



MINISTERO DELL'ECONOMIA E DELLE FINANZE

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I. INTRODUCTION

In the previous Document for Economic and Financial Planning (DEFP) for the years 2003-2005 the Government sets among its key priorities, the goal of increasing the real and potential growth rates in order to implement the Lisbon Agenda of employment, research, competitiveness and sustainable development. Moreover, the Broad Economic Policy Guidelines (BEPGs) for 2003-2005 set a rigorous reform agenda for Italy's product and labour markets.

Some major reforms have already been implemented, including those in the labour market, pensions, corporate law and education system. Other reforms concerning, the energy sector and the local public services have been recently approved. The Government will shortly introduce legislation concerning the reforms of bankruptcy proceedings and professional services.

The newly established Economic and Social Council for Environmental Policies will be charged to make the goals of economic growth and competitiveness compatible with environmental ones.

Italy's commitment to implement the Lisbon's Agenda is reflected by the high rate of transposition of the directives adopted under this strategy to strengthen the internal market and competitiveness. The European average of directive transposition stands at 58.3 per cent. Among the member states, Italy ranks with the highest rate of directive transposition (between 75 and 85 per cent).



II. INCREASING PRODUCTIVITY AND BUSINESS DYNAMISM

II.A. PERFORMANCE ON PRODUCTIVITY AND GROWTH

Income per capita is lower in the euro area than in the best performing OECD countries and the gap is widening. Key challenges are to reduce the under-utilisation of labour resources, to boost productivity growth and to bolster the area's resilience against shocks ⁽¹⁾.

The recommendations set in the BEPGs for the 2003-2005 period clearly stated that increasing productivity “is necessary to fully reap the benefits of the internal market, to invest in skills and innovation”, while a “much stronger business dynamism is needed to improve the competitive position of European firms”.

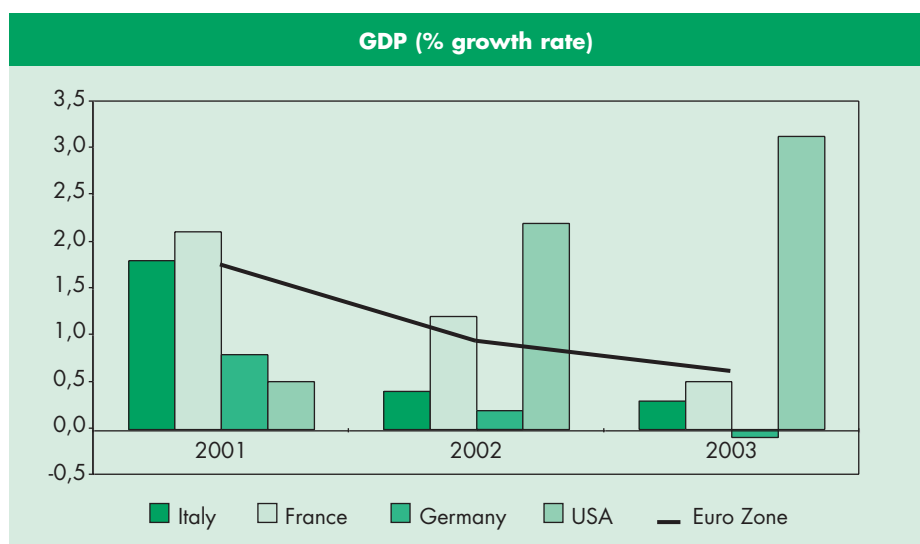
Structural indicators of the Italian economy					
	1999	2000	2001	2002	2003
Total employment rate (Per cent of working age population)	52.50	53.50	54.60	55.40	55.99
Employment rate of older workers (employed persons aged 55-64 as a share of the total population of the some group)	27.64	27.66	27.96	28.92	30.25
Youth education attainment (Per cent of population aged 20-24)	n.a.	67.31	68.20	69.71	71.10
R&D expenditure (per cent of GDP)	1.04	1.07	1.11	n.a.	n.a.
Business investment (per cent of GDP)	16.12	16.86	16.72	16.71	16.00
Total unemployment rate	11.40	10.60	9.50	9.00	8.68
EU-15=100					
GDP per capita in PPS	101.90	101.26	100.09	98.37	97.90
Labour productivity per person	113.00	112.30	110.00	106.50	104.80
Labour productivity per hour	111.40	109.70	107.60	103.90	102.40
Comparative prices	90.70	90.40	92.20	94.50	n.a.
Source: Eurostat and Istat Data					

⁽¹⁾ OECD “Economic Survey, Euro Area”, 2004.



The slowing pace of the Italian economy is essentially due to long-standing problems:

- Labour productivity has increased at a slow rate in the last years.
- Multi-factor productivity growth has been low and is decelerating.
- Considerable territorial differences in productivity, employment and unemployment rates still persist between the South and the North.
- The employment rate is still below the 70 per cent target set for 2010 ⁽²⁾, although employment increased by a 7 per cent in the period 1994-2003.
- The country attracts very little foreign direct investment (FDI).
- R&D expenditure appears to be very low, especially in the private sector.



As shown in the graph above, the Italian economy has not been resilient to the global slowdown that started in 2001, experiencing one of the sharpest deceleration of growth among OECD countries. In this

⁽²⁾ European Commission, "Report to the Spring European Council", 2004.



context, in 2003 Italy's GDP rose broadly in line with the Euro-area average (0.3 per cent compared to 0.4 per cent).

Italy has had a good employment performance, even though, inflation rates and unit labour costs have risen faster than the euro-area average (see Table 3).

Due to these rising costs, Italian exports have lost competitiveness and market share; problems have been compounded by the country's specialisation in slow growth sectors.

One of the reasons of Italy's gap in productivity and competitiveness is the low level of investments in ICT technologies. Italian investments in know-how have been relatively modest, especially in information technology, accounting for only 65 per cent of the European average and 40 per cent of that in the United States and much work has still to be done to develop skills and training in scientific areas.

The share of investments of Italian firms in activities of research and development is by international standards low, with a negative impact on the number of patents, especially in IT sectors (see Tables 68-69). In particular, the "*made in Italy*" sector appears to rely too much on traditional technologies in a context of growing competitive pressures from emerging countries.

The main factor of dynamism of the Italian economy is still represented by its strong entrepreneurial vitality. Recent data confirm the constant growth of new firms which reached nearly 5 million in 2003 – and an entrepreneurship rate among the highest in the world. Data for the second quarter of 2004 indicate an acceleration of this trend, with a net balance of 47,800 new firms, compared with 38,127 in the same period of 2003.

In 2004, firms' sales are increasing by 7 per cent and orders by 15 per cent. Foreign production by Italian firms is also increasing, albeit more slowly than in the past, resisting the international trend toward a sharp decline in foreign direct investment. On the other hand, Italy's ability to attract foreign investment remains weak, especially in the *Mezzogiorno*.

Measures in favour of these regions are a priority of the Government's agenda, focusing on strengthening the Italian infrastructures and the human capital. The implementation of the "Quick-start Programme" at a national level is one of the initiatives undertaken in 2003 to reach this goal. About 60 billion euro per year are expected to be spent over the four-year period 2004-2007, of which about 26 billion euro specifically addressed to Southern Italy.



Raising the level of investments - Public Private Partnership's (PPP) developments

Starting in 2001, the Government introduced a new legal framework for public works sector, introducing more effective procedures and tools aimed at attracting more private resources at both the building and management stages.

Data coming from the “*Osservatorio per la Finanza di Progetto*” (Project Finance Observatory) ⁽³⁾ show considerable progress in the years 2002-2003 with respect to 2001:

- more than 1,100 new projects started by local authorities;
- a total of 9 billion euro of investments were made.

It's important to note that even the ratio between tenders and contracts awarded has performed a similar trend. This phenomenon certifies a more accomplished diffusion of knowledge of PPP procedures among the public and private subjects and an acceleration of the whole implementation process.

The Financial Law for 2004 has introduced a new legislation which forces all “promoters of strategic infrastructure” to present cost and benefit schemes and a new financial plan before they can benefit from public funding.

A more complex PPP framework has been arranged for the implementation of a few big infrastructure initiatives, characterised by a wider stakeholders-base, a more articulated decision-making process, the introduction of an innovative procedure to estimate the future kind of revenues coming from the territory (the so called: “creation of value”) thanks to the existence of the public work itself and the economic operators activities. The whole public works system will benefit from the activity of legal harmonisation ongoing at European level in the PPP areas.

⁽³⁾ www.infopieffe.it.



II.B. COMPETITION IN GOODS AND SERVICES MARKETS AND THE INTERNAL MARKET

Opening up new markets to competition and furthering economic integration

Legal and administrative framework

As of July 2004, the transposition deficit for Internal Market directives in all the EU-15 Member States was 2.2 per cent, with 9 per cent of directives not yet transposed. In line with the recommendation expressed in the BEPGs for the 2003-2005, Italy's implementation deficit has slightly improved from 3.9 per cent (May 2003) to 3.1 per cent (July 2004). As for the number of infringement proceedings, Italy still has the most cases (149) and together with France account for about 30 per cent of all infringements in EU.

Remaining obstacles to trade and to cross-border investments

In 2003, the Italian exports declined by 3.9 per cent at constant prices, compared to 2002, mainly due to product specialisation in slow-growing sectors of world demand ⁽⁴⁾.

The sectors most affected were the typical Italian manufactured goods, while intermediate goods (for example, yarns and textiles) have gained quotas. This is an indication of the evolution of the trade specialisation model, which is moving toward the transfer abroad of some phases of the production processes. Indeed, in recent years the Italian firms' presence abroad in the production phase has continued to grow.

The trend towards markets diversification is confirmed by the fact that in the last ten years the number of firms that export to at least 40 countries has more than doubled (approximately 44 per cent of Italian exporters sell instead in only one foreign market).

Large firms continue to account for the vast majority of Italian investments abroad, but the importance of small and medium-sized firms has increased in the last decade (their share of total employment in foreign affiliates has risen from 4 per cent to 17 per cent). The ability of firms located in the South of Italy to produce abroad remains modest, accounting for only 2 per cent of employment in Italian firms' subsidiaries.

⁽⁴⁾ Prominent among the drivers of world trade in 2003 were motor vehicles, chemicals and energy products, i.e. all sectors in which Italy is relatively weak.



The Italian model remains feeble in research-intensive sectors. In the last three years the growth of foreign shareholdings has slowed and the presence of multinationals in research-intensive sectors has fallen further. Italian firms controlled by foreign multinational corporations amounted to around 5,500, with 785,000 employees and a turnover of almost 283 billion euro (January 2003).

Services

Following a trend started in 2001, the profit of the car insurance sector reached 5 percent of total sales in 2003, a result both of the reduction in the costs of accidents as a percentage of premiums (from 84.2 percent in 2002 to 81.6 percent in 2003) and of the price increases registered in the past years, well above the domestic and European inflation levels. A survey conducted by the sector Authority (ISVAP, *Istituto per la Vigilanza sulle Assicurazioni di diritto Privato*) revealed that, in the first semester of 2004, no additional price reductions have been registered for the four most important insurance profiles, compared to the small reductions registered in the second semester of 2003.

A reduction of total costs as well as an improvement in services offered would come from the restructuring of damages compensation and from a tighter vigilance of the fraudulent claims made by some policyholders.

A first step in the direction of reducing the costs of legal cases was recently taken by extending the simplified procedure (the so called "CID") to settle small claims.

As for the on-line services offered to policyholders to create their own personalised estimates, it is too early to see results on the consumers propensity to change insurers.

As regards the structural features of the insurance market, in 2003 the agencies remained the main channel used to sell third-party vehicle insurance (93.0 percent of the total premium collected); the direct sales, even if increased, remain marginal (3.5 percent). Brokers and banks sales account for a small percentage of the total (2.3 and 1.0 percent, respectively).

Six years after the approval of the retail trade reform, competition has increased noticeably. In 2003, 5,582 new retail outlets opened (balance between closing down and opening), with a smoother growth pace in comparison with the previous years. The negative trend registered in the '90s reversed from 1999 when a bright increase was recorded, with a peak in 2000 when the reform of retail distribution showed its effects (see Tables 42-43).



A territorial differentiation persists, with a strong growth in the South, a slower pace in the Centre and a hold on growth in the North.

The reform's goals have been achieved only in part. Small outlets no longer need licensing while new medium and large-scale retailers still need administrative authorisation. The decentralisation of retail sector regulation carries the risk that local regulations on urban planning prevent the opening of large retail outlets, thus hindering competition. As a consequence, small shops have been encouraged to merge with or purchase other small shops thus leading to important changes in the retail trade sector. There are now a large number of outlets with more than one shop location, creating greater competition among small outlets.

As in the previous year, in 2003 most of the new openings (97 percent) was recorded among small neighbourhood shops, while the authorisations' transfer is used mainly for opening medium and large shops.

For the fuel distribution network, the voluntary Network Rationalisation Plan, signed by the oil Companies in 2001, ended in December 2003, as initially planned. However, due to the delay caused by the implementation of local legislations, in March 2004 the Antitrust Authority has extended the Plan for another year. The regulations already issued by the local authorities tend to reach European standards, through new type of petrol stations and the modernisation of the existing ones. To this aim, the opening of food shops near or within petrol stations has been encouraged as well as the introduction of greater flexibility in working hours.

Concerning professional services, a number of proposals to reform the sector are currently being examined by the Parliament. The proposed reform includes a relaxation of restrictions on advertising, on the choice of business structure so that professionals may set up a partnership, and mandatory insurance coverage by professionals against the risks of their activities. Particularly the proposal on mandatory insurance reinforces the trend towards more pro-active forms of consumer protection.

Professional are currently allowed to use the so-called "informative advertising", permitting the mere information on the activities run by the professionals. As for partnerships among professionals, the possible entrance of a partner that provides only equity capital is embodied in a regulation now under Parliamentary examination ⁽⁵⁾. The role of self-regulatory Professional Associations will be maintained in order to guarantee professional competence. Achieving this goal is also linked to maintaining minimum fees and limiting recommended prices.

⁽⁵⁾ As stated by the law 266/1997 (the so-called "Bersani law").



Public procurement

During the first semester of 2004, the “Rationalisation Program on Public Spending for Goods and Services” has developed an e-procurement model through:

- the reinforcement of the system after an experimental phase, through the enlargement of the number of Public Administrations that can purchase after making a specific request (1,200 as of July 2004). The qualified suppliers have also increased (about 190, July 2004) with a wide participation of small and medium local enterprises that, spread across the country, display their catalogues on the website ⁽⁶⁾ for 9 products categories (up to date about 35,000 product articles have been inserted in the e-procurement system);
- the focus on the use of outline contracts by the Public Administrations: up to date, more than 40,000 purchasing units have been registered into the Program (compared to a potential 45,000), with about 330,000 orders received;
- the stronger support to Public Administration in terms of consulting services, through initiatives and specific projects related to public spending rationalization, innovation and simplification of purchasing processes;
- the reinforcement of the partnership with the suppliers counterpart, and of the collaboration with trade associations, in order that the Public Administration innovation process can also be the vehicle for change and innovation in the enterprises' system, stimulating their competitiveness and growth.

Competition and regulatory policies, including network industries

Competition policy and State aids

The role of independent Authorities in Italy has been strengthened: a recent decision of the European Court of Justice has ruled that antitrust Authorities must block national legislation inducing firms to behave against the European competition law. This decision will encourage the introduction of regulations which better reflects the public general interest.

In the last year, the work and investigations of the Competition Authority mainly concentrated on services which are fundamental inputs to

⁽⁶⁾ www.acquistinretepa.it.



most non-service activities, like manufacturing and agriculture. The scarce competition existing in these services are often paid by the most efficient industrial sectors, as demonstrated by a recent investigation for the gas sector. In line with the BEPGs set for Italy, the competition in service sector has been at the core of the Antitrust activity, working in cooperation with other independent regulatory Authorities (⁷).

In the last year close attention has been paid to market mechanisms and universal service, dominant position and relevant market in the TV sector, as well as to vertical separation of integrated firms (for details of the Antitrust activity, see Tables from 48 to 51).

Regarding the resources assigned, the Authority staff remains somewhat smaller compared to the enforcement bodies with analogous powers in many similar-sized OECD countries (see Table 47).

The system of State Aids is being revised with the goal to steer investments towards projects more “innovation intensive”, specifically addressed to boost dimensional growth of firms and balance for territorial disparity.

Italian state aids have been mainly directed towards horizontal objectives (R&D, SMEs, regional policies) considered less harmful for the competition. Due to the extension of the disadvantaged areas of the country, a big share of the financial assistance has been devoted to regional policies (about 48 percent); the level of funding of SMEs is equally high (34 percent), while the percentage of aids assigned to R&D is lower (15 percent) even if rising. The table below shows data from the “Report on the financial intervention for firms” (year 2004) (⁸).

Firms incentives						
	1999	2000	2001	2002	2003	Total
Demands approved	158,177	117,744	157,380	234,051	116,322	783,674
Aids approved (million euro)	8,785.0	4,846.9	10,966.2	11,062.2	8,168.0	43,828.3
Aids allocated (million euro)	4,320.1	4,567.1	5,714.2	7,466.8	5,799.2	27,867.4
Investments activated (million euro)	30,962.1	16,627.2	37,356.6	36,448.3	29,260.5	150,654.7
Forecasted employment increase	135,204	47,532	177,832	139,151	97,782	597,501

(⁷) In sectors as telecommunication and energy.

(⁸) *Relazione sugli interventi di sostegno alle attività economiche e produttive* (giugno 2004), elaborated by the Ministry of Productive Activities, is attached to the Document for Economic and Financial Planning of the Government.

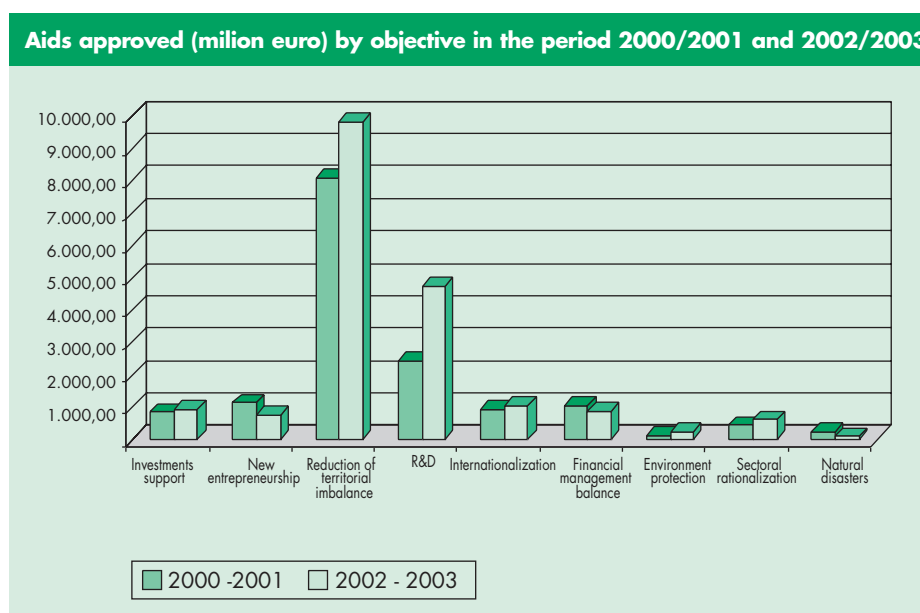


The fall in the number of demands approved (-50 percent) in a context of reduced financial resources for the firms (-11.6 percent in 2003) is attributable to a tax credit for investments in disadvantaged areas ⁽⁹⁾.

The incentives effectively benefited by the firms in 2003 through the tax credit decreased by 60 percent; the total allocations (included tax credit) diminished of 22 percent (- 32 percent in the South).

The most important instruments of funding for the R&D sector have registered an increase of the aids allocated in 2003 (+59.6 percent with respect 2002, in monetary terms). The biggest part of these incentives (81 percent) will fund programmes of research and related investments in the Centre-North of Italy. This is the result of a persistent structural gap linked to a productive environment that is extremely differentiated between the North and the South of the country.

To specifically reduce this technological gap, the Integrated Package of Aids for innovation (PIA- *Pacchetto Integrato di Agevolazioni*) has been made operational in 2003. It is a definite intervention ⁽¹⁰⁾ to finance articulated industrial projects contemplating both investments in R&D and productive investments (machinery, equipments, etc.). The figure below shows the aids composition in relation to the objectives.



⁽⁹⁾ Art. 8 of law 388/2000.

⁽¹⁰⁾ Within the National Operational Programme (PON) "Local Entrepreneurial Development" (inside the Community Structural Funds).



In 2003, among the measures used to finance the disadvantaged areas, the Law 488/92 has guaranteed the same level of efficacy of 2002, both in financial terms and in the number of projects funded.

In 2003 the first call for bids (for 310 million euro) has been launched to favour investments for improving the environmental sustainability of productive units in the regions of Objective 1 (see table below).

Law 488/92 – Special ranking Environment			
DOMAIN	PROJECTS		INVESTMENTS (million euro)
	Nr	Percentage	
Dangerous waste	14	12.0	27.0
Non dangerous waste	18	15.4	18.8
Water resources	18	15.4	36.1
Energy	41	35.0	107.1
Various domains	26	22.2	46.7

Utilities and other network industries

The Italian network industries are characterised by different degrees of competition, according to the “openness” of each market.

In the **telecommunications** sector, the approval of the Electronic Communication Code was the last step in the process of transposition into national law of the EU directives on electronic communications.

The telecommunications market has not changed significantly from the last year, although there has been a slight decline in the number of mergers and acquisitions. The market is now characterised by a small number of “full-line operators”, providing all type of services: voice telephony, mobile telephony, narrowband and broadband Internet access.

The market for telecommunication services grew by 5 percent in 2003 while Information technologies (hardware, software and services) and telecommunication equipments (public networks and private devices) segments decreased, respectively, by 2.7 percent and 2.2 percent ⁽¹⁾ (see section II.D).

⁽¹⁾ Evaluation on EITO Annual Report 2004.



In the TLC market, the same trends of previous years (i.e. the overtaking of mobile to fixed lines) were confirmed in 2003. The main contributions to the growth of the market for telecommunication services (+ 5.2 percent in 2003) came from the mobile (+9.4 per cent) and the Internet (+28 per cent for access, housing and hosting services) segments. Conversely, fixed-line voice services declined by 1.9 per cent ⁽¹²⁾, caused in large part by the diffusion of flat-rate telephony schemes and by the substitution of fixed with mobile and broadband lines.

It should be pointed out that the comparison of prices in fixed telephony is made difficult by the growing diversification of tariffs which very often bundle voice services with Internet access or other value added services (see Tables 17-18-19 for prices and tariffs).

The effects of the liberalisation process in the fixed-line sector are highlighted by the growing use of services in carrier pre-selection (about 3.7 million of subscriptions) and the diffusion of unbundled lines (697,000 lines activated as of June 2004 compared to 309,000 in the same month of 2003).

Compared with the previous year, in 2003 the market share of voice services slightly decreased from 68.5 to 68 per cent. This is due to the combined effect of 4 per cent loss in local call market share ⁽¹³⁾ and a small increase in other segments (long distance, international and fixed to mobile; see Table 20).

In 2003 the value of the market for mobile services reached 16.7 billion euro, confirming the crucial role played by the mobile market. The increase in revenues concerns both the voice and data transmission segments. While the former is confirmed by the number of SIM - which has continued to grow by 7.3 per cent with respect 2002 to around 57 million at the end of 2003 – the latter has been proved by the expansion of services offered by SMS (whose users reached 33.5 millions in 2003) and by the diffusion of MMS.

As of June 2004, there were more than 900,000 UMTS users in Italy and this number is expected to grow to over 2 millions by the end of the year.

The competitive structure of the telecommunications market on the supply side seems very stable with four providers. The diffusion of mobile number portability, affected 2.5 million users as of June 2004 and

⁽¹²⁾ Due to the combined effect of a 1.2 per cent increase in the revenues from activation and subscription fees and a 3.4 per cent reduction in the revenues from voice traffic.

⁽¹³⁾ Including Internet dial up calls.



introduced some dynamism in the market on the demand side. For the first time, TIM's market share dropped below 50 per cent in terms of revenues and from 47.4 to 46 per cent in terms of lines.

As of June 2004 the total number of broadband connections (including broadband mobile connections by 3G technologies) was about 4.4 millions. DSL is still the most common access technology with 3.2 million lines.

In the **electricity** sector, the blackouts occurred in 2003 highlighted the need for structural changes in the industry, which suffers from a lack of capacity and where sources are not sufficiently diversified.

To correct these shortcomings, a number of measures have been adopted:

- The Electricity Power Exchange was launched last April, thus providing investors with certainties on the functioning of market-oriented price mechanisms in the sector.
- The so called "*sblocca centrali* decree" and the recent law reforming the energy sector - so called Marzano Law ⁽¹⁴⁾ - are meant to ease bottlenecks in the supply of electricity. The decree streamlines the procedures for building new generating plants and for expanding the national grid. The Marzano Law aims at enhancing the imports by easing the construction of interconnections with other European grids.
- The Marzano Law also envisages gradual liberalisation of demand; starting in July 2004 all industrial users have become eligible to choose their supplier and from July 2007 all clients will be eligible. The impact of such liberalisation on the transactions in the Electricity Power Exchange is not exactly predictable, but it is expected to be significant.
- A recent law ⁽¹⁵⁾ has granted an exemption (ranging from 10 to 20 years) from the regime of the third party access to the grid, up to 80 percent of the newly installed transmission capacity. The exemption will affect those, other than the electricity transmission infrastructure company, investing in electricity interconnections with other countries.
- With the same law the return on investments has been raised to more market-oriented levels. This should provide greater incentives for investing in the sector and facilitate its privatisation.

⁽¹⁴⁾ Law 239 of 23/08/2004

⁽¹⁵⁾ Law 290/2003 converting the Legislative decree 239/2003 on "Urgent measures for the security of national electricity system".



- A “capacity payment” scheme has been introduced in order to remunerate electricity capacity ⁽¹⁶⁾.

In 2003 the Energy Authority issued the new rules for the second regulatory period which started in February 2004 ⁽¹⁷⁾. The new tariff system for the period 2004-2007 had to take into account the expected starting of operations of the Italian Power Exchange (Ipx), that since 1 April 2004 has replaced the transitory market set up in July 2003, for sale of electricity to the captive market (STOVE) ⁽¹⁸⁾.

The Prime Minister's Decree of May 2004 established the reunification of management and ownership of the transmission network under a single subject and its future privatisation.

The reunification has been driven by concerns over coordination failures in the management of the transmission grid between the transmission network operator (GRTN) and the owner of the grid, *Terna*. Last June, the flotation of 50 percent of *Terna*, a subsidiary of ENEL, raised 1.7 billion euro.

To ensure the new entity's independence it has been decided that, as of July 2007, no firm operating in the electricity sector (in segments other than transmission) may have a stake of more than 20 percent of the new entity's capital ⁽¹⁹⁾. As a result, ENEL will have to reduce its stake in the electricity grid company (*Terna*) ⁽²⁰⁾. Furthermore, special corporate governance guidelines have been introduced to strengthen the transmission grid operator's impartiality: no shareholder will be allowed to exercise his rights over a maximum limit of 5 percent of capital.

The same Prime Minister's Decree mandated the transfer of the commercial assets of GRTN to *Terna*, by October 2005. The current mission of GRTN, including the management of the CIP6 energy and green certificates will be assigned to a State-owned enterprise.

The Single Buyer (AU) – entrusted with the purchase of electricity for the captive market in place of ENEL – became operational on 1st

⁽¹⁶⁾ Legislative decree 379/2003, “Measures on the remuneration of productive capacity” and Authority decision n. 48/04.

⁽¹⁷⁾ Tariffs regulation had to be revised along with the reorganisation of the electricity sector: tariff components remunerating transmission, distribution, supply (sales and billing) and metering activities were furthermore disaggregated to better distinguish between regulated components regarding natural monopoly segments and components which would eventually evolve towards market prices according to the opening degree of the retail market.

⁽¹⁸⁾ *Sistema Transitorio di Offerte di Vendita dell'Energia elettrica per il mercato vincolato*.

⁽¹⁹⁾ As stated by the law 290/03.

⁽²⁰⁾ Enel will be allowed to further reduce its stake in the grid company through a public offering.



January 2004. The AU was allowed to participate in the procedures for allocating import capacity and electricity produced by the CIP6 plants; to sign bilateral contracts for up to 25 percent of total demand from the captive market and to operate on the electricity market according to the guidelines of the Energy Regulator. The AU was also required to use yearly “contracts for differences” to hedge against the risk of high prices and against price volatility.

As a result of the creation of the AU and the opening of the electricity market, a new mechanism has been put in place last April to pass the cost of energy into the electricity tariff for non-eligible customers ⁽²¹⁾.

With the April update of the tariff, the Energy Regulator has also introduced two new specific components in the tariff formula for improving the security of supply (interruptibility and plant availability components).

Due to less tight conditions in the international fuel markets the national average tariff (net of taxes) in the second part of 2003 fell by 2 percent from the previous semester. The decline continued in the first part of 2004, until July when the average tariff rose by 1,4 percent on the previous quarter (see Tables 8-9). The reversal sharply reflected higher oil prices.

In terms of market structure, ENEL retains its dominant role in the generation segment; in 2003 it had 46.4 per cent of the market (excluding Enel Green Power which accounts for another 2.9 per cent), while 30.6 per cent of electricity was generated collectively by Edison, Edipower, Endesa, EniPower, Tirreno Power and only 4.7 per cent by municipal firms (see Table 5).

The Ministry of Economy is selling a further stake in ENEL's capital through a global offer.

The rise in the demand and the consequent blackouts experienced in Italy in 2003 had a profound impact both in terms of security of supply and of quality of the service. As a consequence, the indicators of service continuity for 2003 showed an evident worsening with respect 2002 (see Tables 25-26).

Excluding these exceptional events and as a consequence of the functioning of a mechanism of incentives introduced by the Authority the

⁽²¹⁾ While in the previous regime fuel costs were incorporated in the variable component of the tariff with reference to average international fuel prices and fixed costs were updated by the Energy Authority once a year, in the new system AU total energy costs stemming from bilateral contracts and purchases made in the electricity market are being transposed into the final prices.



service availability has continued to progress in 2003, thus contributing to reduce the regional disparities (see Tables 28-35). The total number of compensations in the electricity sector rose from 52,229 in 2002 to 79,072 in 2003.

The regulatory framework concerning the promotion of renewable sources has been strengthened with the transposition into national legislation of the EU directive 2001/77/CE (see section III Environmental sustainability). In 2003 3.46 billions of kWh of energy were produced by renewable sources for the green certificates emission (+ 6.5 per cent compared to 2002).

In the **natural gas** sector the demand was fully liberalised in January 2003 (see Table 7). In order to protect small consumers in the transitional phase to a true competitive environment, all gas suppliers serving residential and small business customers (who consume less than 200,000 cm per year) are obliged, as of 1st January 2004, to provide their clients with a reference tariff (which is established and updated by the Energy Regulator) along with their own tariffs. In line with the reorganisation of the gas industry the new reference tariff has separate components for transport, distribution, storage, wholesales and retail commercialisation costs.

The average tariff for natural gas, net of tax, fell by 3.6 percent in the first quarter 2004 compared to the same quarter of the previous year and remained at that level for the following two quarters. The revised smoothing mechanism for fuel costs established by the Energy Regulator at the end of 2002 has so far prevented the energy tariff component from reflecting the recent steep hikes in oil prices (see Tables 10-11).

The **postal sector** in Italy is characterized by a heavy USO (Universal Service Obligation) burden due to a low demand (114 per capita items in 2002) and unfavourable geographical and demographical conditions. Moreover, mail volume forecasts indicate a stagnation or a decline in the coming years. Thus the economic sustainability of the USO remains a key concern for both the National Regulator (Ministry of Communication) and the Universal Service Provider (*Poste Italiane SpA*). Within this context the CIPE (*Comitato Interministeriale di Programmazione Economica*) approved the New Regulatory Guidelines on Postal Sector that define the pricing mechanism and the criteria to determine the State compensations which cover only partially (about 50 percent) the USO costs.

The new “*Contratto di Programma*” for the period 2003-2005 has been negotiated between *Poste Italiane* and the Ministry of



Communication. The Contract introduces a new price cap system based on retail price index, productivity objectives and quality results; the tariffs revision will take place every three years. It also indicates the yearly amounts of State compensations for the USO costs according to a subsidy-cap set up in the Regulatory Guidelines and set the quality targets for the Universal Services. New postal tariffs, approved by the Ministry of Communication, became effective from the 1st January 2004 (see Table 14).

In compliance with Directive 2002/39/EC of 10 June 2002 ⁽²²⁾, lower weight and price limits on the reserved area came into force since 1st January 2003. Owing to volumes decline and increase of competition, the share of turnover from services operated in monopoly regime continues to shrink (see Table 15).

In 2003 all quality targets have been met or exceeded, confirming the steady improvement since 1999 (see Table 36). For the second consecutive year, in 2003 *Poste Italiane* Group made a profit of 90.3 million Euro.

An important step toward greater competition in the **road freight transport** was the approval by the Senate of the delegate bill for a comprehensive overhauling of the regulations affecting the sector. It intends to rise the competitiveness of the Italian transport sector whose costs are about 20 per cent higher than the European average. The key element of the bill concern: the liberalisation of tariffs; the elimination of exclusive rights and the streamlining of procedures by substituting the concession with the authorisation.

The reform concerns 30,000 firms whose activities represents about 12 per cent of GDP.

Major changes in the **railway transport** are mainly linked to the reforms undertaken at the European level for greater liberalisation. Italy has already implemented the railway package and is currently defining the organisational framework for the establishment of a regulatory body for the railway sector.

The Agency will be part of the Ministry of Infrastructure and Transport and it will be a sort of task force, with pro-active regulatory functions, managed by a Director General at the Ministry. Provisions regarding the regulatory body are part of a Presidential Decree dealing with a broader reorganisation of the Ministry, approved in July 2004 ⁽²³⁾.

⁽²²⁾ The new postal directive was fully implemented by Legislative Decree n. 384 of 23 December 2003.

⁽²³⁾ DPR 184/2004, art. 6. A Ministerial Decree will then follow, laying down a detailed definition of duties and responsibilities of the Regulatory Body.



For the third consecutive year, *Ferrovie dello Stato* Group registered a profit in 2003, despite the difficult economic environment and stiff competition among operators and different modes of transport.

The Group has further developed the services offered (in terms of efficiency, security and quality) and realised investment plans. As for the quality, the passenger train punctuality has slightly improved during 2003, and this progress is continuing in 2004 (see Table 38). The percentage of medium and long-haul trains arriving at their destination on time, or with a delay between 0 and 15 minutes, has increased from 89 per cent of 2003 to 91 per cent in the first six months of 2004. The percentage of regional trains arriving at their destination up to 15 minutes late has held steady at 97 per cent (see Table 38). With regard to safety indicators, the figures for 2003 confirm the trend of reduction in the accident rate. The indicator measured in terms of the number of typical accidents per million train-km, stands at a value of 0.20 in 2003 and in the first semester of 2004, down from the 0.27 registered in 2002 (see Table 37).

As far as the volume of investments, in 2003 the *Ferrovie dello Stato* Group exceeded the value of 7 million euro, with an increase of 30 per cent with respect the previous year. In 2004, the volume of investments is expected to stand at 8.7 million euro.

In 2004 the liberalisation of the rail transport market continued. By June 30th the number of licence-holding train operators raised to 35; 32 of them were granted an extension to provide nationwide services, while 16 operators held the safety certificate (see Table 24).

Structural changes in the Italian local utilities

Italy's local utilities sector comprises former municipal-owned companies that have been privatised and are still partially owned by the local authorities. Their key sectors of operations are electricity, gas, waste and integrated water services, with almost all of them engaged in more than one of these areas.

Local public utilities represents about 2 per cent of total industrial production and their turnover stands for the 19.3 per cent of the entire public service sector turnover. The employment in the local firms providing public services has registered a slight increase and the level of investments is constantly rising accounting in 2002 for the 20.4 per cent of the investments undertaken in the public service sector.



Public utilities play an important role in modernising the Italian economy. Between 2002 and 2003 this sector underwent a significant consolidation process, characterised by operational alliances and many of these utilities have been seeking to diversify into analogous activities. Numerous foreign firms have entered the market through joint ventures and equity investments ⁽²⁴⁾.

Important changes occurred also in the regulatory framework as the Government reformed the **local public services** in order to respond to increasing pressures from the EU Commission to harmonise Italian legislation to European competition rules. The main innovations contained in the new legislation ⁽²⁵⁾ is that the responsibility for the provision of service is given, alternatively, to: *a)* a joint stock companies selected by competitive bidding; *b)* a mixed companies, if the private member has been selected through a competitive system; *c)* companies owned by local authorities, on the condition that the local authority exercises over the company a control similar to the control exercised over services supplied by the local authority itself and that the company performs the most important part of its activity with the same local authority (so called “in house” entrustment). Moreover, the direct assignments of services has been limited to a transition period (until 2006), after which the new concessions have to be tendered through an open bid.

The reform is expected to impact mainly in the **water sector**, where the regulatory framework both at national and EU level has created a clear set of rules, separating the planning and control function (public) from the management of the service. Beside the innovations regarding the provision of water services, the law introduced a limitation on the firms allowed to participate the bidding process ⁽²⁶⁾.

Despite this the Italian system of water services still bears the consequences of heavily fragmented supply. The reform undertaken ⁽²⁷⁾ in this sectors tried to provide an incentive for local enterprises to reach their optimal size through the creation of 91 Optimal Water Management Areas (ATO) - 87 of which have been established - managed by a single water and sewerage operator under a long-term concession.

⁽²⁴⁾ The international players with the highest level of Italian market exposure are: EDF, Suez, E.ON, RWE Group, Endesa, GDF and VEOLIA.

⁽²⁵⁾ The reform is contained in the Law 24 November 2003 n. 326, amending the previous Art. 35 of Law 448/01.

⁽²⁶⁾ Firms that have not participated to a bidding process in order to be allowed to provide a service at local level (both in Italy and abroad) are not allowed to bid.

⁽²⁷⁾ By the Law 36/94, so called Galli Law.



As of March 2004, 66 ATOs had concluded the recognition of the network maintenance status, 48 had approved the territorial plan, and 38 had awarded the concessions for the service. Of these, only one had assigned the service through competitive procedures, while in 25 cases the services has been entrusted directly to mixed companies (see Table 12).

The sector is still facing a problem of under investment, as the level of investments is declining and is mainly concentrated in the Northern regions.

This is one of the reasons underlying the still high percentage of water lost from pipes (42 per cent), with higher peaks in the South. These regions also experience a greater irregularity in the water supply (38 per cent of households in Sicily versus a national average of 13.5 per cent).

Further progress are also expected, as a consequence of the reform of public services, in the **local public transport** where a number of regional legislations are still delaying the date for the selection of operators through competitive bidding.



II.C. BUSINESS ENVIRONMENT

Policy initiatives to reduce the overall regulatory burden on enterprises and to foster entrepreneurship

The most dynamic aspects of the Italian economy is represented by its strong entrepreneurial vitality, as confirmed by the large number of new firms established every year, one of the highest rate in the world.

The Government is committed to foster entrepreneurship (see below, Efficiency of the public administration and other public services) by simplifying and reducing the administrative burden on business, in line with the specific BEPGs recommendations issued by the Commission.

Concerning bankruptcy law, the Italian Government will introduce a bill reforming the current legislation in order to streamline procedures and give more scope to extrajudicial agreements between debtors and creditors.

Taxation issues (including switching of the tax base from labour/capital towards pollution)

The new corporate income tax IRES became effective as of 1st of January 2004 with the objective of strengthening the competitiveness of the business sector and bringing the Italian legislation in line with the tax systems of other EU Member States. The new corporate tax rate amounts to 33 per cent, down from 34 percent, IRES also changes the tax treatment of dividends; it adopts the principle of partial exclusion of dividends (95 per cent of net profits distributed) from the income of shareholders eliminate the double taxation. Additional features of the reform are described in the following section: "Measures taken to improve the access to finance".

Firms are also allowed to deduct a portion of costs related to some types of investment from the taxable base (research and development, entertaining expenses relating to the promotion of national products in foreign countries, in-house training costs for students, fees for enlisting to the Stock Exchange). The deductions vary according to the types of expenses. As regards to research and development costs, the deduction of the portion of exempted investments does not prevent the firms from amortizing the costs according to the general rules. Concerning the small and medium enterprises the tax relief is conditional upon the prior approval of the EU Commission.

Several measures aim at streamlining the relationship between the Tax Authorities and businesses. Some measures were exceptional, such



as those concerning the settlement of pending liabilities through different types of tax amnesties; others are permanent, as the possibility to pre-determine the tax liabilities for the next two years (biennial preliminary settlement “*concordato preventivo biennale*”). This scheme is applicable to all businesses (shopkeepers or companies) with less than € 5.1 million turnover.

The biennial preventive settlement aims to obtain the taxpayers’ voluntary compliance with *IRPEF*, *IRPEG* and VAT taxes. The scheme consists of an agreement with the Tax Authority by which the taxpayer agrees to its liabilities in advance (based on profit and income at least equal to that of the reference year, increased by a fixed growth rate) and thus benefits from a reduced tax rate to the portion exceeding the pre-defined income, some social contributions exemptions, the elimination of some administrative and accounting obligations, and certain limits to the Tax Authority’s power of assessment. This experimental phase of the “preventive settlement” concerns the years 2003 and 2004.

A further development of this scheme, envisaged by the delegated powers Law, concerns a 3-year period (“*concordato preventivo triennale*”) based on preventive agreement between the Tax Authority and the taxpayer.

Italy relies increasingly on environmental taxes and charges (currently there are 20 taxes) ⁽²⁸⁾ mostly in the energy and transport sectors, and it is moving towards charging taxes on waste, water and air pollution. Nevertheless coordination among them is difficult. The OECD recommendations ⁽²⁹⁾ to restructure existing environmental taxes in light of a green tax reform has not been met yet. A crucial step will be the reorganisation of the national fiscal system ⁽³⁰⁾; in effect excise taxes are going to be used for “health and environment protection”, mainly by discriminating in favour of environmentally friendly products.

A positive environmental bias is represented by the non-taxation of natural gas used for electricity generation, that has been leading to an increase in its use and in the future could result in a reduced dependence by foreign import of electricity.

As for the current tax on mineral fuels (the so-called carbon tax, introduced in 1998 and suspended in 1999), the 2002 National Plan for the reduction of GHG emissions calls for its amendment in order to include the funding of carbon sink initiatives according to the Kyoto

⁽²⁸⁾ See OECD Environmentally related taxes database.

⁽²⁹⁾ See OECD, “Environmental Performance Review of Italy”, 2003.

⁽³⁰⁾ Introduced by Law 80/2003.



Protocol (see Table 41). The Carbon Tax has been the only attempt to replace direct taxation with pollution taxation. Although its scope is limited, there is no evidence that such experiment undermines industrial competitiveness.

As for waste and water management, reforms are gradually introduced: the reform of water tariffs is under way in order to respect the commitments required by Community Framework Directive; the application on an experimental basis of the waste charging system introduced in 1997 continues.

All tend to a recovery of the full cycle cost and to the implementation of the Polluter-Pays-Principle and of the Producer Responsibility Principle.

Measures taken to improve the access to finance

In 2004 two important laws concerning private equity and venture capital markets became effective.

Under the new Corporate Law ⁽³¹⁾, the more relevant changes concern:

- the introduction of a specific regulation on Leveraged Buyout (LBO) that encourages such approach and provide guidelines on how to structure and demonstrate LBO transaction;
- the possibility for corporate entities to choose from a broad range of instruments (shares and non-shares) with different voting, dividend, and veto rights. The new rules will make a corporate law more flexible, opening different opportunities for private equity agreements and for corporate governance for some kind of companies;
- the relationship between executive and non-executive directors and their respective duties, tasks and liabilities: the role of non executive directors has been changed and they will no longer be liable to the same extent of the executive directors.

The tax reform ⁽³²⁾ has considerably modified the corporate taxation system, with some effects that could influence the private equity and venture capital transactions:

- the new IRES includes a very important role of the “participation exemption” clause whereby gains generated by the sale of permanent participations will be tax exempted, while the capital losses relative to such holdings will not be deductible;

⁽³¹⁾ Legislative Decree n. 6/2003.

⁽³²⁾ Legislative Decree n. 344/2003.



- the introduction of the “participation exemption” limits the deductions of interest charges relative to stakes owned, called “*pro-rata*”;
- the tax reform also introduces the “thin capitalization rule” that limits the deduction of interest expenses relative to inter-company loans for the portion of such interest which exceeds the ratio of 4:1 (only for 2004, the ratio is 5:1) between financial debt and equity. The rule is subject to several conditions and exceptions;
- the 19 percent substitutive tax on capital gains from the sale of business concerns or “qualified” stakes held for more than 3 years has been abolished;
- mergers and demergers become totally tax-neutral;
- the company groups can opt for a domestic tax consolidation system (for resident companies) or for a worldwide tax consolidation system (marked by the presence of a resident controlling company).

With reference to the closed-end funds regulation some dispositions have been introduced by the *Banca d'Italia* that will make the management of these funds more flexible. The regulations must be approved in 60 days instead of the usually 90 days.

Managers companies of closed-end funds buy equities by borrowing up to 10 percent of the fund's assets.

Closed-end funds can control listed companies albeit for a limited period only with the aim to sell the participations.

As for incentives, the only one enacted in 2004 is the implementation⁽³³⁾ of an intervention that grants loans to financial intermediaries for the acquisition of participations in innovative companies.

The private equity and venture capital markets performed well in 2003 (see Table 70 and 76). The amount invested exceeded, for the first time, the record of 3 billion euro. The increase was due to some large buy-out operations which took place in the second half of the year.

The number of investments also increased. In particular, Italy's traders invested 3,034 million euro in 2003 (+16 percent over 2002), and executed over 336 operations (+12 percent over 2002).

Most of the amounts were invested in buy-out transactions (2,258 million euro, or 74 per cent of the total) and to a lesser degree in

⁽³³⁾ Through the Ministry of Industry Decrees of 19 January 2004.



expansion capital operations ⁽³⁴⁾ (583 million euro, 19 per cent of total). However in terms of number of transactions, there was a prevalence of capital expansions (175 operations, 52 per cent of total), followed by investments in start up ⁽³⁵⁾ (65 operations, 19 percent of total).

The value of acquisitions of minority interests (replacement capital) decreased from 7.8 percent of 2002 to 4.4 per cent of 2003; in terms of number of transactions they declined from 13 per cent of the total to 11 per cent.

Efficiency of the public administration and other public services

The Simplification law ⁽³⁶⁾ represents a major step toward the simplification of the relationships among enterprises, citizens and the public administration, with a drastic reduction of the laws currently in force (see Table 53-54). The Simplification Law aims at streamlining regulations concerning single subject matters through a unique legislation, the Code, which replaces the instrument of codification, as a mere list of the existing norms.

The Code collects all the rules regulating single sectors, eliminating the obsolete ones, gathering in a single regulatory framework the discipline in force, as well as innovating it.

Among the general rules and criteria applicable to all codes the following are of major importance for the competitiveness of the productive activities: the elimination of authorizations and licences; the substitution of the acts of authorization, license, permission etc with "notification" of start up of activities (by the business to the administration).

The most important sectors concerned by the new codes include: the regulatory process; the simplification and quality of regulation; job safety; insurances; incentives to enterprises; consumers' protection; internationalisation of enterprises; the introduction of ICT in the Public Administration.

The Consumers Code currently being finalised and largely encouraged by the European Commission, concerns the principles of education, information and publicity, aiming at allowing consumers to get a correct knowledge of the products on the market.

⁽³⁴⁾ Investments for the development of existing companies.

⁽³⁵⁾ Investments for the birth of new companies.

⁽³⁶⁾ Law n. 229 of July 29th 2003 on Simplification and normative recasting.



Moreover, during 2004 “delegification” and procedural simplification have continued. In particular, the Council of Ministers has definitively approved the Regulation for the simplification of the procedures related to the automatic cancellation from the register of enterprises firms no longer active.

The Government has recently submitted to Parliament the fourth annual Simplification Law for the year 2005.

In 2003 and during the first six months of 2004 the experimental phase of the Regulatory Impact Assessment (RIA) was pursued ⁽³⁷⁾.

A comprehensive framework of functional and organizational relationships was defined and 45 contact points for AIR have been identified (average two per Ministry) to follow the outcome of the trial phase within each individual Administration.

They have received special training for the development and the application of the RIA techniques. Following the training and the experimental phase, work is still ongoing to update the RIA Guide of 2001, to make it simpler and to check some logical steps.

In terms of the actual implementation of the analysis, a specific case to evaluate was proposed by the Ministry of Economic Activity and carried out by a task force coordinated by the Ministry's contact point. In this case the feasibility and practical implementation in the socio-economic and institutional context, along with financial and organizational implications were tested. The cost/benefit analysis was also used.

⁽³⁷⁾ It has been coordinated by the relevant Office of the Department of Legal and Legislative Affairs (DAGL) at the Prime Minister's Office.

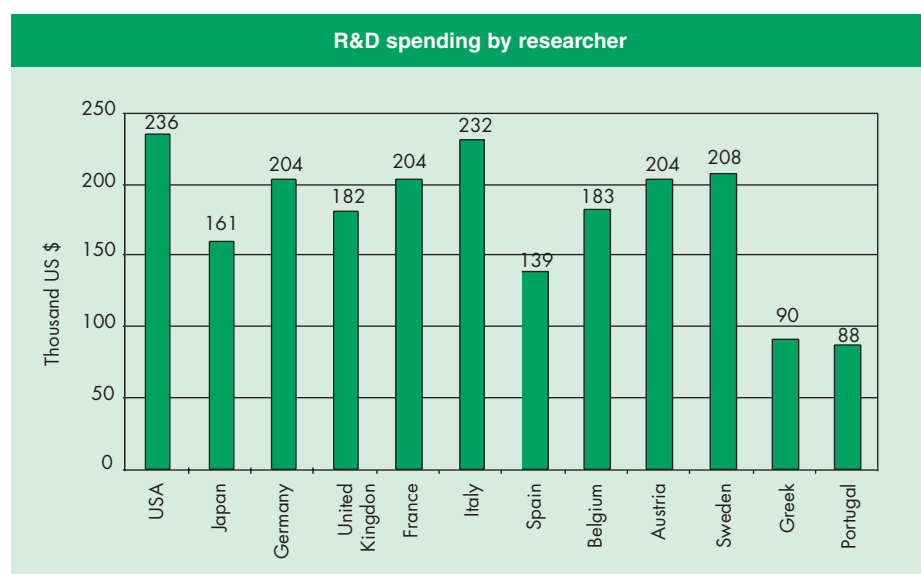


II.D. INVESTMENT IN KNOWLEDGE AND INNOVATION

The BEPGs for the 2003-2005 period specifically recommended that Italy increases investments in R&D and innovation.

According to the “Summary Innovation Index” elaborated by the European Innovation Scoreboard, Italy’s position improved in 2003, moving from thirteenth to eleventh position⁽³⁸⁾, but the country still lies behind the European average, with a level of R&D expenditure as a percentage of GDP, of 0.21 for public sector (excluding universities) and 0.55 for private sector (see Table 65).

Although total R&D spending⁽³⁹⁾ is low, the resources available for each researcher are quite high (about \$ 232,000), similar to the US level (see graph below; for the number of researchers in Italy see Table 66).



An important step in the development of the research system in Italy has been the recent establishment of the Italian Institute of Technology (IIT). The IIT has been given the task of stimulating research and scientific competition. It will be financed by both public and private funds.

⁽³⁸⁾ 2003 European Innovation Scoreboard, Technical Paper No. 2.

⁽³⁹⁾ This figure comprises both the salary and the fixed costs for the research.



One measure envisaged by the Italian Government to stimulate private research ⁽⁴⁰⁾ provides incentives to companies that invest in R&D, as well as benefits for the hiring of researchers and loans for high achieving students. The scheme should give a strong impulse to technological innovation, perhaps reverse the brain drain and enhance the diffusion of information technology at home.

For the financial year 2004 it is possible to deduct from the taxable income the R&D costs, including those for obtaining a European computer driving licence, in addition to the normal depreciation allowance.

The Ministry for University and Research has addressed the specific gap of investment in R&D in the Southern Regions through the National Operative Programme (NOP) ⁽⁴¹⁾ “Research, Technological development, High Training for 2002-2006”. The financial assistance given under this program aims at supporting industrial R&D and strengthening the scientific and training system of Southern Italy.

The Government is also committed to increase the educational skills in line with the Lisbon Agenda. To this aim, it has taken measures to implement a comprehensive reform of the school system ⁽⁴²⁾. Important innovations have been introduced in the primary school with the teaching of English as a second language ⁽⁴³⁾.

Further improvements are expected from the approval of a number of legislative decrees concerning, among other things, the teachers training and the combination between school and work.

The reform of the university studies showed first results in 2004. The number of first-year students enrolled in the last three years increased by about 19.6 percent (the number of students deciding to continue with university studies increased from 46.7 percent in 2000 to 59.7 percent in 2003) and there have been 200,000 more graduates and students having obtained a second level diploma (+15 percent). Positive results came also from data on the international mobility of students: the number of Italian students gone to universities abroad has risen by 8.1 percent, while the number of foreign students studying in Italy has risen by 14.3 percent ⁽⁴⁴⁾.

⁽⁴⁰⁾ Legislative Decree 269/2003 converted in the law 326/2003, so-called Tecno-Tremonti.

⁽⁴¹⁾ The resources available under this program come from the EU contributions (FESR) and from national funds (especially FAR – Fund for applied research).

⁽⁴²⁾ Law 58/03.

⁽⁴³⁾ Legislative Decree 59/2004.

⁽⁴⁴⁾ Data have been taken from the “Fifth Report on the state of the Italian University System” of the National Committee for the Evaluation of the University System (CNVSU) and can be downloaded from the website www.cnvsu.it.



Information society

Despite some improvement, further progress is still needed to enhance the capacity to innovate in terms of process, product, markets and organisation.

In 2003 the Italian ICT market has showed signs of decrease (see Tables 59 and 62). Nevertheless, in the first quarter of 2004 it has shown a certain degree of recovery (+1.5 per cent compared to the -0.2 percent of the same period in 2003).

The *eEurope* plan set the goal of making the Information Society available to citizen and firms through services and an ICT infrastructure broadly accessible. In this respect, Italy's investments in telecommunication infrastructure are in line with its EU partners.

The market of telecommunication services has continued to grow, benefiting from the expansion of innovative communication services such as the UMTS - whose rate of diffusion put Italy in a leading position in Europe – and the Wireless LAN Services (wi-fi). The supply of “hot spots” has increased at a rapid pace and in the last year there were 800 connection points active in Italy.

The “Quick-start Program”, which considered the Broadband communication a fundamental tool to strengthen the knowledge economy inside the European Union, aimed at accelerating the spread of this technology in every European region by 2005. In Italy its diffusion has been facilitated by a number of Government measures which contributed to raise broad band access. As of July 2004 the number of broadband lines amounted to 4.4 million (see Table 21). Italy has recorded the highest rate of growth in the EU in 2003 and represents 12.7 percent of the whole European market (in terms of lines).

In the first months of 2004 the number of PC sold in Italy has increased by about 22 percent compared to the same period in 2003. The growth of Internet users rose from 19.2 percent in 2000 to 35.4 percent in 2003; in the business sector, Internet access stands at about 81.30 percent of total firms.

With the spreading of Internet, on-line banking has grown accordingly, posting the largest growth in Europe of online bank accounts; about 5 million accounts or 16 percent of the total. In 2004 the percentage should increase to 21 percent (see Table 57-58).



The same acceleration occurred in the *e-commerce*. Between 2002 and 2003 the number of medium ⁽⁴⁵⁾ firms selling products online increased by 42 percent, although the number of Italian online buyers is 22 percent of household users, still below the 31 percent EU average (see Table 55).

During 2003, considerable progress has been made in *eGovernment*. In an *eGovernment* classification drawn up by the European Commission, Italy rose from 11th position in 2001 to 7th in 2003 in terms of services availability ⁽⁴⁶⁾. Now about 45 percent of basic public services are accessible on line, reflecting the improved availability of services and the move towards a customer-centred philosophy.

The increased satisfaction of citizens in their relations with public offices has been due to the high level of innovation accomplished by the Government's use of new technologies. This increased satisfaction is reflected in the fact that Government websites have seen a fast growth in number of visitors. The websites of the Public Administration have been visited by more than 10 million users (55 percent of navigators) instead of 50 percent in United Kingdom and Spain and 40 percent in Germany. E-Government sites have been confirmed at sixth place compared to the eighth place of Spain and the fourteenth of Germany.

In a survey conducted in the first months of 2004 ⁽⁴⁷⁾, the 62.6 percent of Italian users declared to be very or fairly satisfied of *eGovernment* sites.

The first phase of *eGovernment* plan has been carried out by starting 134 regional and local authority projects with a public funding of 500 million euro.

Supply of trained researchers and qualified ICT personnel

Employment in the ICT sector increased by 1.5 percent in 2003, despite the general crisis of the sector. This is mainly due to the introduction of labour flexibility which has lead to the creation of a greater number of part-time jobs.

⁽⁴⁵⁾ Firms with 100-250 employees.

⁽⁴⁶⁾ See also Ministro per l'Innovazione e le Tecnologie, "*Rapporto statistico sulla società dell'Informazione in Italia*".

⁽⁴⁷⁾ Nielsen/Net Ratings, 2004, "*Utilizzo, soddisfazione e desiderata rispetto ai siti della P.A.*".



Capability of the education and training systems to respond to changes in skill requirements

In Italy the level of dispersion (students dropping out the school before the end of the course) in the school is among the highest in Europe (22 percent against an EU average of 18 percent), with important consequences on skill levels. The Government has prepared a plan to fill this gap, allocating 53 million euro and approving 475 projects specifically focused to reduce the number of drop outs. The first results showed a recovery of about 60-70,000 units.

From 2003 the Ministry for University, along with the Ministry of Welfare and the Regions, have launched a three year teaching and professional training courses, and have funded a program to help support the “school – work” project.

The initiatives related to the lifelong learning have been strengthened to enhance the skill level of the population in coherence with the Lisbon objectives and the Council resolution of June 2002.



I.I.E. CAPITAL MARKETS AND FINANCIAL SERVICES

Legal, regulatory and supervisory framework

Developments in regulation, legislation and taxation for financial markets and financial institutions and their relations to the Financial Services Action Plan

As far as financial services are concerned a contribution has been given in the framework of the EC works envisaged by the Financial Services Action Plan. Directives on contracts of financial collateral and on the prevention of the use of the financial system for money laundering have been transposed in the Italian legal system ⁽⁴⁸⁾.

Directives on market abuses, on supplementary pension schemes, on compiling standards of the *prospectus*, and on the annual and consolidated accounts of certain types of companies, banks, other financial institutions, and insurance undertakings will be implemented on the basis of the "Community Legislation Implementation Law for 2004" which is under discussion before Parliament ⁽⁴⁹⁾.

The implementation of the reform of the law on limited liability companies

On 1 January 2004 the reform of the law on limited liability companies has come into force ⁽⁵⁰⁾.

The operational problems arisen in the implementation of the new law have been monitored and reported to a special Commission established by the Minister of Justice. If deemed necessary, a corrective law may be enacted by the end of this year.

A Legislative Decree was enacted to coordinate the new company law with the banking and financial legislation ⁽⁵¹⁾. It enables banking and financial intermediaries to take advantage of the opportunities offered by the reform, while incorporating a few changes designed to safeguard the

⁽⁴⁸⁾ Directive 2004/47/EC and Directive 2001/97/EC transposed respectively with Legislative Decree 170 of 21 May 2004 and Legislative Decree 56 of 20 February 2004.

⁽⁴⁹⁾ Directives: 2003/6/EC, 2003/124/EC, 2003/125/EC, 2003/41/CE, 2003/71/CE, 2003/51/EC.

⁽⁵⁰⁾ Legislative Decree 17 January 2003, n. 6, which modifies the Civil Code; see last year Report for a detailed description.

⁽⁵¹⁾ The coordinating provision is the Legislative Decree 6 February 2004, n. 37. The Consolidated Law on Banking is the Legislative Decree 385 of 1 September 1993; the Consolidated Law on Finance is the Legislative Decree 58 of 24 June 1998.



supervisory objectives, notably the sound and prudent management of intermediaries.

The principal amendments to the Consolidated Laws concern the ownership structures of banks, financial and securities intermediaries, and governance and control schemes.

Legislation on ownership structure of banks and other intermediaries has been amended to ensure that regulatory controls retain their effectiveness under the new civil law provisions. In particular, the reform has given to joint stock companies the faculty to issue different categories of shares conferring to holders any combination of economic and administrative rights (with the exception of shares with multiple voting rights and, for listed and open companies only, voting caps; half of the company's capital has to be represented by ordinary shares). Moreover, joint stock companies are allowed to issue financial instruments with administrative rights not representing the company's capital. These powers have a strong impact on corporate control; consequently the authorisation thresholds for the acquisition of relevant stakes in a bank or in a financial intermediary provided for by the banking and financial legislation, so far based on the holding of a given percentage of ordinary shares, have been adapted to the new legislative framework.

In the field of corporate governance the amendments to the Consolidated Laws are aimed at ensuring the continued effectiveness of controls on key issues for sound and prudent management. Moreover, in cases in which the new two-tier and one-tier management models are adopted, the control body is to perform the same role of liaison with the supervisory authority that the traditional model assigns to the board of auditors.

Also provisions concerning disclosure requirements of relevant holdings in a listed company have been modified to take into account holding of financial instruments other than shares but conferring administrative rights.

Finally, the provision determining the threshold raising the obligation to launch a takeover bid has been amended in order to take into account the possibility that the company issues categories of shares with restricted voting rights.

The provisions of the Consolidated Law on Finance concerning corporate governance of listed issuers have been modified to take into account the possibility to choose among the three different models of administration and control now provided for by the Civil Code.



The Ministry of Economy and Finance, the Bank of Italy and Consob, each according to their respective mandates, have been empowered ⁽⁵²⁾ to review the existing second-level regulation already issued in compliance with the new provisions. Such regulations are expected to be released by the end of this year.

In the wake of financial crisis which have involved some large Italian companies a bill concerning, *inter alia*, further supervision on company law is under discussion before Parliament.

Credit market and payment systems

The reorganisation and winding up of credit institutions ⁽⁵³⁾ has been implemented by the Italian law ⁽⁵⁴⁾. Thus, the legal framework to identify the competent authorities which manage the crisis procedures at EU level is outlined, putting into effect one of the key points of the Financial Services Action Plan.

New rules on the transparency of contractual conditions in bank and financial operations (with the exception of investment services) issued by the Credit Committee and the Bank of Italy became effective in October 2003. An important contribution towards creating a single payments market within the Euro Area is the introduction of sanctions for the violation of Regulation (CE) 2560/2001 on cross-border payments in euro ⁽⁵⁵⁾.

Market developments

Size and efficiency of financial intermediation

In 2003 the value of transactions on the Italian stock market (*Borsa Italiana* SpA) increased by 14.9 percent concerning the Mib and by 27.2 percent concerning the Numex); the average daily value increased from 2.5 in 2002 to 2.7 billion euro in 2003.

The MTS Markets (The Pan-European Wholesale market for Government Bonds) have registered an overall increase in value of approximately 9.5 percent (including cash and repo) compared to 2002, while the average daily transactions have risen by 10.7 percent. The

⁽⁵²⁾ Legislative Decree 37/2004.

⁽⁵³⁾ Directive 2001/24/EC.

⁽⁵⁴⁾ Legislative Decree n. 197 of 9 July 2004.

⁽⁵⁵⁾ Legislative Decree 180 of 24 June 2004.



greatest rise was recorded in the repo market, which registered a value of more than 12,000 billion Euro, +14 percent over 2002. A noteworthy contribution was made by the three SGRs active on the market, which, by themselves, accounted for almost 9 percent of the total transactions, while brokerage firms and insurance companies reached a level of 1 percent, with banks handling 90 percent of the operations. The most frequently traded periods were short-term, and especially 2-day in the “spot next” format, which accounted for 75 percent of the total, together with “tomorrow next”, which stood at 23 percent of the total. The other products registered fractional percentages of activity.

On the cash market side, MTS Italy saw its own volume of cash transactions fall slightly, by approximately 2 percent. Taking into account the continuing trend of bank mergers (the consolidation of medium/small banks) plus the general economic conditions, this essential stability in the volumes traded compared to the previous year (which registered a decrease of more than 6 percent compared to 2001) can be considered a good result.

Recent developments in the derivatives/bonds/equity/risk capital markets; analysis of potential market failures; measures taken to address these failures

The activity put in place in 2003 and 2004 on financial services has been addressed either to take part in the European Union works devoted to accomplish the integrated European market of financial services, or to create a more efficient legal framework aimed at protecting markets and savers.

In particular new and technological instruments have been introduced on regulated markets as the Exchange Traded Fund S&P/MIB Master Unit, IDEM on market derivatives, restyling project of Covered Warrant Market (named SeDeX) due to creation of new securitised derivatives, improvement of obligations market and Governments bonds and uniform application of rules in trading and post trading system.

During 2003 the Italian stock market improved the development of small and medium companies operating in: TLX, *Nuovo Mercato* (equity market dedicated to companies with high growth potential, characterised by an innovative approach to product, process or services) and *Mercato Expandi* (equity market designed for small companies, with a Consolidated position in their markets and a track record of positive economic and financial results).



The bill presented by the Italian Government after the recent financial troubles which involved thousands of small investors, provides new tools for the protection of Savings. The bill entails a strengthening of the powers of *Consob* (the financial markets regulator) and it includes amendments to the actual supervisory competences as well as more severe rules on matters such as external auditors, subsidiaries in off-shore countries, corporate disclosure.

Also in the field of bankruptcy, the Italian Government is going to introduce a bill reforming the current bankruptcy law in order to streamline proceedings, giving more room to extrajudicial agreements between debtor and creditors.

On the MTS side, the market continued its expansion efforts, both through the establishment of local market-companies within the regulatory frameworks of the different countries of the euro area and by opening up new segments of existing structures, the MTS inter-dealer market moved forward with further expansions, exporting to new countries its model for the wholesale fixed income market, based on the principles of “market making” and interaction between primary dealers (intermediaries authorised under exclusive agreements to publish bid and offer prices, and therefore providing the market with liquidity), issuing parties and the MTS domestic market. For its part, MTS SpA has served its function as technology provider, organisational and administrative management and the coordination of functional developments, collecting the operating input of the issuing parties and the primary dealers.

As of the end of 2003, the MTS Group ⁽⁵⁶⁾ included 12 national markets (Italy, France, Germany, Belgium, Holland, Portugal, Spain, Finland, Austria, Greece, Denmark and Ireland), plus EuroMTS, the pan-European market benchmark, all part of a single electronic trading platform with automatic forwarding of settlement instructions.

Thanks to this extensive structure, the intermediaries always have at their disposal, even in moments of critical difficulty, consistent prices and accessible spreads for all the listed securities. The market has never lacked liquidity under any type of market conditions, thanks to the consistent and ongoing commitment of all the primary dealers.

⁽⁵⁶⁾ The term “group” is not meant in a legal sense, given that MTS S.p.A. has minority holdings in the domestic MTS, but with reference to the sum total of the markets in which the Company is present and for which it performs back-office and monitoring services and licenses the technology platform.



Within this context, MTS has confirmed its role as the European leader in the fixed-income “B2B” (between professional intermediaries) sphere, providing a transparent and efficient service. Even in the face of a generalised decrease in volumes compared to the previous year, the Company has maintained a fee policy geared towards limiting trading costs for market members, both dealers and market makers.

Developments in market infrastructure

Central counterparty for market bonds and new settlement system Express II have been introduced to improve post trading system and to ensure best financial structures, according to international standards.

In 2003 has been continued exchange traded market's internationalization. Protection toward foreign investors had brought a growth on international operators.



III. ENVIRONMENTAL SUSTAINABILITY

Reforms undertaken to minimise the risk that economic growth leads to increased environmental degradation

Reforms undertaken in Italy in the field of environment and sustainable development are based on the philosophy of “environment as an opportunity” for economic development. After years of legal and social culture giving priority to the use of “command & control” instruments, a new generation of market-based instruments, accompanied by voluntary approach instruments, is being developed. “Environment as an opportunity” has been the focus theme of the Italian Presidency (of the EU); it has been taken forward by the countries who have held the presidency after Italy.

The three structural indicators of the Lisbon-Göteborg Strategy related to the environment concern the greenhouse gases emissions, the energy intensity of economy and the volume of freight transport relative to GDP. In the following table, four other indicators for sustainability relevant to Italy have been added.

INDICATOR	1991	Last average Value (Year)	Variation (p.p.)
1. Greenhouse gas emissions * 1992 (index: 1990 Kyoto base-line year = 100)	99.7*	109.0 (2002)	+9.3
2. Energy intensity of the economy (kgoe / 1.000 e of GDP) * 1992	197*	184 (2002)	-6.6
3. Volume of transport relative to GDP (freight) (Index: tonne/km / GDP; 1995 = 100)	88.0	102.6 (2002)	+16.6
4. Volume of transport relative to GDP (passengers) (Index: passenger/km / GDP; 1995 = 100)	94.1 e	96.8 (2001)	+2.9
5. Share (percent) of renewable energy (to national electricity consumption) * 1992	17.6*	14.3 (2002)	-3.3
6. Modal split of passenger transport (passenger/km: percent share of road on inland transport)	80.6 e	82.4 (2001)	+1.8
7. Modal split of freight transport (t/km of road on inland transport)	87.1	90.3 e (2002)	+3.2

e = estimates; p.p. = percentage points.
Source: Eurostat “Structural Indicators”, 2004.



Review of efforts made to meet the commitments under the Kyoto protocol

Italy is completing the first review of the National Plan for the reduction of GHG (green house gases) emissions, approved by CIPE (Interministerial Committee for Economic Planning) on December 19th, 2002.

The ongoing initiatives refer to the three main criteria envisaged by CIPE decision.

According to the first *criterion*, the national programs for the reduction of GHG emissions consider the high standards of energy efficiency and the low carbon intensity of Italian economy, as emphasized by the 2003 IEA Report.

The Italian economy has already achieved a good performance in terms of ratio between GDP and CO₂ equivalent emissions. The marginal cost of national measures to improve further are consequently higher than those required by other European countries. It is, therefore, essential to avoid negative effects on the competitiveness and efficiency of the Italian economy.

The Italian performance in terms of carbon intensity is even more significant considering that our country does not use nuclear energy to produce electricity. In this regard, it is interesting to note how, while excluding nuclear plants, the emissions of many European countries would be extremely higher: France +75 per cent, Sweden +50 per cent, Germany +42 per cent, UK +24 per cent.

According to the second *criterion*, measures tend to optimise the national atmospheric carbon absorption capacity, both through a new register and a more efficient forestry management, and through the creation of new forestry plantations, that contribute at the same time to the land hydro-geological safety and to an increased availability of biomass for the production of energy from renewable sources.

According to the third *criterion*, initiatives to buy “carbon credits” and “emission credits” are ongoing, within the CDM (Clean Development Mechanism) and JI (Joint Implementation) Kyoto Protocol mechanisms, through projects in the energy and forestry sector of the Italian firms and through the participation to Carbon Funds at the International Financial Institutions or national agencies of developing countries and countries with economies in transition.

According the Protocol's regulations, credits acquired by Italy correspond to projects for sustainable development in poor countries and emerging economies.



The initiatives carried out by Italy to implement in the medium term international cooperation projects in the area of CDM and JI will allow an emission reduction by 2008-2012 for a total of 12 MtCO₂eq.

An increase in dimension and a better management of the forestry allow an increase of carbon absorption capacity, corresponding to a further equivalent reduction of emissions for 10.8 MtCO₂eq.

Further measures will lead to a better result with a lower cost:

- at a national level, in the sectors of energy, industry, services, transport, agriculture and waste, with a potential reduction up to 47 MtCO₂eq;
- at an international level, through cooperation programmes in the energy and forestry sectors, within CDM and JI area, with a potential reduction up to 48 MtCO₂eq.

Major impacts of environmental regulation on the functioning of product markets

Environmental legislation in Italy has been growing overwhelmingly in the last 15 years, influenced by European legislation and by national capacity for transposing and implementing EU directives. The first effects on product markets have been a slowing down of technological innovation and an increasing of production and distribution costs.

Boosting business competitiveness while respecting environmental efficiency, is one of the main objectives of the newly established Economic and Social Council for Environmental Policies ⁽⁵⁷⁾. The new Council has been also entrusted with the tasks of: optimising the efficacy of the environmental legislation in the economic, social and occupational fields; harmonising the institutional competencies; supporting the “sustainable development” culture.

As regards the transport sector, the demand for transport continues to increase at a faster pace than the GDP growth. Effects on the environment are considerable, from the use of non renewable sources of energy and raw materials to acoustic and atmospheric pollution, soil occupation, fragmentation of territory and ecosystems, interferences on protected areas, visual and landscape intrusions, damage of the artistic-historical heritage.

⁽⁵⁷⁾ *Consiglio Economico e Sociale per le Politiche Ambientali* – CESPA, set up by the Ministry of Environment with the Decree of 4th August 2004.



Assuming that transport is a driving force in boosting the economy, the Italian Government has decided to develop a number of strategic infrastructures. The chosen policy is mainly driven by the necessity to satisfying the expected demand; demand management policy is considered less effective. The so-called Objective Law of 2001 determines the procedures for the development of strategic infrastructures. In many cases, congestion costs and consequent emissions may be avoided by new transport projects. A special EIA (Environmental Impact Assessment) Commission with simplified and shortened cycle has been set up to contribute to accelerate the construction process.

Every year CIPE updates the list of priority infrastructures. Internalisation of external and environmental costs in transport investment costs and charges through fuel prices remains difficult, and improvements require a common European action, as national action is often felt, not necessarily rationally, as a threaten to national competitiveness.

Internalisation through road-pricing remains important and effective (privatised highways network) and might be expanded to other segments of the still public part of the network. Experiments of road-pricing (parking charges, city-centre access fees etc.) driven by both public budget necessities at local level and environmental pressures are increasingly successful.

According to the data elaborated by the Ministry for Productive Activities ⁽⁵⁸⁾, in 2003 the energy intensity (intended as the ratio between energy demand and GDP at 1995 constant prices) has increased by 3 per cent, from 181.44 to 186.94 TEP/million euro. This growth goes against the long term trend registered between 1993 and 2002 (an average of -0.5 percent per year) and represents a good result; we have to go back to the 1972 to find a similar performance. The Energy and Gas Authority Report for 2003 ascribes this result, coupled with a slow economic growth (GDP growth 0.3 percent), to unforeseen factors mainly linked to weather conditions, both in summer and in winter: it then excludes the responsibility of the current development patterns, assuming that they would have hardly influenced this result in a one-year period. The increase registered during the 2003 is, in fact, in line with the long term trend of the last two decades.

⁽⁵⁸⁾ See "Relazione Generale sulla Situazione Economica del Paese – 2003", Vol. II "La situazione energetica".



At the end of 2003 the European directive on the promotion of energy production from renewable sources has been transposed in the national legislation ⁽⁵⁹⁾. The legislation modifies the renewable energy sources (RES) incentive policy (green certificates), gradually increasing (0.35 percent per year) the share of electricity produced with RES by traditional producers and importers, commitment that could be fulfilled by buying a correspondent amount of certificates. The decree also provides for: a certification of the renewable energy (whose task has been entrusted to GRTN), functional to the set off of the so called “green pricing”; the streamlining of the authorisation procedures for renewable plants.

The energy system has been also changed by the so called Marzano Law (see paragraph “Utilities and other network industries”) and the previous laws regarding the simplification of the red tape ⁽⁶⁰⁾, often originated by environmental reasons, for new thermo-electrical power plant construction.

The energy market is expected to be modified again in the near future in order to transpose into national law the Directives 2003/54/EC and 2003/55/EC regarding electricity and gas market respectively, as foreseen in the Italian “Communitarian” Law for 2004; the first one shall be an important, though not complete, step towards the full competition between sources because it introduces environmental information linked to the kind of electricity put on the market.

An important step forward has been taken with the “White Certificates” System that creates an artificial market for energy efficiency projects; it has to be completed and somehow linked with the transposition of the directive 2002/91/EC on the energy performance of buildings, foreseen in the Communitarian Law 2003. Furthermore, the 2004 Communitarian Law also requires to transpose the Directive 2003/96/CE restructuring the Community framework for the taxation of energy products and electricity that balances in favour of environmental friendly products. In the same Directive, energy-intensive business benefits from exemptions.

A strong impact on the energy system will come from the greenhouse gases National Allocation Plan that caps the total CO₂ emissions amount for that sector, in view of the Emissions Trading System start-up.

⁽⁵⁹⁾ Legislative decree 387/2003.

⁽⁶⁰⁾ Laws n. 83/2003 and n. 290/2003.



Ecolabel on products, as well as the Biological certification on food are developing significantly, although they still remain a limited phenomenon. Green public procurement also remains a limited experience and has a margin for improvement.

A major effort has been undertaken to simplify and rationalise laws and regulations at national level; the so-called Environmental Delegation Bill under discussion at the Parliament. It will give the Government the powers - within 18 months after final approval - to re-order, coordinate and integrate environmental legislation, based on the following guidelines: greater efficiency and timeliness of environmental controls; neutrality of impacts on public finance; consistency with and full implementation of EU directives, so to guarantee a high level of environmental protection and to contribute to firms and regional competitiveness, avoiding competition distortion phenomena; affirmation of prevention, precaution, internalisation of environmental costs, polluter-pays EU principles; timeliness and effectiveness of environmental plans, possibly with the extension of simplified and rationalised procedures introduced by the Objective-Law on strategic infrastructures; higher effectiveness of the monitoring and sanctioning systems; simplification of firms communication obligations; economic incentives for SMEs for the adoption of Emas; introduction of environmental accounting experimentation.

Simplification and rationalisation are expected to be particularly positive for the firms' management, the waste and water sectors, land planning and quality of the environment.



IV. LABOUR MARKET AND WELFARE POLICIES

In the past year the Government has implemented an extensive reform of the labour market, welfare and education systems to comply with the Lisbon strategy ⁽⁶¹⁾. The main initiatives taken to reform the Italian labour market entered effectively into force in October 2003 ⁽⁶²⁾.

The reform of the labour market and the relative implementation ⁽⁶³⁾, together with the reorganization of the unemployment services ⁽⁶⁴⁾, jointly form the two first pillars of the 'welfare to work' strategy, aimed at:

- a) creating a transparent and efficient labour market:
 - by developing job matching capacities of Public Employment Services;
 - by introducing a greater opening of the services to the private sector by lowering constraints on private operators and allowing temporary work agencies to offer any type of job placement and employment services;
- b) introducing new flexible typologies of contracts ("job on call", "staff leasing", "job sharing", "project work" ⁽⁶⁵⁾, to extend participation in the labour market, in particular to groups at high risk of social exclusion, and to foster the adaptability of enterprises and workers;
- c) reforming part time arrangements in order to increase flexibility in the use of this type of contracts;
- d) pursuing effective employability policies, strengthening investments in training and the functions of the bilateral bodies;
- e) rationalising and reformulating the social security system in order to replace work security with labour market security, assigning the management of certain areas to bilateral bodies.

⁽⁶¹⁾ For more details see the supplement "Reforms in the labour market, welfare and education system".

⁽⁶²⁾ Included in the so called "Biagi Law", approved by Parliament in February 2003.

⁽⁶³⁾ Legislative Decree 276/2003.

⁽⁶⁴⁾ Legislative decree 297/02.

⁽⁶⁵⁾ The "Biagi Law" provided for the conversion of "employer-coordinated freelance contracts", a common form of semi-subordinate work, into "project contracts". The aim was to restrict the indiscriminate use of semi-subordinate labour, (midway between dependent employment and self-employment).



Moreover, the measures above mentioned are set to promote, throughout a positive collaboration with Regional Administrations, a virtuous process of recovery of the structural divide and the gradual convergence - in the medium term - of the employment levels of the South of Italy towards those of the Centre-North of the Country.

Last August the Parliament approved the reform of the pension system. The measures provided are consistent with the three European Union principles on pension systems: sustainability, modernization and adequacy. These measures aim to postpone exits from the labour market, extending - on a voluntary basis and given suitable incentives - the duration of employment, and guaranteeing financial stability in the long term by integrating state social security with the development of complementary security schemes.



V. SUPPLEMENT

REFORMS IN THE LABOUR MARKET, WELFARE AND EDUCATION SYSTEMS



REFORMS IN THE LABOUR MARKET, WELFARE AND EDUCATION SYSTEM

The labour market has recorded highly positive results in the recent years. The good performance of the Italian labour market is revealing to be an important source in the economic growth of the country. Also, this is an essential process towards raising an employment rate that remains structurally low and that is excluding women, the elderly and the area of southern Italy from the labour market.

The reform of the labour market aims at counteracting the structural weaknesses of the Italian economy – such as youth unemployment, long-term unemployment, the concentration of unemployment in the south and the low rate of participation of women and the elderly in the work market – and to introduce forms of regulated flexibility in such a way as to balance the need of enterprises to compete on international markets with the need to protect workers and promote work quality.

The employment rate is growing thanks to the achievements in the policies against irregular work and to the gradual introduction of more flexible labour contracts. These results, however, have not induced those phenomena of precariousness and segmentation of the labour market that have taken place in other European countries. Even during the past year a balanced growth trend between temporary and open-ended contracts was recorded. The share of temporary work continues to be low; in a context of low unemployment rates it still falls below 10 percent, much inferior to the European average. It should also be pointed out that, over the same period, the chances of remaining in employment of workers employed with fixed-term contracts have increased, as have their chances of finding stable employment. A particularly positive pattern has interested older workers (over 54), whose employment has grown by over 9 percent in the last two years.

The reforms of the labour market, welfare and education systems introduced by the Government in the past year, reflect the strategy of the Lisbon European Council of making Europe “the most competitive and dynamic knowledge-based economy in the world” by 2010. The main initiatives taken to reform the Italian labour market are included in the so called “Biagi Law”, approved by Parliament in February 2003 and entered effectively into force in October 2003.

The reform of the labour market and the relative implementation decree (276/2003), together with the reorganization of the



unemployment services (legislative decree 297/02), jointly form the two first pillars of the “welfare to work” strategy, aimed at:

- a) creating a transparent and efficient labour market;
- b) introducing contract types to extend participation in the labour market, in particular to groups at high risk of social exclusion, and to foster the adaptability of enterprises and workers;
- c) pursuing effective employability policies, strengthening investments in training and the functions of the bilateral bodies;
- d) rationalising and reformulating the social security system in order to replace work security with labour market security, assigning the management of certain areas to bilateral bodies.

The policies consequently adopted outline an overall ‘welfare to work’ system, the general aim of which is the placement or outplacement of jobseekers in the labour market. In order to achieve these results, the Government is promoting a series of income support instruments that, while guaranteeing unemployment benefits, will be designed to discourage the tendency - until now widespread and never addressed at a structural level - to depend on passive types of social security that encourage early exit from the labour market and repeated recourse to benefits. These instruments foresee an increase in unemployment benefits while providing stricter eligibility criteria for the same, and include vocational guidance and training schemes. In this context, a particularly important measure is comprised by the improvement of training schemes through the creation of Interprofessional Funds, bilateral bodies that are allocated significant financial resources for definition of a new system of rules for in-service training.

The 2003-2006 “Welfare to Work” Strategy

Objective

Labour market policies for job placement or outplacement aimed at raising the total employment rate and based on an effective and virtuous combination of employment policies (employment service, guidance, training) and income support for the unemployed.

Instruments

The lines of action pursued in order to achieve this objective are directed, on the one hand, at giving greater fluidity to the market,



freeing it from excessive regulation and, on the other, at reforming income support systems, promoting training and increasing personal responsibility. Consequently, the Biagi law, the reform of the unemployment service and the reform of welfare support provisions enable:

- the reordering of unemployment service rules;
- the regulated liberalization of employment services;
- the activation of a work information system and of a continuous labour exchange;
- the creation of “Interprofessional Funds” for training and connected schemes to support the unemployed;
- the reform of the income support system, with an increase in unemployment benefits and the definition of strict criteria in terms of eligibility, duration and loss of income support based on the responsibility of beneficiaries.

Governance

Given the characteristics of the Italian labour market, and in the light of the decentralization and devolution process underway, the Government intends to promote the local and bilateral management of “welfare to work”.

Local management means developing bargaining between the Government, the Regional Administrations, the Provinces and the social partners to agree on the modalities through which a coordinated and efficient management of the labour market and labour policies can be achieved.

Bilateral management means encouraging forms of joint management of labour market services on the part of workers’ and entrepreneurs’ associations, based on previous experiences (bilateral builders’ bodies, bilateral craftsmen’s bodies, etc.). These will be called to manage-in agreement with local authorities - job-matching services, the selection of training schemes for outplacement and other instruments for action on the labour market.

The measures contained in the implementation decree for the Biagi reform are set to promote, throughout a positive collaboration with Regional Administrations, a virtuous process of recovery of the structural divide and the gradual convergence, in the medium term, of the



employment levels of the south of Italy towards those of the Centre-North of the Country. Indeed, only an improved transparency of the labour market and a greater modularity of work relationships, combined with customized actions aimed at promoting development and improving productivity, can trigger a process of economic development and growth in regular employment that will benefit the South of Italy in greater measure, as it is in this area that the passive transfer of state resources and a rigid legal framework have shown all their limitations and distorting effects.

The Parliament approved in August the reform of the pension system. The measures provided are consistent with the three European Union principles on pension systems: sustainability, modernization and adequacy. These measures aim to postpone exits from the labour market, extending -on a voluntary basis and given suitable incentives- the duration of employment, and guaranteeing financial stability in the long term by integrating state social security with the development of complementary security schemes.

In the long view, when the so-called contributive social system defined in 1995 becomes operative, this will enable that significant rise in pensions, and in the retirement age, with the consequent reduction in the number of pensions, that are identified as essential in order to reconcile the financial sustainability and social adequacy of the system in the Strategic Report on Pensions presented in October 2002. However, in the short term, it is essential to anticipate these trends towards postponing retirement age as far as possible. A gradual approach is motivated by the need to respect the programmes defined at the time by the various generations of workers as far as possible, and that are obviously more difficult to modify for those who are closer to retirement (on the basis of previous rules). The merely application of stricter rules to access to pensions, consistently with the habits and behaviour that are today prevalent in the Italian labour market, would indeed have entailed the risk of raising unemployment among the elderly, creating insurmountable obstacles for firm staff renovation policies, with repercussions also on the employment of younger people.

The Government will carry out social policies aimed at reformulating the Italian welfare system's objectives and tasks. The priorities which Italy places at the top of its agenda for the next three



years 2003-2005, in order to achieve the objective of a more active, more inclusive, more cohesive society, are as follows:

1. family and birth rate policies;
2. support measures for disabled people;
3. policies to combat extreme poverty;
4. action to oppose non self-sufficiency.

In particular, the Government has introduced a measure to encourage an increase in the birth rate, providing suitable specific financial support for second born in order to lessen the new families' financial responsibilities. At the same time, action to support new families wishing to purchase their first home must also be improved on. On the other hand, a new instrument – the income of last resort - has been promoted which includes both the universal and selective elements to class it as an instrument of last resort for socially fragile people and categories with few employment and income opportunities. It will be built on close cooperation between national and regional level with local components playing a considerably more important role. This instrument will aim to introduce incentive schemes to encourage local administrations to work in a more synergic manner and make up for the enormous differences between local situations in terms of cost of living, type of poverty and the number of obstacles blocking the path to legal employment.



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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	13.2	22.0
2002	12.7	20.9
2003	11.9	19.8

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	2003
Inward								
France	93.6	90.9	52.9	39.6	36.0	40.7	93.6	85.7
Germany	53.6	40.4	40.4	45.0	177.8	97.7	104.4	90.1
Italy	24.0	20.7	17.0	22.8	23.6	31.0	43.6	89.5
Portugal	75.5	5.8	17.3	4.4	37.7	13.8	41.4	100.9
United Kingdom	284.0	216.8	290.8	217.5	168.5	178.5	150.6	150.6
Spain	25.7	52.3	44.1	23.2	53.3	55.6	60.6	52.5
Outward								
France	86.1	87.3	64.0	101.7	127.0	108.6	95.4	43.9
Germany	68.5	36.2	93.5	67.2	30.9	74.5	91.7	71.9
Italy	12.0	20.9	38.2	18.0	15.5	24.7	28.1	27.9
Portugal	7.7	33.4	120.9	20.6	24.6	14.7	49.1	6.4
United Kingdom	277.8	257.0	200.6	242.8	261.9	189.4	178.5	278.7
Spain	51.5	83.2	76.8	70.0	69.2	46.8	38.7	58.0

Source: OECD "Main Economic Indicators" and UNCTAD - "World Investment Report 2004" - data processed by Ministry of Economy and Finance.



Table 3 - Consumer prices

(Harmonized index 1996=100)

	1997	1998	1999	2000	2001	2002	2003	2004(*)
Austria	101.2	102.0	102.5	104.5	106.9	108.8	110.2	111.8
Belgium	101.5	102.4	103.6	106.4	109.0	110.7	112.3	113.7
Denmark	101.9	103.3	105.4	108.3	110.7	113.4	115.6	116.5
France	101.3	102.0	102.5	104.4	106.3	108.3	110.7	112.8
Finland	101.2	102.6	103.9	107.0	109.8	112.0	113.5	113.5
Germany	101.5	102.1	102.8	104.2	106.2	107.6	108.8	110.3
Greece	105.4	110.2	112.6	115.8	120.1	124.8	129.0	132.3
Ireland	101.2	103.4	106.0	111.5	116.0	121.5	126.3	128.5
Italy	101.9	103.9	105.7	108.4	110.9	113.8	117.0	119.1
Luxembourg	101.4	102.4	103.4	107.3	109.9	112.1	115.0	117.8
Netherlands	101.9	103.7	105.8	108.2	113.8	118.2	120.8	122.3
Portugal	101.9	104.2	106.4	109.4	114.2	118.4	122.3	124.8
Spain	101.9	103.7	106.0	109.7	112.8	116.8	120.5	123.1
Sweden	101.9	102.9	103.4	104.8	107.6	109.7	112.3	113.2
United Kingdom	101.8	103.4	104.8	105.6	106.9	108.3	109.8	110.8
EU15	101.7	103.0	104.3	106.2	108.6	110.8	113.0	114.7
EU25	-	-	-	-	-	-	116.3	118.3

(*) Average for first seven months
Source: Eurostat New Cronos.



Table 4 - 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
INPUT DEFLATOR						
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	100.1	106.0	110.5	116.3	112.3
2000	105.5	109.7	110.4	113.6	118.4	119.2
2001	110.1	111.0	112.0	116.2	120.1	123.3
2002	110.5	111.2	116.8	119.6	120.7	125.3
2003	113.1	112.8	120.5	122.6	122.4	128.6
OUTPUT DEFLATOR						
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	108.3	111.7	111.8
2000	101.4	108.5	109.0	109.5	114.3	116.9
2001	104.9	110.5	111.3	112.0	116.8	121.5
2002	107.5	110.9	115.5	115.0	118.8	124.7
2003	113.6	112.8	118.9	118.2	120.9	129.6
UNIT VARIABLE COSTS						
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	87.5	102.3	106.3	109.2	114.4	111.4
2000	89.4	110.0	110.0	110.7	115.8	117.0
2001	91.7	111.7	112.5	113.0	119.0	121.3
2002	94.3	112.6	116.5	116.7	121.5	124.2
2003	99.1	114.8	120.4	120.6	124.2	128.6
LABOUR COST PER UNIT OF OUTPUT						
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	83.5	103.1	106.8	103.8	103.1	108.4
2000	83.3	103.2	109.2	103.4	103.6	111.5
2001	84.2	106.5	113.1	104.5	106.9	114.4
2002	85.4	110.1	115.9	107.7	110.5	117.2
2003	89.7	114.2	120.1	112.5	113.4	120.7
MARK-UP - margins on unit variable costs						
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	113.2	99.2	99.4	99.2	97.6	100.3
2000	113.5	98.6	99.1	98.9	98.7	100.0
2001	114.4	98.9	99.0	99.1	98.2	100.2
2002	113.9	98.5	99.1	98.6	97.7	100.4
2003	114.7	98.3	98.8	98.0	97.4	100.8

Source: Istat. Conti Trimestrali SEC. 95.



Performance indicators - *Network industries:*

Table 5 - Net electricity generation
(year 2003)

	GWh	%
ENEL PRODUZIONE	129,598	46.4
EDISON	43,378	12.2
EDIPOWER	21,318	7.6
ENDESA ITALIA	17,731	6.4
ENEL GREEN POWER	8,196	2.9
TIRRENO POWER	6,314	2.3
ENIPOWER	5,624	2.0
GRUPPO ERG (ISAB ENERGY + ERG)	5,154	1.8
SARLUX	4,410	1.6
AEM MILANO	3,717	1.3
IDROELETTRICA IDROENERGIA C.V.A.	2,763	1.0
CENTRO ENERGIA (FOSTER WHEELR/MPE)	2,062	0.7
ASM BRESCIA	1,734	0.6
AEM TORINO	1,525	0.5
CARTIERE BURGO	1,468	0.5
APIENERGIA	1,386	0.5
ELETTRA GTL - GLL (LUCCHINI)	1,325	0.5
ACEA-ELECTRABEL	3,139	0.4
IVPC	856	0.3
AGSM VERONA	765	0.3
OTHERS	27,578	9.9
TOTAL Net Generation	279,042	100.0

Source: Italian Electricity and Gas Authority.

Table 6 - Sales and final consumption of electricity
(year 2003)

MARKET OPERATOR	ENERGY SOLD			
	FREE MARKET (TWh)	MARKET SHARE (%)	CAPTIVE MARKET (TWh)	MARKET SHARE (%)
ENEL GROUP	10.7	7.6	114.2	72.1
MAIN COMPETITORS	27.5	19.5	38.2	24.1
OTHER MAJOR PRODUCERS	5.6	4.0	5.9	3.7
MINOR PRODUCERS	4.6	3.3	0.2	0.1
SELF-GENERATION	12.6	9.0	0.0	0.0
INDEPENDENT WHOLESALERS	18.2	12.9	0.0	0.0
FOREIGN WHOLESALERS	20.4	14.5	0.0	0.0
WHOLESALING CONSORTIUMS	8.3	5.9	0.0	0.0
FINAL COSTUMERS	32.8	23.3	0.0	0.0
TOTAL ELECTRICITY SALES	140.7	100.0	158.4	100.0

Source: Ministry of Economy and Finance, based on data from the Italian Electricity and Gas Authority, "Annual Report", 2004.



Table 7 - Market shares in the natural gas industry
(year 2003)

OPERATOR	Sales and final consumption (billions of cubic metre)	MARKET SHARE (%)
ENI	29.4	38.5
ENEL	17.0	22.3
EDISON	7.3	9.6
MAJOR LOCAL PRODUCERS	9.5	12.4
OTHER LOCAL PRODUCERS	4.3	5.6
NATIONAL PRIVATE COMPANIES	7.4	9.7
FOREIGN COMPANIES	1.4	1.8
TOTAL	76.4	100.0

Source: Ministry of Economy and Finance, based on data from the Italian Electricity and Gas Authority, "Annual Report", 2004.

Table 8 - Electricity prices for households
(net of taxes - euro-cents/KWh)

	Annual consumption classes							
	600 KWh		1200 KWh		3500 KWh		7500 KWh	
	jan. 2004	2004/03	jan. 2004	2004/03	jan. 2004	2004/03	jan. 2004	2004/03
	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %
EU weighted average	16.22	-2.50	12.77	-3.10	10.26	-3.50	9.51	-2.80
Italy								
- Total tariff (*)	7.55	-1.30	7.87	-1.00	14.34	-1.00	13.89	-1.10
- Part of the tariff linked to variable costs (oil)(**)	3.48	-2.80	3.48	-2.80	4.60	-2.90	5.05	-2.90
- Tariff excluding variable costs (oil)	4.07	0.00	4.39	0.50	9.74	-0.10	8.84	0.00

(*) 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 Electricity and Gas Authority.



Table 9 - Electricity prices for industrial users
(net of taxes - euro-cents/KWh)

	Annual consumption classes							
	160000 KWh		2 GWh		10 GWh		24 GWh	
	jan. 2004	2004/03	jan. 2004	2004/03	jan. 2004	2004/03	jan. 2004	2004/03
	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %	euro cent/ kwh	Δ %
EU weighted average	8.52	-0.1	6.23	-1.8	5.93	-1.3	5.27	-2.1
Italy								
- Total tariff (*)	8.95	-3.9	7.90	-4.4	7.94	-5.9	7.14	-6.5
- Part of the tariff linked to variable costs (oil)(**)	4.51	-2.8	4.51	-2.8	4.51	-2.8	4.51	-2.8
- Tariff excluding variable costs (oil)	4.44	-4.9	3.39	-6.4	3.43	-9.7	2.63	-12.3

(*) 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 Electricity and Gas Authority.

Table 10 - Gas prices for households
(net of taxes - euro-cents per cubic meter)

	Annual consumption classes					
	january 2003			july 2003		
	8.37 GJ	83.7 GJ	125.6 GJ	8.37GJ	83.7GJ	125.6GJ
EU weighted average	53.84	33.22	30.92	54.18	32.25	31.03
Italy						
- Total tariff	46.55	37.56	37.36	48.61	38.56	38.40
- Part of the tariff linked to variable costs (oil)(*)	19.18	15.48	15.39	20.71	16.43	16.36

(*) Estimates.

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

Table 11 - Gas prices for industrial users
(net of taxes - euro-cents per cubic meter)

	Annual consumption classes							
	january 2003				july 2003			
	418.6GJ	4186GJ	41860GJ	418600GJ	418.6GJ	4186GJ	41860GJ	418600GJ
EU weighted average	29.96	25.01	21.25	17.43	29.69	24.73	20.60	16.88
Italy								
- Total tariff	36.30	29.99	20.48	18.01	35.59	30.84	20.75	18.77
- Part of the tariff linked to variable costs (oil)(*)	14.96	12.36	8.44	7.42	15.16	13.14	8.84	8.00

(*) Estimates.

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



Table 12 - Implementation of Galli Law (Law 36/1994)

	2000	%	2001	%	2002	%	2003	%
	share (*)		share (*)		share (*)		share (*)	
Optimal water service areas instituted	48	53	74	81	84	92	87	96
Reconnaissance performed	25	27	54	59	66	73	81	89
Area plans approved	7	8	18	20	47	52	61	67
Service assigned	2	2	10	11	25	27	38	42

(*) Percentage share on the total.

Source: Comitato per la vigilanza sull'uso delle risorse idriche, "Relazione annuale al Parlamento sullo stato dei servizi idrici, 2003".

Table 13 - 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 n.	Total consumption per head litre/inhabitant
(euro-cents per cubic meter)						
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 14 - Prices trend in postal services

(harmonised index: base 1996=100)

	1997	1998	1999	2000	2001	2002	2003	2004(*)
Austria	109.5	118.9	118.9	118.9	124.4	124.6	130.8	135.7
Belgium	106.3	106.3	106.3	106.3	106.3	108.0	123.6	124.7
Denmark	100.0	100.0	103.4	103.8	105.0	110.1	114.0	119.9
Finland	100.3	102.7	114.0	126.1	129.7	129.6	138.2	140.8
France	101.2	101.2	101.3	101.5	102.2	103.6	109.0	112.7
Germany	103.0	107.5	107.2	107.0	107.7	109.9	110.5	111.0
Greece	104.7	121.7	129.8	138.1	161.5	175.2	184.4	185.2
Ireland	100.0	99.5	99.3	99.3	99.3	103.6	112.9	122.9
Italy	108.1	112.2	112.2	112.4	114.5	115.7	115.9	122.7
Luxembourg	100.0	100.0	100.0	115.2	120.2	119.9	126.8	136.4
Netherlands	108.6	108.6	108.6	109.1	112.3	117.2	116.2	117.7
Portugal	104.6	106.2	107.2	111.6	112.6	116.8	121.1	123.3
Spain	108.1	141.7	141.7	141.7	160.1	181.5	187.5	193.3
Sweden	117.4	124.1	129.8	130.8	130.5	140.9	155.2	159.6
United Kingdom	101.9	103.0	103.7	107.1	108.5	109.0	112.1	115.1
EU15	104.3	107.9	108.1	109.3	110.8	112.6	115.4	118.1
EU25	-	-	-	-	-	-	116.7	119.6

(*) Average for first seven months.

Source: Eurostat New Cronos.



Table 15 - Market share of reserved postal services
(as a percentage of revenues of reserved postal services)

Years	%
1997	73
1998	73
1999	66
2000	67
2001	67
2002	68
2003	48
2004 (*)	47

(*) Estimates.

Source: Poste italiane.

Table 16 - Telecom Italia charges: effects of the tariffs rebalancing
(percentage changes, year 2003)

Services	Δ %
Access	2.3
Local	1.9
District	1.6
National Long Distance	- 3.0
International	0.0
Total	1.2

Source: The Italian Communication Authority.

Table 17 - Incumbent's telephone charges

Fixed to fixed	1998		1999		2000		2001		2002		2002		2003		2004	
	peak	off-peak	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	9.91	7.88
Long distance (over than 30 km)	983	584	924	567	787	529	787	529	682	412	35.21	21.29	35.21	14.3	33.29	14.3
International (France)	2,133	1,936	1,990	1,697	1,700		1,700		1,438		74.27		71.12		71.12	
International (USA)	2,133	1,936	1,990	1,697	1,700		1,700		1,438		74.27		71.12		71.12	
International (Japan)	5,194	4,685	5,115	4,631	4,700		4,700		4,700		242.72		238.32		238.32	
Monthly rental basic subs. (B-simplex)	16,800		18,000		18,700		18,700		23,506		1,214.00		1,214.00		1,214.00	
Percentage changes	1999/1998		2000/1999		2001/2000		2001/1998		2002/2001		2003/2002		2004/2003			
	peak	off-peak	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	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	-13.4	-22.1	0.0	-32.8	-5.5	0.0		
International (France)	-6.7	-12.4	-		0.0		-		-15.4		-4.2		0.0			
International (USA)	-6.7	-12.4	-		0.0		-		-15.4		-4.2		-4.2			
International (Japan)	-1.5	-1.2	-		0.0		-		0.0		-1.8		-1.8			
Monthly rental basic subs (B-simplex)	7.1		3.9		0.0		11.3		25.7		0.0		0.0			

Source: The Italian Communication Authority.



Table 18 - Telephone charges of major operators

(Prices at 25th July 2004 - 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	5.6	7.9	6.6	9.7	7.6	14.3	10.0
Wind	5.2	5.2	8.1	6.8	11.0	8.3	18.3	12.3
Long-distance calls								
Telecom Italia	15.5	9.1	33.3	14.3	51.1	19.5	95.6	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	31.6	22.0	74.9	46.0	118.1	70.0	226.2	130.0
Tiscali	28.6	22.3	64.9	46.2	101.3	70.0	192.1	129.6
Tele2	28.6	22.2	64.9	45.7	101.3	69.2	192.1	127.9
Wind	32.9	32.9	73.8	73.8	114.6	114.6	216.7	216.7
International calls to fixed								
Directed to France /United States								
Telecom Italia	40.9		71.1		101.3		176.8	
Tiscali	23.3		44.2		65.0		117.1	
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	50.2		98.9		147.6		269.3	
Tiscali	43.7		105.1		166.6		320.3	
Tele2	30.6		66.0		101.5		190.0	
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.



Table 19 - Tariff plans: comparison among major operators
(Main offers at 25th July 2004)

Companies	Tariff Plans						Charges E/month VAT excluded	
Telecom Italia	Teleconomy 24						4.65	
Wind Infostrada	Spazio Zero						4.63	
Tele2	Senza Limiti						4.63	
Length/Cost Euro cent (VAT excluded)								
	1 minute peak off-peak		3 minutes peak off-peak		5 minutes peak off-peak		10 minutes 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	33.06	22.00	79.18	46.00	125.30	70.00	240.60	130.00
Wind Infostrada	32.92	32.92	73.75	73.75	114.58	114.58	216.67	216.67
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 20 - Market share in fixed and mobile telephony
(percentage)

	Fixed telephony									
	All voice phone		Local		Long distance		International		To mobile phone	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Telecom Italia	68.5	68.0	73.8	69.8	70.3	71.6	59.3	61.1	66.1	66.6
OLO 1 (a)	26.4	24.6	19.9	19.2	26.1	22.3	30.7	27.8	29.9	28.5
OLO 2 (b)	5.1	7.4	6.3	11.0	3.6	6.1	10.0	11.1	4.0	4.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

	Mobile telephony			
	Revenues		Active Lines	
	2002	2003	2002	2003
TIM	51.2	48.6	47.4	46.0
Others	48.8	51.4	52.6	54.0
Total	100.0	100.0	100.0	100.0

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

(b) OLO 2 comprises Atlanet, Colt, Elitel, Eutelia, Fastweb, Fastweb Mediterranea and Tiscali.

Source: The Italian Communication Authority, Annual Report 2004.

Table 21 - Broad band access lines

	DSL lines	3G	Optical fiber	Satellite	Other*	Total
July-03	1,268,215	123,453	112,743	82,202	684	1,587,297
Oct-03	1,622,831	313,436	128,890	90,448	3,622	2,159,227
Jan-04	2,158,458	337,400	147,078	91,402	5,001	2,739,339
Apr-04	2,731,691	488,762	163,776	110,000	5,492	3,499,721
July-04	3,223,188	922,814	171,068	120,000	5,541	4,442,611

(*) Wireless Local Loop, leased lines and other kind of access.

Source: The Italian Communication Authority.

Table 22 - Medium and long distance railway tariffs
One-way ticket fares (value expressed in euro)

Route	km	Years									
		2000		2001		2002		2003		2004	
		1 st cl.	2 nd cl.	1 st cl.	2 nd cl.	1 st cl.	2 nd cl.	1 st cl.	2 nd cl.	1 st cl.	2 nd cl.
Roma-Milano (Eurostar)	632	66.62	42.35	67.14	46.48	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	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	42.40	31.35
Pescara-Bari (Intercity)	300	31.92	19.73	27.94	20.50	27.94	20.50	27.94	20.50	27.94	20.50

Source: Trenitalia.



Table 23 - Regional railway tariffs

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

Regions	Route	km	ONE WAY TICKET									
			2000		2001		2002		2003		2004	
			1 st cl.	2 nd cl.	1 st cl.	2 nd cl.	1 st cl.	2 nd cl.	1 st cl.	2 nd cl.	1 st cl.	2 nd cl.
Campania (1)	Salerno-Avellino	49	4.18	2.53	4.18	2.69	4.18	2.69	From 1 st January has been introduced the integrated ticket UNICO	2.30	From 1 st January has been introduced the integrated ticket UNICO	2.40
	Napoli-Benevento (via Caserta)	97	7.23	4.39	7.23	4.65	7.23	4.65		4.00		4.10
E. Romagna (2)	Fidenza-Reggio Emilia	50	4.18	2.53	4.18	2.69	4.25	2.75	4.30	2.80	4.40	2.90
	Faenza-Ferrara	97	7.23	4.39	7.64	4.91	7.75	5.00	7.85	5.05	8.00	5.15
Lombardia (3)	Milano-Como	47	4.29	2.84	4.29	2.84	4.85	3.25	4.85	3.25	4.95	3.30
	Pavia-Bergamo	95	7.70	5.11	7.70	5.11	8.10	5.40	8.10	5.40	8.25	5.50
MONTHLY TICKET												
			2000		2001		2002		2003		2004	
			1 st cl.	2 nd cl.	1 st cl.	2 nd cl.	1 st cl.	2 nd cl.	1 st cl.	2 nd cl.	1 st cl.	2 nd cl.
Campania (1)	Salerno-Avellino	49	69.21	45.96	69.21	45.96	69.21	45.96	From 1 st January has been introduced the integrated monthly ticket UNICO	53.00	From 1 st January has been introduced the integrated monthly ticket UNICO	54.40
	Napoli-Benevento (via Caserta)	97	94.51	63.01	94.51	63.01	94.51	63.01		85.00		87.30
E. Romagna (2)	Fidenza-Reggio Emilia	50	71.27	44.42	71.27	45.96	72.50	46.75	73.60	47.50	75.00	48.40
	Faenza-Ferrara	97	92.45	57.84	99.16	64.04	100.85	65.15	102.20	66.00	104.10	67.30
Lombardia (3)	Milano-Como	47	69.72	46.48	69.72	46.48	83.50	55.50	83.50	55.50	83.50	55.50
	Pavia-Bergamo	905	95.54	63.52	95.54	63.52	107.50	72.00	107.50	72.00	107.50	72.00

(1) In Campania at 1st January 2003 an integrated tariff is applicable, which is not comparable to the one for 2002.

(2) Tariff adjustment from 1st August 2004.

(3) Lombardia has changed the one way tariffs, for 2nd class from 1st November 2003 and for first class from 14th December 2004.

Source: Trenitalia



Table 24 - Issues of railway licences

Railway operators	Licence 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	Required
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	Required
FERROVIA ADRIATICO SANGRITANA S.r.l.	10	8-5-2001	Yes	Yes
HUPAC S.p.a.	11	14-5-2001	Yes	Yes
AZIENDA CONSORZIALE TRASPORTI DI REGGIO EMILIA	12	18-5-2001	Yes	Required
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	Required
SISTEMI TERRITORIALI Spa	19	4-12-2001	Yes	Yes
STRADE FERRATE DEL MEDITERRANEO srl	20	20-12-2001	Yes	Yes
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	Yes	Required
ITALIANA COKE SPA	29	20-2-2003	Yes	No
VENTARAIL srl	30	20-2-2003	Yes	No
FERROVIE DEL SUD EST	31	26-3-2003	Yes	No
SWISS RAIL CARGO	32	26-3-2003	Yes	Yes
CARGO NORD srl	33	23-5-2003	Yes	Yes
FERROTRANVIARIA SpA	34	8-3-2004	No	No
GNER Italia srl	35	8-3-2004	No	No

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

Source: Ministry of Infrastructure and Transports, Direzione per il trasporto ferroviario.



QUALITY OF SERVICE PROVIDED BY NETWORK INDUSTRIES

Table 25 - Electricity: long unplanned outages in Enel grid serving households and non-household

	Italy (*)	Northern Italy	Central Italy	Southern Italy (*)
Number of outages per user				
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
2003	3.0	2.0	2.8	4.3
Average outage length (minutes per user)				
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
2003	132	87	93	202

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

Source: Italian Electricity and Gas Authority Annual Report, various years.

Table 26 - Electricity: long unplanned outages in local providers' networks

	1999	2000	2001	2002	2003
Number of outages per user					
ACEA - Roma	2.3	2.7	2.6	2.7	2.4
AEM - Milano	1.1	1.5	1.9	1.3	1.8
AEM - Torino	1.5	2.4	2.3	1.4	1.4
ACEGAS - Trieste	1.2	1.7	1.3	0.8	1.4
ASM - Brescia	0.8	0.9	1.3	1.3	1.8
AEC - Bolzano	2.2	2.3	3.5	1.2	2.7
META - Modena	n.a.	0.5	1.2	0.9	1.5
Average outage length (minutes per user)					
ACEA - Roma	108	127	98	128	108
AEM - Milano	55	66	60	63	51
AEM - Torino	42	108	51	42	43
ACEGAS - Trieste	54	55	43	30	49
ASM - Brescia	19	26	41	31	40
AEC - Bolzano	37	103	66	43	83
META - Modena	n.a.	13	40	23	35

Source: Italian Electricity and Gas Authority Annual Report, various years.



Table 27 - Cases of violation of commercial quality standard and number of compensation in electricity and gas

	Service Charter			Regulation of commercial quality			
	1997	1998	1999 II half	2000	2001	2002	2003
Electricity							
Case of violation of standard reimbursable	6,099	4,167	8,418	7,902	25,650	61,881	67,344
Number of compensation paid during the year	51	54	22	4,771	12,437	52,229	79,072
	Service Charter			Decision n 47/00 of Authority			
	1997	1998	1999 II half	2000	2001	2002	2003
Gas							
Case of violation of standard reimbursable	14,265	12,366	11,212	14,635	16,424	14,615	11,766
Number of compensation paid during the year	1,237	707	1,640	3,709	12,086	13,368	8,535

Source: Italian Electricity and Gas Authority, Annual Report, 2004

Table 28 - Total customer satisfaction for the electricity supply service (a)

	1998	1999	2000	2001	2002	2003
North West	94.6	94.5	94.1	94.5	94.9	93.2
North East	93.1	94.1	92.0	94.3	92.9	91.5
Centre	89.4	91.3	89.6	91.1	90.9	89.4
South	86.4	88.1	88.7	89.2	89.5	89.9
Islands	83.7	83.9	84.5	84.5	85.6	84.2
Italy	90.3	91.2	90.6	91.7	91.5	90.3

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

Source: Italian Electricity and Gas Authority, Annual Report, 2004.

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

	1998	1999	2000	2001	2002	2003
North West	95.0	95.0	94.6	94.7	95.5	95.1
North East	94.5	94.7	94.0	94.5	93.1	94.7
Centre	94.5	95.7	94.9	94.3	95.1	94.4
South	94.5	95.1	94.9	96.0	94.0	94.8
Islands	89.8	95.6	91.5	96.3	94.4	93.5
Italy	94.5	95.2	94.5	94.9	94.6	94.7

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

Source: Italian Electricity and Gas Authority, Annual Report, 2004.



Table 30 - Complaints, requests for information and reports received by the Authority in the may 1999 - april 2004 period

	Complaints	Information requests	Reports	Total
1999 - 2000				
Electricity	155	48	14	217
Gas	66	31	9	106
Total	221	79	23	323
2000 - 2001				
Electricity	270	85	32	387
Gas	105	39	6	150
Total	375	124	38	537
2001 - 2002				
Electricity	323	36	30	389
Gas	126	41	15	182
Total	449	77	45	571
2002 - 2003				
Electricity	422	36	30	488
Gas	174	43	13	230
Total	596	79	43	718
2003 - 2004				
Electricity	754	53	44	851
Gas	203	49	38	290
Total	957	102	82	1,141

Source: Italian Electricity and Gas Authority, Annual Report, various years.

Table 31 - Main objects of complaints, reports and information requests received by the Authority in the may 2003 - april 2004 period

Objects of complaints	Total cases (number)	Total cases (%)
ELECTRICITY		
Outages	375	44.0
Connections	107	12.6
Billing	103	12.1
Contracts	92	10.8
Voltage	48	5.6
Commercial and supply quality	30	3.5
Meters	25	2.9
Tariffs	21	2.6
Bills	12	1.4
Other	38	4.5
GAS		
Contracts	97	33.4
Billing	72	24.8
Connections	48	16.5
Bills	15	5.2
Commercial and supply quality	11	3.8
Tariffs	8	2.8
Meters	8	2.8
Other	31	10.7

Source: Italian Electricity and Gas Authority, Annual Report, 2004



Table 32 - 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)		
	1997	1998	1999	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: Italian Electricity and Gas Authority.

Table 33 - 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)			Enel Distribuzione and local energy providers (serving more than 5,000 final clients)
	2nd half 2000	2001	2002	2nd half 2000	2001	2002	2003
	(number of working days)						
Services subject to automatic compensation							
Estimate of simple interventions (i.e. estimate of connection costs)	7.84	9.45	10.14	7.65	7.49	7.24	9.47
Execution of simple interventions (i.e. connection to the network)	4.47	5.72	7.67	5.66	6.77	6.30	9.34
Services not subject to automatic compensation							
Answer to written complaints and questions	8.25	9.21	13.82	n.a.	18.85	15.07	9.13
Bill correction	4.92	13.91	24.61	n.a.	5.06	7.78	20.52
Meters inspection	6.35	6.11	8.28	n.a.	5.34	4.86	7.49
Tension inspection	5.96	6.99	12.66	n.a.	4.27	4.67	12.18

(*) Final clients with low voltage service.

(**) In the electricity sector the new regulation is in place from 1st July 2000.

Source: Italian Electricity and Gas Authority.



Table 34 - Gas: average time necessary for each kind of service before the introduction of the new regulation of commercial quality

	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	2.0	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: Italian Electricity and Gas Authority.

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

	2001	2002	2003
number of working days			
Services subject to automatic compensation			
Estimate of simple interventions (i.e. estimate of connection costs)	5.8	5.8	5.4
Execution of simple interventions (i.e. connection to the network)	7.8	7.2	6.7
Services not subject to automatic compensation			
Answer to written complaints and questions	10.3	14.3	11.4
Bill correction	1.5	1.6	2.2
Meters inspection	3.9	3.8	4.1
Pression inspection	4.0	3.1	2.6

(*) Final clients connected to distribution network.

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

Source: Italian Electricity and Gas Authority.

Table 36 - Quality of universal postal services
Delivery time - days after posting, percentages

		Standard of delivery time expressed in days	1999	2000	2001	2002	2003
Ordinary mail	3	Target	80	85	90	90	92
		Result	77	84	89	92	92
Priority mail	1	Target	70	75	80	80	87
		Result	80	82	83	84	87
Registered mail	3	Target		85	90	90	92
		Result		87	90	93	93
International mail incoming	3	Target	85	85	85	85	85
		Result	73	88	88	88	90

Source: Poste Italiane.



Table 37 - Railway accidents

Frequency of accident	1995	2000	2001	2002	2003	1st half 2004
Number of typical accidents per million of Train-Km	0.46	0.29	0.28	0.27	0.20	0.20
Number of dead in the typical accidents per million of Train-Km	0.06	0.06	0.02	0.06	0.02	0.02
Number of injured in the typical accidents per million of Train-Km	0.30	0.04	0.06	0.09	0.06	0.07
Number of dead passengers in all the accidents (typical + non typical) per billion of Passengers-km	0.30	0.17	0.19	0.37	0.20	0.31
Number of wounded passengers in all the accidents (typical + non typical) per billion of Passengers-km	3.35	0.64	0.86	0.48	0.84	1.20

Source: Rete Ferroviaria Italiana.

Table 38 - Punctuality of passenger trains
(percentages)

	1995	2000	2001	2002	2003	1st half 2004
Total Passenger Trains						
on time (up to 5 minutes late)	n.a.	85	87	88	89	89
less than 15 minutes late	96	95	96	96	96	97
Medium and Long Distance Trains						
less than 15 minutes late	88	87	87	88	89	91
of which EUROSTAR	87	91	87	91	92	92
Regional Trains						
on time (up to 5 minutes late)	86	86	88	89	90	90
less than 15 minutes late	97	95	97	97	97	97

Source: Rete Ferroviaria Italiana.



Table 39 - 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	124	0.30	120	
Costs per employee (thousands of euro)	116.11	100	134.10	115	135.91	117	136.85	118	
ENERGY									
Revenue per user (thousands of euro)	0.49	100	0.50	103	0.50	102	0.45	92	
Costs per employee (thousands of euro)	158.13	100	162.50	103	181.85	115	197.99	125	
GAS									
Revenue per user (thousands of euro)	0.45	100	0.49	108	0.41	91	0.41	91	
Costs per employee (thousands of euro)	289.08	100	321.74	111	348.13	120	339.00	117	
WASTE COLLECTING									
Revenue per ton collected (thousands of euro)	0.19	100	0.19	102	0.20	105	0.25	132	
Costs per employee (thousands of euro)	71.37	100	75.86	106	76.19	107	93.47	131	
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	60.46	106	
	2000		2001		2002		2003(a)		2004 (b)
	Value	Index	Value	Index	Value	Index	Value	Index	Value
WATER SERVICE									
Revenue per user (thousands of euro)	0.33	132	0.33	132	0.33	132	0.32	128	0.32
Costs per employee (thousands of euro)	150.97	130	162.28	140	170.62	147	170.19	147	175.14
ENERGY									
Revenue per user (thousands of euro)	0.41	84	0.46	94	0.54	110	0.54	110	0.55
Costs per employee (thousands of euro)	207.73	131	218.37	138	290.85	184	289.64	183	292.55
GAS									
Revenue per user (thousands of euro)	0.54	120	0.54	120	0.55	122	0.58	129	0.59
Costs per employee (thousands of euro)	503.13	174	479.82	166	474.10	164	487.92	169	492.82
WASTE COLLECTING									
Revenue per ton collected (thousands of euro)	0.23	121	0.21	111	0.19	100	0.20	105	0.20
Costs per employee (thousands of euro)	94.46	132	96.07	135	98.29	138	101.41	142	102.91
LOCAL PUBLIC TRANSPORT									
Revenue per thousand passengers (thousands of euro)	0.91	0.99	0.92	100	0.79	86	0.85	92	0.89
Costs per employee (thousands of euro)	59.01	103	62.96	110	66.88	117	68.45	120	69.97
(a) Provisional data.									
(b) Estimates.									
Source: Confservizi, data processed by Ministry of Economy and Finance									



ENVIRONMENTAL INDICATORS

Table 40 - 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
Total	139	30	26	195	201	27	6	234

Source: Ministry for the Environment and territorial protection.

Table 41 - Greenhouse gas emission and target for 2008-10 (1990=100)

	1999	2000	2001	2002	Kyoto Target
Italy	106.4	107.1	109.1	109.0	93.5
Germany	81.4	81.1	82.0	81.1	79.0
Denmark	105.1	98.2	100.4	99.2	79.0
France	99.9	98.8	99.5	98.1	100.0
United Kingdom	86.9	86.8	88.0	85.1	87.5
Portugal	137.4	134.6	135.4	141.0	127.0
Spain	129.1	134.3	133.7	139.4	115.0
EU15	96.2	96.3	97.6	97.1	92.0

Source: Eurostat.



DISTRIBUTION SECTOR INDICATORS

Table 42 - New retail outlets, 2003 (*)
(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	56.3	5,6	37.5	38.4	6.3	56.10	100.0	100.0
New business	98.4	84.3	1.5	12.4	0.1	3.4	100.0	100.0
Substitution	92.4	54.3	7.1	32.2	0.6	13.5	100.0	100.0
TOTAL	97.0	74.1	2.8	19.0	0.2	6.9	100.0	100.0

(*) New openings in 2003 based on retail outlet sample at July 2004.

Source: Ministry for Productive Activities.

Table 43 - New retail outlets, 2003 (*)
(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	47.0	15.4	24.5	64.9	24.5	13.8	4.0	5.8	100.0	100.0
Food	65.5	51.8	9.2	22.6	24.4	23.6	0.9	1.9	100.0	100.0
Non-food	63.4	40.5	20.2	44.4	15.8	14.5	0.6	0.6	100.0	100.0
Special tables	82.3	80.4	3.3	2.8	14.1	15.9	0.3	0.9	100.0	100.0
TOTAL	63.0	38.1	18.4	45.0	17.7	15.3	0.9	1.5	100.0	100.0

(*) New openings in 2003 based on retail outlet sample at July 2004.

Source: Ministry for Productive Activities.



Table 44 - Profitability in the distribution sector
(annual index: 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	97.5
2002	96.7

Source: Istat, Conti trimestrali SEC 95.

Performance indicators - Entrepreneurship and SMEs:

Table 45 - Employment in SMEs

Firm size- number of employees	1997	1998	1999	2000	2001	2002
as a percentage of total employed in industry and services (*)						
1-9	47.0	47.7	47.9	48.8	47.3	47.3
10-49	22.2	21.9	21.7	22.2	21.5	21.4
50-249	12.4	12.1	12.1	12.7	12.4	12.2
250 o più	18.5	18.3	18.3	19.2	18.8	19.0
Total SMEs	69.2	69.6	69.6	70.9	68.8	68.7

(*) 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 46 - 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 47 - Human and financial resources of Regulatory Authorities

HUMAN RESOURCES		FINANCIAL RESOURCES	
Date	Employment	Year	Total Expenditure (*)
The Competition Authority			
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
31st March 2004	184	2003	26.5
The Energy and Gas Authority			
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
30th April 2004	101	2003	20.1
The Communication Authority			
30th June 2000	178	1999	68.3
30th June 2001	216	2000	84.8
30th April 2002	225	2001	89.7
31st March 2003	249	2002	45.2
31st March 2004	257	2003	49.2

(*) Data in billions of Italian Lire. For 2002 data are expressed in euro.

Source: The Italian Competition, Energy and Gas, and Communication Authorities.



Table 48 - Proceedings concluded by the Competition Authority
(at 30 June 2004)

	1990/ 1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Concentrations	2,154	357	292	344	423	525	616	651	577	311
Investigations	19	3	7	2	6	5	6	11	3	-
of which: denied	4	-	1	-	-	-	2	3	-	-
of which: authorized										
with conditions	4	3	5	2	2	4	2	3	2	-
of which: withdrawn	1	-	-	-	2	1	2	1	1	-
Agreements	130	64	64	54	30	52	43	46	54	28
Investigations	50	23	12	14	12	12	8	7	7	5
of which:										
infringements	30	15	8	11	12	9	3	5	4	4
of which: withdrawn	4	1	1	2	-	-	2	-	-	-
Abuses	89	52	46	21	15	22	28	19	14	17
investigations	31	10	5	3	4	7	3	4	4	-
of which: infringements	24	7	4	2	3	6	2	4	3	-
Company separation		-	-	-	-	-	1	21	18	6
investigations						-	-	-	-	1
of which: infringements							-	-	-	1
"Infringement of requirement to notify concentrations"	23	13	-	2	6	5	9	13	12	-
Infringement of injunction	3	-	3	1	-	2	2	3	-	-
Inquiries	7	3	6	-	1	-	1	-	2	-
Reporting and consulting activity	58	18	38	42	30	20	17	24	21	7
Opinions to the Bank of Italy	162	48	50	46	43	50	29	28	37	8
Football rights	-	-	-	-	1	1	-	1	1	-
Deceptive and comparative advertising	594	389	506	468	358	333	289	308	325	107
of which, infringements	341	284	361	300	275	266	240	265	277	89

Source: The Italian Competition Authority.



Table 49 - Agreements examined by sector of economic activity
(number of investigations concluded)

	2003
Food and beverages	2
Oil industry	1
Pharmaceutical industry	1
Transport and vehicle rental	1
Restaurants	1
Total	6

Source: The Italian Competition, Annual Report 2004.

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

	2003
Electricity, gas, water	1
Pharmaceutical industry	1
Transport and vehicle rental	1
Restaurants	1
Total	4

Source: The Italian Competition, Annual Report 2004.

Table 51 - Reporting and consultation, by sector
(number of cases handled: January 2003-March 2004)

	2003	Jan.-Mar. 2004
Transport and vehicle rental	5	2
Garbage disposal	2	-
Telecommunications	2	-
press and publishing	1	-
Insurance and pension funds	1	-
Financial services	1	-
Postal services	1	-
Education, entertainment and sport	4	-
Cinema	1	-
Instruction	-	1
Professions, business	-	1
Other services	2	-
Miscellaneous	1	-
Total	21	4

Source: The Italian Competition, Annual Report 2004.



Table 52 - Privatisations carried out directly by the Ministry of Economy and Finance in the second half of 2002 and in the first four months of 2004

Company	Sector	Offer date	Offer type	Percentage of equity sold over ordinary capital	Gross amount raised (euro)
Telecom Italia S.p.a.	Telecommunication	12-12-2002	Institutional	2.67	1,434,105,873
Mediocredito Friuli Venezia Giulia S.p.a.	Financial	30-10-2003	Odd lots	34.01	61,253,500
ENEL S.p.a.	Energy	4-11-2003	Institutional	6.60	2,172,800,000
ENEL S.p.a.	Energy	12-12-2003	Odd lots	10.35	3,156,467,258
ENI S.p.a.	Energy	12-12-2003	Odd lots	10.00	5,315,829,129
Poste Italiane S.p.a.	Postal	12-12-2003	Odd lots	35.00	2,518,743,500
Ente Tabacchi Italiani Spa	Tobacco	23-12-2003	Odd lots	100.00	2,325,207,101
Cassa Depositi e Prestiti S.p.a.	Financial	30-12-2003	Odd lots	30.00	1,050,000,000
Coopercredito S.p.a.	Financial	22-04-2004	Odd lots	14.42	15,545,000
Total					84,612,253,744
Total Feb 1994 - April 2004					18,049,951,361

Source: Ministry of Economy and Finance.

Table 53 - 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 54 - 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 55 - Number of innovating SMEs
(percentages - year 2002-2003)

Number of employees	Firms endowed of PC	Firms endowed of Pc				
		Firms endowed of e-mail	Firms endowed internet	Firms endowed of web site	Firms practicing on-line purchasing	Firms practicing on-line selling
INDUSTRY						
1-9	61.0	56.3	67.8	22.5	5.4	3.9
10-49	95.0	78.4	84.1	49.7	6.6	2.5
50-99	99.8	94.8	96.7	76.0	14.0	5.3
100-249	99.8	98.2	98.2	83.3	18.7	14.5
250 and over	100.0	99.1	99.8	87.9	25.1	28.5
Total	66.7	62.1	72.1	29.9	6.0	3.8
SERVICES						
1-9	58.7	59.8	71.4	18.4	8.1	3.7
10-49	92.5	79.8	85.3	48.2	13.1	6.6
50-99	98.5	93.6	94.8	65.4	14.9	6.7
100-249	98.6	94.9	97.3	70.0	20.0	9.6
250 and over	99.5	96.4	96.5	81.6	21.3	15.8
Total	59.6	60.7	72.1	19.8	8.3	3.9
TOTAL						
1-9	59.0	59.2	70.9	19.1	7.7	3.7
10-49	93.9	79.0	84.6	49.1	9.5	4.2
50-99	99.3	94.4	96.0	72.1	14.4	5.8
100-249	99.3	96.9	97.8	78.3	19.2	12.6
250 and over	99.8	98.0	98.3	85.2	23.5	23.0
Total	60.8	61.0	72.1	21.7	7.9	3.8

Source: Istat, "Rilevazione sulle tecnologie dell'informazione e della comunicazione nelle imprese con almeno 10 addetti" years 2001-2002 and 2002-2003 (provisional data); "Rilevazione sulle Piccole e Medie Imprese" year 2002.



Table 56 - Exports of high technology products
(as a percentage of total exports)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Austria	7.8	7.7	9.4	9.6	11.2	13.3	13.8	15.2	14.9
Belgium *	5.5	6.4	6.7	7.1	7.9	8.7	9.0	7.3	7.4
Denmark	10.0	7.7	11.8	12.5	13.9	14.4	14.0	15.0	13.8
Finland	12.7	14.2	16.5	19.5	20.7	23.5	21.2	21.0	20.7
France	19.4	19.3	21.8	22.9	24.0	25.5	25.6	21.9	20.4
Germany	11.7	11.7	12.5	13.2	14.2	16.1	15.8	14.7	14.1
Greece	3.1	3.0	3.1	4.8	5.5	7.5	5.6	6.7	7.4
Ireland	35.0	36.7	37.5	37.7	39.4	40.6	40.8	35.1	29.8
Italy	7.5	7.2	7.0	7.4	7.5	8.6	8.6	8.3	7.2
Luxembourg	-	-	-	-	15.1	20.6	27.9	24.6	29.3
Netherlands	15.1	15.4	18.7	19.7	21.9	22.8	22.3	18.7	17.4
Portugal	4.8	3.7	3.7	4.1	4.4	5.7	6.9	6.4	7.3
United Kingdom	20.5	21.9	20.0	23.2	24.4	25.4	26.4	25.4	21.0
Spain	5.7	6.1	5.3	5.5	6.0	6.5	6.2	5.7	5.9
Sweden	12.8	14.5	15.5	16.5	17.9	18.8	14.3	13.7	12.8
EU 15	13.1	13.5	14.5	15.6	16.8	18.2	18.0	16.3	14.9

* Until 1998 Luxembourg is comprised in Belgium's data
Source: Eurostat (Comext) data processed by Istat.

Performance indicator - Information society

Table 57 - ICT penetration in Italy
(1999-2003)

	1999	2003
PC (mln)	7,770	15,348
Number of PC per employee	39	68
Mobile subscribers (% of population)	44.1	72.7
Number of SMS (mln)	1,750	28,500
Active mobile phone lines (mln)	30.3	56.8
Household with Internet access (%)	19.2 (1)	35.4 (3)
Firms with Internet access (%)	65.99 (2)	81.3
Broad band access (mln)	-	2.25
Active Hot Spots WiFi	-	650
Registered internet providers	63,339	965,614
On-line accounts	0.5	6.3
Business customers of Corporate Banking	177,340	772,869

(1) Data at 2000

(2) Data at 2001

(3) Data at 2003

Source: Assinform, Net Consulting "Rapporto 2004 sull'informatica e telecomunicazioni in Italia".



Table 58 - Penetration of new household technology
(thousand)

	1999	2000	2001	2002	2003
Mobile phone (*)	16,350	22,320	28,740	30,640	33,480
PC	5,450	7,500	8,640	9,825	11,230
Internet	920	3,430	4,790	5,380	6,410
Pay-TV	1,130	1,880	2,150	2,680	2,750

(*) Total individual wireless lines.

Source: Rapporto Federcomin-Anie, e-family 2003.

Table 59 - ICT market
(in million euro and in percentage changes)

	1999	Δ % 00/99	2000	Δ % 01/00	2001	Δ % 02/01	2002	Δ % 03/02	2003
Information Technology	16,841	12.6	18,959	8.0	20,478	-2.2	20,036	-3.2	19,395
Telecommunication	32,686	12.9	36,901	8.5	40,025	0.4	40,170	1.8	40,893
Total	49,527	12.8	55,860	8.3	60,503	-0.5	60,206	0.1	60,288

Source: Assinform-Net Consulting "Rapporto 2004 sull'informatica e le telecomunicazioni in Italia".

Table 60 - Italian market of Informatics
(in million euro and in percentage changes)

	1999	Δ % 00/99	2000	Δ % 01/00	2001	Δ % 02/01	2002	Δ % 03/02	2003
Hardware	5,450	11.1	6,053	2.6	6,213	-13.5	5,375	-5.6	5,073
Technical assistance	1,087	-3.0	1,054	-3.4	1,018	-4.2	975	-3.1	945
Software and other services	10,303	15.0	11,852	11.8	13,247	3.3	13,686	-2.3	13,378
Total	16,841	12.6	18,959	8.0	20,478	-2.2	20,036	-3.2	19,396

Source: Assinform-Net Consulting "Rapporto 2004 sull'informatica e le telecomunicazioni in Italia".

Table 61 - Fixed and mobile telephony in Italy
(in million euro and in percentage changes)

	2001	Δ % 02/01	2002	Δ % 03/02	2003
Fixed telephony	21,160	-3.4	20,448	-3.0	19,844
Mobile telephony	18,865	4.5	19,722	6.7	21,041
Total	40,025	0.4	40,170	1.8	40,885

Source: Assinform-Net Consulting "Rapporto 2004 sull'informatica e le telecomunicazioni in Italia".



Table 62 - Households yearly average expense for technology and services
(in million euro and in percentage changes)

	1995	2002	2003	Δ% 03/02
Mobile telephony	660	9650	10,800	12
PC and devices (*)	1,500	2,700	3,700	37
Internet	20	2,100	2,670	27
Pay-TV	270	1,300	1,260	-3
Total	2,450	15,750	18,430	17

(*) also digital camera

Source: Rapporto Federcomin-Anie, e-family 2003.

Table 63 - Growth of IT market by firm size
(in million euro and in percentage changes)

	1999	Δ % 00/99	2000	Δ % 01/00	2001	Δ % 02/01	2002	Δ % 03/02	2003
Firms									
of which: Big firms	9,052	10.4	9,995	8.5	10,849	-0.8	10,761	-2.8	10,460
Medium firms	3,777	15.4	4,358	8.1	4,711	-1.3	4,650	-3.0	4,511
Small firms	3,296	14.0	3,757	6.8	4,013	-5.2	3,805	-4.5	3,634
Consumers	716	18.7	850	6.6	906	-9.5	820	-3.5	791
Total	16,840	12.6	18,959	8.0	20,478	-2.2	20,036	-3.2	19,395

Source: Assinform-Net Consulting "Rapporto 2004 sull'informatica e le telecomunicazioni in Italia".

Table 64 - Mobile telephony
(number of mobile phone service subscribers per 1000 inhabitants)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004(*)
France	24	43	99	192	353	502	537	601	660	696
Germany	46	71	102	171	283	585	661	662	729	791
Italy	69	112	206	355	525	733	786	887	923	991
Spain	24	76	109	176	375	612	649	746	859	957
Sweden	227	288	362	511	574	753	742	811	930	1060
United Kingdom	94	117	143	223	410	680	751	790	856	933
West Europe	59	92	143	237	399	629	682	554	602	873

(*) Data refer to 30th June 2004.

Source: Data processed by the Italian Communication Authority on OECD "Mobile Communication Outlook".



Policy indicators - R&D and innovation

Table 65 - R&D expenditure by public and private sector
(as a percentage of GDP)

Years	Public sector (excluding Universities)	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	0.53
2001	0.20	0.55
2002	0.20	0.56
2003 (*)	0.21	0.55

(*) Estimates.
Source: Istat.

Table 66 - 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	0.056	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
2002	0.057	0.118	0.117

Source: Istat.



Table 67 - 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
2002	0.129	0.251	0.293

Source: Istat.

Table 68 - Patents by date of filing of application
(percentage of total patents in each year)

Categories	Patents 1998				Patents											
	Utility	Disegn	Inven- tion	Trade- mark	Utility			Design			Invention			Trademark		
	Date of filling relative to date of grant				2002	2003	2004 (*)	2002	2003	2004 (*)	2002	2003	2004 (*)	2002	2003	2004 (*)
more than 6 years before	0.2	1.5	0.3	0.0	0.2	2.4	2.8	0.2	0.4	0.0	0.2	0.3	0.1	0.0	0.0	0.1
6 years before	98.0	52.4	0.1	0.0	0.1	1.0	7.3	6.0	0.3	0.1	0.1	0.1	0.9	0.1	0.0	0.2
5 years before	0.7	45.2	0.1	0.1	19.5	1.7	9.2	30.0	2.3	0.0	0.1	0.5	14.5	0.1	0.3	3.8
4 years before	0.2	0.3	1.2	0.8	47.9	25.2	27.2	32.1	3.9	0.7	1.5	2.7	84.3	2.2	32.8	83.2
3 years before	0.1	0.2	21.5	28.7	32.1	69.6	46.1	30.0	68.0	99.2	93.4	96.4	0.1	90.5	63.0	0.6
2 years before	0.5	0.3	65.7	65.9	0.1	0.1	5.4	1.7	25.1	0.0	4.7	0.0	0.1	0.5	0.2	0.8
1 year before	0.2	0.1	11.1	1.4	0.1	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0	2.0	1.3	6.1
same year	0.1	0.0	0.0	3.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	4.6	2.4	5.2

(*) Data of 2004 are referred to the first semester.

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



Table 69 - Invention patented, by date of filing of application
(percentage of patents in each year)

Date of filling relative to date of grant:	1996	1997	1998	1999	2000	2001	2002	2003	2004(*)
more than 6 years before	0.7	0.5	0.3	0.9	0.0	0.4	0.2	0.3	0.1
6 years before	0.3	0.2	0.1	0.0	0.0	0.4	0.1	0.1	0.9
5 years before	1.4	0.9	0.1	0.4	0.2	1.2	0.1	0.5	14.5
4 years before	44.5	15.7	1.2	0.6	1.5	1.6	1.5	2.7	84.3
3 years before	51.9	48.2	21.5	2.7	5.0	55.8	93.4	96.4	0.1
2 years before	1.1	34.6	65.7	91.6	93.3	40.3	4.7	0.0	0.1
1 year before	0.0	0.0	11.1	3.8	0.0	0.2	0.0	0.0	0.0
same year	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0

(*) Data of 2004 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 70 - 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
2003	86,915	45,366	19,281	4,037	155,599	1,300,926	12.0

Source: Bank of Italy.

Table 71 - Market share of top five banks
(percentage values)

	1996	1997	1998	1999	2000	2001	2002	2003
Market share	34.98	34.51	41.79	51.03	53.35	53.50	52.37	50.54

Fonte: Bank of Italy.



Table 72 - Merger patterns in the financial sector^f

	1996	1997	1998	1999	2000	2001	2002	2003
Acquisition of the majority of stake								
a) national - number of acquired banks	19	21	37	37	28	10	22	8
b) cross border - number of acquired banks	5	2	5	3	12	9	5	0
Total	24	23	42	40	40	19	27	8
Operations of internal acquisitions	19	19	23	28	24	9	12	7

Source: Bank of Italy.

Table 73 - Main indicators of the Italian Stock Exchange capitalisation

Years	Listed companies				Capitalisation		Turnover	
	Main Exchange	Nuovo Mercato	Parallel Market for small cap companies	Total	Total amount (euro bn)	%GDP	Total value (euro bn)	Daily average turnover (Euro min)
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	2,515
2003	225	43	11	279	487	37.4	679	2,695
2004(*)	223	42	11	276	518	38.8	384	3,026

(*) Data refer to June 2004.

Source: Borsa Italiana S.p.A.

Capital market integration

Table 74 - Cross border banking penetration

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

	1996	1997	1998	1999	2000	2001	2002	2003	2004(*)
Cross-border assets	11.0	11.1	12.4	11.2	10.9	9.6	10.5	10.0	10.2
Cross-border liabilities	12.9	13.6	14.5	14.7	15.3	15.3	13.2	13.5	13.7

(*) Data as at the end of May 2004.

Fonte: Bank of Italy.



Table 75 - 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	6.9	1.0	7.9
2001	6.3	1.1	7.4
2002	4.7	0.9	5.6
2003	5.1	1.0	6.1

Source: Bank of Italy.

SME and innnovation financing

Table 76 - Venture capital investment

	1996	1997	1998	1999	2000	2001	2002	2003
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	1.9
Expansion	43.4	26.4	36.2	22.1	32.6	34.1	30.7	19.2
Capital replacement	17.5	29.0	13.8	4.8	3.3	6.1	7.8	4.4
Buy-out	30.2	32.4	34.2	64.8	45.9	46.4	59.0	74.4
Number of investments as a percentage of total investments								
Seed - start-up	-	39.7	36.3	41.0	52.5	45.4	16.3	19.3
Expansion	-	35.0	35.5	33.2	36.4	38.0	45.5	52.1
Capital replacement	-	13.7	13.5	8.3	2.9	10.4	13.0	11.0
Buy-out	-	11.5	14.7	17.4	8.2	6.1	25.2	17.6

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

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

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 5

Net electricity generation

Data processed by the Italian Electricity and Gas Authority including self-production of energy withdrawn by the GRTN.

Table 6

Sales and final consumption of electricity

Data processed by the Italian Electricity and Gas Authority using statistics provided by the operators and by the databank of free market clients.



Table 7

Market shares in the natural gas industry

Data on sales and final consumption are processed by the Electricity and Gas Authority, using data provided by the operators. The values are standardized according to an inferior calorific value of 8,250 Kcal/cubic meter.

Tables 8 and 9

Electricity prices

The prices 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 2003 and 2004. The net price does not include general charges of sistem keeping to the methodology used by Eurostat.

Tables 10 and 11

Gas prices

Prices net of taxes in effect at 1st January 2002 (euro-cents/cubic meter) for various amounts of annual consumption in GJ (one Gigajoule = 26 m³). The weighted European average takes as weights consumption in each Member State in 2000.

Table 13

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 m³, 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 14

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 16

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 2001 and 2002. The charges used are Telecom Italia's "standard" charges in effect in



December 2003, according to the price cap formula. Call volumes used to calculate expense for each group of services are those for 2001. The cost for the access is based on number of subscribers.

Table 17

Incumbent's telephone charges

The table shows Telecom Italia charges for 3 minutes, fixed-to-fixed. For 2000-2001, values in liras; for 2002 both in lira and euro-cents. They include callset up fee and do not include VAT. Starting from 2000 incumbent international charges are independent from calling hour. Long distance charges are into force at 1st January of each year.

Table 18

Telephone charges of major operators

The Telecom Italia offer considered is "*Hello gratis*", the Tiscali one is "*Tutto Tiscali Time*" and the Wind one is "*Minuto Zero*". The last one offers one minute of conversation free after the connection charge (only for local and long distance calls).

The Telecom Italia *Hello gratis* offer, gives free, every two months, up to one hour of local calls and up to an half an hour of long distance calls.

The fixed-mobile calls charges of Telecom Italia and Wind are an average of charges for the different guiding lines.

The international charges to mobile phones of Telecom Italia and Tele 2 directed to France and USA are an average of charges applied for the two guiding lines.

Table 19

Tariff plans - comparison among major operators

It is no more possible to subscribe the Wind "*Spazio Zero*" offer, but who has already started it can continue using the offer.

The fixed-mobile calls charges of Telecom Italia and Wind are an average of charges for the different guiding lines.

The international charges are to fixed phones.

Table 20

Market share in fixed and mobile telephony

OLO 1 includes Albacom, Tele 2 and Wind.

OLO 2 includes Altanet, Colt, Elitel, Eplanet, Eutelia, Fastweb, Fastweb Mediterranea and Tiscali.

Table 23

Regional Railway tariffs

The ticket "UNICO" permits a 2nd class trip on Trenitalia trains. It is possible to change class only for Trenitalia railway trips, by paying the price difference between the two classes according to ordinary tariff n. 1.



For monthly ticket, it is possible to change class by paying the price difference between the two classes according to tariff 21/A.

For one trip, it is possible to change class by paying the price difference between the two classes according to ordinary tariff n. 1.

Table 24

Issue of railway licences

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 25

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 32 and 33

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 1st July 2001 are available. In the electricity industry the new Regulation came into force on 1st July 2000.

Tables 34 and 35

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 1st January 2001.

Table 39

Local public services: significant 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 44****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 47**Human and financial resources of Regulatory Authorities**

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

Table 48**Proceedings concluded by the Italian 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 investigations 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 52**Privatisations carried out directly by the Ministry of Economy and Finance in the second half of 2002 and in the first four months of 2004**

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 54**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 55**Number of innovating SMEs**

Innovating SMEs are defined as those that reported having introduced an innovative technology during the year. For the analysis are considered D, E, G, H, I, K sections.



Data refers to 30 June of each year for firms from 1 to 9 employees and to 31 January of each year for firms with at least 10 employees.

Source: "Rilevazione sulle tecnologie dell'informazione e della comunicazione nelle imprese con almeno 10 addetti" years 2001-2002 and 2002-2003; for firms from 1 to 9 employees "Multiscopo della Rilevazione sulle piccole e medie imprese e sull'esercizio di arti e professioni. Year 2002 (provisional data).

Table 56

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 64

Mobile telephony

Number of mobile phone service subscribers per thousand inhabitants. The figure for June 2004 is ratio of subscribers (supplied by *Mobile Communication*) and population (OECD data for 2001).

Table 65

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.

Tables 66-67

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 68

Patents by date of filing of application

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 69****Invention patents 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 70**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 72**Merger patterns in the financial sector**

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

Table 73**Main indicators of the Italian Stock Exchange 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 74**Cross-border banking penetration**

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

Table 75**Percentage of foreign equities in domestic portfolios**

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

Table 76**Venture capital investments**

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

