider policy in favour of the EU enlargement process and of the economic and democratic growth of the EU Vicinity. Since 2005 Italy has been awarded 147 twinning projects and the commitment in this field is becoming more and more relevant.

Italy also supports a proactive engagement of the EU in the consolidation of the Transatlantic partnership and in the strengthening of ties with the emerging powers of Asia, Latin America, and Africa, to which it provides the goodwill of its own consolidated capital of relationships and trust.

On **Common Foreign and Security Policy (CFSP)** issues, Italy is committed to enhance the role of the European Union on the international scene, fully exploiting all instruments created by the Lisbon Treaty (High Representative for foreign affairs and security policy and European External Action Service - EEAS). Italy actively supports the progressive framing of a truly common EU foreign policy, enabling the Union to speak with one voice on main world affairs, while remaining vigilant against any attempt to undermine the *acquis* in this area.

On Common Security and Defence Policy (CSDP) matters, the European Union is currently conducting 12 crisis management operations in three continents (Europe, Asia and Africa). Their tasks include joint disarmament operations, humanitarian and rescue activities, military advice and assistance, conflict prevention and peace-keeping, deployment of combat forces in crisis management, including peace-making and post-conflict stabilisation. Italy has always been a major contributor to CSDP missions, in terms of personnel, material resources and financial support. About **280 Italian personnel, both military and civilian, out of 5319, are being deployed under CSDP (as of July 2011)**. Italy fully supports the comprehensive (i.e. civil-military) approach to crisis management underpinning CSDP, as the distinctive feature and added value of the EU action in the field of international security.

**Italy and the future of the European Union**  
**Commitment and vision**, the two principles that have so far inspired Italy's contribution to the EU, appear as critical as ever for the future of the EU in the face of the economic and financial crisis that threatens to shake the bases of the European

Union itself. Faithful to its consolidated tradition of leadership in the promotion of European integration and mindful of its status of founding member of the EU, Italy is fully engaged in the swift implementation of the innovations introduced by the treaty of Lisbon (starting with

the European External Action Service) and in the consolidation of the most precious acquisitions of the process of integration, starting with the common currency which conveys a political message about European integration outweighing even its economic value.

Multilateralism is a key priority in Italy's foreign policy and so is our engagement with the United Nations. Our country is highly committed to peacebuilding activities, stabilization and crisis management, not only through an important financial contribution to the UN, but also through a strong action in support of the various UN peacekeeping operations.

Italy is the **sixth contributor both to the UN regular and peacekeeping operations budgets**. In 2011, our Country has contributed with 117,4 million dollars to the regular budget, (4,9999% of the total amount), and provided more than 340 million dollars to peacekeeping operations. We take part in different peacekeeping operations, among which UNFICYP (Cyprus), UNMOGIP (India-Pakistan), MINURSO (Western Sahara), UNAMID (Darfur). The flagship peacekeeping operation for Italy is **UNIFIL/Lebanon**, in which we have been strongly committed since 2006. Until January 28<sup>th</sup>, 2010, the mission's Force Commander was the Italian General Graziano, then followed by the Spanish General Asarta Cuevas. Over the last few months Italy welcomed the request, by the United Nations, to resume the Command as of next January, upon expiry of the current Force Commander's term. Our troop contribution to UNIFIL amounts to 1,400 units.

One of the most evident tokens of Italy's commitment in the UN's peacekeeping activity is the **presence in Brindisi of the UN Logistical Base**, providing logistical support to all the main UN peacekeeping and political missions throughout the major crisis areas. Moreover, upon Italian and American impulse, in 2005 the **Centre of Excellence for Stability Police Units (CoESPU)** was established in Vicenza to train police forces from all over the world before their posting to the field. So far, CoESPU has trained more than 3,000 police officers from 23 different Countries.

Italy is member of numerous UN bodies, **ECOSOC and Human Rights Council** among the most important. Italy has indeed an enviable record in winning competitive elections with high rates of votes that shows the acknowledgement from the UN membership of Italy's role in the UN. Moreover, numerous Italians cover top positions in the UN system, like Filippo Grandi, Commissioner General at UNWRA (United Nations Relief and Works Agency for Palestine Refugees in the Near East), Judge Cuno Tarfusser at the International Criminal Court, Mr. Alessio Bruni member of the Committee against Torture and Prof. Giorgio Gaja at the International Court of Justice.

Italy is deeply convinced of the **need to reform the UN**, in such a way as to reflect a deeply changed international scenario, and to increase the effectiveness of the organization vis-à-vis the new global challenges. On this note, a special attention has always been attached to the reform of the Security Council, with the aim of making the Organ more democratic, transparent, and representative. In our view, such reform should be based on the principles of the broadest possible support, the respect for the fundamental values of the UN, simplicity, efficiency, and flexibility. On these grounds, together with a group of like-minded countries Italy established the **“Uniting for Consensus Group”**, within the broader context of intergovernmental negotiation at the General Assembly. In our view, the proposal Italy and other Uniting for Consensus countries put forward has the necessary flexibility to accommodate the interests and concerns of all States and regional groupings, on the basis of equitable geographical representation. Building on the said principles, over the last few months we managed to avoid an acceleration of the negotiation along divisive lines (also through the important success of last May 16<sup>th</sup>'s Rome Conference on “Global Governance and the Security Council's Reform”), and we are currently working for a compromise towards a comprehensive reform.

## Italy in NATO

Italy is among the **founding members of NATO** since the signature of the North Atlantic Treaty at the Departmental Auditorium in Washington, D.C. on 4 April 1949. Throughout the years Italy has committed itself to the founding principles and values of the Alliance. The transatlantic link, which inspired the Washington Treaty, has since remained a pillar of our foreign and security policy.

Italy has participated in all major NATO operations, seconded key civilian personnel to the Organization and hosted Alliance's bases on its own territory. Especially after the end of the "Cold War" and the forty-year-long East-West confrontation, Italy has been a staunch supporter of successive waves of enlargement of NATO, firmly believing in the contribution that the Alliance could bring not only in terms of security, but also of stability, democracy, human rights and fundamental freedoms. Italy has also strongly advocated for the creation of partnership frameworks such as the **Euro-Atlantic Partnership Council (EAPC)**, the **Mediterranean Dialogue (MD)** and the **Istanbul Cooperation Initiative (ICI)**, aimed at fostering pol-mil dialogue, mil-to-mil contacts and practical co-operation with non-NATO Countries in Eastern and South-Eastern Europe, the Caucasus, Central Asia, Northern Africa and the Middle East.

In this regard, it is worth underlining that Italy - during the last decade - played host to two important meetings: the Heads of State and Government Summit in Pratica di Mare (Rome), May 2002, which marked the re-launch of NATO-Russia relations, and the Informal Meeting of the NATO and Mediterranean Defense Ministers, held in Taormina, February 2006. Both meetings provide further evidence of the lasting commitment of Italy to partnerships and the concept of co-operative security, in the NATO framework.

Italy's commitment to NATO and its key institutions has also been confirmed by the important role **Italian civil servants and high-ranking military officers** have played, all along the years, in filling top positions within the Organization. Currently, Ambassador Claudio

Bisogniero holds the position of NATO Deputy Secretary General and Admiral Giampaolo Di Paola holds the post of Chairman of NATO's Military Committee. Finally, a career diplomat, Francesca Tardioli, has been appointed Deputy Assistant Secretary General for Operations.

Italy continues to **host a number of NATO bases and structures on its own territory**. The Headquarters of the Allied Joint Force Command South are located in Naples, the Headquarters of NATO's Rapid Deployable Italian Corps are located in Milan, the Naval Striking and Support Forces (STRIKFORNATO) are based in Naples as well, while the NATO Combined Air Operation Centre (CAOC) is based in Poggio Renatico (Ferrara) and the NATO Undersea Research Centre is located in La Spezia. Since 1966, Rome hosts also the NATO Defence College, the Alliance's most important training centre for NATO Members' and Partners' officers and civil servants. Finally, NATO's Communications and Information System School is in Latina.

**In 2011, Italy has contributed € 17.8 millions to NATO's civilian budget and € 5.5 millions to NATO's new HQ project, for a total of € 23.3 millions. Overall, Italy contributes to 8.5% of the overall budget of the Alliance, the fifth contributor among all Allies.**

### Operations

Italy is particularly proud of the contribution provided to peace and security on the international stage through its participation to NATO's operations.

Italy is currently the third contributor, with 583 troops deployed, to KFOR in Kosovo, and also holds the command of Multi-National Battle Group West (MNBG-W). In **Afghanistan**, Italy is the fourth contributor to ISAF, with almost 4,200 troops deployed (almost 600 of them are trainers/mentors), and is currently the Lead Nation in the Regional Command West, in the Herat province. In **Iraq**, Italy has played a major role in NATO's Training Mission (NTM-I), training and mentoring over 11,000 Iraqi Federal and Oil Police units both in Iraq and in Italy since 2007. Italy is also playing a key role in **countering**

**piracy off the coast of Somalia and in the Indian Ocean.** The only ship currently employed by NATO's **Operation Ocean Shield (OOS)** is Italian destroyer "Andrea Doria", manned by approximately 240 Italian Navy troops. Finally, it is worth noting that Italy has given an outstanding contribution to **Operation Unified Protector (OUP) in Libya** - initiated by NATO at the end of March 2011, pursuant to UNSC Resolutions 1970 and 1973 - by providing ships, aircrafts and especially bases on its own territory for the conduct of daily operations (aimed at enforcing the arms embargo and the No-Fly-Zone and protecting the civilian population).

### **Italy and the future of NATO**

NATO's new Strategic Concept, approved by the Lisbon Summit in 2010, points the way ahead for NATO in the coming years. **Italy has actively and constructively contributed to its formulation and now is looking forward to taking concrete steps for its implementation.**

We stand by NATO's core tasks of collective defence, crisis management and cooperative security, and we firmly believe that the Alliance must remain determined to uphold its goals and values and to pursue its mandate in a changing world and in the presence of new challenges.

**Operation Unified Protector (OUP)** has once more shown the relevance that the Alliance can have in solving a crisis situation and in acting alongside other relevant international actors, as it has done in the past in Bosnia and Herzegovina, and as it is still doing in Afghanistan, Kosovo, Iraq, in countering piracy in the Indian Ocean and terrorism in the Mediterranean. Italy remains committed to contribute to NATO's actions in swiftly reacting to crises, in engaging in dialogue and practical co-operation with non Members, in bringing stabilization and security throughout the world, ultimately confirming the Alliance as an indispensable actor of the International Community.

## Italy for the Global Governance

Italy has always championed the need for a **broader and more inclusive global economic governance architecture**. Globalization has played a paramount role in improving growth potential and living conditions in most countries. However, by promoting a **far greater systemic interdependency**, it has also multiplied the number of problems that no single country or international organization can tackle on its own.

Global economic issues now encompass a broader range of topics, from climate change to energy security, from access to raw materials to intellectual property, trade liberalisation and finance. **Global fora also embrace in their agenda a wider array of topics**, including food security, climate change, development and clean energy. In all these fora, issues are tackled through a cross-cutting approach, thus in a complementary way with regard to the traditional “vertical pillars” structure of multilateral sector negotiations.

We believe that the root cause of tensions and fragilities, and the crisis itself, is the **fundamental mismatch existing between the economy, which is global, and the regulatory power, which is national or regional and, in any case, cluttered among several policy regimes with different legal status (treaties, codes of conduct, sets of principles, frameworks) and scopes of application (geographical, sector, subject-based)**. Therefore, **Italy’s action in the global arena has always been inspired by the need to set up a truly comprehensive response to this mismatch**, which can only stem from joining the forces of the public and private sector and

combining short-term efforts and long-term action. In this spirit, during its 2009 G8 Presidency, **Italy has launched the work on global standards**. In this vein, under its chairmanship of the 2010 OECD Council Ministerial meeting, Italy has guided the work that has led the Council to approve the **Declaration on propriety, integrity and transparency** in the conduct of international business and finance.

**The G20, in Italy’s view, should evolve into an engine of innovation and collective action**, completing its transition towards a long term agenda whilst maintaining a strong profile on global economic governance.

**Italy has always supported transparency and coordination through governance mechanisms as representative as possible of the international community**. For this reason, while debating global governance reform, we have to avoid the perception that the G20 is turning into a restrictive, alternative decision-making forum, as it would be the case if we sideline existing institutions or third countries that already operate under other auspices.

We need **inclusive mechanisms** to convey the G20’s message within the United Nations system and around the world through regional organizations, experts’ seminars, business organizations and social partners, whilst maintaining the intergovernmental nature of the G20 process. We should allow non member countries and regional organizations to be able to provide a contribution to the G20 discussion.