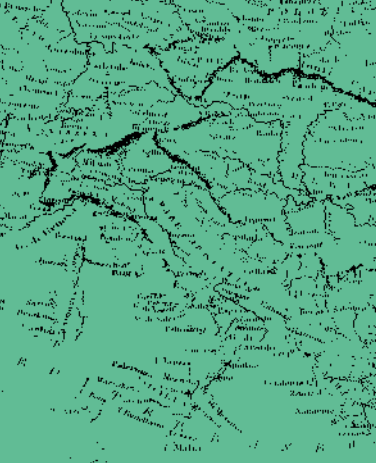


MINISTERO DELL'ECONOMIA E DELLE FINANZE

# Italy's report on economic reform

*October 2003*

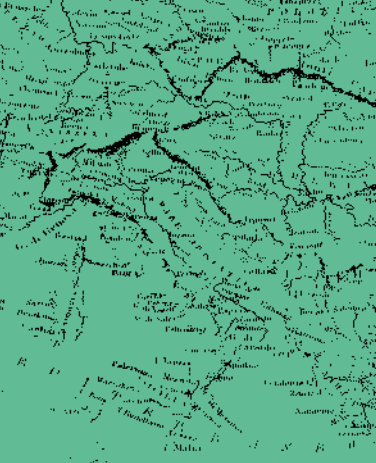




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## I. INTRODUCTION

During the past year the Government implemented structural reforms aimed at a sustainable and long-term development.

Heightened competition in utilities, public and private services is essential in order to improve supply in terms of quality and price.

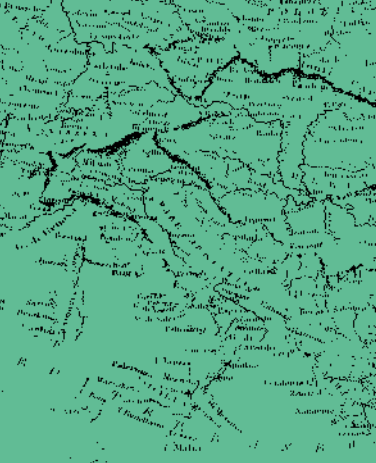
The reforms introduced so far have been focused on:

- physical, human capital and technology, in order to raise productivity and competitiveness;
- designing a new energy policy, aimed at the security of supply, by diversifying sources and cutting cost differentials between Italy and the other European countries;
- implementing the “Science and Technology Policy Guidelines”<sup>(1)</sup> by providing financial and legislative support for both public and private research and innovation;
- speeding up the modernisation of Public Administration, also thanks to the use of new computer technologies;
- integrating environmental issues into economic and social policies in order to define a consistent framework for development policies.

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<sup>(1)</sup> Presented by the Government in 2002. For further details see the paragraph on “Research and Innovation” in the section “Fostering a knowledge-based society”.





## II. ASSESSMENT OF MARKET PERFORMANCE AND STRUCTURAL REFORMS

### II.A. PRODUCT MARKETS

#### **Opening new markets to competition and furthering economic integration**

##### *The legal and administrative framework*

The process of streamlining, simplifying procedures and reorganising laws and regulations continued last year with the enactment of consolidated Acts, supplying an overview of the provisions and regulations governing the sectors concerned. During this streamlining and reorganisation process, the “Code governing the protection of personal data” was issued<sup>(2)</sup>.

The Code is based on the principle of fully guaranteeing the fundamental rights and freedoms of the individual, by simplifying and streamlining the procedures both for the business sector and the Public Administration, as well as the procedures for exercising the rights. The formalities to be carried out by firms and Public Administration (which have turned out to be not necessary over the past six years) have been streamlined.

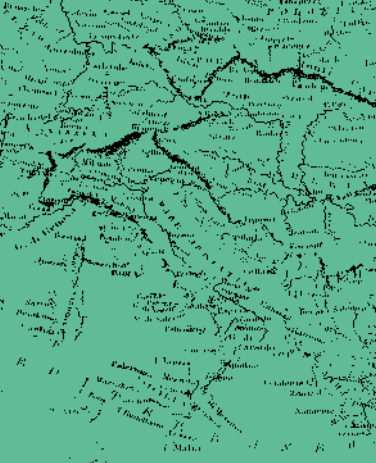
New technologies have been used to simplify the legal obligations related to filing corporate financial statements and documents. The filing of these documents via computer has been facilitated by the introduction of the digital signature for submitting them via computer to the Companies Register.

Since July 1<sup>st</sup> 2003 companies have been obliged to file documents with the Companies' Register on floppy disk or via the Internet using digital signature. Data show that, by August 2003, 71 per cent of all documents were submitted to the Companies' Register via the Internet.

Additional measures are envisaged to streamline the procedure for the official cancellation from the Companies Register of individual and

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<sup>(2)</sup> Legislative Decree n.196 of 2003, published in the G.U. o.s. no. 174 of 29.7.2003.



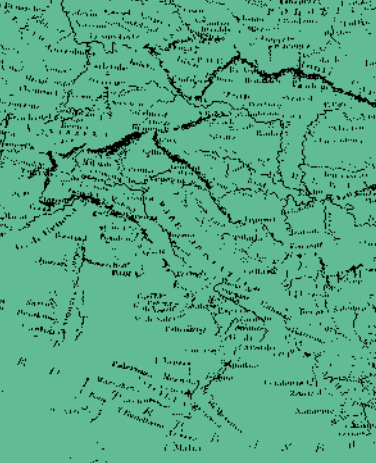
company positions that are no longer active. The large number of such positions still present in the archives of the Chambers of Commerce increase the administrative and financial costs of managing the Registers. Streamlining also meets the need to acquire a true picture of Italy's economic situation. Furthermore, the initiatives adopted by the Government to promote innovation throughout the Public Administration and simplify administrative procedures, have produced particularly good results through the One-Stop Shops for businesses. In 2001-2002, 249 measures were adopted to provide assistance for setting-up and upgrading the One-Stop Shops in 2,000 municipalities. These measures gave a considerable contribution to the dissemination of One-Stop Shops throughout the country. As the national survey of September 2002 shows, 69 per cent of Italian municipalities (accounting for 84.3 per cent of the Italian population) now have One-Stop Shop. Considering only the municipalities to which the intervention is addressed, the figure rises to 85.9 per cent of municipalities and 89.1 per cent of the Italian population. There has been a substantial improvement both in the dissemination and in the efficiency of the One-Stop Shops, throughout the country: between the national survey conducted in January 2001 and the September 2002 survey there had been a 42.1 per cent increase in the number of municipalities having One-Stop Shops.

The introduction of One-Stop Shop for businesses, coupled with other streamlining reforms, has reduced the times and the costs of administrative procedures for business (see Table 54-55) particularly for new firms, as shown by a recent survey currently being published by the Department for Public Administration and Formez. The number of start-up procedures for sole proprietorships and companies limited by shares have been halved. Substantial improvements have also been made with regard to start-up costs, and particularly the timing for starting-up a business.

As to Public Administration's innovation policies, during 2003 a number of surveys and research were completed, focusing on the outsourcing policies, the reform of senior public administrators, and the use of flexible contracts in the public sector.

The survey on the "Outsourcing of Civil Service activities and services" conducted by the Department for Public Administration, provides an organic reference framework on the main features and trends in outsourcing activities and services by different government departments (central, regional and local, national and regional agencies,





National Health System (NHS) and non-economic public bodies). The report analyses the most important ongoing experiences within the public administration that can provide potential guidelines for increasing the effectiveness of outsourcing by these entities.

After an initial improvement that had reduced Italy's Directive transposition deficit to 1.7 per cent in 2001, the Single Market Evaluation Framework of November 2003 shows for Italy a transposition deficit of 3.0 per cent, better than the result of May 2003 (3.9 per cent). The number of infraction proceedings increased by 6 per cent in November 2002 throughout the Union, with France and Italy accounting for about 30 per cent of all the cases. For Italy in particular, the number of infraction proceedings being examined by the Commission rose from 190 (November 2002) to 200.

#### *Obstacles to trade and cross-border investments*

The Italian economy was particularly affected by the downturn in the world economy. In 2002, Italy's product exports fell by 2.8 per cent in value and 0.9 per cent in volume. Consequently there was a slight reduction in Italy's share of world exports, falling from 4 per cent to 3.9 per cent (at current prices) in 2002. This trend continued in the early months of 2003.

The loss of market shares partly reflects the process of transferring substantial shares of production and world trade to the developing countries, confirming a trend that has been going on long since <sup>(3)</sup>.

Italy's share of European exports fell from 11.7 per cent in 1996 to 10.3 per cent in 2002. As a percentage of GDP, Italy's share fell from 12.2 in 2001 to 11.4 in 2002 (see Table 1).

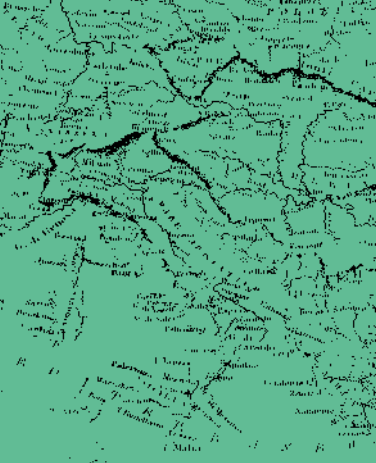
One of the reasons for this downturn is probably the specialisation of Italian exports that are mainly targeted at sectors where the demand has grown more slowly than the world trade average.

In 2002, the overall number of Italian exporting companies remained virtually the same, and there was a slight consolidation in the structure of Italian exports of larger firms.

Italian equity investments in foreign companies continue to rise: they increased by 6.7 per cent in 2001 over the previous year. The

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<sup>(3)</sup> Study conducted by the Institute of Foreign Trade (ICE), "Italy in the International Economy. Report on 2002-2003".



European Union is the main area for Italian investments, with 36 per cent of the equity investments and 39 per cent of the employees, but Italian business has also increased, albeit more slowly, in Eastern-Central Europe and to a lesser degree in Asia (China).

Conversely, the growth in foreign investment in Italian companies is still very low, particularly in the high-technology industries. Most foreign investors in Italy are from the European Union and North America, and they mainly invest in engineering and traditional sectors.

Italy's reduced capacity to attract direct inward investments, particularly in highly innovative industries, is another reason for Italy's loss of export market shares in recent years<sup>(4)</sup>. One obstacle to internationalisation is the small dimensions of Italian firms (see Table 46), their sectoral specialisation and the territorial imbalances across the country.

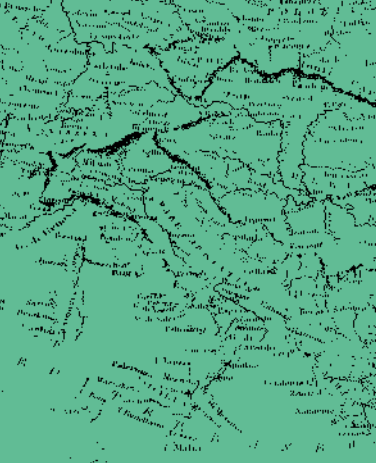
To meet the need for greater international integration of production, the Italian "industrial districts" appear to be positively correlated to the presence of foreign companies in their territories, which can play an important role for disseminating innovation and for establishing links with international markets.

The Government's actions to support Italian companies wishing to operate abroad were directed, in 2003, to open up One-Stop Shops for firms' internationalisation. These One-Stop Shops are established at the Italian Foreign Missions and form a link between various entities, such as the Chamber of Commerce offices, the offices of the Institute for Foreign Trade, and the Commercial and Economic Attachés' Offices at Consulates and Embassies. Eight Italian One-Stop Shops have been installed so far: in St Petersburg, Prague, Tbilisi, Damascus, Dakar, Dhaka, Jerusalem and Perth.

With regard to the problem of parallel imports, the Italian Court of Cassation ruled out criminal liability in a judgement handed down in February 2002. In its judgement, the Court found that it is only counterfeiting or tampering with the distinctive signs of products offered

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<sup>(4)</sup> According to the ICE study, loc. cit. (see previous note), the countries with the largest increases in world export shares over the past decade tend to be the ones that have received the most direct inward investments. This creates an accumulative circle of interdependency, in which multinationals are attracted to certain countries whose structural conditions are favourable to the development of new productive initiatives and, secondly, by their very presence, these multinationals further improve the conditions, also thanks to the increase in exports of their foreign subsidiaries. This creates global production networks which absorb increasing shares of production and world trade.



for sale that constitutes a criminal offence. In order to prove that a crime has been committed, the product must have been physically copied. In the case of parallel imports, the introduction into Italy of commodities bearing original trademarks without the consent of the right holder is not a criminal offence, and over-production - in other words, the production of volumes above the limits set by the franchise to use the trademark - may only be considered to be a civil wrong or tort.

### *Services*

Progress is being made towards establishing a competitive market in certain service sectors where there is widespread regulation, in order to remove the obstacles to the efficient performance of the market, and facilitate market entry for new players.

In the insurance and auto sector, there has been a sharp rise in insurance premiums compared both to domestic inflation levels, and international premiums <sup>(5)</sup>.

This has also been accompanied by a sharp rise in the costs incurred by insurance companies. However, in 2002 there was a downturn in the costs of accidents as a percentage of premiums (from 91.5 per cent in 2001 to 84.2 per cent in 2002) as well as a decline in management costs as a percentage of direct premiums (from 17.9 per cent in 2001 to 17.5 per cent in 2002).

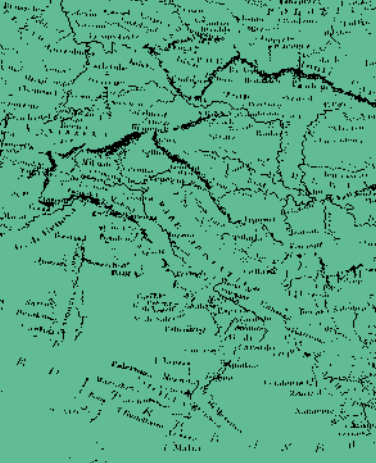
Efforts to reduce costs further and make management more efficient are being hampered by fraudulent claims by some policyholders and by the structural features of the insurance market itself.

In the first case, a major contribution towards controlling costs should be made by recent measures <sup>(6)</sup> to encourage more information and transparency in relations between insurance companies and policyholders through the "Accident Databank" which is also accessible by the Courts and the police. In addition to this, a Protocol of Understanding has been agreed between the insurance companies and the Consumers' Associations guaranteeing greater transparency regarding tariffs, as well as the reorganisation of insurance legislation <sup>(7)</sup>, in order to protect consumers and safeguard genuine competition between insurance companies.

<sup>(5)</sup> See "Fact-finding survey of motor vehicle insurance" conducted in 1996 by the Competition Authority, and recently completed.

<sup>(6)</sup> Law 273/2002 enacting "Measures to encourage private enterprise and foster competition".

<sup>(7)</sup> Under Law 229/2003 known as the "2001 Simplification Law".



As far as the structural features of the insurance market are concerned, the 5 largest groups of companies account for over one-half of the Italian market. Within each group, the fragmentation of companies and different brand names is not justified on the basis of commercial or sectoral specialisation features, but duplicates costs and runs the risk of creating only apparent competition. The remaining market share belongs to a vast array of small insurance companies that are unable to achieve the necessary economies of scale.

Under Community laws there are no legal barriers to new market entrants in Italy. It is expected that greater competition will be driven by the introduction of the possibility for customers to request binding estimates on-line<sup>(8)</sup>. This will also make it possible to introduce alternative and more efficient ways of selling insurance. In 2002 these methods were not yet widespread, even though they had increased over previous years. The main system used to sell third-party vehicle insurance is through agencies tendering for them, or agencies operated by the insurance companies themselves (94.4 per cent). Direct sales (2.4 per cent) are very limited. Brokers account for 2.2 per cent, and the banks sell only 1 per cent of these products.

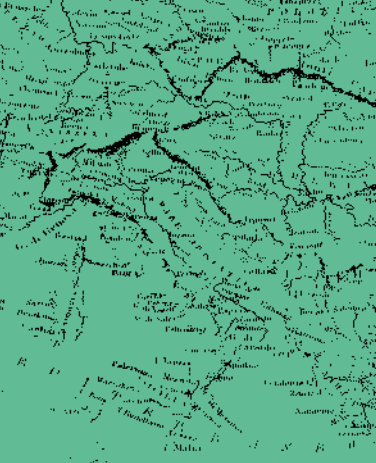
As far as professional services are concerned, the Government holds fast to the principle of protecting the interests of clients by retaining the professional associations and colleges ("*Ordini*") and a system of minimum fees, to guarantee the professional dignity of the professionals. A first step towards greater transparency of access to the professions is the introduction<sup>(9)</sup> of the obligation for a qualifying examination for admission to the legal profession, to be held at the Appeal Court of the place where the candidate has served most of the apprenticeship period.

Lastly, the new rules regarding e-commerce<sup>(10)</sup> were harmonised with the Community legislation by introducing the principle of protecting free circulation of professional services across the Union. This means that services can be offered electronically by individuals living in

<sup>(8)</sup> Law 273/2002.

<sup>(9)</sup> Legislative Decree 112/2003, enacted as Law 180/2003, providing "Urgent amendments to the rules governing entrance examinations to the legal profession".

<sup>(10)</sup> Legislative Decree 70/2003, enacting "Implementation of the Directive 2000/31/EC governing a number of legal aspects of the information society services in the internal market, with particular reference to electronic commerce".



other EU Member States. The exceptions to this rule are the exercise of public powers as well as the public order and public health considerations <sup>(11)</sup>.

With regard to retail trade, Italy is presently in the phase of coordinating the policies of different local governments according to Article 117 of the Constitution <sup>(12)</sup>.

Even though there has been some delay in issuing the legislation, the results of liberalising internal trade <sup>(13)</sup> have been substantial in terms of heightened competition. The different treatment of small shops on the one hand, and medium and large retailing outlets on the other (the former being able to locate freely and choose their product range, while the latter remain subjected to strict regulation) has certainly helped to develop the commercial sector by increasing competition.

According to the Chamber of Commerce Registers, 9,754 new retail outlets opened in 2002. This trend continues since the reform was introduced, and the pace has accelerated since 2001 (see Tables 43-44).

Most of the increase has been in small shops. There also seems to be a sharp rise in the number of businesses with several outlets. As the legal form of business, the percentage of new sole proprietorships, mainly food retailers, has remained stable, while companies limited by shares (mainly in the miscellaneous product sector) increased by one percentage point.

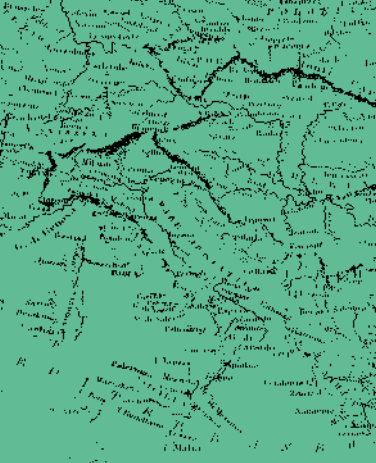
The rationalisation process of fuel distribution network is now slowing down, and the number of petrol stations that have closed down has declined in recent months. At the moment, only 8 regions (Lombardy, Emilia Romagna, Friuli, Marche, Liguria, Basilicata, Tuscany and Sicily) have enacted legislation or issued regulations implementing their legislations, despite the benchmark framework laid down for the Regional Plans by the Ministry of Production giving

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<sup>(11)</sup> For example, lawyers are excluded from this new legislation as far as court advocacy is concerned, while consultancy services can be provided without restrictions other than the supervision of the Bar Association.

<sup>(12)</sup> Under Constitutional Law 3 of 18 October 2001. Under the new Article 117, exclusive powers have been devolved to the regional authorities to regulate trade. However, a number of matters are still under the jurisdiction of central government either exclusively (protecting competition, safeguarding the environment) or concurrently (supporting innovation for production sectors, safeguarding health protection, food, local government) cutting horizontally across all the production sectors, including trade, and excluding full regional jurisdiction over large areas.

<sup>(13)</sup> With Legislative Decree 114/1998.



a six-month deadline to issue the required regulatory measures. Despite the delays, however, the legislative and regulatory framework is able to enhance competition and have positive effects on prices.

The Government and local authorities are currently studying legislation for small towns <sup>(14)</sup>, in order to ensure that the gradual liberalisation and rationalisation of the sector of fuel distribution does not lead to a relinquishment of the “public service” principle.

As for the voluntary Network Rationalisation Plan, submitted by the oil companies in 2001, according to the guidelines of the Competition Authority each petrol station could be offered for public sale also a second time, in the event that the first offer is not taken up, before closing it down. This means that the advisor responsible for selling-off petrol stations could set up a fourth public offer, including all the stations offered once and not taken up.

## **Public policies having an impact on product markets**

### *Competition policy and antitrust*

According to the reports to Parliament and Government, the Competition Authority has concentrated most of its activities - 85 per cent (57 per cent for intermediate goods and services and 28 per cent for final products) of the total - on sectors providing intermediate input to the other production processes.

These production sectors, accounting for about 30 per cent of the value-added of the Italian economy, mainly refer to energy production and a wide range of services, particularly professional services, commerce, insurance and financial services, transport and telecommunications. These sectors' input account for about 16.7 per cent of total output; this figure reaches 28 per cent considering only the export sectors.

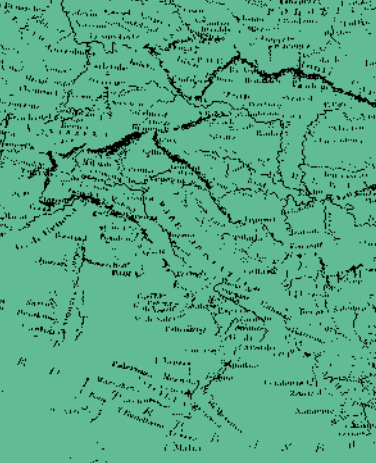
The Government and the Competition Authority are keen to ensure that markets are open and competitive.

In 2002, in applying antitrust laws the Competition Authority evaluated 651 case of mergers, 46 anti-competition agreements and 19 alleged abuses of a dominant position. In 2002, the Competition Authority completed 7 investigations of anti-competition agreements, mostly in the telecommunications industry (see Tables 49-52). Only in 3

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<sup>(14)</sup> Draft Law 1942/2003, enacting “Provisions to support and improve municipalities with a population of up to 5,000”.





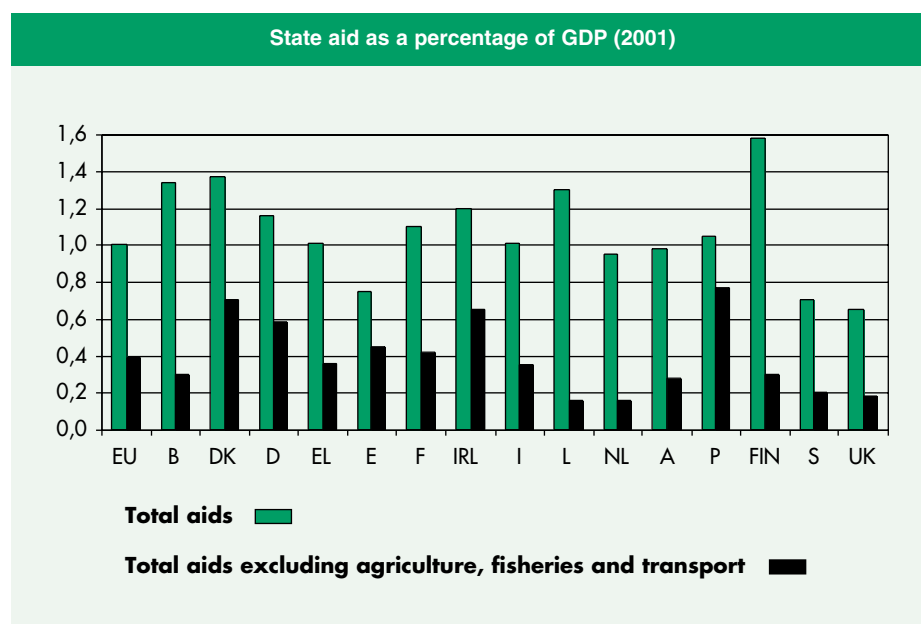
cases the Authority found that anti-competitive agreements <sup>(15)</sup> had been concluded; in 2 cases the Authority granted exceptions to the prohibition of agreements, and in two other cases the investigations found no violation of the prohibition.

By the end of August 2003, 397 mergers had been examined, and 6 investigations of agreements were still in progress as well as 3 investigations on abuse of dominant position.

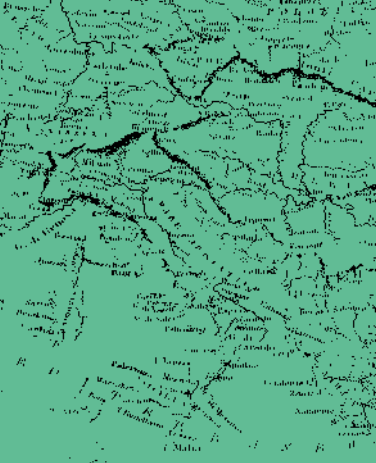
### *State aid*

In Italy, the total amount of State aid is below the EU average, as shown by the EU Commission's 2003 "State Aid Scoreboard" which analyses the data for the 2001. As a percentage of GDP, the amount of Italian State aid is 0.37 per cent (the EU average is 0.43 per cent), while in terms of the population (average aid per capita) the value is of 84 euro (the EU per capita average is 97 euro). Italy (with Germany) has made the greatest effort to lowering the EU average of aid to firms, in line with the agreements reached at the Stockholm European Council (March 2001).

An analysis of the system incentives to firms reveals a complex and dynamic situation to which a number of important modifications were made with the 2003 Finance Law. In particular, the institution of

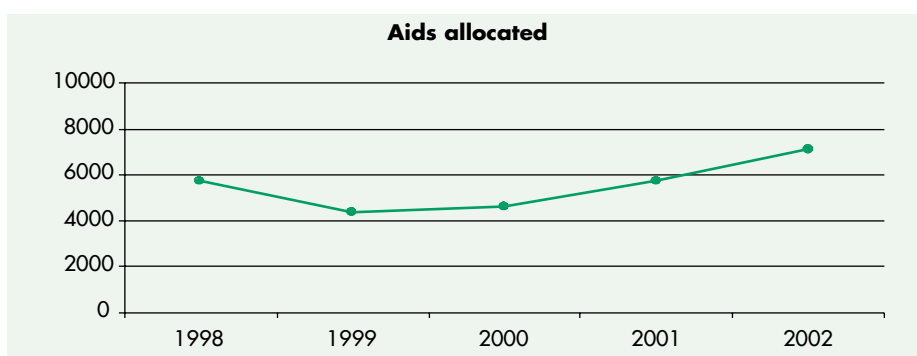


<sup>(15)</sup> According to art. 2 of the Law 287/90.

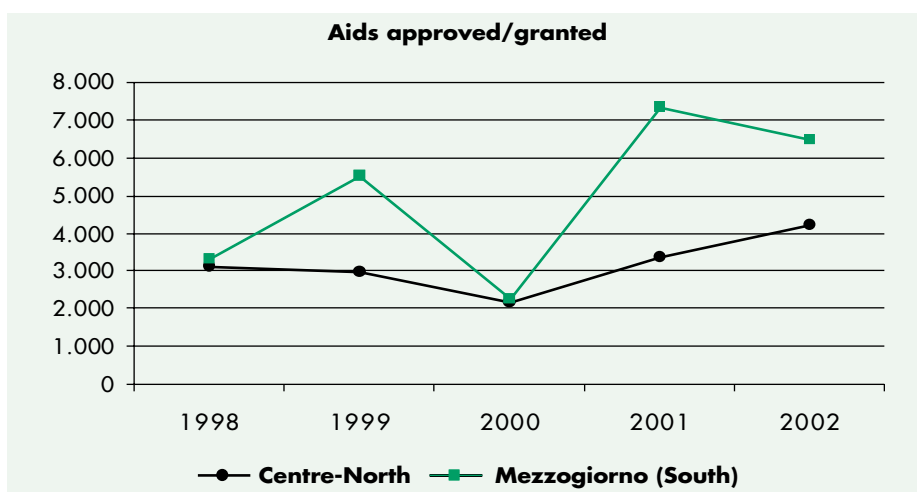


the “Single Fund for under-utilised Areas” meets the necessity of combining planning and financing, while introducing flexibility into resource allocation and management, both with regard to policies for business incentives, and for investment in infrastructure. CIPE distributed 14.5 billion euro for the three-year period 2003-2005, of which 5.1 billion euro was in the form of firms’ incentives.

In 2002, the incentive system as a whole granted benefits to firms for over 7 billion euro (63 per cent in Southern Italy), an increase of 24 per cent over 2001, which is essentially the same amount given to companies in the form of tax credits for new investments in under-utilised areas <sup>(16)</sup>.

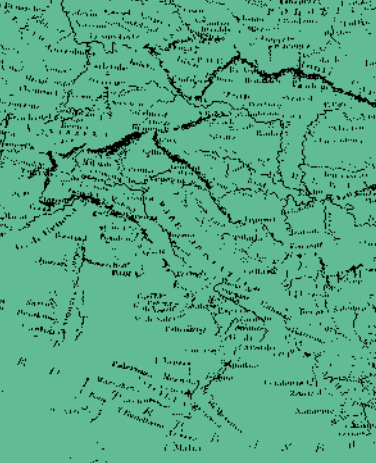


The overall amount of aid granted has been similar to the previous year: over 11 billion euro (+2.6 per cent over 2001). New investments, however, declined (-2.6 per cent over 2001), particularly in Southern Italy (-14 per cent).



<sup>(16)</sup> Art. 8 of Law 388/2000.





Over 2.8 billion euro of aid granted in 2002 for the 10.5 billion euro investments (about 8.6 in Southern Italy) concerned 4,135 projects financed under Law 488/92, the key form of incentive, which had financed over 2,909 initiatives by September 2003, providing 1.5 billion euro in aid versus investments of 7.1 billion euro.

Within the scope of the measures provided by Law 488/92, a specific list <sup>(17)</sup> of investments is being set up, expressly devoted to pursue sustainable development goals. In particular, the investments eligible for aid will have to be targeted at improving the environment with regard to waste production, water use, energy consumption and the related air emissions.

#### *Taxation of firms*

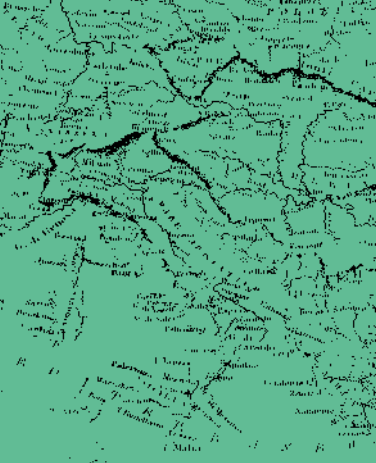
The aim being pursued by the Government through its new corporate taxation policy is to use the tax lever as a supplementary means of improving the competitiveness of business by changing the structure of taxation and the tax burden by implementing the delegated powers governing companies <sup>(18)</sup>. The corporate tax reform must therefore lead towards a model, which is more neutral and rational than the present system. Italy is being brought into line with the highest European standards not only by redesigning the structure of Corporation Tax (IRES) but also by applying a single tax rate of 33 per cent.

Between the end of 2002 and the beginning of 2003, a number of measures were introduced to rationalise and improve the efficiency of the production system (the voluntary upward value revaluation of company assets and holdings) and to phase out the Regional Tax on Productive Activities (IRAP) and move beyond the idea of a taxation system hinging around Dual Income Tax (DIT) as indicated in the law delegating the reform of the national tax system structure.

The Legislative Decree reforming the Corporate Income Tax, which is currently being examined by Parliament, will amend the Income Tax Consolidated Law provisions for calculating corporate income, and introduce new elements that will eventually lead to a radical overhaul of the Italian tax system. More specifically, it will introduce into the Italian system a tax exemption on corporate dividends and on capital gains from

<sup>(17)</sup> This related to companies in Objective 1 territories.

<sup>(18)</sup> Art 4 of Law 80 of 7 April 2003, "Delegating powers to the Government to reform the central taxation system".

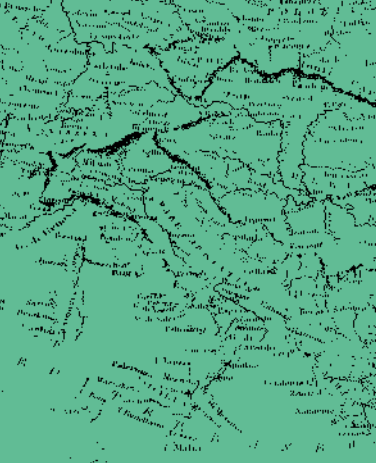


permanent holdings, the non-deductibility of losses on the same equity interests, the abolition of the tax credit and the introduction of the consolidated tax return for national groups (national consolidated tax return), with the possibility of also extending it to companies operating abroad (world consolidated tax return).

The change in the system for taxing distributed corporate dividends (resident and non-resident) provides that they do not count towards the formation of the taxable base for up to 95 per cent. Furthermore, the tax credit on dividends has been abolished and an exemption introduced on capital gains from the disposal of permanent holdings (in partnerships and limited liability companies), resident and non-resident (the so-called "participation exemption"). With the tax exemption on capital gains, the recorded losses and losses relating to shareholdings qualifying for exemption cannot be deducted from the taxable base. For internal consistency, the costs directly connected with the disposal of equity interests qualifying for exemption cannot be deducted, and the non-deductibility of interest charges has been reformulated on a pro rata basis to take account of the new tax-exempt incomes.

The national consolidated tax return enables groups to opt for reporting one single aggregate income, being the algebraic sum of the taxable income of all the group companies (the group being defined in terms of a controlling interest of more than 50 per cent, to be calculated taking account of the de-multiplication produced by the controlling corporate chain). With the worldwide-consolidated tax return it is possible for the income and losses of foreign subsidiaries to be attributed to the controlling company in proportion to the percentage of the parent companies' shares of the profits.

The possibility of producing a "foreign consolidated tax return", together with the adoption of the system of tax exemption on dividends and capital gains enhances the competitive advantage for the parent companies to be located in Italy. The new system of corporate taxation is therefore very advantageous within the EU because the participation exemption on dividends and capital gains is not conditional (except to exclude companies resident in tax heavens) and standardises the treatment of both domestically earned and foreign earned dividends. This novelty is coupled with new provisions relating to the tax credit in respect of incomes produced abroad, which simplify their recovery, reducing Italian taxes.



Other measures relate to the provisions to counter the fiscal exploitation of thin capitalisation, by trying to avoid excessive recourse to indebtedness for tax avoidance purposes, and to make it possible to opt for fiscal transparency in the case of limited liability companies and those with few proprietors (including cooperatives). According to these provisions, the taxable income of the company concerned can be attributed to shareholders according to their percentage share of profits, independently of whether they actually receive the dividend (so-called consortium relief).

Under the new system, in addition to the provisions regarding extraordinary operations (conversions, mergers and spin offs) a number of provisions changing current legislation on corporate restructuring operations <sup>(19)</sup> abolish the 19 per cent replacement tax and adjust the fiscal neutrality regimes to the new principles of the Delegated Powers Law. A special section is devoted to the new provisions regarding the taxation of incomes from maritime operations (the so-called tonnage tax).

With regard to the implementation and introduction of corporate taxation reform, in the 2003 Finance Law, the Government introduced a number of streamlining and cost-cutting measures for tax management purposes to rationalise the previous corporate tax situation, by introducing measures to resolve outstanding tax disputes and to make it possible for companies to settle their tax positions (including direct and indirect taxes) for a certain number of prior years by paying a percentage of the tax already due.

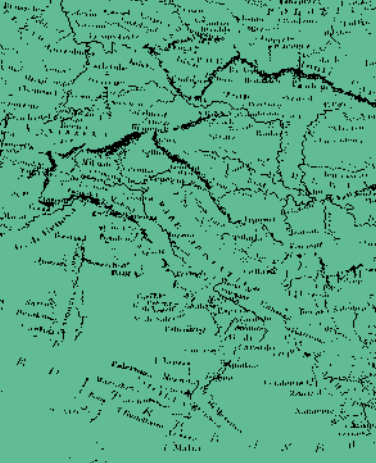
To simplify relations with companies, the law also provides the possibility to negotiate a prior agreement (for the current and subsequent years) with the possibility to voluntarily adjust the accounting results to predetermined income and revenue levels for the purposes of direct income tax (IRPEF and IRPEG) and indirect taxation (VAT and IRAP).

### *Public procurement*

Under the Programme for the Rationalisation of Expenditure on Goods and Services of the public sector, the Government is promoting an *eProcurement* model to simplify procurement and ensure transparency. The Programme for the Rationalisation of Expenditure on Goods and Services has structured its own *eProcurement* model through electronic catalogues, on-line auctions and the electronic market.

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<sup>(19)</sup> Legislative Decrees 358/1997 and 544/1992.



The electronic catalogues have been available since July 2000 and, so far, master conventions have been concluded for 52 product categories. Today more than 35,000 public administrations have visited the on-line procurement portal both to gather the information they need and to order supplies according to the master conventions they are managing. There have been a total of 200,000 purchases so far, with an average reduction of 27 per cent in unit costs. Ten online auctions have been held, particularly for IT products and services.

With regard to the electronic market, the Programme for the Rationalisation of Expenditure on Goods and Services recently completed the experimental phase and is now starting the consolidation phase towards full development, enabling to purchase all public bodies that expressly request it, and gradually increasing the number of suppliers authorised to show their product catalogues.

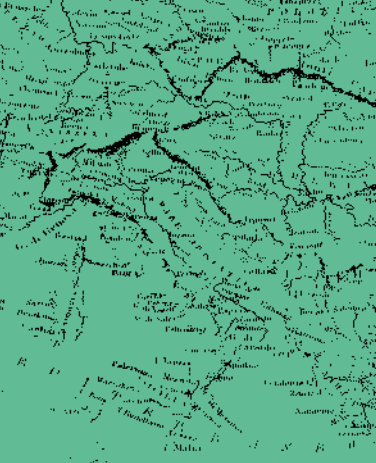
The 2003 Finance Law, which had set out in greater detail the statutory requirement for government, civil service departments and institutional public bodies to comply with the master conventions entered by Consip, was subsequently amended to maintain the obligation only for the purchasing of goods and the supply of public services characterised by high quality and low labour intensity <sup>(20)</sup>.

### *Measures to reduce the administrative burden on enterprises and encourage entrepreneurship and innovation*

The actions adopted to encourage entrepreneurship and innovation are based on the assumption that the gradual loss of competitiveness of the Italian economic system is partly due to the reduction in investment in technological innovation, particularly in ICT, as well as in the traditional and high tech sectors (see Tables 56-57).

Considering the specific features of the Italian production system (small dimension of firms, product specialisation) competition on a global scale is linked to the need to innovate corporate processes (see Table 64). To this aim the Government has introduced amendments to the present system of national incentives in order to make the cost of technological innovation sustainable, particularly for small and medium enterprises.

<sup>(20)</sup> As a result of Legislative Decree 143 of 24/06/2003, enacted as Law 212 of 01/08/2003.



The “Plan for Digital Innovation of Firms” adopted by the Ministry for Innovation and Technologies, and the Ministry of Productive Activities is designed to:

- strengthen innovation in the “Made in Italy” sectors, by using ICT technologies in core processes;
- implement a policy to support the development of selected high-tech sectors;
- improve the attractiveness of the Italian System, making it a favourable environment for research, technological development and innovation;
- foster technology transfer from public research centres to firms.

This Plan provides an organic framework of short and medium-term measures of an economic, regulatory and structural nature.

The timeliness of the Government Plan is confirmed by the vast number of companies producing and developing ICT in Italy. A recent Eurostat survey revealed that Italy, with 112,000 firms and 710,000 employees is the second in Europe after the United Kingdom, in terms of the number of firms operating in the ICT sector. This is currently accounting for a value-added of 3.8 per cent of GDP.

## Utilities and other network industries

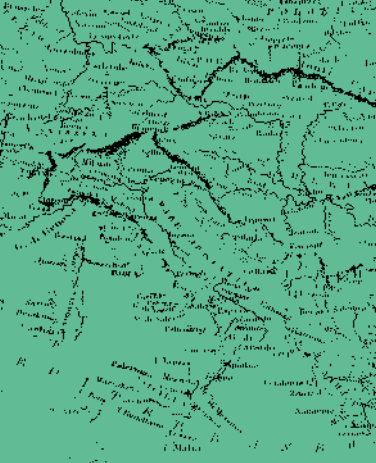
### *Price trends and quality indicators*

Prices in the telecommunications sector in 2002 fell by 5.4 per cent, less than in prior years (see Tables 17-20). As far as fixed-line telecoms is concerned, the Communication Authority approved the reference interconnection offer (RIO) submitted by Telecom Italia (TI) for 2002 which substantially reduced the tariffs charged for intermediate services and connection costs. The Authority introduced the network capping mechanism<sup>(21)</sup> so that Telecom could draw up its RIO for 2003. As for retail price, the Authority set the new values for the price capping mechanism to bring about further reductions. Lastly, the procedure for reviewing the offer of leased lines by Telecom<sup>(22)</sup> will cut prices by about 15 per cent.

As far as mobile telecoms are concerned, the Authority has introduced a mechanism of price planning for fixed-to-mobile call charges of notified operators.

<sup>(21)</sup> The functioning mechanism of network capping was fixed by Resolution 3/03/CIR, which determine a system of planned reductions of interconnection and access charge over the next four years (2003-2006).

<sup>(22)</sup> Resolution 304/03/CONS.



Moreover, as for service quality a general telephone directory has been established containing the names of the subscribers of all the fixed and mobile telephony operators.

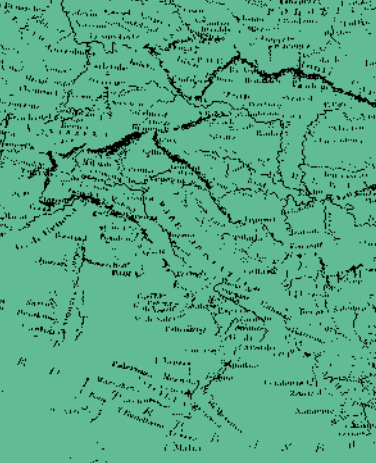
With regard to **electricity and gas** (see Tables 9-12) with the update of the tariffs in the first quarter of 2003 the supplementary criteria regarding the way of incorporating fuel costs in the variable component of the tariffs - laid down by the Energy Authority acting on the Government's guidelines - have now come into force. The extension of the reference period to the average international fuel prices was intended as a way to mitigate the inflationary effects of energy costs on the final prices.

As for electricity sector, despite the sharp increases in the international fuel prices in the latter part of 2002 and in the first part of 2003, and partially offset by the weaker dollar, the national average increase of tariffs (net of taxes) was 2.1 per cent in the first quarter of the present year and 0.8 per cent in the second quarter. To complete the tariff reform and at the same time guarantee access to the service by economically disadvantaged households, in February 2003 the Electricity and Gas Authority issued a Consultation Document for the introduction of a social tariff.

The average pre-tax tariff for natural gas in the first half of 2003 rose by about 4 per cent over the second half of 2002.

As far as the quality of the service in the electricity and gas sector is concerned, in 2002 the number of refunds to customers for non-compliance with the new commercial quality standards laid down by the Electricity and Gas Authority (see Table 28) continued to rise. Considering the effectiveness of this new mechanism, in 2004 the commercial quality regulation system will be gradually extended to providers with fewer than 5,000 customers. For the electricity sector alone, moreover, in order to ensure quality regulations after liberalisation, the standards were applied to all customers connected to the medium and low voltage distribution networks, regardless of their eligibility. As for continuity of service in the distribution network, the results for 2000-2002 - the first period in which there was regulation based on costs and penalties of long unplanned outages - show that the number and the duration of such outages was reduced. These data show that the overall duration of outages per customer, taking account of all the long unplanned outages as a whole, fell from 228 minutes in 1999 to 130 minutes in 2002 (see Tables 26-27).





In the **water sector**, until the scope of Article 35 of the Finance Law for 2002 is clarified, tariffs continue to be strongly conditioned by the cost structure (see Table 14). Recent analyses <sup>(23)</sup> have shown that the Italian tariff system reflects the high dispersion of the costs of this sector. This is reflected in sharp differentials in the service charges between different parts of the country. Despite the reform introduced with the 'Galli Law', explicitly intended to standardise the tariff structure and reduce the management fragmentation, viable scale and scope economies have not yet been achieved.

With regard to service quality, a survey <sup>(24)</sup> conducted on a sample of 50 water companies shows that the Services Charter is generally considered to be more a means of communication than as a detailed representation of certain aspects of the supply contract, including identifying specific quality levels that the water companies undertake to guarantee their customers (to provide guarantees to their customers) <sup>(25)</sup>. Not always failure to provide the service in compliance with the standards set out in the Charter involves an automatic refund to the customer.

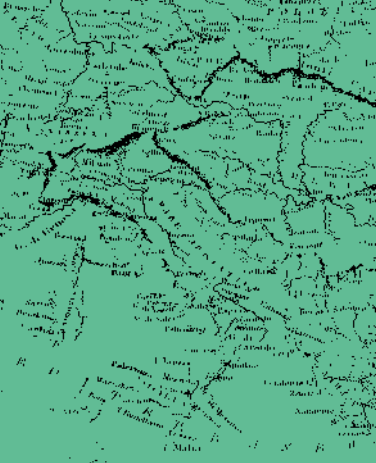
With regard to tariffs for the **railways**, after the experience of the first period of regulation using price capping for medium-haul and long-haul fares, CIPE is currently studying possible adjustments to that formula in order to: a) take account of the changes in the structure of Trenitalia's commercial offering; b) set the value of the variable relating to productivity (X), previously equal to zero for the first five years to the benefit of the company, in order to gradually reduce government transfers; c) adjust the measurement of quality standards to the changes associated with the offering of new services and relative commercial needs (for the current tariffs see Tables 23-24).

In relation to service quality, passenger train punctuality in 2002 improved slightly, and that advancement is continuing in 2003. The percentage of medium and long-haul trains arriving at their destination on time, or with a delay of between 0 and 15 minutes has increased from 87 in 2001 to 88 in 2002 and 89 in the first six months of 2003. The

<sup>(23)</sup> Indis Unioncamere and Acquachiara, "Analisi di benchmarking nel settore idrico"; Indis Unioncamere and Ref, "Equilibri gestionali, investimenti e tariffe. Un'indagine sui gestori del servizio idrico nel 2002", June 2003.

<sup>(24)</sup> By the Water Services Supervisory Committee.

<sup>(25)</sup> Under DPCM of 29 April 1999 the "General reference framework for the drafting of a Charter of the Integrated Water Service Charter" was adopted, laying down the minimum statutory contents of the Charters.



percentage of regional trains arriving at their destination up to five minutes late has also improved, rising from 88 in 2001 to 89 in 2002 and to 91 in the first half of the current year (see Table 39). With regard to safety indicators, measured in terms of the number of typical accidents per million train-kms, the figure in 2002 stood at 0.27, confirming the positive trend that has emerged in recent years (see Table 38). In this sector Italy's railways are among the best of Europe's railway infrastructure managers.

#### *Market opening and network access*

Great progress has been made in opening markets in the main network industries.

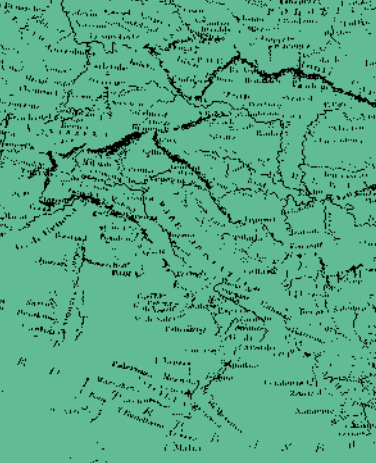
The **telecommunications** market was less affected than other sectors by the economic slowdown. The overall value of the market in 2002 reached about 31.2 billion euro with a 3.3 per cent growth. However there were marked differences between different segments: 0.2 per cent increase for fixed-line phones, 4.6 per cent for mobile phones and 29.3 per cent for the Internet services. The different rates confirm that the voice telephony segment, fixed and mobile, has reached a maturity phase, while the Internet services market is strongly expanding. It should be noted that the 0.2 per cent growth rate in fixed telephony reflects a small decline in traditional services (-0.1 per cent), offset by a rise in data transmission services (+2.4 per cent), and that the 4.6 per cent increase in mobile telephony was largely the result of the diffusion of SMS. The data services are therefore playing an increasingly important role.

From the demand side, the number of families with a telephone (fixed or mobile) grew sharply in the period 1997-2002, from 92.2 per cent to 96.1 per cent <sup>(26)</sup>.

On the market of fixed network services there has been a downturn in the number of competitors, and the level of demand has settled down leading, firstly, to a reduction in the number of new licences issued (27 during 2002, compared to 80 in 2001), and secondly to a small increase in the number of lines (+1.7 per cent). However, the alternative operators are continuing to erode Telecom Italia's position: whose market share compared with 2001 has declined by about 6 percentage points to just above 70 per cent, the main beneficiaries of this being the three largest alternative providers (Wind, Albacom and Tele2).

<sup>(26)</sup> ISTAT, Statistiche in breve, 2003.





The market value of the mobile network services in 2002 reached 14.5 billion euro (+4.6 per cent over 2001). Some Italian providers were the first in Europe to offer a series of innovative value-added services, including MMS (multimedia messaging services). In March 2003, the UMTS services were launched on a commercial scale, and according to an optimistic estimate, there should be almost one million users by the end of the year.

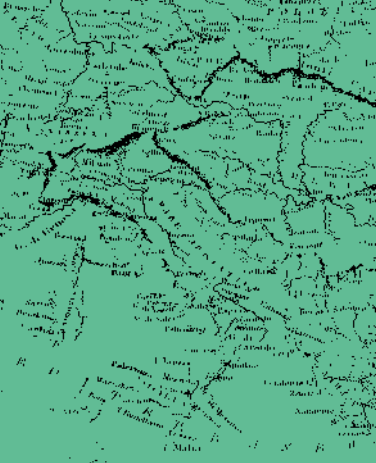
As for competition between the providers, during the past year two of the six mobile providers, Blu and Ipse, have been experiencing economic difficulties, resulting in Blu's ceasing operations, while Ipse has returned the supplementary frequencies awarded it by the Ministry of Communications under the UMTS auction. In relation to the market shares of the other providers, TIM increased its revenues per active line by 2 per cent compared with an average of over 4 per cent in the case of the other providers (see Table 22). Despite this, following a redistribution of the market shares between active providers, the market concentration index (the Herfindal-Hirshmann index) showed a slight improvement over the prior year (see Table 21). These results will probably be affected by the increasingly common use of mobile number portability, which had been used by more than one million people at August 2003.

Last June, the European Council gave its final approval to two new Directives for the **internal electricity and gas markets** and cross-border electricity trading, marking the entry into a second phase in the creation of a single market. The Government endorsed, and in some cases anticipated, the Community stances. In this sense the principles underlying the Decree to reform and reorganise the energy industry <sup>(27)</sup> - currently before Parliament - are to accelerate the opening up of the market in a framework of reciprocity of rules.

Italy has made a major contribution to the Community process by creating a system of rules going beyond the minimum levels of market opening set by the European Union. In the gas industry the demand was fully liberalised in January 2003, while for the electricity sector the free market now accounts for two-thirds of total demand.

Also on the supply side there has been a certain dynamism: in the electricity industry more than 50 per cent of eligible customers have changed their supplier and all of them have renegotiated their supply

<sup>(27)</sup> Government Bill AS2421, "The reorganisation of the energy industry, and the delegation of powers vested in the Government over electricity production, the storage and sale of GPL, and the management of radioactive waste", known as the Marzano Draft Law.



conditions, while in the gas industry between 10 and 20 per cent of the customers have changed their supplier <sup>(28)</sup>. These figures show that Italy is basically in line with its most advanced European partners.

A comparative analysis conducted by the European Commission <sup>(29)</sup> on progress with the liberalisation of the **electricity industry** in the EU has shown that Italy has made considerable progress. The market has been liberalised in different segments, and the complete opening up for final customers (excluding domestic customers) is foreseen in July 2004. As provided by the European Directive, on 1 July 2007 households will also become eligible customers.

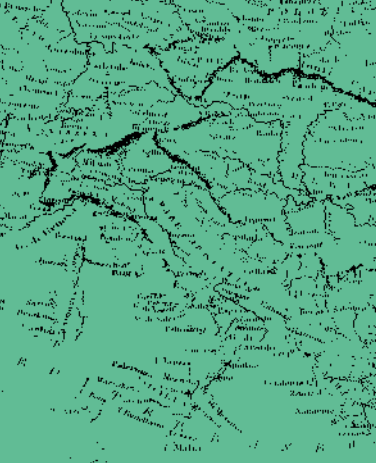
An indication of this opening is the gradual expansion in the demand on the free market which rose on average by 17 per cent in 2002, and in 2003 is expected to grow by 13 per cent following the lowering of the access eligibility threshold. The latter from an annual consumption of 30 GWh in 1999 has been brought to 0.1 GWh in April 2003, including the whole of the SME segment and most of the commercial sector (equivalent to over 150,000 new customers).

Electricity demand has been partially satisfied by domestic production and partly by imports, which grew by 4.6 per cent over 2001. A major contribution to improving the conditions of supply was made by the Decree introducing a fast track procedure for new generating plant (so called "*sblocca centrali*") following which about 70 applications for authorisation were submitted to the Ministry for Productive Activities for a total of about 40,000 MW. Furthermore, a number of authorisations to build power stations submitted under an earlier procedure were also released, after a protracted delay. The results have been positive: at the beginning of 2002 some 12,000 MW were authorised, compared with 1,600 during the two-year period 2000-2001.

Even though the prices are above the European average, the market will benefit from greater competition with the start-up the Electricity Stock Exchange scheduled for early 2004, which should guarantee transparent pricing conditions. A major step forward in this direction was taken in August 2003 when the Ministry for Productive Activities laid down guidelines <sup>(30)</sup> for implementing the electric power market. In the meantime, a transitional system of offer and purchase for supplying to the captive market and for dispatching services has been brought into

<sup>(28)</sup> European Commission, 2002, "Second benchmarking report on the implementation of the internal electricity and gas market".

<sup>(29)</sup> Idem.



operation, to give more guarantees to the system and broaden competition between the providers.

In February 2003 legislation was adopted <sup>(31)</sup> regarding the general charges of the electricity system that abolished the stranded costs, thereby contributing to remove possible competitive advantages of the incumbent to the detriment of other operators.

Despite the fact that Enel had divested production capacity in 2001-2003, the incumbent's generating quota still remains around 50 per cent of total production for consumption (see Table 6). About 20 per cent of total domestic output is generated by power stations incentivated to produce energy from renewable and equivalent sources.

This structure should develop further in the coming years, as a result of both the implementation of the plans of repowering and conversion to combined cycle production of generation companies divested by Enel, and the scheduled building of new power plants in Italy by national and foreign operators.

During 2002 and in the early months of 2003 the rationalisation of the electricity power distribution system moved forward. So far, 75 concessions have been issued as a result of negotiations finalised to have only one provider in the same municipal area, and other franchises are to be issued shortly.

While the concessions were being issued, Enel Distribuzione continued to sell-off portions of its network (for the market shares in the sales segment, see Table 7).

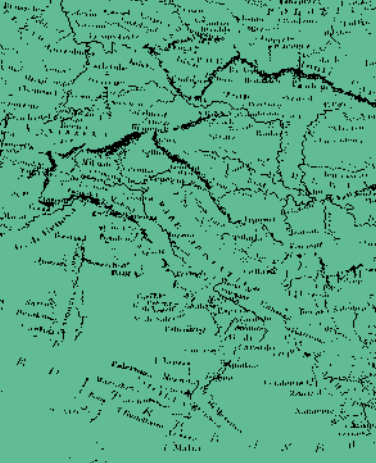
Network access is guaranteed on the basis of non-discriminatory conditions and by a regulatory framework that has guaranteed rigorous conditions for the structural separation of the network.

Greater benefits in terms of improved infrastructure and management efficiency are expected from the reunification of the ownership and the management of the transmission network in a single company as envisaged in the Government Bill to reform the industry, which is shortly to be approved.

During the past year the liberalisation of the **natural gas** sector in Italy made further progress thanks to recent legislative changes.

<sup>(30)</sup> Among other things these make provision for an electric power exchange, a dispatching service exchange and free bilateral contracts.

<sup>(31)</sup> Decree Law 25 of 18 February 2003 containing "Urgent measures regarding the general costs of the electricity system", enacted into Law 83 on 17 April 2003.



As far as sales are concerned, Eni holds a 41 per cent market share (see Table 8), and accounts for about 90 per cent of aggregate national output. This is, however, a segment that only accounts for about 20 per cent of the total domestic demand, and the development of competition would therefore not be highly significant. Thanks to the ceilings set by Decree 164/00 the dominant operator has lost substantial market shares in terms of supplies (production and imports) - where it has fallen to 75 per cent of the volume put into the network - and of final sales. During 2003 a system of rules (the Network Code) was adopted to govern the management of the gas transport service and user-access to the national and regional networks. The Italian Network Code, which was the first to come into force on mainland Europe, is designed to protect new gas market entrants, who must use an infrastructure for gas transport that by its very nature is a monopoly.

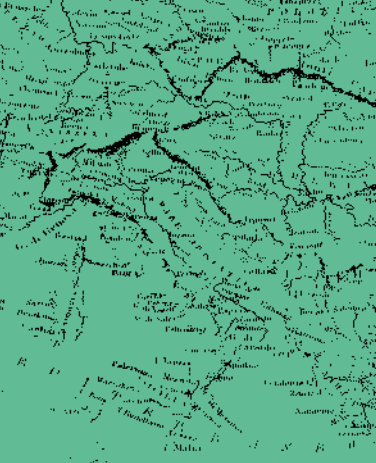
Local distribution market penetration by wholesalers or by other competitors of the local distributor's retailing companies has been considerable. The initial figures available on the number of customers changing their supplier during 2002 show that in the intermediate market phase over 70 sales and distribution companies concluded wholesale procurement contracts with a provider other than Eni. In the final phase of the market, more than 900 eligible customers are now being served by operators other than the dominant company or the local distributor, with about 600 individual customers or consortiums being supplied by new operators.

The Ministry for Productive Activities has issued permits for sales to new companies that emerged from the separation of the distribution and sales companies, to enhance competitiveness and transparency on a market where all customers are free to choose their supplier.

To enhance the liberalisation of the gas market, numerous authorisations have been issued to new companies, other than the dominant suppliers, to install new import infrastructures and upgrade those that already exist <sup>(32)</sup>.

The possibility of opening up the **local public services** market more widely is currently conditioned by the amendments made to the law <sup>(33)</sup> reforming the sector, on which the European Commission and the Regional

<sup>(32)</sup> It was for this reason for the grant of permission for the construction of a new GNL re-gassing terminal at Brindisi. By 2007 it will make it possible to supply the Italian market with a further annual 8 billion cubic metres of gas, and agreements have already been concluded with North African countries to import further volumes of gas, both by increasing the capacity of existing gas pipelines and building new ones, one of which is the Algeria-Sardinia-Europe pipeline.



Governments have already made some remarks. While the European Commission has put Italy into suit in respect of violations of the Community principles of transparency and impartiality in public tenders, the Regional Governments have challenged the constitutionality of the Law.

In order to take into account the indications issued by the Community, amendments have been made to article 35 <sup>(34)</sup> providing that networks management can be directly entrusted only in the case of so-called “in-house” services <sup>(35)</sup>. The service must be delivered in compliance with Community law, and ownership is conferred: 1) by public tender; 2) to public-private companies which select the private partner by competitive tender; 3) to wholly publicly-owned companies linked to the public entity by an in-house type relationship.

While awaiting the definition of a clearer statutory framework, the local public utilities sector has changed enormously in the space of only a few years, which has given a substantial boost to the provision of these services on a business basis, encouraging organisational and managerial innovation (for a summary of the economic developments of this industry and the most important sectors see Table 40).

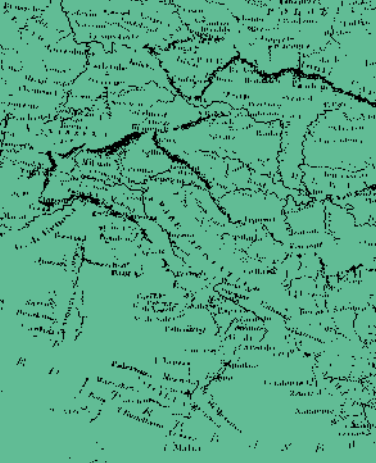
In order to respond to the challenges of liberalisation, the companies have been implementing merger and acquisition policies, concluding industrial agreements in order to strengthen their own production and financial capacities and their market strength; the trend to characterise these companies as “multi-utilities” has also continued and become more firmly consolidated. Lastly, there is a definite trend for local authorities to cease providing these services themselves, and many smaller municipalities have acquired shares in utilities belonging to other local authorities, entrusting them with the provision of the services. The quantitative effect of these processes has been a sharp growth in volumes of activity. This applies in particular to increased turnover (at an annual rate of 9 per cent) that is significantly higher than the increase in costs (which are rising at an annual 7.7 per cent), due to their closer attention to financial management.

<sup>(33)</sup> Section 35 of Law 448/2001, the Finance Law 2002.

<sup>(34)</sup> Set out in Section 14 of Decree Law 269 of 30 September 2003, linked to the 2004 Finance Law, and currently lying before Parliament.

<sup>(35)</sup> In-house services (or ‘inter-organic delegated powers’) exist when there is no real contractual relationship between the parties, and the services are supplied to a public authority by its own utilities or by dependent utilities. In this case, the condition which must be met is that the public entity must exercise control over the company similar to that which it exercises over its own utilities, and the company must perform the bulk of its activities with the public entity or entities that control it.





Of the various sectors that have been involved in the reform of local public utilities, the **water utilities** have recently been investigated by the Competition Authority <sup>(36)</sup> which has emphasised the need to protect competition in the current reorganisation process by choosing the most appropriate ways of awarding the service.

So far, although the reforms provided by the Galli Law <sup>(37)</sup> have not yet been fully implemented, the process is well advanced, thanks also to the possibility of applying for European Union funding under the Community Support Framework (CSF) which is conditional upon the reform proceeding. Of the 91 Optimal Water Management Areas (ATOs) identified by the regional authorities, 84 have already been established in 17 different Regions, serving 96 per cent coverage of the Italian population (see Table 13). More than half of the ATOs that have been established (47, compared to 18 in July 2002) are in the mid-reform phase, having drafted or already adopted their Area Plan. Lastly, 25 ATOs have already proceeded, with varying deadlines, to award the management of the integrated water service.

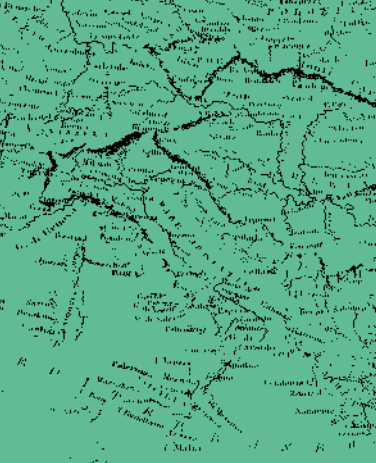
There are different ways in which the service has been entrusted but only one Area has opted for public tender.

Another sector that is being reorganised, and which is suffering from the failure of the **local public service** reform to take off, is local public transport. Legislative Decree 422/97, which imposes the obligation to award the public transport services by competitive tender beginning in 2003, has been taken up unevenly by the regional authorities. In only a few cases the tendering procedures have been launched for the awarding of the services, but in other cases the transitional period for launching tenders has been extended by a regional law. There have also been delays in programming local public transport and the service contracts are still not very widespread. Lombardy, which appears to be the most advanced region, has already awarded 10 of the 22 tenders which the local authorities must call to award local public transport services. Another 2 are about to be awarded, 6 are currently in progress, and there are only 3 local authorities that have still to start the procedures.

For the companies operating in this sector, the 2002 was essentially positive. The results in economic terms show that in the second half of the year there was an increase in traffic revenues (over the same period

<sup>(36)</sup> Report AS266 of September 2003, on the Regulations governing water utilities.

<sup>(37)</sup> Law 36/94.



in 2001) for 54 per cent of the companies, helped by the fare increases which 42 per cent of the companies have now applied.

The number of companies recording positive variations in the revenue/cost ratio raised to 46 per cent from the previous 38 per cent, while investments rose in 35 per cent of the companies. Lastly, productivity results show that there was a substantial reduction in the number of companies expanding, essentially for the benefit of stability.

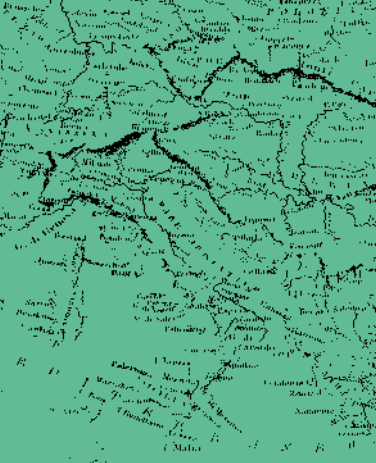
As far as the first half of 2003 was concerned, the forecasts seem to indicate stable results (compared with the first half of 2003) in terms of both passengers and passengers/kms, and revenues.

In the **railway industry** the Legislative Decree transposing Community Directives has been adopted <sup>(38)</sup> introducing a number of innovative measures. These include the introduction of an open access regime throughout the national railway network to train operators possessing a licence compliant with EC law, which apply to provide goods and passenger domestic and international services, and the initial introduction of what is to be known as the “authorised applicant” to permit companies other than train operating companies to acquire railway capacity, under the instrument of the Framework Agreement. Other important innovations are the extension of the liberalisation principles to the regional railway systems linked to the national rail network, and the introduction of the obligation on the infrastructure manager to guarantee the supply of essential services for the exercise of rail transport to railway operating companies, such as shunting and freight terminal services. This may be done directly by the infrastructure management company, or by others appointed by the latter, provided that they are sufficiently independent from the railway companies.

In 2003 the liberalisation of the rail transport market continued. The number of licence-holding train operators at the end of August rose to 33. Thirty of these were granted an extension to provide nationwide services, and 12 companies held the safety certificate (see Table 25).

The Priority Investment Plan under the 2001-2005 Programme Contract sets out a comprehensive railway investment programme for *Rete Ferroviaria Italiana* worth about 164.7 billion euro, of which more than one-third was earmarked for Southern Italy.

<sup>(38)</sup> Legislative Decree 188 of 8 July 2003, “Implementing the railways Directives 2001/12/EC, 2001/13/EC and 2001/14/EC”.



For the second consecutive year, the *Ferrovie dello Stato* Group closed 2002 in profit (euro77 million) having completed the main thrusts of the wide-ranging corporate reorganisation operation begun several years ago. During this period the Group consolidated progress towards operational efficiency and profitability targets.

In the **postal sector**, on 1<sup>st</sup> January 2003, the new postal services <sup>(39)</sup> directive came into force, laying down the next phases in the liberalisation of the industry by lowering the weight/price limit on the monopoly area in two stages. Moreover it establishes the liberalisation of out-going cross-border mail <sup>(40)</sup> on the assumption that the internal market will be completed by 2009. However, the obligation to provide a universal service remains unchanged. Consequently, since January 2003 *Poste Italiane's* monopoly limit has been fixed in 100 grams and euro1.86. Up to these limits outgoing cross-border post is also reserved to *Poste Italiane*. The Regulatory Authority <sup>(41)</sup> considered that both the exclusive conditions provided by Community law apply to Italy: a monopoly up to the maximum level permitted, and a particularly burdensome obligation to provide universal service. This latter obligation, after allowing for government subsidies, generated a residual cost to *Poste Italiane* of 432 million euro in 2002.

The most important effect of the new regulation will be the exclusion of registered mail from the monopoly as a result of lowering the price threshold, the only exception being post relating to administrative and judicial proceedings.

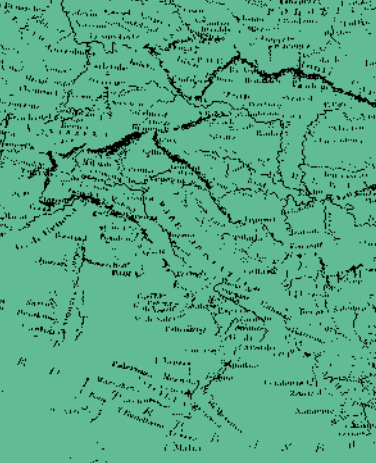
The share of turnover from monopoly services continues to fall, partly because of the implementation of the new Directive, and for 2003 the percentage of turnover from monopoly services may down to some 55 per cent compared with 70 per cent in 2000 (see Table 16). Despite that, in the 2002 financial year *Poste Italiane* recorded for the first time a net group profit of 22 million euro, with a rise in total revenues of 2.4 per cent over 2001. The quality targets set for 2002 have all been met and surpassed, confirming the continuing improvement recorded since 1999 (see Table 37).

<sup>(39)</sup> Directive 2002/39/EC of 10 June 2002, published in the Official Gazette on 5 July 2002.

<sup>(40)</sup> Exceptions are allowed for countries in which a monopoly has to be maintained in order to guarantee a universal postal service.

<sup>(41)</sup> It should be recalled that Legislative Decree 216/99 implementing Directive 97/67 for the development of the internal postal service market gave the Ministry of Communications the task of regulating and monitoring the quality of the postal service. The Ministry does this through a specific Directorate.





The Regulatory Authority, with the two Resolutions of 15 January and 1 July 2003, has laid down the quality standards for the three-year period 2003-2005.

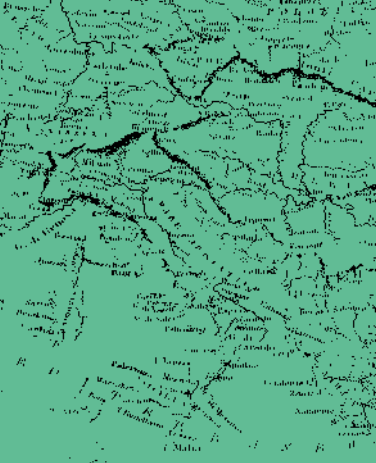
The main investments scheduled in the Poste S.p.A. Corporate Plan for 2004-2006 are to automate the main postal sorting centres, to continue improving service quality, to expand ICT for the delivery of new services, and to modernise the post offices. The aim is to integrate the services, namely, to introduce 'one-stop shopping', enabling customers to perform all their operations at the post office counter, or the call centre, or via the Internet.

### **The use of market based instruments to prevent environmental degradation following the liberalisation of a number of network industries, in particularly the energy industries**

From 2002 Italy, through the "Environmental Action Strategy for Sustainable Development in Italy" and the "National Plan of Action to Reduce Greenhouse Gas Emissions" (PAN) approved by the CIPE, acted with even greater determination towards the integration of environmental issues into the economic and social policies, and more generally to create a consistent framework for development policies. Even though the two documents have an environmental aim, they give a vital role to the players in the economic system and often set down targets and specific objectives for single production sectors.

The "Environmental Action Strategy" lays down a set of priorities and lines of action based on wide-ranging consultations between the Ministry of Environment and Territory (MATT) and other competent Ministries, representatives of civil society, and Italian stakeholders. It is possible to summarise the strategic objectives as follows:

- to reduce polluting emissions through measures that take into account the national peculiarities and the competitiveness of the economic system;
- to improve well-being and the quality of life by reducing the pressure generated by human activities;
- to guarantee food security and make industrial production safe, with particular reference to the use and the release of chemical substances;



- to protect, preserve, restore and develop the functionality of natural systems, natural habitats and wildlife and wild flora;
- to guarantee wider use of renewable resources, more efficient use of natural resources, a reduction and better waste management by implementing measures to encourage a shift towards more sustainable production and consumption patterns;
- to address the increasing traffic, congestion, noise and pollution by adopting sustainability policies; to promote more sustainable and environmental friendly modalities of transport and the introduction of tele-working in various forms; to face the problems raised by the transport of hazardous substances by sea.

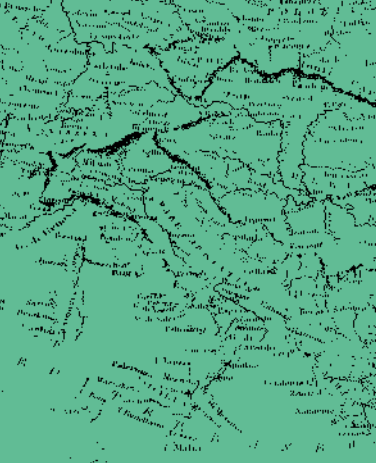
#### *The environmental impact of the liberalisation of network industries*

Apart from their use in relation to water and waste, economic instruments in the environmental field are still partially implemented in Italy. Fuel taxes are the main revenue item in terms of taxes with an environmental impact, but in real terms they were substantially lower in 2000 compared to the 80's and 90's; the reduction is even more pronounced if it is expressed, not in euros/litre but in euros/km travelled.

#### Water and waste

In the water sector, the data published in June 2002 by the "Vigilant Committee on the Use of Water" (*Comitato di vigilanza per l'uso delle risorse idriche*) on a survey of 52 ATOs - serving 60 per cent of the Italian population - show that the average age of the distribution network is 30 years, and that 42 per cent of the water is lost by leakage.

Water leakage is caused by the use of an obsolete infrastructure and the Committee indicated that one of the reasons for this situation was the lack of financial coverage for the management costs, as well as the present tariff structure. There should be positive effects on investment once the reform is completed making it possible to use water tariffs as an incentive to promote work on the water network. An analysis of the ATOs that have embarked on the tariff reform emphasised that such reform could lead to an overall increase in prices.



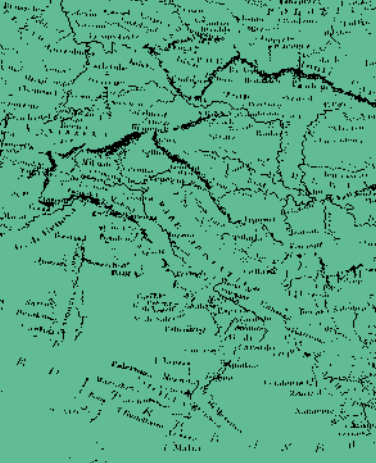
With regards to the rationalisation of consumption, the Ministry of the Environment is currently completing the Guidelines to predispose the water balance, and the Decree on the re-use of treated water; which deal with the issue of regulating the water abstraction concessions and the re-use of water, particularly for agriculture (the agriculture sector is responsible for almost half of the national water consumption).

As far as waste is concerned, despite some positive signs, the sustainability targets are still a long way off. Even though the rate of selective waste collection continues to improve, it still falls far from the target set for 2001 (25 per cent). Land filling remains the main form of disposing Municipal Waste and Special Waste, even though the trend is moving in a favourable direction; more waste undergoes treatment processes for recovery, even though it still only represents a small proportion of total waste production.

As for water, the services linked to waste are suffering from the lack of covering management costs which could be avoided by shifting from a tax-based to a tariff-based system <sup>(42)</sup> which is expected to be completed gradually between 2003 and 2008. In the three-year period 2000-2002 an increasing number of municipalities conducted trials with the application of this system to set the charges not in terms of the floor area of the premises but of the number of people living on them, or of the quantity of waste produced in terms of weight or actual volume. The results of monitoring the tariff experience may be summed up as follows:

- 347 Italian municipalities conducted testing in 2002, relating to a population of 3,857,000 people. Between 2001 and 2002, a 19 per cent increase was recorded among the municipalities that tested the application, and the population involved rose by 48 per cent;
- the testing were mostly conducted in Northern Italy, mainly in small municipalities. In 2002 there was a substantial increase, 34 per cent, in the experiments conducted in municipalities with populations from 5,000 to 10,000 people. Compared to 2002, there was a sharp rise (130 per cent increase) in the number of municipalities involved with populations ranging between 10,000 and 50,000.

<sup>(42)</sup> Introduced by the 1997 "Ronchi Decree", which abolished the waste disposal tax (TARSU) and instituted the waste tariff.



### Transport and energy

In June 2002 the Parliament approved the national Law ratifying the Kyoto Protocol <sup>(43)</sup> and the modifications to the guidelines for the national greenhouse gas reduction policies were submitted to CIPE <sup>(44)</sup>. CIPE therefore issued a Resolution <sup>(45)</sup> introducing radical changes into the national strategy to contain greenhouse gases, particularly in relation to the electric energy generation. The strategy is based on two scenarios, one based on a trend, and one on a benchmark.

The first scenario, based on measures that were undertaken and adopted in 2002, sets emission levels at 579.7Mt of CO<sub>2</sub> by 2010.

The second scenario considers the measures that were identified on June 30th 2002, which are about to be issued, as well as the implementation of further projects to cut emissions.

The result of the two scenarios can be summarised in the following table:

	Mt CO <sub>2</sub>
Reference scenario	579,7
Year on year scenario	528,1
Emission target	487,1
Further reductions needed to reach the emission target	41,0

*Source: CIPE Resolution 123/02.*

To achieve the Kyoto's target (-6.5 per cent of the 1990 levels) the Resolution identifies a wide range of actions, particularly in the transport and energy sectors, starting from the Kyoto "flexible mechanisms" <sup>(46)</sup>.

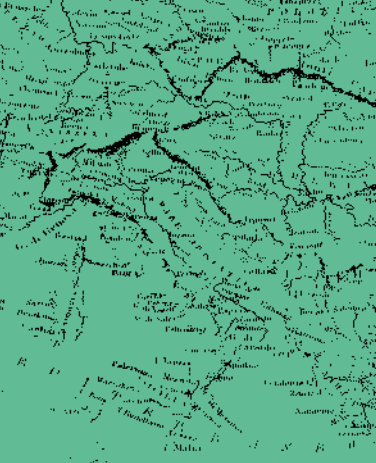
Transport is one of the greatest factors for un-sustainability and one of the greatest threats to public health. To foster the development of alternative transport and mobility systems and to create awareness among the public opinion, the Ministry of the Environment has earmarked more than 72 million euro for initiatives ranging from car-sharing to mobility management to structural measures (new vehicles and instruments for physical planning).

<sup>(43)</sup> It should be recalled that under the Kyoto Protocol Italy is required to reduce greenhouse gas emissions by 6.5 per cent below the 1990 levels by 2010.

<sup>(44)</sup> Set out in the earlier Resolution No. 137 of 1998.

<sup>(45)</sup> Resolution 123 of December 2002.

<sup>(46)</sup> Clean Development Mechanism, Joint implementation, and the emissions market.



The Ministry of the Economy has issued a regulation regarding the ways of applying the reduced excise tax on bio-diesel <sup>(47)</sup>. The mobility and road-pricing experiences adopted increasingly by Italian municipalities, such as multi-hour parking charges or access charges for particular areas of the town centres, are interesting signs of the implementation of “the polluter pays” European Community principle, and of the recognition of the environmental costs that the market has so far neglected.

In order to encourage the reduction of pollutant emissions caused by local public transport, a Decree issued by the Ministry of Infrastructure and Transport envisaged a grant to the ordinary statute regions to replace the buses that have been in function for over 15 years and to purchase electric buses for public transport purposes.

Among the important measures envisaged for the energy sector is the increase of energy production from renewable sources and efficiency in the final use. To this aim, a mechanism has been put in place to provide incentives for the use of renewable resources based on a system of Green Certificates which envisages:

- from 2002 the obligation for producers and importers to ensure that at least 2 per cent of the energy put through the national grid is produced from renewable sources;
- the provision of Green Certificates <sup>(48)</sup> to the Transmission System Operator (TSO) by March 31<sup>st</sup> of the following year, to show that the obligation has been accomplished;
- the possibility of complying with the obligation by acquiring Green Certificates from the GRTN, or under bilateral contracts, or through negotiations on the market arranged by the Market Manager.

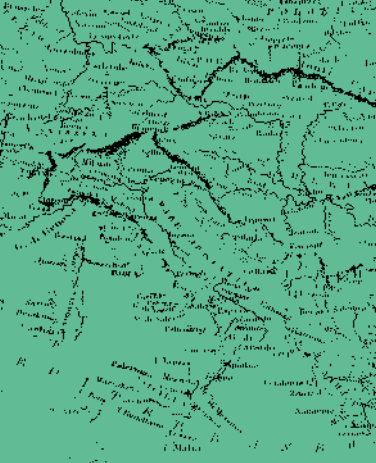
For 2002, the GRTN issued the following:

- 9,140 Green Certificates, corresponding in energy terms to 914 GWh, to the owners of IAFR-certified (renewable energy-fuelled) plants;
- 23,287 Green Certificates to itself, corresponding in energy terms to 2,329 GWh, subsequently placing them on the market.

The IAFR plants for which the largest number of Green Certificates have been issued are hydroelectric ones, followed in order by geothermal

<sup>(47)</sup> Ministerial Decree 256 of 25 July 2003. Excise exemption is on the blends produced by facilities which are compliant with Law 1741/1933 (governing the import, processing, storage and distribution of mineral oils and their residues) with a bio-diesel content of between 5 and 25 per cent and an annual quota of 300,000 tonnes of green fuel.

<sup>(48)</sup> Each green certificate certifies the production of 100 MWh from a facility certified as renewable.



plants, wind farms, thermoelectric power stations using vegetable fuel or waste, and photovoltaic facilities.

The Reform and re-organization of the energy sector <sup>(49)</sup> draft law provides the possibility of raising the present 2 per cent obligation by 0.35 per cent as from 2005 and up to 2007, with penalties for non compliers.

The incentives programme ensured that in 2002 the share of electricity produced from renewable energy sources accounted for 19 per cent of domestic production with an increase of 1.25 per cent.

The Italian Council of Ministries recently issued a Legislative Decree (Executive Order) transposing the European Directive on renewable energy sources (2001/77/EC) into Italian law. This Directive lays the foundations for a future European framework to promote renewable energy sources for the production of electricity. The measure envisages facilities for the widespread use of small sized power plants, namely plants with a nominal output of not more than 20 kW, the possibility of classifying waste as an energy source eligible for the special tax regime for renewable energy sources, and the issue of specific measures to encourage the use of solar energy.

The Decree envisages market tools of various kinds depending upon the type of source used, and it is based on the issue of Green Certificates which are gradually replacing the incentives envisaged by the CIP6/92 measure.

The significant points are:

- the streamlining of the authorisation procedures to build plants fuelled by renewable energy sources and to link these plants into the electricity network;
- backing measures for specific energy sources and technologies;
- awareness arousing and information campaigns on energy saving.

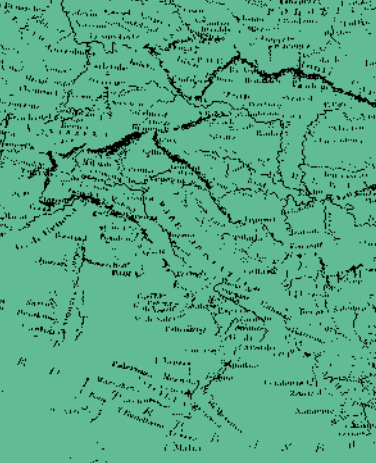
The provision goes in the same direction as, and partially anticipates, the draft law for the reform and reorganisation of the energy sector which envisages an increase of the mandatory share of energy produced from renewable sources.

In order to facilitate and promote the use of renewable energy sources, new funds were recently made available for both public and private entities for the “2003 Photovoltaic Roofs” Programme. The Programme provides for the installation of photovoltaic panels with an output between 1 and 20 kW, linked to the electricity grid using a public grant covering not more than 75 per cent of the total cost of each set up.

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<sup>(49)</sup> AS2421, known as the Marzano Draft Law.





With regard to energy saving, Italy pursues the ambitious objectives defined in the Ministry of Industry Decrees of April 24<sup>th</sup> 2001, which also define the procedures for supporting the adopted measures.

In order to promote efficient energy-use and energy saving, the Ministry of Productive Activities recently issued two appropriate Decrees (one for electricity and one for gas) which are now awaiting the signature of the Minister of the Environment, and will subsequently be submitted to the “*Conferenza unificata*” (joint conference) for examination. They contain the start-up of measures which will encourage widespread participation of end-users to interventions for the reduction of energy consumption, without affecting service levels.

It should be mentioned that, at present Italy is performing better than all the industrialised countries in terms of energy intensity, ranking below the OECD average <sup>(50)</sup>.

On January 1<sup>st</sup> 2004 a “White Certificate” market will be set up. These certificates are instruments for measuring and improving the services dedicated to the rational use of energy in accordance with what has already been done with the “Green Certificates” referred to renewable energy sources. At present, information and awareness-arousing campaigns are currently being promoted on energy saving, also through the mass media.

In October 2003 the Electricity and Gas Authority laid down guidelines for promoting energy saving in relation to the final uses of electric energy and gas. Unlike the policies that have been pursued so far, based on non-refundable incentives or voluntary agreements, the new regulations provide for the implementation of projects, each guaranteeing a minimum annual saving of 25 tonnes of oil equivalent for 5 years.

## **Fostering a knowledge-based society**

### *Policies for research and Development, innovation, human capital*

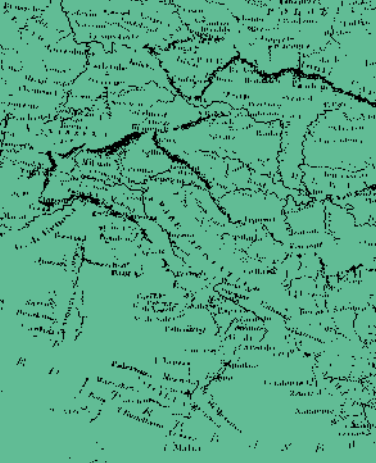
#### *The research sector*

The “Guidelines for Science and Technology Policy” presented by the Government in 2002 were aimed to strengthening Italy’s innovative capacity as an instrument for national growth and development. During 2003, the Ministry of Education, Universities

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<sup>(50)</sup> For more details see the OECD Economic Surveys, Italy 2003.





and Research (MIUR) pursued the priorities, strategies and instruments set out in the Guidelines, and consistently with European policies and indications.

MIUR also implemented all the necessary measures to draw up the new National Research Plan, which will be submitted to CIPE for adoption.

In 2003 the Legislative Decrees reforming the large public research institutions <sup>(51)</sup> in order to identify a specific role for each of these research authorities or agencies, and direct their activities towards the main strategic research issues.

During 2003 MIUR also implemented a number of measures to encourage the participation of universities, research centres, as well as business in projects being supported by the VI European Union Framework Programme. More specifically:

- national representatives have been appointed for the various thematic research programmes;
- the National Contact Points network to provide information and assistance to possible proposers of European projects has been created at the MIUR;
- a working group has been set up to gather and monitor data on the Italian participation in the European Framework Research Programme.

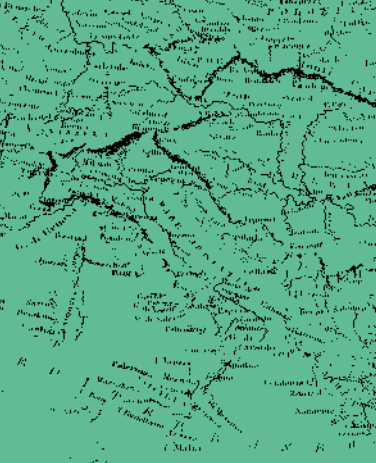
As far as the policy for supporting individual researchers is concerned, a working group has been set up to build a national portal to provide updated and online information both to researchers wishing to work temporarily in Italy and for Italians wishing to work in other countries' research centres.

In 2003, MIUR supported basic research, and the increase of private investment in research, implemented specific measures in Southern Italy, and performed integrated activities among administrations.

In 2003, work continued in supporting basic research using the resources of the FIRB - Basic Research Investment Fund; 148 projects were approved, for which public funding of 18 million euro will be provided.

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<sup>(51)</sup> The CNR, INAF and the Italian Space Agency. The procedure was also opened for the institution of the new Metrology Research Authority.



During the year measures were defined for the use of the new resources provided for FIRB by the Finance Law 2003 totalling 100 million euro for the period 2003-2005.

Thanks to the use of the European Union's Structural Funds, support for Southern Italy was able to continue. During 2003, 64 projects were financed for a total cost of over 167 million euro, with funding from the Ministry for about 110 million euro. These projects refer both to research and advanced vocational training, as well as the creation of infrastructure for industrial research.

#### *Activities to foster research under the italian EU presidency*

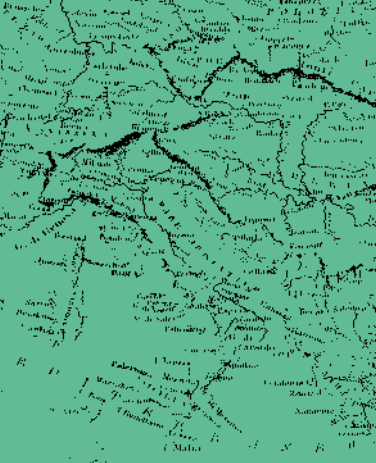
In July 2003 Italy took over the semester Presidency of the European Union. As for the research sector, the work during the Presidency will focus on a number of activities designed in particular to:

- a) increase the volume of investments in research and innovation, with widespread and priority participation by the SMEs;
- b) develop and diversify centres of excellence and their networks, and provide incentives for establishing technological districts, according to the rationale of a multi-centric approach to the European Research Area;
- c) guarantee effective training for researchers and their mobility, paying specific attention to the development of their careers and involving women in science.

#### *The information society*

During the past year the ICT sector declined somewhat (-0.5 per cent) mainly due to the information technologies whose market fell by 2.2 per cent. However, during the course of the first half of 2003 there was a 3.2 per cent recovery over the same period of 2002 (see Table 60).

In 2002 a certain degree of dynamism was due exclusively to the expansion of the telecommunications market (+0.4 per cent) even though it was weaker than the previous year. At the end of 2002 Italy had 54.2 million mobile telephone lines, accounting for over 91 per cent of the Italian population as a whole (see Tables 62 and 65). During the year the number of SMS users continued to rise (+13 per cent) almost reaching the 33 million threshold.



In the telecommunications sector, Internet services grew at a fairly high rate, with a market increase of 29.3 per cent, worth a total of 1.4 billion euro in 2002.

At the end of 2002 Italy had about 20 million Internet users (home, school, office or public Internet outlets) which is estimated to rise to 23 million in 2003.

In the same period there were 65,000 satellite broadband access, and 72,000 fibre optic broadband subscribers. Projecting the data to mid-2003 it is estimated that 1.5 million users currently have a broadband subscription <sup>(52)</sup>, equivalent to some 3 per cent of the total population.

Internet services have increased because of the reduction of costs. The latter have been influenced by the Authority's decision of lowering the cost of telephone calls lasting more than 15 minutes, as well as the latest Finance Law, which made provision for a 75 euro refund to all broadband services subscribers.

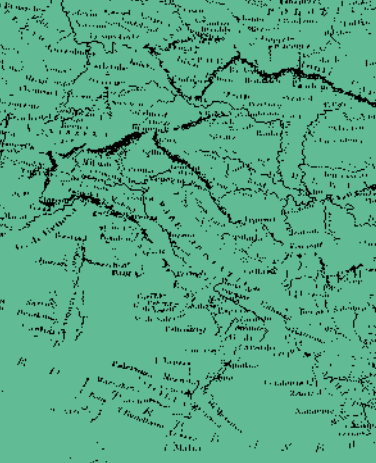
The growth in innovative and electronic communications services is also bound up with the development of wireless networks. Thanks to the recent Decree issued by the Ministry of Communications, the public offer of Wireless LAN services (wi-fi) <sup>(53)</sup> has been put under the regime of general authorisation, consistently with a European Commission Recommendation issued in March 2003. During the past few months, there has been an increase in the supply of connectivity in public places specifically set up for the purpose (so-called "hot spots") at Italy's leading airports (*Linate* and *Fiumicino*), and in hotels and conference centres.

The overall percentage of applications filed by Italy for information technology patents with the European Patent Office has increased. The 259 patent applications place Italy at the 7<sup>th</sup> position, accounting for about 2.7 per cent of Europe's total, 65 per cent of them are patents relating to communications, and 10 per cent refer to basic electronic circuits, both of which are higher than the European average (for more details on the patents registered in Italy see Tables 69-70).

During the past year, progress with *eGovernment* has improved substantially, and Italy received the EU and the OECD acknowledgements for the growth and the quality of the services provided on the Internet. In an *eGovernment* classification drawn up by the European Commission Italy rose from 12<sup>th</sup> position in 2001 to 9<sup>th</sup> in

<sup>(52)</sup> This refers to all forms of access to broadband services excluding mobile services.

<sup>(53)</sup> A Wireless network is based on devices that can transmit data by radio without the assistance of cables or wiring of any kind.



2002, confirming Italy as one of the countries in which on-line services are growing most rapidly. The development of computerised services has risen by 18 per cent (+12 per cent for the United Kingdom, +14 per cent for France and Spain, and +8 per cent for Germany).

In order to keep pace with the rapid developments in the demand for data and statistical indicators on the information society and monitor the dissemination of ICT technologies, the Ministry of Innovation and ISTAT have signed for a Protocol of Understanding to create a new information system businesses, households and government departments. Indicators will be designed to appraise the development of the information society and to make EU and international comparisons.

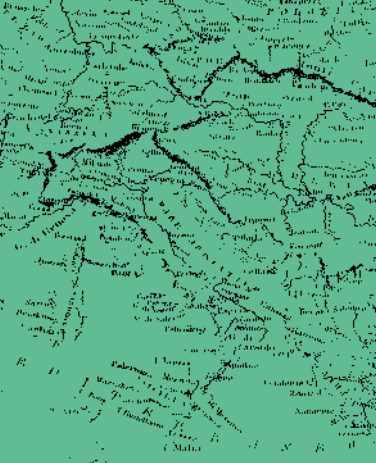
Dissemination of new technologies data shows a certain unevenness in access and use of ICT across the country.

The digital divide in terms of IT penetration in the production systems of Italian regions is very wide in terms of both expenditure as a proportion of regional value-added, and in terms of IT expenditure per employed person. Whereas the northern regions and Lazio have a high IT penetration level, the southern regions are absolutely backward, with values of below 1 per cent. Figures on IT expenditure per employee confirms that the Northern Italian firms are more highly innovative than those in the Centre and South, even though they are widely influenced by the industrial structure of each region, the presence of small and medium enterprises or large firms, the possible presence of “underground” labour.

The system of the ICT offering is generally more dynamic in terms of the average annual number of newly established companies than the entire Italian industrial sector as a whole, where growth rates are no higher than 2.5 per cent. While the growth rate of firms has remained fairly stable across the years, with few differences between regions (averaging between 1.5 and 2.5 per cent), the growth rate of IT businesses has been higher, and the differences between the regions are quite striking.

Whereas the variations are down to 3 percentage points between Lombardy, Piedmont and Liguria, there are also regions like Trentino Alto Adige and numerous Southern Italian regions which recorded growth rates in the number of IT firms above 9 per cent in 2002.

Southern Italy and the Islands are now the geographic area with the largest concentration of IT firms, second only to Northwestern Italy, while a comparatively small number of firms (only 19 out of 100) are located in Central Italy.



A thorough examination of the policies designed to encourage innovation has been published in the recent “Italian digital technologies and innovation report” by the Ministry of Innovation and Technologies <sup>(54)</sup>.

#### *eGovernment for local authorities*

The *eGovernment* plans and programmes adopted by government departments have given a boost to the computerisation of the Public Administration, greatly improving the quality of technological innovation in terms of the complexity and the wide scope of the projects as can be seen from the increase in the budgets dedicated to new projects by the local authorities. In 2002 ICT for the local public administration market accounted for 2.9 per cent of the total market, equivalent to 1,795 million euros, albeit with sharp differences between the Regions in terms of IT expenditure distribution.

According to the Government's Plan of Action, the local authorities play a crucial part in developing and implementing *eGovernment* activities. In order to support the system of local authorities in implementing *eGovernment* projects and plans for the information society in general, the Ministry of Innovation and Technologies (MIT) and the regional governments have set up Regional *eGovernment* and the Information Society Centres (CRCs).

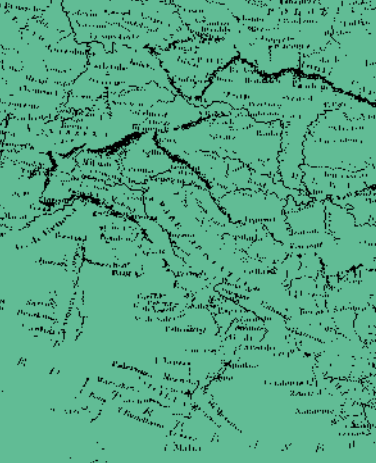
The development of regional policies for the information society and *eGovernment* has taken the form of promoting and starting a vast number of regional projects for the internal innovation of government departments and local services.

With the financing of selected projects all of Italy's regions are now opening up *eGovernment* project sites which will radically transform the local civil service departments, and bring them closer to the public and to business. The overall cost will be almost 500 million Euros.

Today, the public can have access to a considerable number of information and services. The online services most frequently available to the public relate to health care and employment. There is also widespread availability of services relating to libraries, training and education, certificates and forms, social security contributions, taxes and other levies. The most common services found on the websites of the civil service for the benefit of business provide support for the administrative procedures needed to take part in public tenders. Facilities

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<sup>(54)</sup> Available on the Ministry's website [www.innovazione.it](http://www.innovazione.it).



are also quite widespread to provide services regarding the administrative procedures for paying taxes.

*Changes to the training system to meet the new market demands and supply of qualified ICT personnel*

Training courses are now being offered to train 37 new types of professionals <sup>(55)</sup> and to teach the related technical and professional skills in such key sectors as agriculture, environment, building construction, industrial design, ICT, tourism, insurance and financial services, and transport.

The plan for 2002-2003 is being strongly supported by the Regions. At the present time, most of the Regions have already published the invitation to tender, and have begun the project selection procedures. An extraordinary measure in Southern Italy to provide young people with advanced technical ICT specialisation skills is currently being concluded.

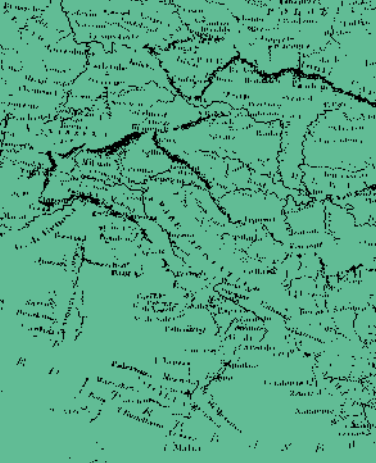
The 598,000 people employed in the ICT sector in 2002 accounted for 2.9 per cent of Italy's total employed, which was an increase of 2.7 per cent over the previous year. If account is also taken of ICT employees in the strict sense of the term who are working with user companies and suppliers, together with employees in possession of ICT skills in the user sector <sup>(56)</sup>, the grand total comes to 2,700,000 employees in 2002.

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<sup>(55)</sup> Under the Agreement between Central Government and the Regional and Local authorities of 1<sup>st</sup> August 2002 - Planning training routes 2002/2003.

<sup>(56)</sup> Those who do not have technological duties but have at all events had to develop ICT skills.





## II.B. THE CAPITAL MARKET AND FINANCIAL SERVICES

### The legal and administrative framework

As far as financial services are concerned, work has proceeded consistently with the Community's commitment to create a single financial services market. In addition to the implementation of a number of Community Directives into Italian law, legislation has been directed towards Community co-operation for the adoption of the initiatives provided under the Plan of Action for the Single Financial Services Market.

Firstly, there was the Legislative Decree transposing into Italian law the Directives on investment funds (published in the Official Gazette on 30 September 2003): Directive 2001/107/EC and Directive 2001/108/EC. The former regulates the access to market and trading activities of asset management companies (SGRs) and investment companies, in addition to the compiling standards of the prospectus. The latter govern the investments of investment funds.

By the end of the current year, regulations implementing the financial collateral arrangements Directive (Directive 2002/47/EC) are to be issued.

As far as Italy's Community commitments are concerned, partly because Italy is the current President of the European Union, the government strongly endorsed the adoption of three further important measures set out in the Plan of Action.

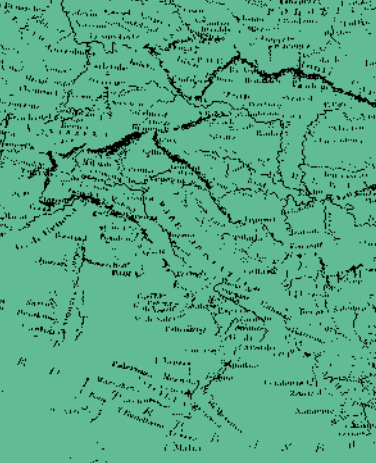
The first one is the Investment Services Directive (ISD 2), which will have a wide-ranging effect on the present structure of the Union's financial markets. The second one relates to the proposal for a Directive regarding the regular information that issuers of listed securities are required to supply to the markets (the so-called Transparency Directive). The third one, taken on 15 July 2003, regards the adoption of a Directive on the single issuers' prospectus, which enables companies wishing to resort to the Community capital market to draw up a unique prospectus recognised by all the country members of the European Union.

### Financial market developments

#### *The secondary Government Bond market ("MTS")*

In the period examined here, the company which manages the wholesale Government Bond market (MTS S.p.A.) geared its work to the international development of its own government bond wholesale market model, which has now been introduced into virtually all the countries in





the euro area (Belgium, Spain, Portugal, France, Germany, Netherlands, Finland, Ireland and Austria). Accordingly, useful contacts have been established with the authorities of Poland and Israel to open local MTSS within the first few months of 2004.

In 2002, an aggregate volume of about 2,205 billion euro was negotiated on the Italian cash market (60 per cent of which BTPs, 25 per cent CCTs, 7.5 per cent CTZs and 7.5 per cent BOTs). Average daily trading was about 8.6 billion euro. On the repo market, trading totalled 11,000 billion euro, making a daily average of almost 43 billion euro.

There were 153 market dealers at the end of 2002, of whom 32 were primary dealers. The contribution of the primary dealers to market liquidity was considerable (accounting for more than 80 per cent of the total volume traded).

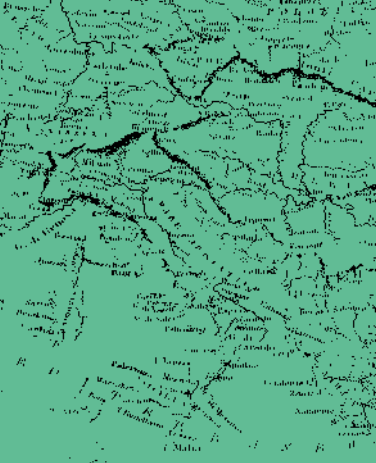
Regarding the introduction of new services, an important role is played by the Central Counterparty Service, which is entrusted to several national and international companies, in accordance with the recommendations of the IOSCO and the CESR.

The regulated Internet "Bondvision" market, linking the banks to the asset managers and insurance companies through a competitive tender mechanism which was brought on stream in the latter half of 2001, implemented a very successful "run-in" and greatly increased the volumes traded and the number of members.

At the end of 2002 there were 25 market traders and over 120 dealers. In essence, this is a bond market, the only one of its kind in Europe, linking the Internet to a wholesale finance market under the oversight of the Authorities, which makes it possible to expand the distribution of securities in electronic format, meeting the final investors' need for documentable best execution, and contributing considerably to MTS market operations.

#### *Markets managed by Borsa Italiana Spa*

During 2002, Borsa Italiana completed and consolidated its corporate model by acquiring Monte Titoli. The Borsa Italiana Group, with this configuration, is now able to efficiently offer a wide and comprehensive set of services to the national and international financial community. The effectiveness of the model that has been adopted is based on its capacity to combine the synergies deriving from the unified



coordination of the various functions making up the core business of a Stock Exchange with the diversification of the activities performed by the Group.

In the year 2002 important measures were adopted to foster the continuous development of the markets and to meet the changing demands of its members.

### 1. Focus on the quality of listed companies

In a year that suffered seriously from the international crisis of confidence in the quality of listed companies, Borsa Italiana made an effective contribution towards disseminating the culture of good corporate governance and further stepped up its efforts to guarantee a high national and international standing for Italy's listed companies. As part of this effort it:

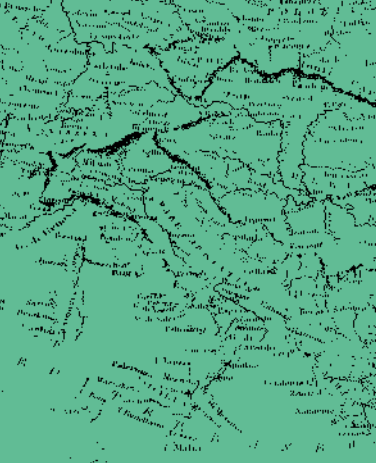
- contributed to the revision of the Code of Self-Discipline as a member of the Steering Committee for corporate governance;
- introduced into its regulations at the beginning of 2003 the obligation on companies to inform the market of transactions in listed companies' securities in excess of a given threshold by the top management and other persons with access to restricted information (internal dealing);
- actively supported the "forum ref" ("economic and financial research" working group with the representatives of the market and professional associations, aimed at improving corporate disclosure for the drafting of a market information guide);
- tightening up some of the requirements for admission to stock exchange listing.

### 2. Micro-structural innovations for the stock market

In the broader context of adjusting to European functional standards, Borsa Italiana has extended to all the securities' markets the requirement to deal in single blocks instead of the minimum blocks, facilitating investment decisions thanks to the possibility of being able to trade in shares of any amount.

### 3. Upgrading the IDEM trading platform

In April 2002 the derivatives market migrated to a more highly evolved, efficient and powerful trading platform using the best available



technology, making it possible to introduce new functional features into the service model and the market model.

#### 4. Institution of a Screen-Based Investment Funds Market (MTF)

To complete the range of products offered to the market, Borsa Italiana has created an ad hoc trading environment for Exchange-Traded Funds.

2002 was an important year for planning new projects, which are scheduled to come into force in 2003, assisted by the coordination of the Group's companies. Looking specifically at the first half of 2003, on 23 May the new Central Counterpart System for Borsa Italiana's cash markets came on stream, and on 2 June the new S&P/Mib Index developed in partnership with Standard & Poor's became effective in real time.

#### *Venture capital investment*

Following the contraction of the venture capital market in 2001, major signs of recovery appeared in 2002 (see Table 77). For over a period of 12 months Italy's traders invested more than 2,600 million euro, an increase of 20 per cent with respect to 2001.

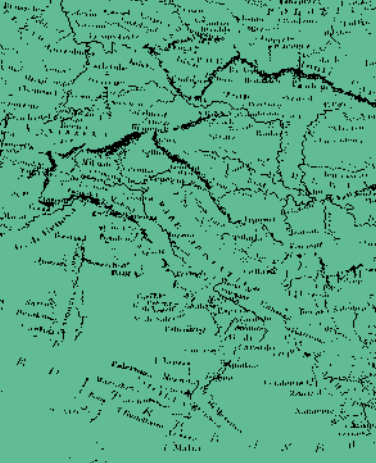
As far as types of investment are concerned, like most of the other European countries, the most buoyant segment of the Italian market was in buy-outs, in other words, the majority or total acquisition of medium and large companies, mostly operating in the traditional industries, accounting for over 1,500 million euro.

However, as far as the other two segments of the market are concerned, namely, investment in the development of existing companies (expansion capital) and the acquisition of minority interests by replacing some of the shareholders (replacement capital), there was an increase in the volumes invested in 2002 of 800 million euro (+8 per cent over 2001) and 205 million euro (+53 per cent), respectively, even though there was a fall in the number of investments of about 25 per cent.

#### *Company Law Reform*

With Legislative Decree 6 of 17 January 2003, the Government completed the implementation of Law 366/2001 under which it was empowered to implement the Company Law Reform.

This major legislative measure can be considered as a further step of a wide-ranging reform process, the first step having been the Financial



Intermediation Consolidated Law (Legislative Decree 58 of 24 June 1998 - TUF) which had already laid down the fundamental features of modern governance, limited to listed companies.

The reform of limited liability companies, which relates to all unlisted companies and to listed companies as far as the aspects not regulated by the Law are concerned, is vitally important for the Italian economy, considering the large number of companies involved.

The reform process is not finished: the next stage will be the bankruptcy law reform. The Commission that has been set up at the Ministry of Justice to study the matter completed its work in July with a piece of draft delegated legislation, which is now currently being examined by the Government.

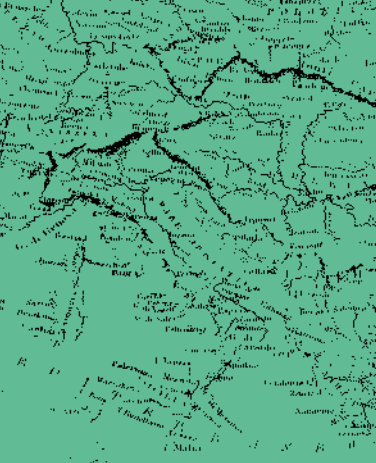
There are also other measures in the pipeline which, while not dealing with civil law matters, have an enormous effect on the life of Italian society. One of these is Law 80 of 7 April 2003, delegating the Government to implement tax reform and to enact fresh legislation regarding corporate and group income taxes.

Lastly, the coordination measures provided by the Delegated Powers Law, the provisions of the Reform Law with the TUF and with the TUB as far as the aspects relating to the regulation of the banking and financial sector is concerned, are currently being studied, and the reform of companies limited by shares has been accompanied by the reform of the civil procedure relating to company law, whose basic features are the introduction of a summary hearing in addition to the ordinary hearing, and more widespread use of arbitration and other alternative instruments to the normal courts of law.

#### Guidelines for the reform

The ultimate purpose of the reform of the law on limited liability companies is to strengthen the efficiency and the competitiveness of the Italian economy by giving the country a modern legal system that will encourage the establishment, growth and competitiveness of companies.

The new company law is therefore designed to provide an adequate statutory framework to meet the needs of the small and medium firms which make up the vast majority of Italy's non-listed companies, and form the backbone of the Italian economy. It also aims at providing all Italian companies with efficient regulatory instruments so that they can take on international competition on an equal footing. It will adjust national legislation to enable Italy to compete internationally with other



legal systems, and reduce the statutory bias between listed and non-listed companies.

What typifies the reform is the particular emphasis it places on the independence of private enterprise, which reaches its peak in the case of private companies, and is gradually weakened as the companies open up to the venture capital market and more widely involve the interests of third parties.

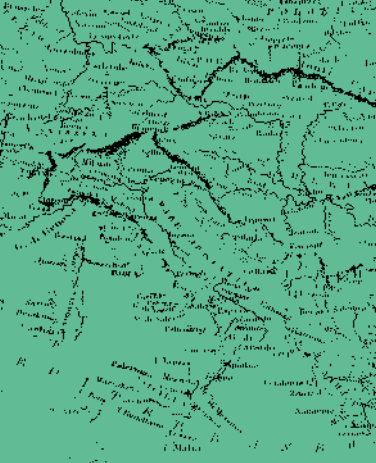
Even where the legislator has intervened to define a statutory framework, companies have been given various instruments to make company law extremely flexible, so that they can adjust their structures and rules to meet their own specific features.

From this point of view, the main innovation is the possibility to choose between different types of management and control models for companies limited by shares, around which the company organisation will be fashioned. In addition to the traditional corporate structure with a Board of Statutory Auditors, the shareholders can choose between a German-French two-tier broad model (without worker participation) and a one-tier board model along Common Law lines.

The way in which the financing of companies limited by shares is governed is also flexible. In order to broaden the possibilities of gaining access to the capital market, the new Law gives companies total freedom to decide on the property and administrative rights of each class of shares, and gives legitimacy to the class of financial participatory instruments other than shares, raised the ceiling on the quantity of bonds that can be issued, and the Articles of Association allows to decide on the characteristics of the securities, also allowing limited liability companies to issue bonds. Provision has been made to constitute “dedicated asset interests”, once again offering two possible models each one with their own particular system of equity separation.

The law governing groups is also designed to leave greater leeway for group policies without making the organisational forms more rigid according to a specific structural notion.

Great importance is attributed to simplification, primarily with reference to the formalities for incorporating a company. There are simplified ways of forming the capital of limited liability companies, reducing the accounting obligations for small companies, streamlining procedures for mergers, de-mergers and conversions. No less important is the abolition of the obligation to deposit shares in order to attend General Meetings which, albeit for a short period,



prevents shareholders from disposing of their shares and acts as a powerful disincentive to institutional investors to attend General Meetings.

### *Corporate governance*

The reform of companies limited by shares has taken up the innovations set out in the TUF regarding the rights of qualified minority shareholders, the separation of the financial audit and the management audit, the disclosure of intra-company covenants, extending them to all companies resorting to the venture capital market, including unlisted companies, and dedicates particular attention to the structure of the Board of Directors and the way in which the company is audited in terms of each of the three permissible models.

Furthermore, whichever management model is adopted, the role of the Board is strengthened in terms of laying down corporate strategies and monitoring the executive directors. To permit the Board to effectively perform the functions entrusted to it the Law requires a constant flow of information to be exchanged between the executive directors and the Board.

It should also be emphasised that the Articles of Association may make provision for the appointment of directors to have particular features relating to his independence, while the one-tier system requires one-third of the members of the Board to be independent directors.

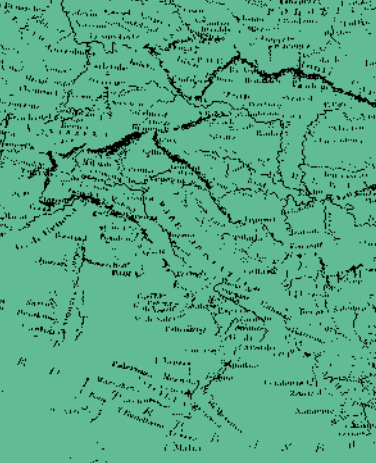
The reform also considerably strengthens the ways in which directors' conflicts of interest is governed, and to protect the minority and third-party shareholders it introduces liability for performing management and coordination activities within the group, essentially linked to the specific advantages which the subsidiary companies expect to obtain from being members of the group.

### *The credit market and the payment system*

#### Electronic commerce

Under Legislative Decree 70 of 9 April 2003, the internal market electronic commerce Directive, 2000/31/EC, including financial services, was transposed into Italian law. Consequently, as far as the online trading in financial services is concerned, Italy now applies the country of origin rule, under which online financial services cannot be





prohibited to a company established in another State, apart from the cases for which the Directive expressly provides a special permit..

#### The payment system

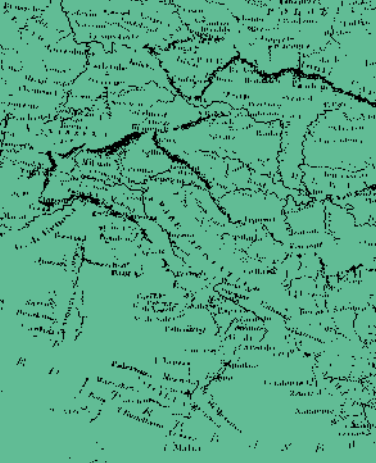
Implementing EC Regulation 2560/2001 which requires banks to charge the same commissions for domestic payments as for cross-border payments in euros, a draft Legislative Decree has been prepared introducing specific penalties for infringements of that regulation. This provision will make a major contribution towards creating a single payments market within the Euro Area, and will be adopted during 2003.

Furthermore, the Interdepartmental Committee for Credit and Savings (CICR) resolved on 4 March 2003 to adopt provisions to implement Title V-bis of the Banking Consolidated Law regarding the institution of electronic currency, with particular reference to shares in IMEL, regulatory supervision, and controls over Community IMEL branches in Italy.

#### Financial conglomerates

As regards the supervision of financial intermediaries, the 2003 Community Law, delegates powers to the Government to incorporate Directive 2002/87/EC into Italian law, introducing a system of supplementary supervision over companies belonging to a financial conglomerate, to be coordinated between the various national and European authorities for the purpose, among other things, of preventing the risk of systemic crises.





## II.C. OTHER REFORMS AFFECTING PRODUCT AND CAPITAL MARKETS

### Recent progress with the Regulatory Impact Analysis

The Regulatory Impact Analysis (RIA), entrusted to a specific Service at the Office of the Prime Minister <sup>(57)</sup>, replacing the now abolished Simplification Unit, comprised 4 phases. With the setting up of the Steering Committee <sup>(58)</sup> chaired by the Minister of Public Administration, the appointment of two AIR reference persons for each government department, the preparation of the operational plan for the tests, and the training plan, the second phase of implementation of these plans has now begun. This phase will be followed by the final phase in which the Assessment Report on the test will be prepared. At the same time, the arrangements for the implementation of the RIA will be defined and the manual of practices for carrying out the RIA drafted.

The reference person for the RIA will be particularly important. With input from individual sectoral offices, he or she will be responsible for carrying out the impact analysis for each of the pilot cases within the responsibility of their own government department; the result will be closer involvement and greater responsibility for the Ministries for the *ex ante* appraisal of the impact of draft rules and regulations.

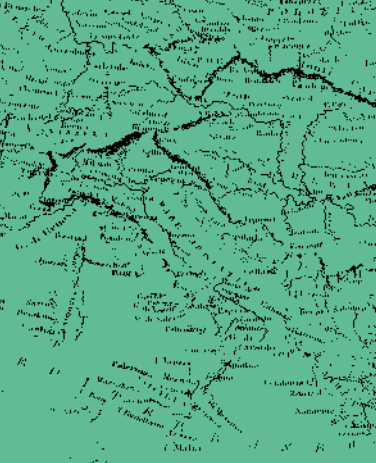
During 2003, the second trial began with the Regulatory Impact Analysis, and training courses were run for the RIA reference persons, together with follow-up courses for those who have already been trained.

To meet the need for greater involvement and responsibility by the Ministries in the *ex ante* appraisal of the impact of suggested rules and regulations, "RIA reference persons" have been identified and selected within each of the government departments, to take responsibility for implementing it. These departments have also notified the body set up at the Office of the Prime Minister of a number of pilot cases falling within their respective jurisdictions, identifying cases for experiments to begin.

In June, trials began with the first cases proposed by these departments, and the first working groups were set up. Lastly, drawing on the experience gained in the first experimental phase, the 2001 RIA Guide is currently being revised.

<sup>(57)</sup> Law 137/2002.

<sup>(58)</sup> Prime Minister Decree of 21 September 2002.



## Public-Private Partnership Developments

In 2003, the reorganisation of the Project Financing Technical Unit completed the wide-ranging and comprehensive reform of public works legislation. The purpose of this reform was to encourage private partners to take part in the construction and management of major public infrastructure facilities.

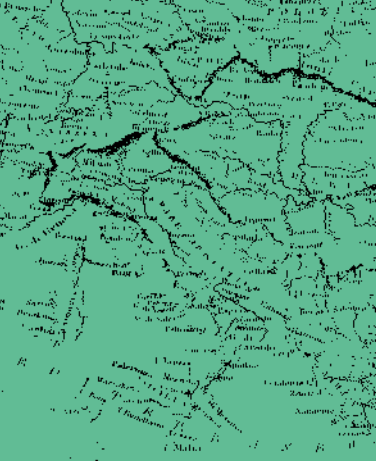
The Government had embarked on this reform in 2001 with the enactment of the so called Objectives Law (Law 443/2001), and continued in 2002 with the creation of *Infrastrutture S.p.A.*, the assignment of new tasks to the *Cassa Depositi e Prestiti* and to *Sviluppo Italia S.p.A.*, and the institution of the "Technical Mission Structure" at the Ministry of Infrastructure and Transport.

Thanks to these efforts, the framework of the institutional parties that may intervene in the various phases developing the infrastructure design, funding, construction and management cycle in various ways and with different powers is now complete, and the market has new financial instruments, and new forms of funding.

The project financing market surveys carried out in the three-year period 2000-2002 reveal a market that is growing sharply in economic terms, with large volumes of investment waiting to be employed. Early 2003 estimates confirm the positive trend in terms of the number of initiatives started and volume of resources involved, and provide evidence of the first positive effects of the policy to reform the whole sector.

Once the new statutory framework comes into force and new instruments are available, it will be possible to give a new impetus to the public works sector, in terms of both its components - strategic projects of national interest and local infrastructure - while facilitating the involvement of private resources and capital.

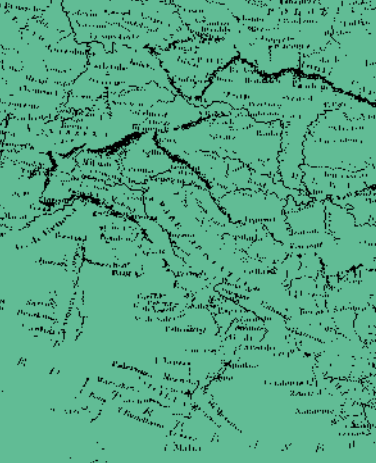




### III. SUPPLEMENT

#### **Measures undertaken to implement the recommendations of the Broad Economic Policy Guidelines for 2003-2005**





## MEASURES UNDERTAKEN TO IMPLEMENT THE RECOMMENDATIONS OF THE BROAD ECONOMIC POLICY GUIDELINES

The Broad Economic Policy Guidelines for 2003-2005 indicate that Italy's main problem is its low growth potential, mainly caused by the state of public finances, disparities between different parts of the country, and the low level of R&D investment.

The Commission recommendations to Italy for the period 2003-2005 therefore focus on the following:

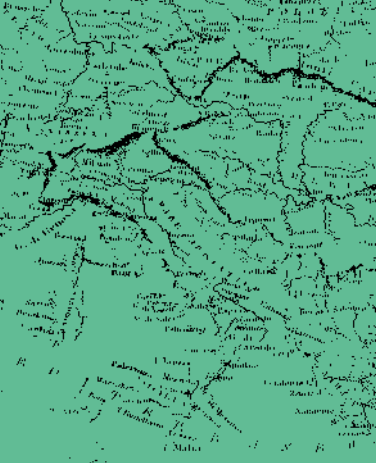
- Consolidating public finances and ensuring their sustainability considering also the ageing population;
- Increasing employment levels, particularly for women, and reducing regional disparities;
- Strengthening the knowledge-based economy in terms of skills and training/education, and investment in information technologies (IT) and R&D;
- Improving the business environment and enhancing competition in the energy and services sector.

### *The reform of the labour market and the pensions system*

Other official documents provide more details on what has been done to reform the labour market as well as the strategy being pursued to enhance financial sustainability and guarantee the adequacy of the pension system in the future. The reader is referred to the National Strategy Report on pensions of October 2002 and the National Action Plan on employment of October 2003 (which also contain an update on the most recent measures regarding pensions). This section will therefore merely provide a summary description.

### *The reform of the labour market*

During the summer, the first Legislative Decree was approved implementing Law n.30/2003 (the so-called *Biagi Law*) and this will be followed by another one for the reorganisation and coordination of labour market supervision. The Legislative Decree aims essentially at further facilitating access to regular employment. It sets out a more modern and effective system of regulating job matching, which now makes possible the involvement of the private sector (as members of a national employment exchange) integrated into the public regionalised system.



Following the guidelines set out in the previous Legislative Decree 297/2002, whose practical implementation will be facilitated by the new statutory framework, it sets out the role of getting the unemployed into work, setting employment services in motion, and makes provision for trials with ad hoc employment agencies. Above all, it makes provision for a wider category of types of labour contracts which make possible to provide limited and atypical employment opportunities, and force “underground” employers to legalise the position of illegal workers.

It defines ancillary work, project work (to avoid forms of abuse that are sometimes connected to “coordinated and continuing co-working”) and provides more flexibility for the use of part time (as far as working hours are concerned). A first step has been taking towards reforming financial incentives for employment, reforming and extending the possibility of recourse to apprenticeships. It also abolishes the subsidised contributions connected with on-the-job training contracts, replacing them with a re-integration contract, whose target is selected and disadvantaged people. These are identified by the Community Regulation on state aid for employment, and in particular by including unemployed persons over 50 years in order to gradually shift employment policies towards the objective of supporting the employability of old people.

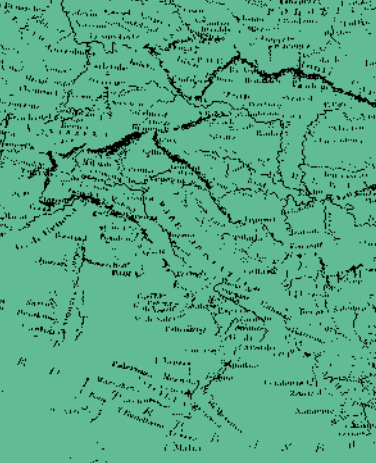
For even though the measures incorporated into the Delegated Law 848-bis<sup>(59)</sup> are not yet being implemented, attention is focusing increasingly on the employment situation of older people. Their importance is well-known from the point of view of the sustainability of the pension system, considering that the predicted growth in public pension expenditure, albeit temporarily and to a limited level<sup>(60)</sup>, is essentially linked to the “baby boom” and the “baby boost” that occurred between 1955 and 1975. The effects of these demographic events will become visible on the labour market, when people between 55 and 64 years of age, accounting for 17.5 per cent of the population in the working age in 2000, will increase to 19.2 per cent of the total by 2010.

As far as the employment performance of the oldest members of the population are concerned, in the past few years, even among the male

<sup>(59)</sup> “Delegating the Government to enact measures providing incentives for employment, welfare benefits, experimental measures to support regular employment and to recruit staff under open-ended contracts, and arbitration to solve individual labour disputes”, currently lying before Parliament.

<sup>(60)</sup> Without the most recent measures the expenditure would have increased by about two percentage points in terms of GDP, which would at all events be eliminated in the following twenty-year period thanks to the intrinsic properties of financial stability of the rules laid down by the 1995 Reform Law which would gradually reach full development.





population, there has been an initial and significant albeit limited reversal of the earlier decline (see Figure 1). This reversal is more marked in the age groups up to 56-57 years, and is presumably linked not only to the favourable employment situation as a whole but also to the gradual tightening up of age and contribution eligibility for access to a pension introduced by the reforms that have been adopted during the past ten years.

Further progress is inherent in the structure of age groups that will gradually reach the following category in the coming years and who, thanks to their higher average academic qualifications, can count on fewer years' contributions (by age).

#### *The reform of the pensions system*

In that framework there are the effects of the latest reforms of the pension system that the Government has been preparing over the past few weeks. Two measures in particular that have been introduced <sup>(61)</sup>:

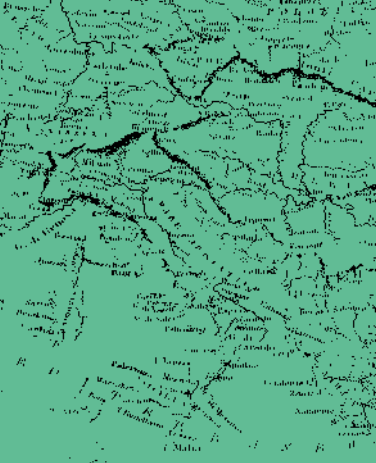
- From 1 January 2008 the pension can only be claimed before the age of 65 (60 for women) after at least 40 years of contributions, with provision for a transitional regime, in which early retirement (only after 57 years and with 35 years of contributions) will be possible only with a financial penalty <sup>(62)</sup>.
- Before 2008, some incentives are offered to postpone retirement <sup>(63)</sup>, (those aged at least 57 with 35 years of contributions, with only a few exceptions).

These two measures should provide a powerful impetus to the postponement of the retirement age, mainly by applying preliminary incentives to discourage early retirement, which eventually will be

<sup>(61)</sup> The other main area of intervention, which is the subject of the Delegated Law, is relates the use of "TFR" to finance pension. This funds should give a decisive incentive to the growth of pension funds, gradually making up for the predictable decline in the size of the first pillar and contribute towards modernising the capital market.

<sup>(62)</sup> The penalty will consist of the calculation of the total pension using the contribution rule defined by the 1995 Law, containing an actuarial adjustment factor so the pension is (ceteris paribus) a decreasing function of residual life expectancy at the moment of retirement.

<sup>(63)</sup> To prevent a rush to early retirement for fear of restrictions in the future, the possibility of retiring before the 40 years' contributions remains in force after 1 January 2008 for individuals who, before that date, were eligible (57 years of age and 35 years' contributions). Under this incentive scheme, the worker who decides to postpone retirement may take the contributions that employees and employers would normally pay to social security on advantageous fiscal conditions, either to increase a future pension or to invest in pension funds, or simply to increase current incomes, obviously on condition that the worker does not claim the pension at that time, but take it. In comparison with the incentives provided by Law 388/2000, which not yet very widely taken up, this new system would increase the possibility of using unpaid the social security contributions, paying them to the worker, without the need for the explicit approval of the employers.



applied to everyone. In the long term, once the funded pension system as defined in 1995 becomes fully effective, pensions will rise significantly, as will retirement age, leading to fewer pensions. This point, as outlined in the Strategic Pension Report submitted in October 2002, reconciles the financial sustainability of the system with its social adequacy <sup>(64)</sup>.

These two phases take place gradually, and the Government has begun discussions with the Social Partners on the substance of the changes because account must be taken of the need to keep as closely as possible to the plans defined previously by different generations of workers which are more difficult to modify when they are close to retirement age (on the basis of earlier rules). Furthermore, account must also be taken of the fact that merely making access to pension more difficult would entail the likelihood of increased unemployment and would not have increased the employment of older people, creating obstacles for corporate employee turnover policies (with repercussions on the employment of younger people). From this point of view, the decision to provide incentives immediately has made it possible to avoid the introduction of sudden changes to the rules, and offset the employability deficit of older workers.

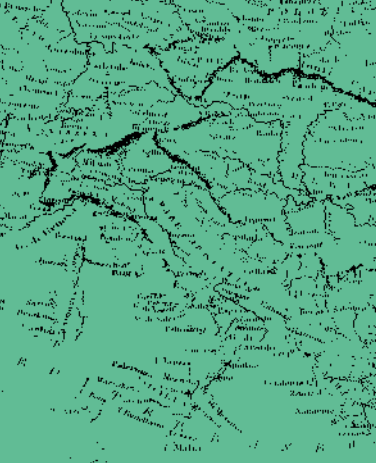
In the strategy set out by the Government, one important element has been to introduce changes to the way in which individual companies and the social partners actually behave on the labour market. This not only relates to the older population but in more general terms to the governance structure of the labour market, including the structure of collective bargaining. Collective bargaining should be more decentralised, because this would also better meet the development requirements of different parts of the country, and take account of the regional productivity and labour market performance.

Some progress is visible even though, especially with regard to the structure of collective bargaining in the strict sense of the term, it is difficult to identify economic and fiscal policy levers that can directly bring about changes in an area that is strictly within the remit of the Social Partners.

The concept of the public sector as an employer (encouraging more decentralised forms of contractual agreements) is not without its drawbacks because of the risks that this might have on the ability to control public

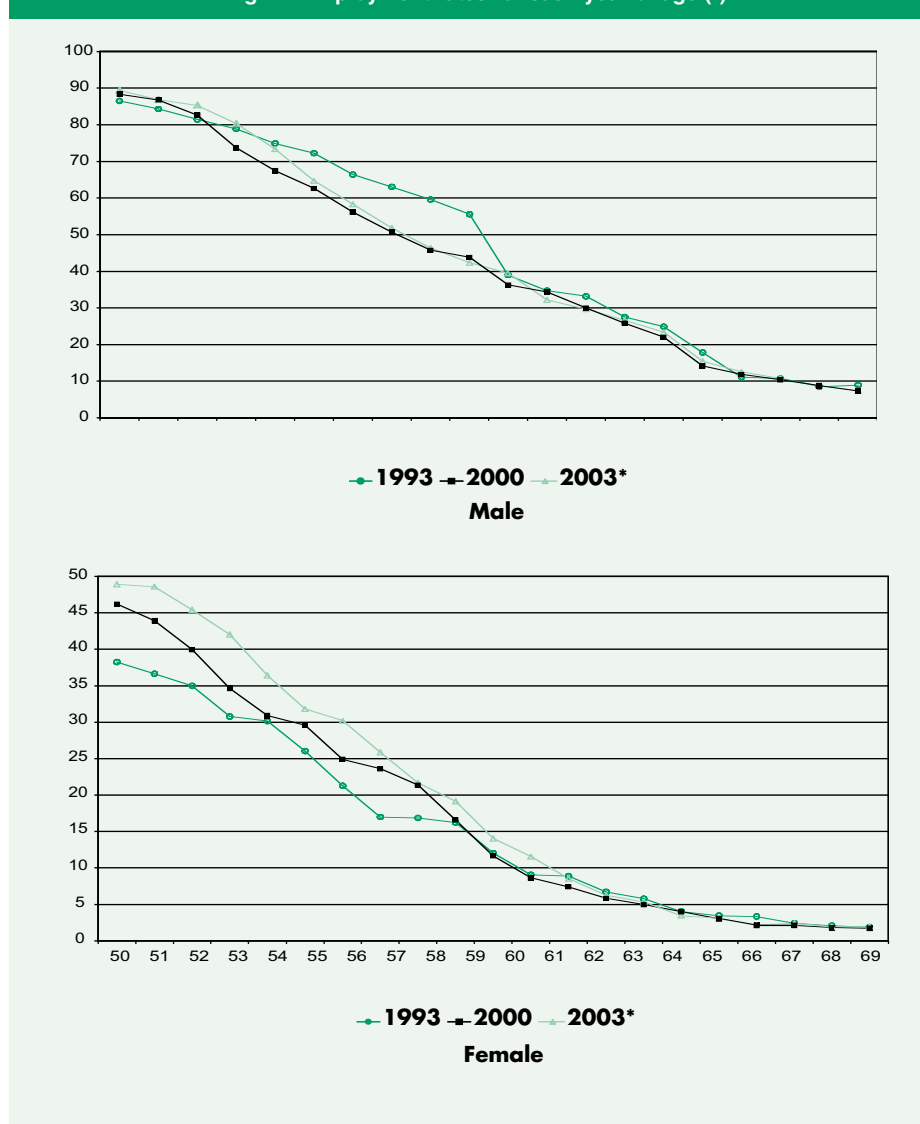
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<sup>(64)</sup> The postponement of retirement age, due to the actuarial adjustment rules provided by the 1995 reform, will increase the size of pensions (or rather, they would be reduced to a lesser degree by the mechanisms provided by the 1995 reform, because of the predictable increase of life expectancy at retirement age). Without these changes, the rationale of the 1995 reform would have made it possible to retire between the ages of 57 and 65, with a penalty for early retirement which, would have guaranteed the financial sustainability of the system, at least in the very long run, but not necessarily the adequacy of the individual pensions resulting from it.

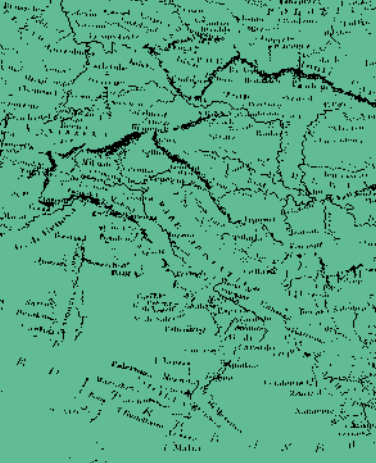


expenditure especially at a time when expenditure trends are being closely controlled in areas where powers are gradually being devolved to regional and local governments from the central government. There is also less leeway for acting on the fiscal lever, even though it should be noted that the first module of the personal income tax reform which came into effect on 1 January 2003 has essentially resulted in easing the tax burden on lower income groups, encouraging the acceptability, including the social acceptability, of greater openness to and flexibility in gross wage differentials.

Fig. 1 - Employment rates for each year of age (\*)



(\*) The 2003 employment rate is calculated on the January and April quarters.



### *Education, Research and Development and ICT investment*

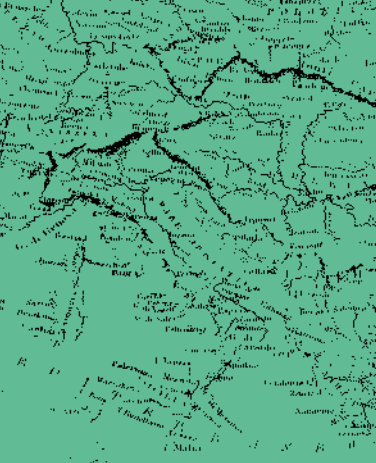
The Government is aware that in order to attain the objective set by the European Commission it is essential to ensure high quality school education, one that is able to offer competitive and high level services by rationalising and optimising all the available resources.

To this aim a wide-ranging and detailed programme has been drawn up to review, revise and modernise the education system, essentially based on the reform of the rules and regulations, the offer of a range of educational alternatives (State schools, private schools, vocational training agencies), a more adequate professional skilling of teaching staff, innovative methods and teaching tools, the definition of educational and training routes which are flexible and personalised, increased school attendance rates and skilling of young people and adults, enhancing the human resources involved, targeting and controlling expenditure, and so on. The most important measures adopted, or in progress, for the purposes of restoring the efficiency of the school system may be summarised as follows:

- ❑ Retraining of surplus teachers (7,000 in all) <sup>(65)</sup> which will also make it possible to offset the costs burden accrued so far.
- ❑ Revising the method of off list placement and using teaching staff for non-teaching activities (through various forms of mobility).
- ❑ Reforming the legal rule and regulations governing different types and levels of education <sup>(66)</sup>. The essential and most important elements in the planned reform make provision for:
  - learning English and computer use from the earliest school years. This innovation was tried out in the 2002/03 school year, and has now been extended to the whole of the education system;
  - introducing tutors;
  - the possibility for children to acquire diplomas or qualifications making them eligible to attend post-secondary education and training courses upon reaching the age of 15, or taking courses alternating between school and work, or taking up apprenticeships.

<sup>(65)</sup> Pursuant to Article 1 of Law 268 of 22 November 2002.

<sup>(66)</sup> This was provided by Law 53 of 28 March 2003 "Delegating the Government to define general provisions on education, and essential service levels regarding schooling and vocational training".



Parliament is also currently discussing a Bill laying down new rules for pre-school, primary school and middle school education.

- ❑ Enhancing advanced technical training and education courses (IFTS) <sup>(67)</sup>. Courses have been instituted to train 37 new professions and the related technical and vocational skills required in such key sectors as agriculture, environment, building construction, industrial design, ICT, tourism, insurance and financial services, and transport.
- ❑ Induction training for 63,000 newly recruited teachers in 2001/02, also using the distance learning system.
- ❑ Creating a national assessment system through INVALSI, an Institute that has been given the task of monitoring and assessing the efficiency and effectiveness of the education system.

The purpose of Law 53 of 28 March 2003, “Delegating the Government to establish guidelines governing education and setting the essential service levels in relation to vocational training”, was to provide an innovative response to the demand for quality and flexibility in the school system at the European level.

A Ministerial Decree issued in July 2003 has made it possible, beginning with the current school year, to introduce a number of innovative subjects into the curricula of primary schools, by increasing computer literacy and the teaching of English.

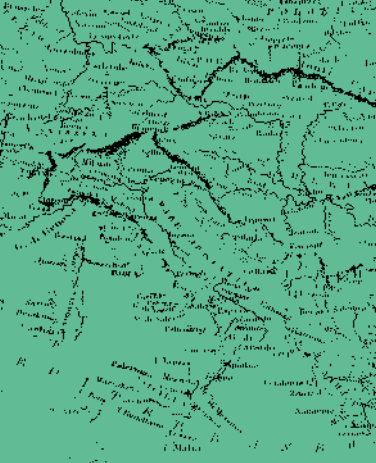
In the field of research the Government has aimed at the following objectives:

- to guarantee the efficiency of public research institutions;
- to create concrete opportunities for synergies between public and private parties both in performing research and development and exploiting the results;
- to identify criteria and procedures for evaluating, managing and monitoring research projects and facilities, applicable to the whole of the national scientific system.

The work of the Ministry for the University, in 2003, was achieved through the existing forms of intervention: supporting basic research, and private research investment, specific measures for Southern Italy, and

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<sup>(67)</sup> This was brought on-stream in the 1998/99 school year under Article 68 of Law 144/99.



implementing integrated activities between different Government departments.

Work continued on supporting basic research with resources from the FIRB - the Fund for Basic Research Investment - thanks to which support was provided in areas of outstanding scientific importance with the perspective of returns in the medium-long term, which make provision for actions to be performed jointly between the scientific and the business communities.

The FIRB projects have provided an opportunity to encourage the structural integration of young researchers, and researchers of acknowledged international repute, thereby helping to rejuvenate and enhance the quality of the research sector.

As far as policies to encourage ICT innovation and investment are concerned, a thorough analysis has been published in the recent "Report on digital technologies and innovation in Italy", by the Ministry of Innovation and Technologies <sup>(68)</sup>.

#### *Easing the administrative burden on business and improving the business environment*

In the past year great progress has been made to disseminate IT more widely to reduce the administrative burden on business.

Numerous procedures have been simplified, and a system for screen-based companies to register has been activated.

Work to support the system through the One-Stop Shops has produced particularly good results.

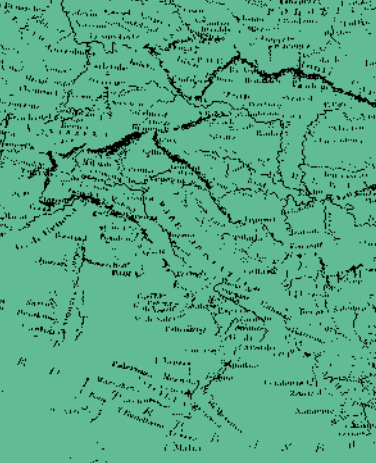
The main effect of the institution of the One-Stop Shops, together with other deregulation measures has been a reduction in waiting times, costs, and procedures for business. The number of procedures needed for setting up new businesses have been halved, both for one-man businesses and for limited liability companies. Even greater improvements have been made in reducing start-up costs, and above all the time necessary to start a new business.

To encourage entrepreneurship and innovation, the Government has introduced changes to the current national incentive system in order to make the cost of technological innovation affordable, particularly for small and medium firms. These changes are included in the "Plan for Digital Innovation of Firms".

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<sup>(68)</sup> Available on the Ministry website [www.innovazione.gov.it](http://www.innovazione.gov.it).



*Enhanced competition in the energy and utilities sector*

In the electricity sector, a comparative analysis conducted by the European Commission <sup>(69)</sup> on progress in liberalisation within the EU shows that Italy has made great progress in terms of the structural reforms aimed at fostering competition.

The market has been liberalised in several stages and it is expected to be completely opened up to end-users (excluding domestic users) by July 2004. As required by the European Directive, on 1<sup>st</sup> July 2007, households will also become eligible customers.

The Decree reforming and reorganising the energy industry <sup>(70)</sup> which is currently being examined by Parliament, meets the objective of fostering competition by hastening the opening of the market within a framework of reciprocity.

While energy sector reform is still under discussion before the Parliament, part of its principles have already been enacted by the law 290/03 ("Urgent provisions for the security of national electricity system"). The new measures would result in enhancing competition in the transmission sector by accelerating investments in new capacity and by providing for the reunification of management and ownership of the transmission network under a single subject to be privatised.

Moreover it foresees that from July 2007 firms operating in the production, import, distribution and sale of electricity and gas can't hold more than 20 per cent of capital share of firms managing and owning national distribution networks.

The start-up of the Electricity Exchange, scheduled to take place in the early months of 2004, will guarantee transparent price formation mechanisms. A decisive step forward in this direction was made in August 2003 when the Ministry for Productive Activities drew up guidelines <sup>(71)</sup> for the creation of the electric power market. Furthermore, in February 2003 a measure <sup>(72)</sup> was issued abolishing the stranded costs, thereby contributing towards the elimination of possible competitive benefits to the electricity market incumbent to the detriment of new providers.

<sup>(69)</sup> European Commission, 2002, "Second benchmarking report on the implementation of the internal and electricity and gas market".

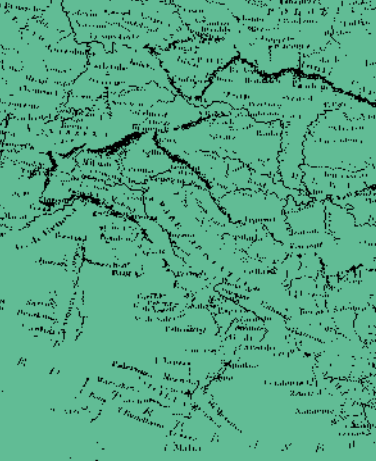
<sup>(70)</sup> Bill AS2421, "Reorganising the energy industry and vesting delegated powers in the Government in relation to electric power, and the storage and sale of LPG, and the management of radioactive waste", the so-called Marzano Draft Law.

<sup>(71)</sup> They provide, inter alia, for the creation of an electric power exchange, a dispatching service exchange, and unfettered bilateral contracts.

<sup>(72)</sup> Decree Law 25 of 18 February 2003, containing "Urgent measures regarding the general costs of the electricity system", enacted as Law 83 of 17 April 2003.

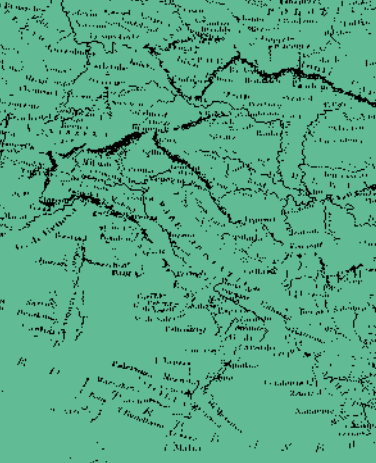






## IV. STRUCTURAL INDICATORS





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### STRUCTURAL INDICATORS OF PRODUCT MARKETS

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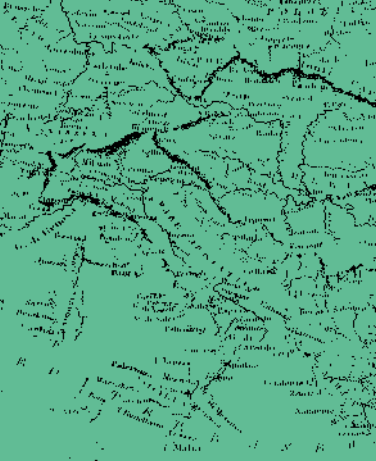
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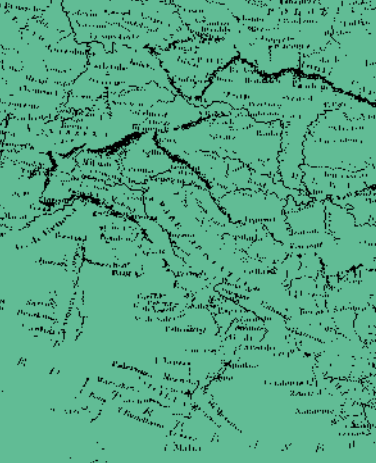
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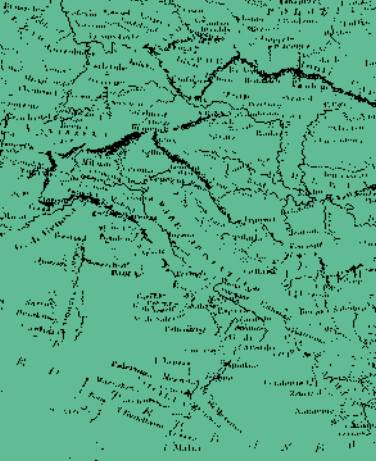
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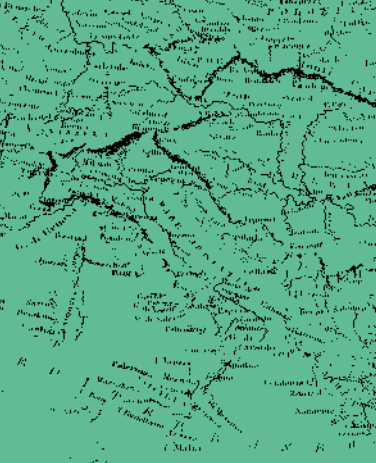
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## STRUCTURAL INDICATORS OF PRODUCTS MARKETS

### Performance indicators - Functioning of markets:

**Table 1 - Intra EU and total trade**  
(as a percentage of GDP)

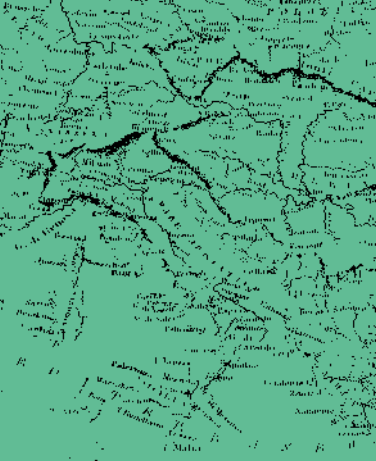
Years	Intra UE trade	Total trade
1996	10.8	18.7
1997	11.2	19.3
1998	11.5	19.5
1999	11.3	19.1
2000	12.2	22.0
2001	12.2	22.0
2002	11.4	20.8

Source: Istat data processed by Ministry of Economy and Finance.

**Table 2 - Cross border mergers and acquisitions**  
(EU member States' shares relative to GDP share - per cent ratios)

	1996	1997	1998	1999	2000	2001	2002
<b>Inward</b>							
France	93.6	90.9	52.9	39.6	36.0	40.7	93.6
Germany	53.6	40.4	40.4	45.0	177.8	97.7	104.4
<b>Italy</b>	<b>24.0</b>	<b>20.7</b>	<b>17.0</b>	<b>22.8</b>	<b>23.6</b>	<b>31.0</b>	<b>43.6</b>
Portugal	75.5	5.8	17.3	4.4	37.7	13.8	41.4
United Kingdom	284.0	216.8	290.8	217.5	168.5	178.5	150.6
Spain	25.7	52.3	44.1	23.2	53.3	55.6	60.6
<b>Outward</b>							
France	86.1	87.3	64.0	101.7	127.0	108.6	95.4
Germany	68.5	36.2	93.5	67.2	30.9	74.5	91.7
<b>Italy</b>	<b>12.0</b>	<b>20.9</b>	<b>38.2</b>	<b>18.0</b>	<b>15.5</b>	<b>24.7</b>	<b>28.1</b>
Portugal	7.7	33.4	120.9	20.6	24.6	14.7	49.1
United Kingdom	277.8	257.0	200.6	242.8	261.9	189.4	178.5
Spain	51.5	83.2	76.8	70.0	69.2	46.8	38.7

Source: OECD "Main Economic Indicators" and UNCTAD - "World Investment Report 2003" - data processed by Ministry of Economy and Finance.



**Table 3 - Harmonised index of consumer prices**  
(1996=100)

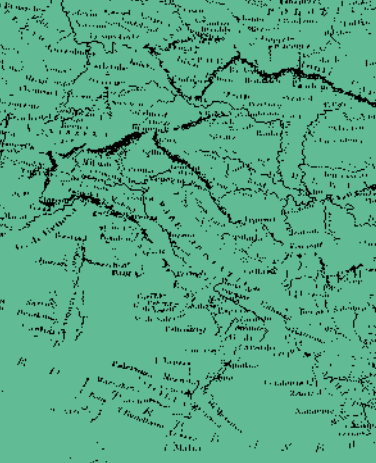
	1997	1998	1999	2000	2001	2002	2003
EU15	101.7	103.0	104.3	106.2	108.6	110.8	113.0
Austria	101.2	102.0	102.5	104.5	106.9	108.8	110.2
Belgium	101.5	102.4	103.6	106.4	109.0	110.7	112.3
Denmark	101.9	103.3	105.4	108.3	110.7	113.4	115.6
France	101.3	102.0	102.5	104.4	106.3	108.3	110.7
Finland	101.2	102.6	103.9	107.0	109.8	112.0	113.5
Germany	101.5	102.1	102.8	104.2	106.2	107.6	108.8
Greece	105.4	110.2	112.6	115.8	120.1	124.8	128.5
Ireland	101.2	103.4	106.0	111.5	116.0	121.5	126.3
<b>Italy</b>	<b>101.9</b>	<b>103.9</b>	<b>105.7</b>	<b>108.4</b>	<b>110.9</b>	<b>113.8</b>	<b>117.0</b>
Luxembourg	101.4	102.4	103.4	107.3	109.9	112.1	115.0
Netherlands	101.9	103.7	105.8	108.2	113.8	118.2	120.8
Portugal	101.9	104.2	106.4	109.4	114.2	118.4	122.3
United Kingdom	101.8	103.4	104.8	105.6	106.9	108.3	109.8
Spain	101.9	103.7	106.0	109.7	112.8	116.8	120.5
Sweden	101.9	102.9	103.4	104.8	107.6	109.7	112.3

Source: Eurostat New Cronos.

**Table 4 - Level of labour productivity**  
(annual index: EU15=100)

	output per hour worked				output per employee			
	1995	2001	2002	2003	1995	2001	2002	2003
<b>Italy</b>	<b>113.5</b>	<b>107.6</b>	<b>104.1</b>	<b>103.6</b>	<b>114.0</b>	<b>110.0</b>	<b>106.7</b>	<b>106.1</b>
United Kingdom	83.7	87.1	89.1	89.8	89.3	94.0	96.3	97.0
France	117.2	121.8	120.8	123.1	114.4	115.4	114.9	113.7
Germany	106.0	103.9	104.0	104.5	98.9	95.0	95.0	95.5
United States	115.6	112.9	113.3	114.5	119.9	119.1	118.9	120.1
Japan	81.0	78.4	76.5	78.1	93.6	87.6	89.4	89.4

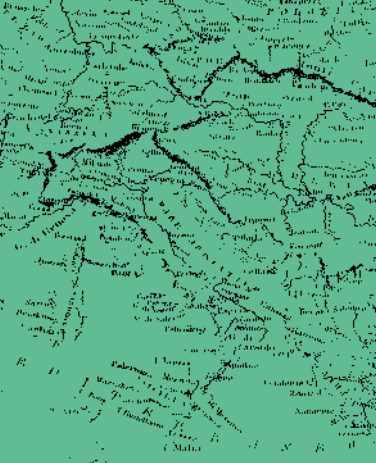
Source: Eurostat.



**Table 5 - Profitability**  
(annual index: 1995=100)

Years	Agriculture, forestry and fisheries	Industry excluding construction	Construction	Trade, hotels, restaurants, transport and communication	Credit services, insurance, real estate services, renting and professional services	Education, health system, other public and private services
<b>INPUT DEFLATOR</b>						
1997	103.0	101.5	103.6	105.0	108.7	106.1
1998	100.8	100.5	104.6	106.7	112.5	109.3
1999	102.0	100.0	106.0	110.5	114.5	112.1
2000	105.5	108.5	109.4	113.1	118.0	117.7
2001	110.1	110.3	111.8	116.0	121.5	124.1
2002	110.6	109.5	116.6	118.8	122.4	126.3
<b>OUTPUT DEFLATOR</b>						
1997	103.2	102.4	104.4	105.0	107.9	109.9
1998	100.8	101.4	103.9	105.9	108.7	109.1
1999	99.1	101.4	105.7	108.5	111.4	111.7
2000	101.3	107.7	109.0	109.6	114.4	116.7
2001	105.0	109.8	111.5	112.5	116.7	122.0
2002	107.3	109.7	116.1	114.9	118.7	124.6
<b>UNIT VARIABLE COSTS</b>						
1997	97.6	103.1	104.3	105.0	108.4	110.0
1998	93.1	102.2	104.0	105.3	109.8	109.0
1999	87.7	102.2	106.5	109.4	113.5	111.7
2000	89.5	109.0	109.9	111.1	116.1	117.2
2001	92.4	110.6	112.0	113.3	119.2	121.5
2002	94.6	110.7	116.4	116.4	122.3	123.8
<b>LABOUR COST PER UNIT OF OUTPUT</b>						
1997	96.7	106.4	105.5	102.9	102.6	111.4
1998	90.9	103.6	103.1	101.5	100.6	107.5
1999	83.7	103.4	107.1	103.0	102.1	108.3
2000	83.5	102.8	109.0	104.5	104.1	112.2
2001	85.2	105.7	112.3	105.6	106.7	114.4
2002	87.0	109.2	115.9	108.6	110.5	116.6
<b>MARK-UP - margins on unit variable costs</b>						
1997	105.7	99.4	100.0	100.0	99.5	99.9
1998	108.3	99.2	99.9	100.5	99.0	100.1
1999	113.1	99.2	99.2	99.2	98.1	100.0
2000	113.2	98.8	99.2	98.7	98.5	99.5
2001	113.7	99.3	99.5	99.3	97.9	100.4
2002	113.5	99.1	99.7	98.7	97.0	100.6

Source: Istat. Conti Trimestrali SEC. 95.



## Performance indicators - *Network industries:*

**Table 6 - Net electricity generation**  
(year 2002)

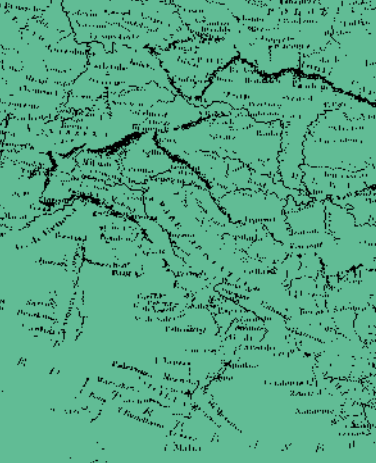
	GWh	Share (%)
ENEL	115,881	43.0
AEM MILANO	3,503	1.3
AEM TORINO	1,617	0.6
ASM BRESCIA	1,347	0.5
EUROGEN	7,546	2.8
ENI	3,503	1.3
EDISON	13,205	4.9
ENDESA ITALIA	18,056	6.7
GRTN	56,054	20.8
C.V.A.-IDROENERGIA	2,695	1.0
EDIPOWER	11,319	4.2
ACEA	1,078	0.4
ASM BRESCIA	1,347	0.5
INTERPOWER	6,737	2.5
GREEN POWER	5,390	2.0
OTHERS	21,020	7.8
<b>TOTAL Net Generation</b>	<b>270,300</b>	<b>100.0</b>

Source: Ministry of Economy and Finance, based on data from the Italian Electricity and Gas Authority, "Annual Report", 2003.

**Table 7 - Electricity sales**  
(year 2002)

MARKET OPERATOR	ENERGY SOLD			
	FREE MARKET (TWh)	MARKET SHARE (%)	CAPTIVE MARKET (TWh)	MARKET SHARE (%)
ENEL GROUP	29.8	25.8	162.9	93.0
MAIN COMPETITORS	15.1	13.1	0.0	0.0
OTHER MAJOR PRODUCERS	5.6	4.9	10.4	5.9
MINOR PRODUCERS	2.1	1.8	2.0	1.1
SELF-GENERATION	17.1	14.8	0.0	0.0
INDEPENDENT WHOLESALERS	10.2	8.8	0.0	0.0
FOREIGN WHOLESALERS	7.9	6.9	0.0	0.0
WHOLESALING CONSORTIUMS	11.0	9.5	0.0	0.0
FINAL COSTUMERS	16.4	14.2	0.0	0.0
<b>TOTAL ELECTRICITY SALES</b>	<b>115.3</b>	<b>100.0</b>	<b>175.2</b>	<b>100.0</b>

Source: Ministry of Economy and Finance, based on data from the Italian Electricity and Gas Authority, "Annual Report", 2003.



**Table 8 - Market shares in the natural gas industry (a)**

OPERATOR	Sales and final consumption (billions of cubic metre)	MARKET SHARE (%)
ENI	28.7	41.0
ENEL	14.0	20.0
EDISON	5.3	7.6
OTHERS	13.6	19.4
<b>TOTAL (b)</b>	<b>70.0</b>	<b>100.0</b>

(a) From 1st January 2003 gas market is liberalised.

(b) Total includes also the integrated final sale.

Source: Ministry of Economy and Finance, based on data from the *Italian Regulatory Authority for Electricity and Gas*, "Annual Report", 2003.

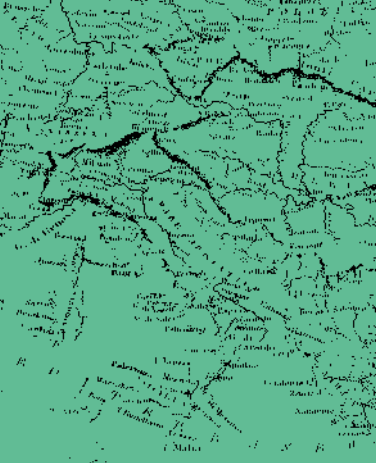
**Table 9 - Electricity prices for households**  
(net of taxes - euro-cents/KWh)

	Annual consumption classes							
	600 KWh		1200 KWh		3500 KWh		7500 KWh	
	Jan. 2003	2003/02	Jan. 2003	2003/02	Jan. 2003	2003/02	Jan. 2003	2003/02
	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %
<b>EU weighted average</b>	<b>16.63</b>	<b>4.43</b>	<b>13.18</b>	<b>3.58</b>	<b>10.63</b>	<b>3.41</b>	<b>9.79</b>	<b>3.42</b>
<b>Italy</b>								
- Total tariff (*)	7.65	5.81	7.95	5.30	14.49	4.24	14.04	4.46
- Part of the tariff linked to variable costs (oil)(**)	3.58	13.00	3.58	13.00	4.74	12.58	5.20	12.37
- Tariff excluding variable costs (oil)	4.07	0.00	4.37	-0.46	9.75	0.62	8.84	0.31

(\*) The net price does not include general charges of sistem according to the methodology used by Eurostat.

(\*\*) Estimates.

Source: Eurostat - data processed by the *Italian Regulatory Authority for Electricity and Gas*.



**Table 10 - Electricity prices for industrial users**  
(net of taxes - euro-cents/KWh)

	Annual consumption classes							
	160,000 KWh		2 GWh		10 GWh		24 GWh	
	Jan. 2003	2003/02	Jan. 2003	2003/02	Jan. 2003	2003/02	Jan. 2003	2003/02
	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %
<b>EU weighted average</b>	<b>8.53</b>	<b>-0.57</b>	<b>6.37</b>	<b>4.44</b>	<b>6.05</b>	<b>5.06</b>	<b>5.41</b>	<b>6.55</b>
<b>Italy</b>								
- Total tariff (*)	9.31	5.68	8.26	6.44	8.44	7.11	7.64	7.45
- Part of the tariff linked to variable costs (oil)(**)	4.64	9.76	4.64	9.76	4.64	9.76	4.64	9.76
- Tariff excluding variable costs (oil)	4.67	1.91	3.62	2.47	3.80	4.04	3.00	4.07

(\*) The net price does not include general charges of sistem keeping to the methodology used by Eurostat.  
(\*\*) Estimates.

Source: Eurostat - data processed by the Italian Regulatory Authority for Electricity and Gas.

**Table 11 - Gas prices for households**  
(net of taxes - euro-cents/m³)

	Annual consumption classes								
	January 2002			July 2002			January 2003		
	8.37 GJ	83.7 GJ	125.6 GJ	8.37 GJ	83.7 GJ	125.6 GJ	8.37 GJ	83.7 GJ	125.6 GJ
<b>EU weighted average</b>	<b>53.47</b>	<b>32.12</b>	<b>30.79</b>	<b>52.47</b>	<b>31.58</b>	<b>30.25</b>	<b>53.84</b>	<b>33.22</b>	<b>30.92</b>
<b>Italy</b>									
- Total tariff	46.10	37.87	37.27	45.04	36.78	36.21	46.55	37.56	37.36
- Part of the tariff linked to variable costs (oil)(*)	18.62	15.30	15.05	17.66	14.42	14.19	19.18	15.48	15.39

(\*) Estimates.

Source: Eurostat - data processed by the Italian Regulatory Authority for Electricity and Gas.

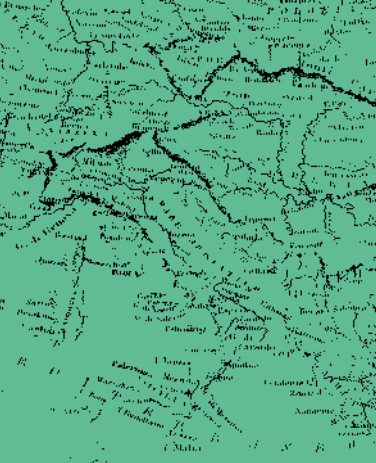
**Table 12 - Gas prices for industrial users**  
(net of taxes - euro-cents/m³)

	Annual consumption classes											
	January 2002				July 2002				January 2003			
	418.6 GJ	4186 GJ	41860 GJ	418600 GJ	418.6 GJ	4186 GJ	41860 GJ	418600 GJ	418.6 GJ	4186 GJ	41860 GJ	418600 GJ
<b>EU weighted average</b>	<b>30.71</b>	<b>25.45</b>	<b>21.85</b>	<b>18.38</b>	<b>29.47</b>	<b>23.95</b>	<b>20.61</b>	<b>16.75</b>	<b>29.96</b>	<b>25.01</b>	<b>21.25</b>	<b>17.43</b>
<b>Italy</b>												
- Total tariff	36.59	28.32	22.35	18.62	35.51	27.23	20.96	17.66	36.30	29.99	20.48	18.01
- Part of the tariff linked to variable costs (oil)(*)	14.78	11.44	9.03	7.52	13.92	10.68	8.22	6.92	14.96	12.36	8.44	7.42

(\*) Estimates.

Source: Eurostat - data processed by the Italian Regulatory Authority for Electricity and Gas.





**Table 13 - Implementation of Galli Law (Law 36/1994)**

	2000	% share (*)	2001	% share (*)	2002	% share (*)
Optimal water service areas instituted	48	53	74	81	84	92
Reconnaissance performed	25	27	54	59	66	73
Area plans approved	7	8	18	20	47	52
Service assigned	2	2	10	11	25	27

(\*) Percentage share on the total.

Source: Comitato per la vigilanza sull'uso delle risorse idriche, 2002.

**Table 14 - Water tariffs in some districts**  
(June 2003)

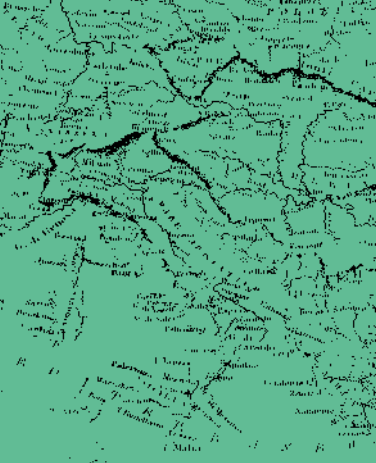
District-Operator	Base tariff potable water	Part of tariff for sewerage	Part of tariff for depuration	Average tariff for water cycle	Population served	Total consumption per head
	(euro-cents per cubic meter)				n.	litre/inhabitant
Ancona - Gorgovivo	0.444153	0.105657	0.296167	0.91	220494	168
Ascoli Piceno - CIIP SpA	0.454642	0.087798	0.252288	0.73	270984	153
Bari - AQP	0.511488	0.094249	0.270569	1.26	4332613	170
Bologna - HERA SpA	0.773309	0.105132	0.298023	1.22	1900891	168
Brescia - ASM Brescia SpA	0.500727	0.115657	0.292074	0.90	440365	210
Genova - Genova Acque SpA	0.527016	0.137805	0.292900	0.99	360000	n.a.
Napoli - ARIN SpA	0.694703	0.094511	0.269446	0.98	933386	145
Palermo - AMAP SpA	0.774685	0.092962	0.258228	1.05	686722	299
Reggio Emilia - AGAC SpA	0.728551	0.103811	0.292315	1.22	406376	122
Sardegna - ESAF	0.517230	0.095955	0.262618	0.94	669296	444
Torino - SMAT	0.371476	0.095161	0.266520	0.73	1367813	270
Trieste - ACEGAS SpA	0.528381	0.116031	0.319032	1.18	231409	170
Venezia - VESTA SpA	0.254079	0.095960	0.268930	0.59	266181	220

Source: Federgasacqua.

**Table 15 - Prices trend in postal services**  
(harmonised index: base 1996=100)

	1997	1998	1999	2000	2001	2002	2003
Austria	109.5	118.9	118.9	118.9	124.4	124.6	130.8
Belgium	106.3	106.3	106.3	106.3	106.3	108.0	123.6
Denmark	100.0	100.0	103.4	103.8	105.0	110.1	114.0
Finland	100.3	102.7	114.0	126.1	129.7	129.6	138.2
France	101.2	101.2	101.3	101.5	102.2	103.6	109.0
Germany	103.0	107.5	107.2	107.0	107.7	109.9	110.5
Greece	104.7	121.7	129.8	138.1	161.5	175.2	184.1
Ireland	100.0	99.5	99.3	99.3	99.3	103.6	112.9
<b>Italy</b>	<b>108.1</b>	<b>112.2</b>	<b>112.2</b>	<b>112.4</b>	<b>114.5</b>	<b>115.7</b>	<b>115.9</b>
Luxembourg	100.0	100.0	100.0	115.2	120.2	119.9	126.8
Netherlands	108.6	108.6	108.6	109.1	112.3	117.2	116.2
Portugal	104.6	106.2	107.2	111.6	112.6	116.8	121.1
Spain	108.1	141.7	141.7	141.7	160.1	181.5	187.5
Sweden	117.4	124.1	129.8	130.8	130.5	140.9	155.2
United Kingdom	101.9	103.0	103.7	107.1	108.5	109.0	112.1
<b>EU15</b>	<b>104.3</b>	<b>107.9</b>	<b>108.1</b>	<b>109.3</b>	<b>110.8</b>	<b>112.6</b>	<b>115.4</b>

Source: Eurostat New Cronos.



**Table 16 - Market share of reserved postal services**  
(as a percentage of revenues of reserved postal services)

Years	%
1997	73
1998	73
1999	66
2000	66
2001	66
2002	70
2003 (*)	55

(\*) Estimates.

Source: Poste italiane.

**Table 17 - Telecom Italia charges: effects of the tariffs rebalancing**  
(percentage changes, year 2002)

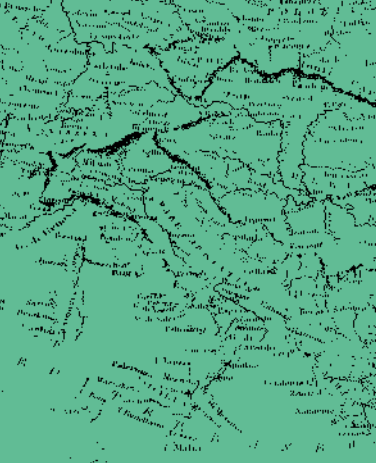
Services	Δ %
Access	8.8
Local	- 10.7
District	- 11.0
National Long Distance	- 14.8
International	- 5.6
<b>Total</b>	- 1.7

Source: The Italian Communication Authority.

**Table 18 - Incumbent's telephone charges**

Fixed to fixed	1998		1999		2000		2001		2002		2002		2003	
	peak	off-peak	peak	off-peak	peak	off-peak	peak	off-peak	peak	off-peak	peak	off-peak	peak	off-peak
	Italian lire										Euro cents			
Local	127	127	192	153	192	153	192	153	192	153	9.91	7.88	9.91	7.88
Long distance (over than 30 km)	983	584	924	567	924	924	924	924	427	277	22.03	14.31	22.03	14.31
International (France)	2.133	1.936	1.990	1.697	1.700		1.700		1.438		74.27		71.12	
International (USA)	2.133	1.936	1.990	1.697	1.700		1.700		1.438		74.27		71.12	
International (Japan)	5.194	4.685	5.115	4.631	4.700		4.700		4.700		242.72		238.32	
Monthly rental basic subs. (B-simplex)	16.800		18.000		18.700		18.700		23.506		1.214.00		1.214.00	
<b>Percentage changes</b>	<b>99/98</b>		<b>00/99</b>		<b>01/00</b>		<b>01/98</b>		<b>02/01</b>		<b>03/02</b>			
	peak	off-peak	peak	off-peak	peak	off-peak	peak	off-peak	peak	off-peak	peak	off-peak	peak	off-peak
Local	51.2	20.5	0.0	0.0	0.0	0.0	51.2	20.5	0.0		0.0		0.0	0.0
Long distance (over than 30 km)	-6.1	-3.0	0.0	0.0	0.0	0.0	-6.0	58.2	-37.4		-32.8		0.0	0.0
International (France)	-6.7	-12.4	-		0.0		-		-15.4				-4.2	
International (USA)	-6.7	-12.4	-		0.0		-		-15.4				-4.2	
International (Japan)	-1.5	-1.2	-		0.0		-		0.0				-1.8	
Monthly rental basic subs (B-simplex)	7.1		3.9		0.0		11.3		25.7				0.0	

Source: The Italian Communication Authority.

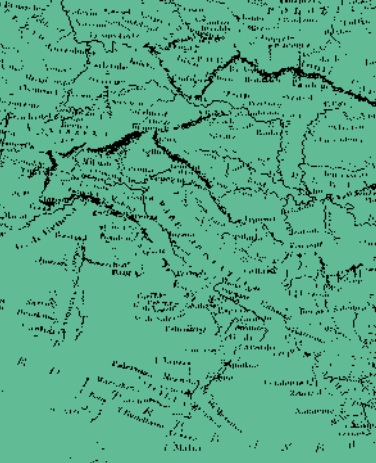


**Table 19 - Telephone charges of major operators**

(Prices at 8<sup>th</sup> September, 2003- value expressed in euro cents, VAT excluded)

	Lenght/Cost							
	1 minute		3 minutes		5 minutes		10 minutes	
	peak	off-peak	peak	off-peak	peak	off-peak	peak	off-peak
Urban calls								
Telecom Italia	6.7	6.1	9.9	7.9	13.1	9.7	21.0	14.2
Tiscali	6.1	5.7	7.9	6.6	9.7	7.6	14.3	10.1
Tele2	6.1	5.7	7.9	6.7	9.7	7.7	14.3	10.2
Wind	5.2	5.2	8.1	6.8	11.0	8.3	18.3	12.3
Long-distance calls								
Telecom Italia	11.7	9.1	22.0	14.3	32.4	19.5	58.1	32.4
Tiscali	12.3	8.1	24.0	11.5	35.6	14.8	64.8	23.1
Tele2	12.3	8.1	24.0	11.5	35.6	14.8	64.8	23.1
Wind	6.5	6.5	24.5	11.4	42.6	16.3	87.8	28.6
Fixed/mobile calls								
Telecom Italia	28.3	20.0	64.8	40.0	101.3	60.0	192.6	110.0
Tiscali	28.6	22.3	64.9	46.2	101.3	70.0	192.1	129.6
Tele2	28.6	22.3	64.9	46.2	101.3	70.0	192.1	129.6
Wind	34.2	22.5	81.7	46.6	129.3	70.7	248.1	130.9
International calls to fixed								
Directed to France /United states								
Telecom Italia	40.9		71.1		101.3		176.8	
Tiscali	21.2		37.9		54.5		96.2	
Tele2	23.3		44.2		65.0		117.1	
Wind	31.0		67.3		103.5		194.2	
Directed to Est Europe (Poland)								
Telecom Italia	55.8		115.8		175.8		325.8	
Tiscali	42.6		101.9		161.2		309.5	
Tele2	37.9		87.9		137.9		262.9	
Wind	49.1		121.5		194.0		375.0	
Directed to Japan								
Telecom Italia	96.7		238.3		380.0		734.2	
Tiscali	42.6		101.9		161.2		309.5	
Tele2	37.9		87.9		137.9		262.9	
Wind	77.5		206.7		335.8		658.8	
International calls to mobile								
Directed to France /United states								
Telecom Italia	40.9		71.1		101.3		176.8	
Tiscali	21.2		37.9		54.5		96.2	
Tele2	23.3		44.2		65.0		117.1	
Wind	31.0		67.3		103.5		194.2	
Directed to Est Europe (Poland)								
Telecom Italia	67.5		150.8		234.2		442.5	
Tiscali	42.6		101.9		161.2		309.5	
Tele2	37.9		87.9		137.9		262.9	
Wind	49.1		121.5		194.0		375.0	
Directed to Japan								
Telecom Italia	109.2		275.8		442.5		859.2	
Tiscali	42.6		101.9		161.2		309.5	
Tele2	37.9		87.9		137.9		262.9	
Wind	77.5		206.7		335.8		658.8	

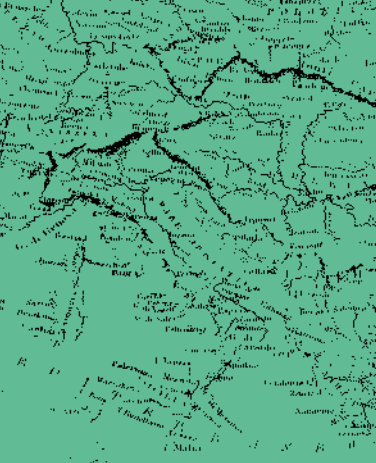
Source: The Italian Communication Authority, Annual Report, 2003.



**Table 20 - Tariff plans: comparison among major operators**  
(Main offers at 8<sup>th</sup> September 2003)

Companies	Tariff Plans						Charges E/month VAT excluded	
Telecom Italia	Teleconomy 24						4,65	
Wind	Spazio Zero						4,63	
Tele2	Senza Limiti						4,63	
Length/Cost Euro cent (VAT excluded)								
	1 minute		3 minutes		5 minutes		10 minutes	
	peak	off-peak	peak	off-peak	peak	off-peak	peak	off-peak
Urban and long-distance calls								
Telecom Italia	6.40	6.40	8.88	8.88	11.37	11.37	17.58	17.58
Wind Infostrada	6.21	6.21	8.29	8.29	10.38	10.38	15.58	15.58
Tele2	5.99	5.99	7.66	7.66	9.33	9.33	13.49	13.49
Fixed/mobile calls								
Telecom Italia	28.26	20.00	64.78	40.00	101.29	60.00	192.58	110.00
Wind Infostrada	32.79	21.38	77.54	43.29	122.29	65.21	234.17	120.00
Tele2	28.58	22.33	64.92	46.17	101.25	70.00	192.08	129.58
International calls								
Direct to France / USA								
Telecom Italia	27.28		48.28		69.28		121.78	
Infostrada	31.04		67.29		103.54		194.17	
Wind	23.33		44.17		65.00		117.08	
Direct to East Europe (Poland)								
Telecom Italia	36.28		75.28		114.28		211.78	
Infostrada	49.13		121.54		193.96		375.00	
Wind	37.92		87.92		137.92		262.92	
Direct to Japan								
Telecom Italia	63.78		157.78		251.78		486.78	
Infostrada	77.50		206.67		335.83		658.75	
Wind	37.92		87.92		137.92		262.92	

Source: The Italian Communication Authority.



**Table 21 - Competition in fixed and mobile telephony**  
(concentration index)

Market share (%)															
	All voice phone			Local			Long distance			International			To mobile phone		
	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002
Telecom Italia	83.8	76.8	70.8	94.1	86.6	76.7	77.6	64.0	69.2	79.3	74.9	64.5	80.6	76.0	69.0
OLO 1 (a)	15.2	21.3	25.7	5.7	11.9	19.3	21.2	32.9	27.9	17.4	21.8	27.8	18.3	22.5	28.6
OLO 2 (b)	1.0	1.9	3.5	0.2	1.5	4.0	1.2	3.1	2.9	3.3	3.3	7.7	1.1	1.4	2.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
HH index	7,137	6,130	5,317	8,876	7,603	6,116	6,241	4,563	5,084	6,401	5,785	4,462	6,717	6,105	5,171

Market share (%)						
	Revenues			Lines Installed		
	2000	2001	2002	2000	2001	2002
TIM	56.6	51.0	50.2	51.1	47.8	47.7
Blu-OPI-Wind	43.4	49.0	49.8	48.9	52.2	52.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
HH index	4,695	4,142	4,020	3,998	3,608	3,833

(a) OLO 1 comprises Albacom, Tele2 and Wind-Infostrada.

(b) OLO 2 comprises Atlanet, Edisontel, E-planet, Fastweb, Plug it and Tiscali.

Source: The Italian Communication Authority, Annual Report 2003.

**Table 22 - Revenues per line installed**

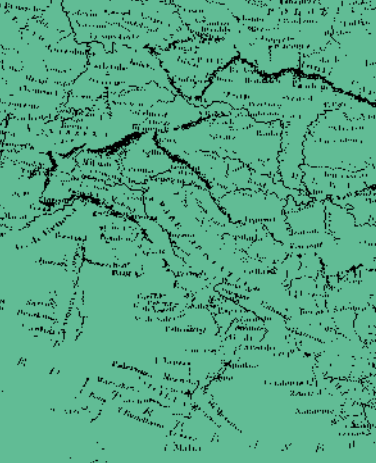
	2001	2002
TIM	100	102.2
Others	100	103.8

Source: The Italian Communication Authority, Annual Report 2003.

**Table 23 - Medium and long distance railway tariffs**  
(One-way ticket fares - value expressed in euro)

Route	km	Years							
		2000		2001		2002		2003	
		1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.	1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.	1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.	1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.
Roma-Milano (Eurostar)	632	66.62	42.35	67.14	46.48	67.14	46.48	67.14	46.48
Roma-Firenze (Eurostar)	316	42.09	26.60	42.35	29.44	42.35	29.44	42.35	29.44
Napoli-R.Calabria (Intercity)	476	48.55	30.21	42.40	31.35	42.40	31.35	42.40	31.35
Pescara-Bari (Intercity)	300	31.92	19.73	27.94	20.50	27.94	20.50	27.94	20.50

Source: Trenitalia.



**Table 24 - Regional railway tariffs**

(One-way ticket fares and monthly ticket in some Regions - value expressed in euro)

Regions	Route	km	ONE WAY TICKET							
			2000		2001		2002		2003	
			1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.	1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.	1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.	1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.
Campania	Salerno-Avellino	49	4.18	2.53	4.18	2.69	4.18	2.69	From 1st January has been introduced the integrated ticket UNICO(1)	
	Napoli-Benevento (via Caserta)	97	7.23	4.39	7.23	4.65	7.23	4.65		
E. Romagna	Fidenza-Reggio Emilia	50	4.18	2.53	4.18	2.69	4.25	2.75	4.30	2.80
	Faenza-Ferrara	97	7.23	4.39	7.64	4.91	7.75	5.00	7.85	5.05
Lombardia	Milano-Como	47	4.29	2.84	4.29	2.84	4.85	3.25	4.85	3.25
	Pavia-Bergamo	95	7.70	5.11	7.70	5.11	8.10	5.40	8.10	5.40
			MONTHLY TICKET							
			2000		2001		2002		2003	
			1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.	1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.	1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.	1 <sup>st</sup> cl.	2 <sup>nd</sup> cl.
Campania	Salerno-Avellino		69.21	45.96	69.21	45.96	69.21	45.96	From 1st January has been introduced the integrated monthly ticket UNICO(1)	
	Napoli-Benevento (via Caserta)		94.51	63.01	94.51	63.01	94.51	63.01		
E. Romagna	Fidenza - R. Emilia		71.27	44.42	71.27	45.96	72.50	46.75	73.60	47.50
	Faenza-Ferrara		92.45	57.84	99.16	64.04	100.85	65.15	102.20	66.00
Lombardia	Milano-Como		69.72	46.48	69.72	46.48	83.50	55.50	83.50	55.50
	Pavia-Bergamo		95.54	63.52	95.54	63.52	107.50	72.00	107.50	72.00

N.B. Prices based on regional tariffs.

(1) In Campania at the 1<sup>st</sup> January 2003 it is applicable an integrated tariff not comparable to the one for 2002.

Source: Trenitalia.

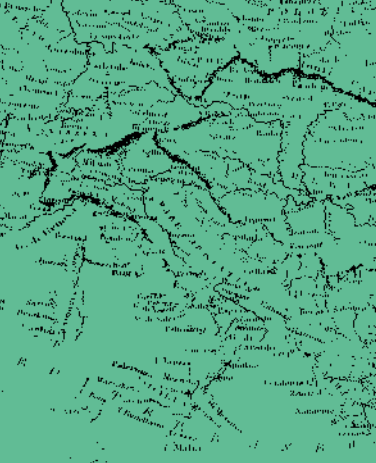


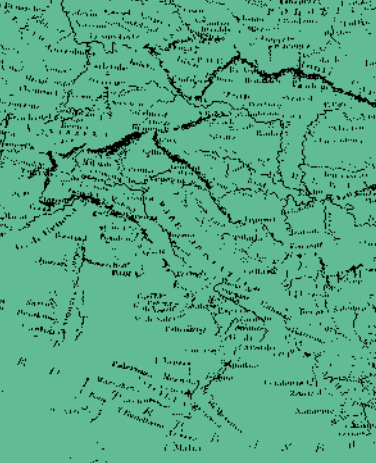
Table 25 - Issue of railway licences

Railway operators	Licences n.	Date of release	Extended licence (*)	Operators having obtained the safety certificate
TRENITALIA S.p.a.	1	23-5-2000	Yes	Yes
FERROVIE NORD MILANO ESERCIZIO S.p.a	2	23-6-2000	Yes	Yes
DEL FUNGO GIERA SERVIZI FERROVIARI S.p.a	3	23-6-2000	Yes	Yes
RAIL TRACTION COMPANY S.p.a.	4	23-6-2000	Yes	Yes
RAIL ITALY S.p.a.	5	3-7-2000	Yes	Yes
METROFERRO S.p.a.	6	20-12-2000	Yes	No
METRONAPOLI S.p.a.	7	21-12-2000	Yes	Yes
LA FERROVIARIA ITALIANA	8	13-3-2001	Yes	Yes
INTERJET S.r.l.	9	6-4-2001	Yes	No
FERROVIA ADRIATICO SANGRITANA S.r.l.	10	8-5-2001	Yes	No
HUPAC S.p.a.	11	14-5-2001	Yes	Yes
AZIENDA CONSORZIALE TRASPORTI DI REGGIO EMILIA	12	18-5-2001	Yes	No
GETRAS s.r.l.	13	17-7-2001	Yes	No
FERROVIA CENTRALE UMBRA S.R.L.	14	23-7-2001	Yes	No
CEMAT S.p.a.	15	24-7-2001	Yes	No
S.A.T.T.I.	16	27-7-2001	Yes	Yes
FERROVIA EMILIA-ROMAGNA srl	17	3-8-2001	Yes	Yes
FERROVIE DEL GARGANO srl	18	28-11-2001	Yes	No
SISTEMI TERRITORIALI Spa	19	4-12-2001	Yes	No
STRADE FERRATE DEL MEDITERRANEO srl	20	20-12-2001	Yes	No
MONFERAIL srl	21	20-12-2001	Yes	No
SAD - TRASPORTO LOCALE S.p.a.	22	28-12-2001	Yes	No
DECOTRAIN S.p.a.	23	23-1-2002	Yes	No
ATCM S.p.a.	24	28-5-2002	Yes	No
SERFER - SERVIZI FERROVIARI S.r.l.	25	28-5-2002	Yes	Yes
AZIENDA TRASPORTI MILANESE S.p.a.	26	28-5-2002	Yes	No
CAT S.p.a.	27	28-5-2002	Yes	No
FERROVIA ALIFANA E BENEVENTO NAPOLI Srl	28	20-2-2003	No	No
ITALIANA COKE SPA	29	20-2-2003	No	No
VENTARAIL srl	30	20-2-2003	No	No
FERROVIE DEL SUD EST	31	26-3-2003	No	No
SWISS RAIL CARGO	32	26-3-2003	No	No
CARGO NORD srl	33	23-5-2003	No	No

(\*) Licence extended to national transport services, according to Law 388/2000, art. 131.

Source: Ministry of Infrastructures and Transports. *Direzione per il trasporto ferroviario.*





## QUALITY OF SERVICE PROVIDED BY NETWORK INDUSTRIES

**Table 26 - Electricity: long unplanned outages in Enel grid serving households and non-households**

	Italy (*)	Northern Italy	Central Italy	Southern Italy (*)
<b>Number of outages per user</b>				
1996	4.8	3.5	5.1	6.1
1997	4.6	2.8	5.7	6.1
1998	4.1	2.6	4.9	5.4
1999	3.8	2.7	5.2	5.4
2000	3.9	2.6	4.0	5.7
2001	3.6	2.3	3.3	5.3
2002	3.1	2.1	3.0	4.2
<b>Average outage length (minutes per user)</b>				
1996	272	159	285	403
1997	209	125	229	302
1998	196	121	230	270
1999	191	145	227	297
2000	218	139	197	330
2001	181	109	133	291
2002	137	100	106	195

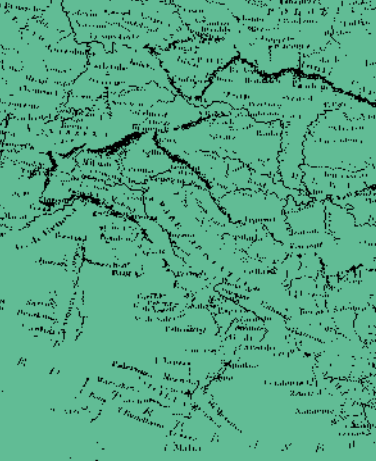
(\*) Until 1999, data exclude Calabria, Campania and Sicily.

Source: The Italian Regulatory Authority for Electricity and Gas, "Annual Report", various years.

**Table 27 - Electricity: long pre-announced outages in local providers' networks**

	1999	2000	2001	2002
<b>Number of outages per user</b>				
ACEA - Roma	2.3	2.7	2.6	2.7
AEM - Milano	1.1	1.5	1.9	1.3
AEM - Torino	1.5	2.4	2.3	1.4
ACEGAS - Trieste	1.2	1.7	1.3	0.8
ASM - Brescia	0.8	0.9	1.3	1.3
AEC - Bolzano	2.2	2.3	3.5	1.2
META - Modena	n.a.	0.5	1.2	0.9
<b>Length of outages (minutes per user)</b>				
ACEA - Roma	108	127	98	128
AEM - Milano	55	66	60	63
AEM - Torino	42	108	51	42
ACEGAS - Trieste	54	55	43	30
ASM - Brescia	19	26	41	31
AEC - Bolzano	37	103	66	43
META - Modena	n.a.	13	40	23

Source: The Italian Regulatory Authority for Electricity and Gas, "Annual Report", various years.



**Table 28 - Summary of compensations for specific standards in electricity and gas sectors - Years 2001-2002**

	Electricity		Gas	
	Number of compensations paid in 2001	Number of compensations paid in 2002	Number of compensations paid in 2001	Number of compensations paid in 2002
Estimate of simple interventions	4,638	13,143	2,334	3,741
Execution of simple interventions	1,562	6,866	3,341	4,378
Activation of supply	2,358	13,633	2,241	3,268
Interruption of supply under request	1,385	6,742	3,418	1,247
Reactivation for late payment	1,378	7,837	290	122
Range of punctuality or personalised appointment	463	1,323	462	596
Other standards defined by the suppliers	653	2,685	4	4
<b>Total</b>	<b>12,437</b>	<b>52,229</b>	<b>12,090</b>	<b>13,356</b>

Source: The Italian Regulatory Authority for Electricity and Gas, Annual Report, 2003

**Table 29 - Total customer satisfaction for the electricity supply service (a)**

	1998	1999	2000	2001
North West	94.6	94.5	94.1	94.5
North East	93.1	94.1	92.0	94.3
Centre	89.4	91.3	89.6	91.1
South	86.4	88.1	88.7	89.2
Islands	83.7	83.9	84.5	84.5
<b>Italy</b>	<b>90.3</b>	<b>91.2</b>	<b>90.6</b>	<b>91.7</b>

(a) Percentage obtained from the "very satisfied" and "quite satisfied" opinion

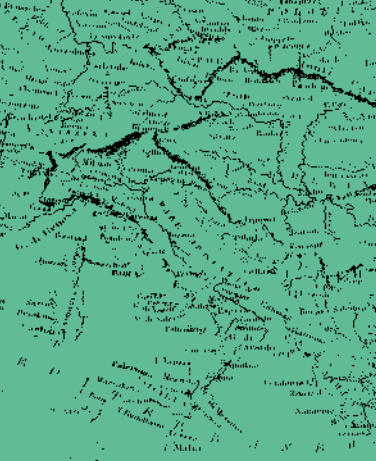
Source: The Italian Regulatory Authority for Electricity and Gas, Annual Report, 2003

**Table 30 - Total customer satisfaction for the gas supply service (a)**

	1998	1999	2000	2001
North West	95.0	95.0	94.6	94.7
North East	94.5	94.7	94.0	94.5
Centre	94.5	95.7	94.9	94.3
South	94.5	95.1	94.9	96.0
Islands	89.8	95.6	91.5	96.3
<b>Italy</b>	<b>94.5</b>	<b>95.2</b>	<b>94.5</b>	<b>94.9</b>

(a) Percentage obtained from the "very satisfied" and "quite satisfied" opinion

Source: The Italian Regulatory Authority for Electricity and Gas, Annual Report, 2003



**Table 31 - Complaints, requests for information and reports received by the Authority in the May 1999 - April 2003 period**

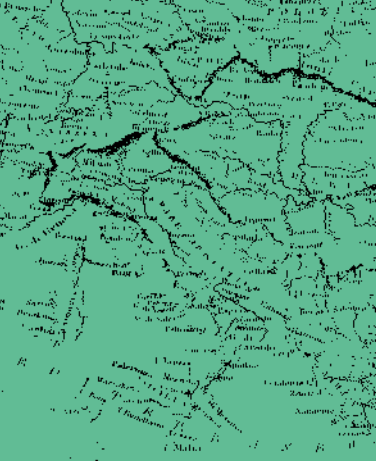
	Complaints	Information requests	Reports
<b>1999 -2000</b>			
Electricity	155	48	14
Gas	66	31	9
<b>Total</b>	<b>221</b>	<b>79</b>	<b>23</b>
<b>2000 - 2001</b>			
Electricity	270	85	32
Gas	105	39	6
<b>Total</b>	<b>375</b>	<b>124</b>	<b>38</b>
<b>2001 - 2002</b>			
Electricity	323	36	30
Gas	126	41	15
<b>Total</b>	<b>449</b>	<b>77</b>	<b>45</b>
<b>2002 - 2003</b>			
Electricity	422	36	30
Gas	174	43	13
<b>Total</b>	<b>596</b>	<b>79</b>	<b>43</b>

Source: The Italian Regulatory Authority for Electricity and Gas, "Annual Report", 2003.

**Table 32 - Main objects of complaints, reports and information requests received by the Authority in the May 2002 - April 2003 period**

	Total cases (number)	Total cases (%)
<b>ELECTRICITY</b>		
Outages	131	30.0
Billing	86	21.0
Connections	70	16.0
Contracts	40	9.3
Commercial and supply quality	28	6.5
Meters	27	6.3
Tariffs	19	4.4
Bills	16	3.7
Call center	12	2.8
<b>GAS</b>		
Contracts	58	28.0
Billing	57	27.0
Connections	43	21.0
Bills	18	8.6
Commercial and supply quality	12	5.7
Tariffs	6	2.6
Meters	6	2.6
Call center	5	2.3
Taxation	4	2.2

Source: The Italian Regulatory Authority for Electricity and Gas, "Annual Report", 2003.



**Table 33 - Electricity: average time necessary for each kind of service before the introduction of the new regulation of commercial quality**

	Enel			Local energy providers (serving more than 10,000 final clients)		
	1998	1999	2000	1997	1998	1999
	(number of days)					
Estimate of connection costs	15.8	16.5	17.4	20.1	16.8	22.8
Connection to the network	5.5	5.0	5.8	10.8	9.6	7.4
Answer to written questions	16.7	13.3	12.2	14.4	15.4	15.8
Answer to complaints	20.2	23.5	23.9	14.2	15.2	15.5
Bill correction	11.3	8.7	8.9	8.8	9.5	13.2
Meters inspection	9.9	9.0	9.9	6.8	6.3	13.0
Tension inspection	9.7	7.1	7.6	1.1	5.2	1.3

Source: The Italian Regulatory Authority for Electricity and Gas.

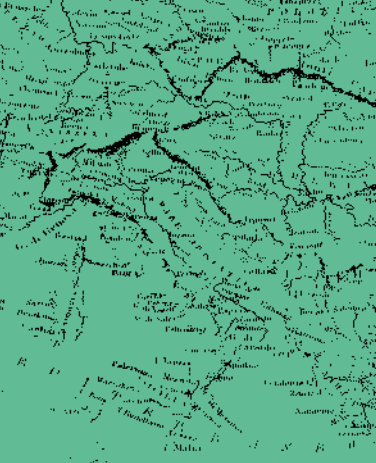
**Table 34 - Electricity: average time necessary for each kind of service(\*) after the introduction of the new regulation of commercial quality(\*\*)**

	Enel		Local energy providers (serving more than 5,000 final clients)	
	2 <sup>nd</sup> half 2000	2001	2 <sup>nd</sup> half 2000	2001
(number of working days)				
Services subject to automatic compensation				
Estimate of simple interventions (i.e. estimate of connection costs)	7.84	9.45	7.65	7.49
Execution of simple interventions (i.e.connection to the network)	4.47	5.72	5.66	6.77
Services not subject to automatic compensation				
Answer to written complaints and questions	8.25	9.21	n.a.	18.85
Bill correction	4.92	13.91	n.a.	5.06
Meters inspection	6.35	6.11	n.a.	5.34
Tension inspection	5.96	6.99	n.a.	4.27

(\*) Final clients with low voltage service

(\*\*) In the electricity sector the new regulation is in place from 1<sup>st</sup> July 2000

Source: The Italian Regulatory Authority for Electricity and Gas.



**Table 35 - Gas: average time necessary for each kind of service before the introduction of the new regulation of commercial quality (number of days)**

	Providers:											
	Large				Medium - sized				Small			
	1997	1998	1999	2000	1997	1998	1999	2000	1997	1998	1999	2000
(number of days)												
Estimate of connection costs	8.9	8.1	7.5	7.3	13.1	11.1	10.0	8.8	6.7	9.0	8.3	8.3
Connection to the network	15.9	10.8	10.6	n.a.	22.3	18.9	14.2	n.a.	15.3	14.1	12.4	n.a.
Complete installation	30.1	22.0	17.5	20.4	28.8	26.2	23.6	22.4	27.3	24.1	20.9	18.9
Answer to written questions	15.1	12.7	12.6	n.a.	16.3	18.1	18.1	n.a.	15.7	14.8	12.4	n.a.
Answer to complaints	18.1	7.8	14.5	17.1	24.5	18.0	17.4	15.2	9.5	14.5	9.3	21.4
Bill correction	7.0	2.4	17.2	n.a.	8.8	18.1	6.6	n.a.	5.6	6.6	6.8	n.a.
Meters inspection	5.2	4.6	5.6	3.6	8.6	10.9	5.0	4.3	4.6	3.5	4.2	3.4
Pression inspection	4.1	2.4	0.9	0.8	3.7	2.4	1.8	2	2.4	2.7	2.7	2.7
Urgent intervention ( minutes)	66.3	25.0	40.5	37.7	41.6	43.7	32.8	34.2	29.4	29.6	26.5	31.9

Source: The Italian Regulatory Authority for Electricity and Gas.

**Table 36 - Gas: average time necessary for each kind of service(\*) after the introduction of the new regulation of commercial quality(\*\*)**

	2001	2002
	number of working days	
Services subject to automatic compensation		
Estimate of simple interventions (i.e. estimate of connection costs)	5.8	5.8
Execution of simple interventions (i.e. connection to the network)	7.8	7.2
Services not subject to automatic compensation		
Answer to written complaints and questions	10.3	14.3
Bill correction	1.5	1.6
Check of measure group	3.9	3.8
Check of furnishing pressure	4.0	3.1

(\*) Final clients connected to distribution network.

(\*\*) In the gas sector the new regulation is in place from 1st january 2001.

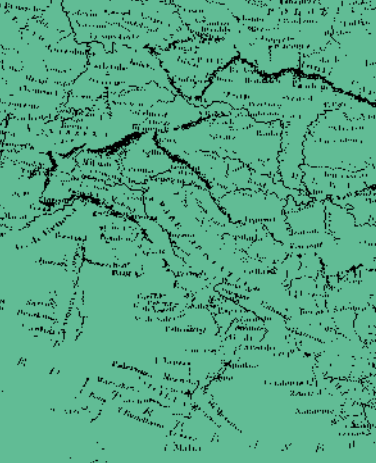
Source: The Italian Regulatory Authority for Electricity and Gas.

**Table 37 - Quality of universal postal services**

(Delivery time - days after posting, percentages)

		Standard of delivery time expressed in days	1999	2000	2001	2002
Ordinary mail	3	Target	80	85	90	90
		Result	77	84	87	92
Priority mail	1	Target	70	75	80	80
		Result	80	82	83	84
Registered mail	3	Target		85	90	90
		Result		87	90	93
Insured mail	3	Target		85	90	90
		Result		86	93	93
International mail incoming	3	Target	85	85	85	85
		Result	73	88	88	88

Source: Poste Italiane.



**Table 38 - Railway accidents**

Frequency of accident	1995	2000	2001	Average 1995-2001	2002
Number of typical accidents per million of Train-Km	0.46	0.29	0.28	<b>0.37</b>	0.27
Number of dead in the typical accidents per million of Train-Km	0.06	0.06	0.02	<b>0.04</b>	0.06
Number of injured in the typical accidents per million of Train-Km	0.30	0.04	0.06	<b>0.12</b>	0.09
Number of dead passengers in all the accidents (typical + non typical) per billion of Passengers-km	0.09	0.17	0.19	<b>0.29</b>	0.37
Number of wounded passengers in all the accidents (typical + non typical) per billion of Passengers-km	3.35	0.64	0.86	<b>1.58</b>	0.48

Source: Trenitalia.

**Table 39 - Punctuality of passenger trains**  
(percentages)

	1995	2000	2001	Average 1995-2001	2002	2003(*)
<b>Total Passenger Trains</b>						
on time (up to 5 minutes late)	n.a.	85	87	<b>n.a.</b>	88	90
less than 15 minutes late	96	95	96	<b>96</b>	96	97
<b>Medium and Long Distance Trains</b>						
less than 15 minutes late	88	87	87	<b>87</b>	88	89
of which EUROSTAR	87	91	87	<b>91</b>	91	92
<b>Regional Trains</b>						
on time (up to 5 minutes late)	86	86	88	<b>86</b>	89	91
less than 15 minutes late	97	96	97	<b>96</b>	97	97

(\*) Data for 1<sup>st</sup> half.

Source: Trenitalia.

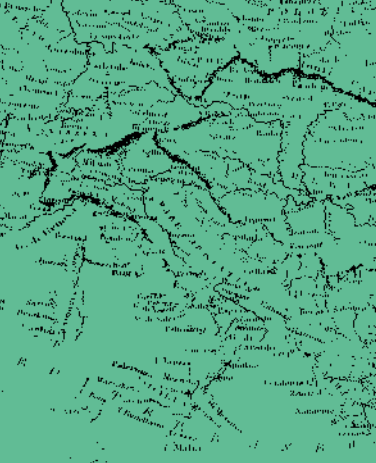


Table 40 - Local public services - Efficiency indicators

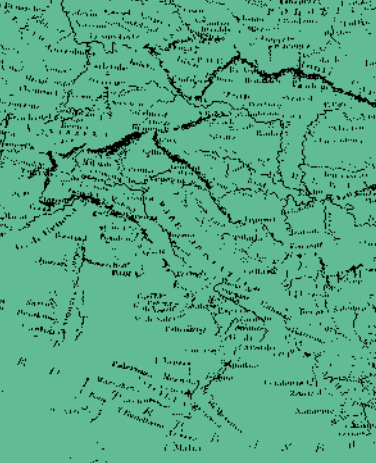
	1996		1997		1998		1999	
	Value	Index	Value	Index	Value	Index	Value	Index
WATER SERVICE								
Revenue per user (thousands of euro)	0.25	100	0.27	108	0.31	123	0.30	118
Costs per employee (thousands of euro)	116.11	100	134.10	115	135.91	117	143.37	123
ENERGY								
Revenue per user (thousands of euro)	0.49	100	0.50	103	0.50	103	0.45	93
Costs per employee (thousands of euro)	158.13	100	162.50	103	181.85	115	205.37	130
GAS								
Revenue per user (thousands of euro)	0.45	100	0.49	108	0.41	91	0.41	92
Costs per employee (thousands of euro)	289.08	100	321.74	111	348.13	120	346.42	120
WASTE COLLECTING								
Revenue per ton collected (thousands of euro)	0.19	100	0.19	102	0.20	105	0.25	134
Costs per employee (thousands of euro)	71.37	100	75.86	106	76.19	107	95.26	133
LOCAL PUBLIC TRANSPORT								
Revenue per thousand passengers (thousands of euro)	0.92	100	0.92	100	0.87	95	0.91	99
Costs per employee (thousands of euro)	57.10	100	58.57	103	56.08	98	61.92	108
	2000		2001 (a)		2002 (b)			
	Value	Index		Value	Index		Value	Index
WATER SERVICE								
Revenue per user (thousands of euro)	158.16	131		0.34	134		0.32	126
Costs per employee (thousands of euro)	288.60	136		183.91	158		190.58	164
ENERGY								
Revenue per user (thousands of euro)	0.41	85		0.44	91		0.41	86
Costs per employee (thousands of euro)	217.51	138		252.98	160		262.17	166
GAS								
Revenue per user (thousands of euro)	0.54	120		0.59	130		0.57	127
Costs per employee (thousands of euro)	512.73	177		581.39	206		616.92	219
WASTE COLLECTING								
Revenue per ton collected (thousands of euro)	0.23	124		0.41	133		0.42	135
Costs per employee (thousands of euro)	96.44	135		112.26	157		116.34	163
LOCAL PUBLIC TRANSPORT								
Revenue per thousand passengers (thousands of euro)	0.91	100		1.02	111		1.06	115
Costs per employee (thousands of euro)	60.30	106		70.18	123		72.74	127

(a) Provisional data.

(b) Estimates.

Source: Confservizi, data processed by Ministry of Economy and Finance.





## ENVIRONMENTAL INDICATORS

**Table 41 - Activity of the Environmental Impact Assessment Committee**

Projects	Opinions 1989-1996				Opinions 1997-2002			
	Favourable	Unfavourable	Pending	Total	Favourable	Unfavourable	Pending	Total
Dangerous waste disposal	54	17	5	76	30	4	0	34
Dams	18	4	9	31	14	8	0	22
Railways	10	0	5	15	9	1	0	10
Motorways	12	2	0	14	53	2	3	58
Ports	5	4	5	14	13	0	2	15
Thermal generating plants	12	0	1	13	12	0	0	12
Fossil fuel prospecting and exploitation	0	0	0	0	31	8	0	39
Other	28	3	1	32	39	4	1	44
<b>Total</b>	<b>139</b>	<b>30</b>	<b>26</b>	<b>195</b>	<b>201</b>	<b>27</b>	<b>6</b>	<b>234</b>

Source: Ministry for the Environment and territorial protection.

**Table 42 - Air pollution taxes, 2000**

Gas	Euro per ton	Notes
SO <sub>x</sub>	53.55	The revenue (€ 58 million) goes to the central government. The tax applies to major combustion plants (more than 50 MW). It does not apply to COVNM, COVM, solid particles, ODS, CO <sub>2</sub> (or CO or total organic carbon).
NO <sub>x</sub>	104.55	

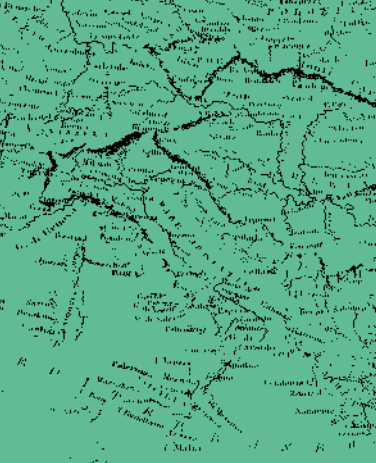
Source: ANPA-Eurostat.

## DISTRIBUTION SECTOR INDICATORS

**Table 43 - New retail outlets, 2002**  
(by size)

	Type of outlet						TOTAL	
	Neighbourhood		Medium-sized		Large			
Type of opening	Outlets	Sales area sq.m.	Outlets	Sales area sq.m.	Outlets	Sales area sq.m.	Outlets	Sales area sq.m.
Concentration	70.6	36.2	29.4	63.8	0.0	0.0	100.0	100.0
New business	98.7	88.3	1.2	9.3	0.1	2.3	100.0	100.0
Substitution	93.3	54.1	6.2	27.7	0.7	18.2	100.0	100.0
TOTAL	97.4	76.6	2.4	15.6	0.2	7.8	100.0	100.0

Source: Ministry for Productive Activities.



**Table 44 - New retail outlets, 2002**  
(by legal form)

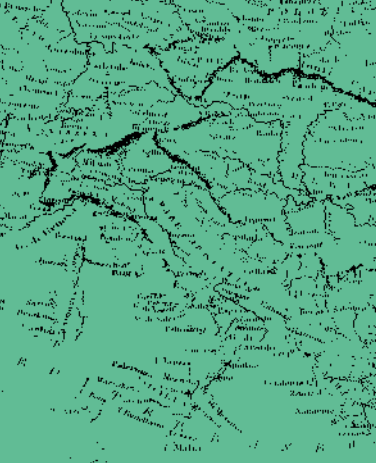
	Legal form								TOTAL	
	Sole proprietorship		Limited company		Partnership		Other			
Sector	Outlets	Sales area sq.m.	Outlets	Sales area sq.m.	Outlets	Sales area sq.m.	Outlets	Sales area sq.m.	Outlets	Sales area sq.m.
Mixed	43.0	13.2	25.9	56.5	25.1	12.0	6.1	18.4	100.0	100.0
Food	60.7	40.4	11.1	34.9	27.2	21.9	1.0	2.8	100.0	100.0
Non-food	59.9	40.7	22.0	42.6	17.6	15.9	0.5	0.8	100.0	100.0
Special tables	78.4	75.3	3.9	5.8	16.4	16.8	1.2	2.2	100.0	100.0
TOTAL	59.3	36.3	20.2	43.8	19.6	16.0	1.0	3.9	100.0	100.0

Source: Ministry for Productive Activities.

**Table 45 - Profitability in the distribution sector**  
(annual index: base 1995=100)

Years	Mark-Up on unit variable costs
1992	97.1
1993	95.8
1994	99.1
1995	100.0
1996	100.1
1997	99.9
1998	99.6
1999	97.9
2000	97.6
2001	97.7

Source: Istat, Conti trimestrali SEC 95.



## Performance indicators - Entrepreneurship and SMEs:

**Table 46 - Employment in SMEs**

Size of Enterprises - number of employees	1997	1998	1999	2000
	as a percentage of total employed in industry and services (*)			
1-9	47.0	47.7	47.9	48.8
10-49	22.2	21.9	21.7	22.2
50-249	12.4	12.1	12.1	12.7
250 or more	18.5	18.3	18.3	19.2
<b>Total PMI</b>	<b>69.2</b>	<b>69.6</b>	<b>69.6</b>	<b>70.9</b>

(\*) section C, D, E, F, G, H, I, K classification Nace rev. 1.

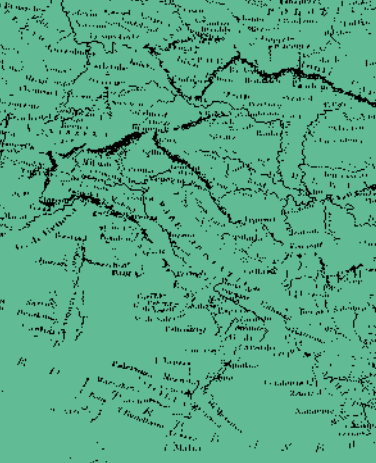
Source: Eurostat New Cronos, data processed by Istat.

## Policy indicators - Competition:

**Table 47 - Criteria for appointment of Authority members**

Authority	Appointment decided by
Consob	Government
Isvap	Government
Competition Authority	Presidents of Senate and Chamber of Deputies
Energy and Gas Authority	Government, on opinion of Parliamentary committees
Communications Authority	Chairman: Government on opinion of Parliamentary committees Other members: Parliament

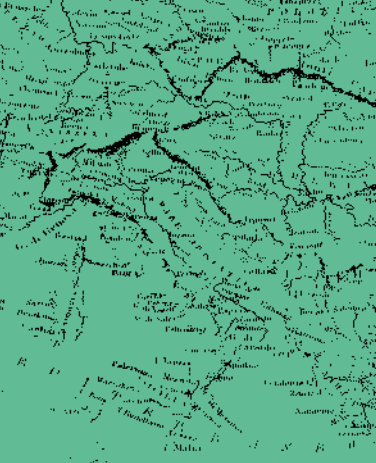
Source: Data processed by Ministry of Economy and Finance.



**Table 48 - Human and financial resources of Regulatory Authorities**

HUMAN RESOURCES		FINANCIAL RESOURCES	
Date	Employment	Year	Total Expenditure (billions of Italian Lire) (*)
<b>The Competition Authority</b>			
31st March 1992	61	1991	10.3
31st March 1993	79	1992	12.3
31st March 1994	107	1993	18.7
31st March 1995	132	1994	23.5
31st March 1996	138	1995	29.5
31st March 1997	146	1996	33.6
31st March 1998	167	1997	34.9
31st March 1999	174	1998	35.0
31st March 2000	172	1999	37.7
31st March 2001	169	2000	39.1
31st March 2002	179	2001	42.1
31st March 2003	187	2002	22.8
<b>The Energy and Gas Authority</b>			
30th April 1998	60	1997	12.7
30th April 1999	73	1998	19.1
30th April 2000	80	1999	22.4
30th April 2001	73	2000	22.7
30th April 2002	86	2001	28.9
30th April 2003	104	2002	18.5
<b>The Communication Authority</b>			
30th June 2000	178	1999	68.3
30th June 2001	216	2000	84.8
30th April 2002	225	2001	89.7
30th March 2003	249	2002	45.3

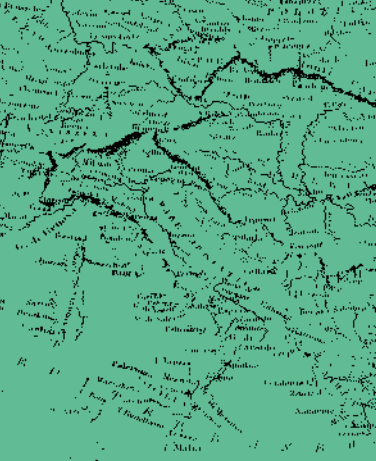
(\*) Data for 2002 are expressed in euro.  
Source: The Italian Competition, Energy and Gas, and Communication Authorities.



**Table 49 - Proceedings concluded by the Competition Authority**  
(at 31 August 2003)

	1990/ 1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Concentrations</b>	<b>2,154</b>	<b>357</b>	<b>292</b>	<b>344</b>	<b>423</b>	<b>525</b>	<b>616</b>	<b>651</b>	<b>397</b>
Investigations	19	3	7	2	6	5	6	11	2
of which: denied	4	-	1	-	-	-	2	3	-
of which: authorized									
with conditions	4	3	5	2	2	4	2	3	1
of which: withdrawn	1	-	-	-	2	1	2	1	1
<b>Agreements</b>	<b>130</b>	<b>64</b>	<b>64</b>	<b>54</b>	<b>30</b>	<b>52</b>	<b>43</b>	<b>46</b>	<b>37</b>
Investigations	50	23	12	14	12	12	8	7	6
of which: infringements	30	15	8	11	12	9	3	5	4
of which: withdrawn	4	1	1	2	-	-	2	-	-
<b>Abuses</b>	<b>89</b>	<b>52</b>	<b>46</b>	<b>21</b>	<b>15</b>	<b>22</b>	<b>28</b>	<b>19</b>	<b>9</b>
investigations	31	10	5	3	4	7	3	4	3
of which: infringements	24	7	4	2	3	6	2	4	2
<b>Infringement of requirement to notify concentrations</b>	<b>23</b>	<b>13</b>	<b>-</b>	<b>2</b>	<b>6</b>	<b>5</b>	<b>9</b>	<b>13</b>	<b>10</b>
<b>Infringement of injunction</b>	<b>3</b>	<b>-</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>-</b>
<b>Inquiries</b>	<b>7</b>	<b>3</b>	<b>6</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Reporting and consulting activity</b>	<b>58</b>	<b>18</b>	<b>38</b>	<b>42</b>	<b>30</b>	<b>19</b>	<b>17</b>	<b>24</b>	<b>13</b>
<b>Opinions to the Bank of Italy</b>	<b>162</b>	<b>48</b>	<b>50</b>	<b>46</b>	<b>43</b>	<b>50</b>	<b>29</b>	<b>28</b>	<b>24</b>
<b>Football rights</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>-</b>
<b>Deceptive and comparative advertising</b>	<b>594</b>	<b>389</b>	<b>506</b>	<b>468</b>	<b>358</b>	<b>333</b>	<b>289</b>	<b>308</b>	<b>235</b>
of which, infringements	341	284	361	300	275	266	240	265	203

Source: The Italian Competition Authority.



**Table 50 - Agreements examined by sector of economic activity**  
(number of investigations concluded)

	2002
Transport and vehicle rental	1
Telecommunications	1
Television rights	1
Financial services	1
Postal services	1
Restaurants	1
Professions, business	1
<b>Total</b>	<b>7</b>

Source: The Italian Competition Authority, Annual Report 2003.

**Table 51 - Abuses examined by sector of economic activity**  
(number of investigations concluded)

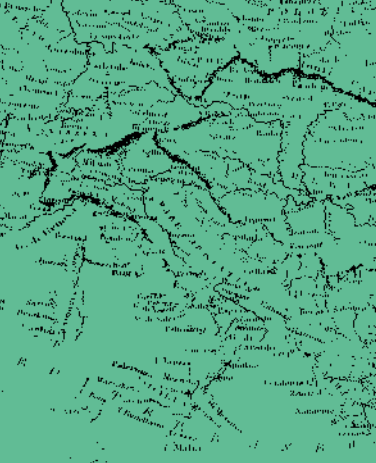
	2002
Electricity, gas, water	1
Transport and vehicle rental	2
Postal services	1
<b>Total</b>	<b>4</b>

Source: The Italian Competition Authority, Annual Report 2003.

**Table 52 - Reporting and consultation, by sector**  
(number of cases handled: January 2002-March 2003)

	2002	Jan.-Mar. 2003
Electricity, gas, water	3	-
Food and beverages	1	-
Pharmaceuticals	1	-
Transport and vehicle rental	3	2
Radio and TV	1	-
Telecommunications	8	-
Insurance and pension funds	1	-
Financial services	1	-
Postal services	-	1
Professions, business	2	-
Education, entertainment and sport	-	2
Other services	2	-
Miscellaneous	1	1
<b>Total</b>	<b>24</b>	<b>6</b>

Source: The Italian Competition Authority, Annual Report 2003.



**Table 53 - Privatisations carried out in the second half of 2002 and in the first nine months of 2003**

Company	Sector	Offer date	Offer type	Percentage of equity sold over ordinary capital	Percentage of equity sold over savings capital	Gross amount raised (euro)
Telecom Italia Spa	Telecommunication	12-12-2002	Accelerated bookbuilding offer	3.46%	0.66%	1,434,105,873
Ente Tabacchi Italiani Spa	Tobacco	24-07-2003	Odd lots	100%		2,325,000,000
Mediocredito Friuli Venezia Giulia Spa	Banking	31-07-2003	Odd lots	34.10%		61,253,000
<b>Total</b>						<b>3,820,358,873</b>
<b>Total Feb 1994 - Sept. 2003</b>						<b>70,382,661,256</b>

Source: Ministry of Economy and Finance.

## Performance indicators - Entrepreneurship and SMEs:

**Table 54 - Administrative costs for company registration**  
(values expressed in euro)

Years	Company		Sole Trader	
	1998	2002	1998	2002
Administrative costs	7,700	3,516	1,150	340

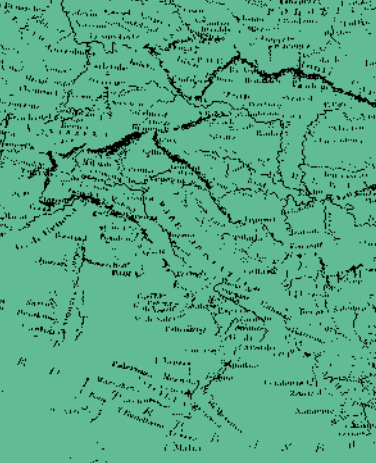
Source: Prime Minister's Office - Department of Public Administration.

**Table 55 - Number of procedures and time required for business start-up**

Years	Company		Sole Trader	
	1998	2002	1998	2002
Number of procedures	21	12	11	5
Time necessary (number of weeks)	22	6	16	1

Source: Prime Minister's Office - Department of Public Administration.





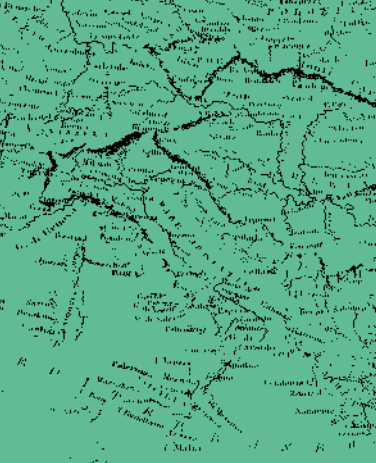
## STRUCTURAL INDICATORS OF INFORMATION SOCIETY

### Performance indicators - R&D and innovation:

**Table 56 - Number of innovating SMEs**  
(percentages - year 2000)

Number of employees	Firms endowed of PC	Firms endowed of Pc			
		Firms endowed of e-mail	Firms endowed of web site	Firms practicing on-line purchasing (1999-2000)	Firms practicing on-line selling (1999-2000)
INDUSTRY					
1-4	43.5	33.2	14.7	7.0	11.0
5-9	77.4	45.0	21.6	7.1	11.3
10-19	89.1	58.5	30.2	9.4	17.2
20-49	94.8	75.1	48.5	14.4	27.9
50-99	99.2	86.5	62.6	20.1	36.2
Total	56.5	44.6	22.6	8.4	13.9
CONSTRUCTIONS					
1-4	21.9	23.7	6.3	2.4	4.2
5-9	69.9	27.3	12.6	2.4	2.5
10-19	91.0	50.3	10.2	3.4	7.5
20-49	93.9	72.4	25.2	7.7	10.9
50-99	97.5	83.2	40.4	9.8	12.6
Total	29.5	29.5	9.0	2.8	4.5
SERVICES					
1-4	47.5	37.8	10.6	8.9	8.4
5-9	79.0	46.7	20.2	11.7	11.4
10-19	89.6	63.1	30.8	13.6	15.5
20-49	94.9	71.3	41.5	17.0	20.4
50-99	96.6	81.0	50.3	13.0	18.9
Total	50.2	39.8	12.5	9.4	9.0
TOTAL					
1-4	44.1	36.5	10.8	8.3	8.5
5-9	77.1	43.7	19.6	9.1	10.1
10-19	89.5	59.2	27.7	10.2	15.2
20-49	94.8	73.5	43.8	14.6	23.4
50-99	98.2	84.4	56.9	16.9	27.9
Total	48.7	39.9	13.9	8.7	9.5

Source: Istat, *Rilevazione sulle piccole e medie imprese e sull'esercizio di arti e professioni* (provisional data).



**Table 57 - Exports of high technology products**  
(as a percentage of total exports)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Austria	7.9	7.9	8.2	9.2	10.2	9.7	9.9	10.1	11.7	12.7	14.6
Belgium *	4.1	4.2	5.1	5.6	5.5	6.3	6.6	7.1	7.9	8.2	8.2
Denmark	9.6	9.9	9.2	9.7	10.0	7.7	11.8	12.5	13.9	13.5	14.1
Finland	6.0	7.6	9.3	10.8	12.6	14.1	16.4	19.4	20.7	23.5	21.1
France	19.7	19.4	19.2	19.4	19.3	19.3	21.7	22.8	24.0	25.5	25.6
Germany	11.6	11.2	11.3	11.7	11.6	11.7	12.5	13.1	14.2	15.5	15.3
Greece	1.5	1.2	2.1	2.2	3.1	3.0	3.1	4.8	5.0	6.7	5.5
Ireland	27.0	25.3	27.4	29.7	35.0	36.7	37.5	37.7	39.4	41.2	40.8
<b>Italy</b>	<b>7.4</b>	<b>7.7</b>	<b>7.7</b>	<b>7.5</b>	<b>7.4</b>	<b>7.2</b>	<b>6.9</b>	<b>7.4</b>	<b>7.5</b>	<b>8.4</b>	<b>8.6</b>
Luxembourg	:	:	:	:	:	:	:	:	13.6	17.5	28.1
Netherlands	10.6	11.3	13.5	13.2	15.0	15.4	18.7	19.7	21.9	20.9	21.3
Portugal	3.2	3.1	2.4	3.2	4.6	3.6	3.6	4.0	4.3	5.6	6.8
United Kingdom	18.3	18.0	18.5	19.3	20.9	21.8	21.1	23.2	24.4	25.0	26.5
Spain	6.0	5.7	6.4	6.5	5.6	6.0	5.2	5.5	5.9	6.1	6.0
Sweden	11.7	11.7	11.3	11.1	12.7	14.4	15.5	16.4	17.8	18.7	14.2
<b>EU 15</b>	<b>15.5</b>	<b>15.4</b>	<b>14.7</b>	<b>14.7</b>	<b>15.3</b>	<b>15.5</b>	<b>16.3</b>	<b>17.6</b>	<b>18.9</b>	<b>19.8</b>	<b>19.8</b>
<b>USA</b>	<b>26.1</b>	<b>26.6</b>	<b>25.9</b>	<b>26.2</b>	<b>25.8</b>	<b>26.3</b>	<b>27.4</b>	<b>28.7</b>	<b>30.0</b>	<b>29.8</b>	<b>28.6</b>
<b>Japan</b>	<b>23.3</b>	<b>23.1</b>	<b>23.6</b>	<b>24.4</b>	<b>25.3</b>	<b>24.8</b>	<b>24.9</b>	<b>24.6</b>	<b>25.1</b>	<b>26.9</b>	<b>24.7</b>

\* Until 1998 Luxembourg is comprised in Belgium's data  
Source: Eurostat New Cronos, database "External Trade".

## Performance indicator - Information society

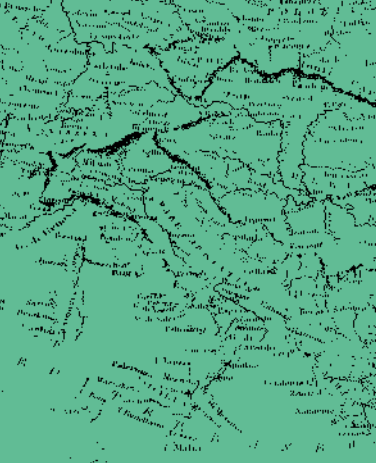
**Table 58 - ICT penetration in Italy**  
(1999-2002)

	1999	2002
PC (mln)	7,770	13,025
Number of PC for employee	39	62
Mobile subscribers (% of population)	44.1	70.2
Number of SMS (mln)	1,750	18,500
Active mobile phone lines (mln)	30.3	54.2
Employees in the ICT sector (thousand)	549	598
ICT enterprises (thousand)	71	79
Household with Internet access (%)	19.2 (1)	35.4
Firms with Internet access(%)	65.99 (2)	76.5
Internet hosts for 1000 inhabitants	3.68	40.44 (2)
Business customers of Corporate Banking	177,340	683,792

(1) Data at 2000

(2) Data at 2001

Source: Assinform, Net Consulting "Rapporto 2003 sull'informatica e le telecomunicazioni in Italia".



**Table 59 - Household Internet users**  
(thousands)

	1998	1999	2000	2001	2002
PC linked to Internet	499	919	3,430	4,790	5,380
Internet users	749	1,094	4,600	6,470	7,620
PC users	6,100	6,800	10,140	12,000	13,850

Source: Rapporto Federcomin-Anie, e-family 2002.

**Table 60 - ICT market**  
(in million euro and in percentage changes)

	1999	Δ %	2000	Δ %	2001	Δ %	2002	1 <sup>st</sup> half 2003
Information Technology	16,841	12.6	18,959	8.0	20,478	-2.2	20,036	9,664
Telecommunication	32,686	12.9	36,901	8.5	40,025	0.4	40,170	20,580
<b>Total</b>	<b>49,527</b>	<b>12.8</b>	<b>55,860</b>	<b>8.3</b>	<b>60,503</b>	<b>-0.5</b>	<b>60,206</b>	<b>30,244</b>

Source: Assinform-Net Consulting "Rapporto 2003 sull'informatica e le telecomunicazioni in Italia".

**Table 61 - Italian market of Informatics**  
(in million euro and in percentage changes)

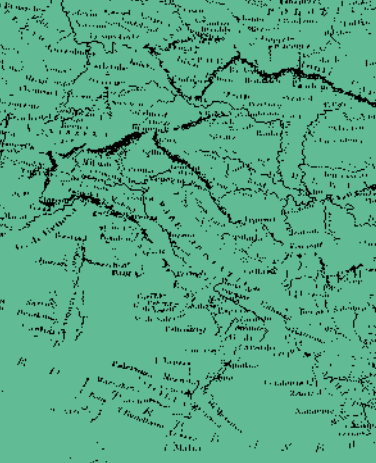
	1999	Δ %	2000	Δ %	2001	Δ %	2002	1 <sup>st</sup> half 2003
Hardware	5,450	11.1	6,053	2.6	6,213	-13.5	5,375	2,613
Technical assistance	1,087	-3.0	1,054	-3.4	1,018	-4.2	975	451
Software and other services	10,303	15.0	11,852	11.8	13,247	3.3	13,686	6,600
<b>Total</b>	<b>16,841</b>	<b>12.6</b>	<b>18,959</b>	<b>8.0</b>	<b>20,478</b>	<b>-2.2</b>	<b>20,036</b>	<b>9,664</b>

Source: Assinform-Net Consulting "Rapporto 2003 sull'informatica e le telecomunicazioni in Italia".

**Table 62 - Active lines and users in mobile telephony**  
(Data expressed in millions)

	2000	2001	2002
<b>Active lines</b>			
Of which: contracts	34.5	43.8	48.8
pre-paid cards	7.7	7.3	5.4
<b>Users</b>	<b>32.4</b>	<b>38.3</b>	<b>40.0</b>

Source: Assinform-Net Consulting "Rapporto 2003 sull'informatica e le telecomunicazioni in Italia".



**Table 63 - Households yearly average expense for telecommunications**  
(in euro)

	1999	2000	2001	2002
Fixed telephony	440	440	428	392
Mobile telephony	310	372	465	411
<b>Total</b>	<b>750</b>	<b>812</b>	<b>893</b>	<b>803</b>

Source: Rapporto Federcomin-Anie, e-family 2002.

**Table 64 - Growth of IT market by firm size**  
(in million euro and in percentage changes)

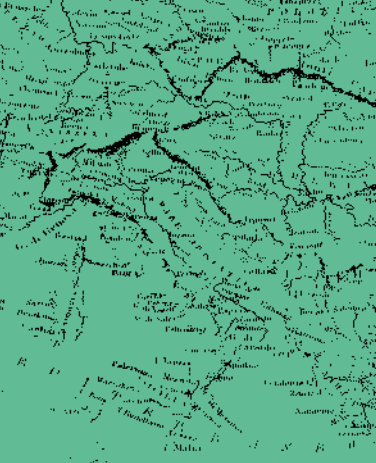
	1999	Δ %	2000	Δ %	2001	Δ %	2002
<b>Firms</b>							
of which: Big firms	9,052	10.4	9,995	8.5	10,849	-0.8	10,761
Medium firms	3,777	15.4	4,358	8.1	4,711	-1.3	4,650
Small firms	3,296	14.0	3,757	6.8	4,013	-5.2	3,805
<b>Consumers</b>	716	18.7	850	6.6	906	-9.5	820
<b>Total</b>	<b>16,840</b>	<b>12.6</b>	<b>18,959</b>	<b>8.0</b>	<b>20,478</b>	<b>-2.2</b>	<b>20,036</b>

Source: Assinform-Net Consulting "Rapporto 2003 sull'informatica e le telecomunicazioni in Italia".

**Table 65 - Mobile phones**  
(number of mobile phone service subscribers per 1000 inhabitants)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Francia	24	43	99	192	353	502	537	601	660
Germania	46	71	102	171	283	585	661	662	729
<b>Italia</b>	<b>69</b>	<b>112</b>	<b>206</b>	<b>355</b>	<b>525</b>	<b>733</b>	<b>786</b>	<b>887</b>	<b>923</b>
Spagna	24	76	109	176	375	612	649	746	859
Svezia	227	288	362	511	574	753	742	811	930
Regno Unito	94	117	143	223	410	680	751	790	856
<b>Europa Occidentale</b>	<b>59</b>	<b>92</b>	<b>143</b>	<b>237</b>	<b>399</b>	<b>629</b>	<b>682</b>	<b>554</b>	<b>602</b>

Source: OECD "Mobile Communication Outlook (August 2003); data processed by the Italian Communication Authority.



## Policy indicators - R&D and innovation

**Table 66 - R&D expenditure by public and private sector**  
(as a percentage of GDP)

Years	Public sector	Private sector
1995	0.21	0.53
1996	0.20	0.54
1997	0.20	0.52
1998	0.22	0.52
1999	0.20	0.51
2000	0.20	0.54
2001	0.20	0.55
2002 (*)	0.23	0.54

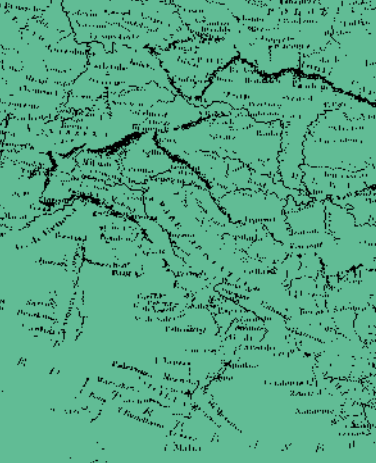
(\*) Estimates

Source: Istat - National Accounts and "Indagine sulla R&S in Italia", 2000.

**Table 67 - Full time researchers**  
(number of full time equivalent units, as percentage of total labour force)

Years	Public Institutions	Universities	Industry
1993	0.058	0.146	0.123
1994	0.060	0.150	0.125
1995	0.061	0.152	0.120
1996	0.060	0.154	0.122
1997	0.060	0.107	0.121
1998	0.059	0.105	0.118
1999	0.059	0.107	0.112
2000	0.061	0.109	0.111
2001	0.055	0.114	0.112

Source: Istat.



**Table 68 - Personnel employed in intra-muros R&D for institutional sectors**  
(as a percentage of total labour force)

Years	Public Institutions	Universities	Industry
1998	0.135	0.228	0.264
1999	0.132	0.223	0.255
2000	0.092	0.233	0.271
2001	0.125	0.248	0.274

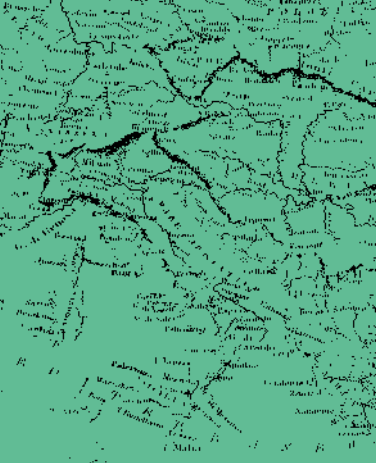
Source: Istat.

**Table 69 - Patents registered, by date of filing of application**  
(percentage of total registered patents in each year)

Categories	Patents registered in 1997				Patents registered							
	Utility	Design	Invention	Trademark	Utility		Design		Invention		Trademark	
	Date of filing relative to date of registration				2002	2003 (*)	2002	2003 (*)	2002	2003 (*)	2002	2003 (*)
more than 6 years before	4.9	2.4	0.5	0.0	0.2	4.2	0.2	0.7	0.2	0.6	0.0	0.0
6 years before	21.0	0.2	0.2	0.0	0.1	0.8	6.0	0.6	0.0	0.2	0.1	0.0
5 years before	<b>70.3</b>	<b>96.8</b>	0.9	0.1	19.5	0.5	30.0	3.4	0.0	0.9	0.1	0.3
4 years before	0.4	0.5	15.7	0.3	<b>48.0</b>	<b>47.8</b>	<b>32.1</b>	4.1	1.3	5.5	2.2	<b>69.7</b>
3 years before	0.5	0.1	<b>48.2</b>	29.4	32.1	46.6	30.0	<b>91.0</b>	<b>94.1</b>	<b>92.9</b>	<b>90.5</b>	25.3
2 years before	2.2	0.0	34.6	<b>66.3</b>	0.1	0.1	1.7	0.2	4.4	0.0	0.5	0.2
1 year before	0.7	0.1	0.0	1.1	0.1	0.1	0.0	0.0	0.0	0.0	2.0	2.4
same year	0.0	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0	4.6	2.1

(\*) Data of 2003 are referred to the first semester.

Source: Italian Patent Office - Ministry for Productive Activities, data processed by Ministry of Economy and Finance.



**Table 70 - Inventions patented, by date of filing of application**  
(percentage of registered patents in each year)

Date of filing relative to date of registration:	1996	1997	1998	1999	2000	2001	2002	2003(*)
more than 6 years before	0.7	0.5	0.8	1.0	0.1	0.5	0.2	0.6
6 years before	0.3	0.2	0.1	0.0	0.0	0.4	0.0	0.2
5 years before	1.4	0.9	0.1	0.4	0.2	1.2	0.0	0.9
4 years before	44.5	15.7	1.2	0.6	1.5	1.6	1.3	5.5
3 years before	<b>51.9</b>	<b>48.2</b>	21.3	2.7	5.0	<b>55.9</b>	<b>94.1</b>	<b>92.9</b>
2 years before	1.1	34.6	<b>65.4</b>	<b>91.5</b>	<b>93.2</b>	40.2	4.4	0.0
1 years before	0.0	0.0	11.0	3.8	0.0	0.2	0.0	0.0
same year	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0

(\*) Data of 2003 are referred to the first semester.

Source: Italian Patent Office - Ministry for Productive Activities, data processed by Ministry of Economy and Finance.

## STRUCTURAL INDICATORS OF CAPITAL MARKET

### Capital market structure

**Table 71 - Investments in equity by institutional investors relative to GDP**  
(in million of euro)

Years	Investment funds	Insurance companies	Asset management	Pension funds	TOTAL	GDP at market prices	Total/ GDP %
1996	18,778	18,289	7,922	1,267	46,256	982,443	4.7
1997	40,481	22,299	13,715	1,307	77,802	1,026,285	7.6
1998	82,837	27,789	18,287	1,589	130,502	1,073,019	12.2
1999	169,932	36,902	33,352	2,473	242,659	1,107,994	21.9
2000	179,449	44,118	31,679	2,669	257,915	1,166,548	22.1
2001	128,907	42,478	28,883	3,130	203,398	1,220,147	16.7
2002	82,675	40,957	18,793	2,927	145,352	1,258,349	11.6

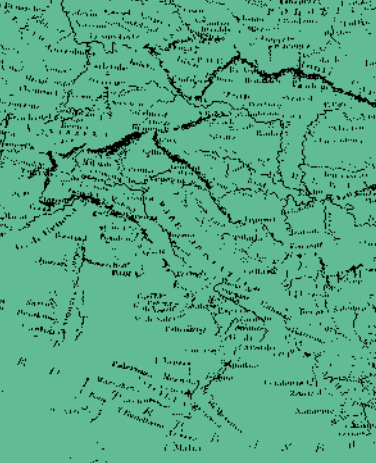
Source: Bank of Italy.

**Table 72 - Market share of top five banks**  
(percentage values)

	1996	1997	1998	1999	2000	2001	2002
Market share	34.98	34.51	41.79	51.03	53.35	53.50	54.60

Source: Bank of Italy.




**Table 73 - Merger patterns in the financial sector**

	1996	1997	1998	1999	2000	2001	2002
Acquisition of the majority of stake							
a) national - number of acquired banks	19	21	37	37	28	10	21
b) cross border - number of acquired banks	5	2	5	3	12	9	5
<b>Total</b>	<b>24</b>	<b>23</b>	<b>42</b>	<b>40</b>	<b>40</b>	<b>19</b>	<b>26</b>
Operations of internal acquisitions	19	19	23	28	24	9	11

Source: Bank of Italy.

**Table 74 - Main indicators of the Italian Stock Exchange market capitalisation**

Years	Listed companies				Capitalisation		Turnover	
	Main Exchange	Nuovo Mercato	Parallel Market for small cap companies	Total	Total amount (billion euro)	%GDP	Total value (billion euro)	Daily average turnover (billion euro)
1990	229	—	37	266	94	13.8	27	108
1991	231	—	41	272	99	13.3	16	66
1992	229	—	37	266	96	12.2	18	71
1993	222	—	37	259	128	15.9	54	212
1994	223	—	37	260	156	18.2	98	392
1995	221	—	33	254	172	18.6	73	292
1996	217	—	31	248	203	20.6	81	322
1997	213	—	26	239	315	30.7	175	697
1998	223	—	20	243	485	45.4	425	1,681
1999	247	6	17	270	726	66.1	507	2,009
2000	242	40	15	297	818	70.5	869	3,422
2001	237	45	12	294	592	48.5	658	2,611
2002	237	45	13	295	458	36.6	634	2,514
2003(*)	224	44	12	280	464	35.6	445	2,647

(\*) Data refer to August 2003.

Source: Borsa Italiana S.p.A.

## Capital market integration

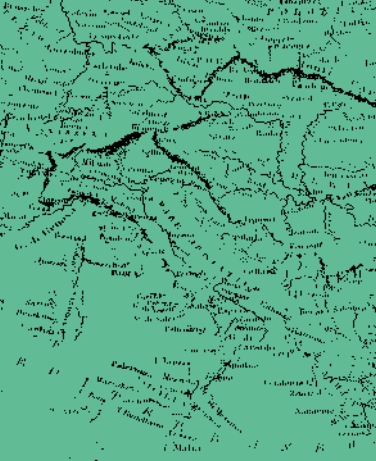
**Table 75 - Cross border banking penetration**

(Italian banks' and investment funds' assets and liabilities as percentage of total)

Years	1996	1997	1998	1999	2000	2001	2002	2003 (*)
Cross-border assets	11.0	11.1	12.4	11.2	10.9	9.6	10.5	10.3
Cross-border liabilities	12.9	13.6	14.5	14.7	15.3	15.3	13.2	14.0

(\*) Data as at the end of June 2003.

Source: Bank of Italy.



**Table 76 - Percentage of foreign equities in domestic portfolios**

Years	Foreign equities	Shares of Foreign investment funds	Total
1996	2.5	0.4	2.9
1997	3.6	0.5	4.1
1998	4.6	0.6	5.2
1999	7.1	0.9	8.0
2000	7.3	1.0	8.3
2001	6.8	1.1	7.9
2002	5.1	0.9	6.1

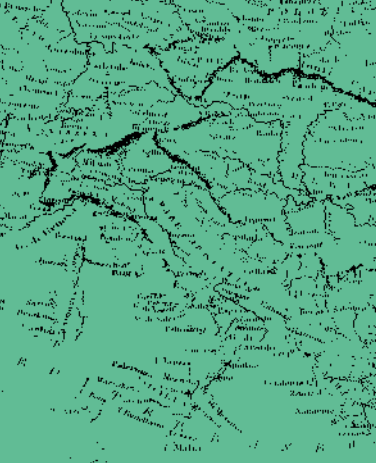
Source: Bank of Italy.

## **SME and innnovation financing**

**Table 77 - Venture capital investments**

	1996	1997	1998	1999	2000	2001	2002
Amount of investments as a percentage of total investments							
Seed - start-up	8.9	12.2	15.8	8.3	18.2	13.3	2.5
Expansion	43.4	26.4	36.2	22.1	32.6	34.1	30.7
Capital replacement	17.5	29.0	13.8	4.8	3.3	6.1	7.8
Buy-out	30.2	32.4	34.2	64.8	45.9	46.4	59
Number of investments as a percentage of total investments							
Seed - start-up	—	39.7	36.3	41.0	52.5	45.4	16.3
Expansion	—	35.0	35.5	33.2	36.4	38.0	45.5
Capital replacement	—	13.7	13.5	8.3	2.9	10.4	13
Buy-out	—	11.5	14.7	17.4	8.2	6.1	25.2

Source: AIFI



## METHODOLOGICAL NOTES

**Table 1**

### **Intra-EU and total trade**

The intra-EU trade indicator is the ratio of intra-EU imports (CIF) plus intra-EU exports (FOB) to twice the GDP at market prices (current prices). The total trade indicator is the ratio of total imports (CIF) plus total exports (FOB) to twice the GDP at market prices (current prices).

**Table 2**

### **Cross-border mergers and acquisitions**

Mergers and acquisitions of each Member State are expressed as a share of the total value of EU15 international mergers and acquisitions. Data are weighted with each country's share of total GDP for the EU15 members (at market prices, in millions of euros).

**Table 3**

### **Harmonised index of consumer prices**

The table compares annual average indices (1996=100) in Italy and other European countries. The indices are computed using an harmonised methodology that follows a minimum standard approach set at European level.

**Table 4**

### **Level of labour productivity**

Both indices are calculated setting the EU15 average equal to 100. Output per hour worked is the ratio of GDP at purchasing power parity (PPP) to total number of hours worked. Output per worker is the ratio of GDP at purchasing power parity (PPP) to the total number of persons employed. Employed persons includes both payroll employees and self-employment. Payroll employees means persons engaged by an employer under a contract of employment, public employees, the armed forces, and owners of corporations and quasi-corporations if they work in their enterprises. Persons temporarily not at work due to illness, injury, holiday, strike, or training leave are considered as employed. The definitions are consistent with those of the ILO.

**Table 5**

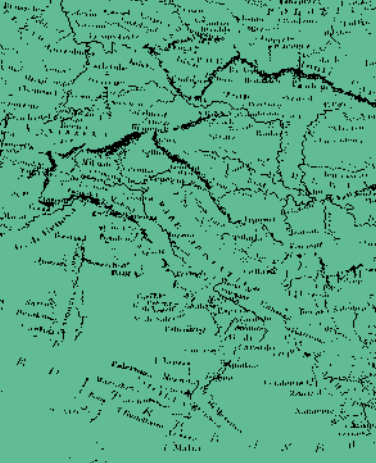
### **Profitability**

Indices of profitability take base 1995=100 and are seasonally adjusted. Unit variable costs are calculated as the ratio of labour costs plus other inputs to output at factor costs (1995 prices). Mark-up is calculated as the ratio of the output deflator to unit variable costs. The time series has been revised on the basis of the national accounts data using SEC95.

**Table 6**

### **Net electricity generation**

Attributing CIP6 power to producers of origin instead of to the GRTN Transmission System Operators, gives Enel and Enel Green Power a total share of 46.5% instead of 45%, while the second national producer is Edison with over 13%.

**Table 7****Electricity sales**

Data processed by the Italian Electricity and Gas Authority using statistics provided by the National Transmission System Operator (GRTN) and generating companies' balance sheets. Sales include imports.

**Table 8****Market shares in the natural gas industry**

Data on sales and final consumption are processed by the Electricity and Gas Authority, using data from the Ministry for Productive Activities and gas companies.

**Tables 9 and 10****Electricity prices**

Prices net of taxes at 1 January 2002. They are given in euro-cents per kWh for various amounts of annual consumption. The weighted European average takes as weights consumption in each Member State in 1999.

**Tables 11 and 12****Gas prices**

Prices net of taxes in effect at 1 January 2002 (euro-cents/cubic meter) for various amounts of annual consumption in GJ (one Gigajoule = 26 m<sup>3</sup>). The weighted European average takes as weights consumption in each Member State in 2000.

**Table 14****Water tariffs in some districts**

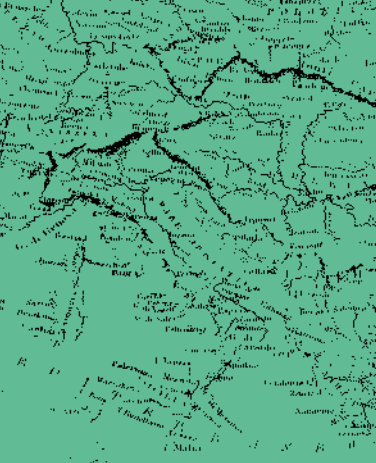
For the main provincial capitals tariffs for aqueduct, sewage and water treatment services are shown. The average tariff for the entire cycle (potable water, sewage, water treatment) is calculated for an annual consumption of 200 m<sup>3</sup>, including fixed charge and net of VAT. This tariff is calculated considering the tariff structure of each municipality, adding all the components (potable water, sewage, water treatment) and dividing by the posited consumption of 200 cubic meters. Total per capita consumption is obtained by dividing the average total tariff income by the number of inhabitants in each province and the number of days.

**Table 15****Price trend in postal services**

Harmonised index of postal service prices (1996= 100) in Italy and in the other EU countries. Comparison between countries refers to trends only, as the actual prices taken as reference in the base year were different.

**Table 17****Telecom Italia charges: effects of the tariffs rebalancing**

The table shows the effects on Telecom Italia charges in terms of variation in total expenditure between 2000 and 2001. The charges used are Telecom Italia's "standard" charges in effect in



December 2002. They thus exclude charges for personalized plans. Call volumes used to calculate expense for each group of services are those for 2000. The cost for the access is based on number of subscribers.

**Table 18**

**Incumbent's telephone charges**

The table shows Telecom Italia charges for 3 minutes, fixed-to-fixed. For 1998-2001, values in liras; for 2002 and 2003, both lira and euro-cents. They include the fixed connection charge and are net of VAT. Starting from 2000 incumbent international charges are independent from calling hour.

**Table 19**

**Telephone charges of major operators**

Telephone charges of the four national providers, net of VAT.

Local charges of Telecom Italia, Tiscali and E-Planet include 5.16 euro cents for fixed connection charge. Wind charges include 5.17 euro cents for fixed connect charge. Telecom Italia's long distance charges (for calls at distances greater than 15 km) include 6.56 euro cents for fixed connection charge. Tiscali, Tele2 and Wind long distance charges include 6.46 euro cents fixed connection charge.

Telecom Italia's international charges include 25.82 euro cents for fixed connection charge, those of Tele2 and Wind 12.92 euro cents, those of Tiscali 12.91 euro cents.

The per-minute rate for calls from fixed to mobile phones of Telecom Italia are the average of the prices for calls to the various mobile phone service providers and include a fixed connection charge of 10.00 euro cents. The fixed connection charge of these operators varies: 12.49 euro cents for Tiscali, 10.42 euro cents for Tele2 and Wind.

**Table 21**

**Competition in fixed and mobile telephony**

The Herfindal-Hirschmann (HH) Index is calculated by adding the square of the market shares of the companies working in each sector. A reduction in this index indicates an increase in competition.

OLO 1 means Albacom, Tele2 and Wind-Infostrada.

OLO 2 means Altanet, Colt, Edisontel, E-planet, Fastweb, Plug it and Tiscali.

The 2002 market shares, because of the adjusted basket of companies considered and changes made to the calculation method, are not perfectly comparable with the corresponding data set out in the Annual Report of the Communications Regulatory Authority for 2002 relating to 2001.

**Table 25**

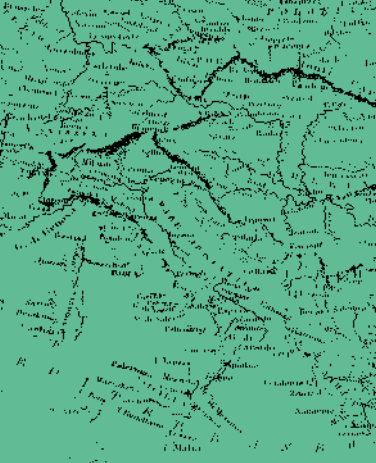
**Issue of railway licenses**

Licences are issued by the competent Member State authorities and are valid throughout the EU. They entail the railway operator to manage international services of freight and passenger transportation. The licences are issued to international associations and railway enterprises that are established in Italy and that operate combined freight transport. To operate one must also have the Safety Certificate issued by the railway network operator.

**Table 26**

**Electricity: long unplanned outages in Enel grid serving households and non-households**

Enel S.p.a. is the main electricity supplier. The new classification introduced by the Authority in 1999 replaces the previous one based on the distinction between urban and rural areas.



The data are taken from Enel's declaration to the Electricity and Gas Authority. The data on areas which have not been considered as reliable have been deducted from the data for 1999.

#### Tables 33 and 34

##### **Electricity: average waiting time for each type of service before and after the introduction of the new Regulation of commercial quality**

Actual waiting time - weighted average

For 2000, Enel's data include Valdis/Deval (spinoff business operating in Val D'Aosta) while local distributors are those with more than 5,000 customers; only the data relating to the new specific standards that came into force on 1 July 2001 are available. In the electricity industry the new Regulation came into force on 1 July 2000.

#### Tables 35 and 36

##### **Gas: average waiting time for each type of service before and after the introduction of the new Regulation of commercial quality**

Actual waiting time - weighted average

The data are taken from the declarations by the gas providers to the Electricity and Gas Authority. The new regulation for gas supplies came into force on 1 January 2001.

#### Table 40

##### **Local public services: efficiency indicators**

In each sector, revenues from sales and services are divided by the number of users (in transport are passengers). In waste disposal, revenues are divided by number of tons collected. For each sector, production costs are divided by number of employees.

#### Table 45

##### **Profitability in the distribution sector**

Data refer to wholesale and retail trade and repair services. Annual indices, 1995=100. Mark-up is calculated as the ratio of output deflator to unit variable costs. Unit variable costs are the sum of labour and other input costs as a ratio to output at factor costs (1995 prices).

#### Table 48

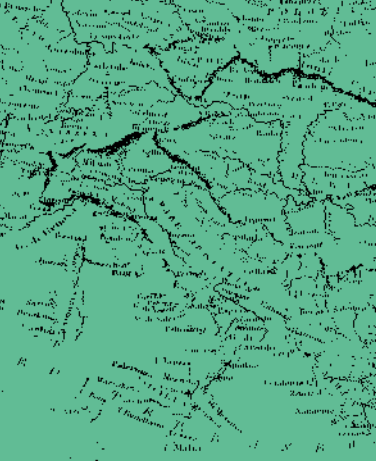
##### **Human and financial resources of Regulatory Authorities**

Time series availability depends on the date of institution of each Authority.

#### Table 49

##### **Proceedings concluded by the Competition Authority**

Since April 1995 mergers and acquisitions between non-independent companies are no longer communicated. Conditionally authorised mergers and acquisitions have been counted following a change made to the agreements, or with conditions imposed by the Authority. The total data on anti-competitive agreements and abuses of a dominant position include not only the investiga-



tions indicated separately but also the cases concluded with a decision not proceed with the investigation (in the case of agreements), or a stay of proceedings (in the case of agreements and abuses of dominant position) because no anti-competitive conduct has been identified. For the reporting and consulting activities, only the reports submitted in the benchmark year and published by 31/8/2002 have been considered.

Law 78/99 relates to the acquisition of exclusive transmission rights, in encrypted form, for Serie A football championship matches (Section 2).

As far as misleading and comparative advertising is concerned, only the investigations have been considered.

**Table 53**

**Privatisations carried out**

Recent privatisations, with information on: the enterprises privatised, the government unit making the disposal, economic sector, date of offering, type of offering, gross proceeds (in billions of lire) and the percentage of equity sold.

**Table 55**

**Number of procedures and time required for business start-up**

Total number of procedures required and amount of time taken to start up a sole proprietorship or a company. The comparison is for the years 1998-2002.

**Table 56**

**Number of innovating SMEs**

Innovating SMEs are defined as those that reported having introduced an innovative technology during the year.

**Table 57**

**Exports of high-technology products**

High-tech exports as a percentage of total manufacturing exports. High-tech products are: television and radio sets; sound and video recorders and players; TV and radio transmitters and apparatus for line telephony and telegraphy; aircraft and spacecraft; instruments and appliances for measuring, checking, testing, navigation and other purposes except industrial process control equipment; pharmaceuticals, medical, chemical and botanical products for medical use; office machinery and computers.

EU15 data exclude intra-EU trade.

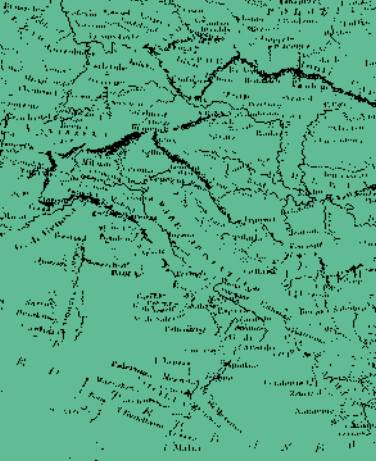
EU11 data exclude intra-EU11 trade.

**Table 65**

**Mobile phones**

Number of mobile phone service subscribers per thousand inhabitants. The figure for August 2003 is ratio of subscribers (supplied by *Mobile Communication*, June 2002) and population (OECD data for 2001).



**Table 66****R&D expenditure by public and private sector**

R&D expenditure at current prices (millions of euros) financed by public research centers (excluding universities) and private enterprises, as percentage of GDP at current market prices. Data for 2001 are provisional.

**Tables 67 and 68****Full time researchers and R&D personnel**

Researchers are those engaged on intramural activities. R&D personnel are researchers, technicians and other employed staff members. A full-time working unit equivalent is the amount of work performed during the year by a full-time employee, or the equivalent amount of work performed by part-time workers or by workers employed with two jobs. This concept is no longer linked to the individual worker but is made equivalent to a number of annual working hours corresponding to a full-time job.

**Table 69****Patents registered, by date of application filing**

All patents registered in each year are classified according to the time elapsing between the filing of the application and the award of the patent; data are the percentage of all patents registered in each year. Bold type marks the most common time classes.

**Table 70****Inventions patented, by date of filing of application**

All invention patents registered in each year are classified according to the time elapsing between the filing of the application and the award of the patent; data are the percentage of all patents registered in each year. Bold type marks the most common time classes.

**Table 71****Investments in equity by institutional investors relative to GDP**

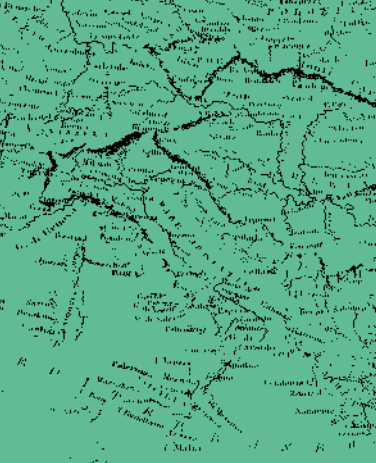
End-of-period stocks. GDP at current market prices. Pension fund data exclude investment in foreign equities. Through 1998, includes only retirement funds of banks; from 1999 on, includes all pension funds.

**Table 73****Merger patterns in the financial sector**

Number of Italian bank mergers each year (both domestic and cross-border).

**Table 74****Main indicators of the Italian Stock Exchange market capitalisation**

Time series for listed companies, capitalisation and stock exchange trading volume. Data are for December of each year. The daily average refers to the entire year.



**Table 75**

**Cross-border banking penetration**

Italian banks' foreign assets and liabilities as a percentage of total assets and liabilities.

**Table 76**

**Percentage of foreign equities in domestic portfolios**

Foreign equities and units of foreign investment funds as a percentage of domestic portfolios.

**Table 77**

**Venture capital investments**

Percentage distribution of SME investments, amount and number of investments for each type (as percentage of total).





