

ARITAKE-WILD

Joint European Level Social Partners'
Work-programme 2006 – 2008

Joint Study on Restructuring in the “EU15”
Phase one

Italy
National Dossier

Rome
23rd and 24th October 2007

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Final: May 2008



Project of the European Social Partners with the financial support of the European Commission

Joint European Level Social Partners' Work-programme 2006 - 2008

Joint Study on Restructuring in the "EU15" - Phase 1

Italy National Dossier

Discussed at the national seminar in Rome, 23rd and 24th October 2007

CONTENTS

Introduction	
The purpose of the national report	3
Section one	
A macroeconomic review of restructuring in Italy	4
Section two	
The role of the Italian social partners in restructuring	22
Section three	
Case study one – Ferrania Imaging Technologies	33
Case study two – The Textile Industrial District of Prato	36
Case study three - The Group Poste Italia	40

Introduction - the Purpose of the National Report

This report on the role of Italian social partners in restructuring was prepared following the discussion of an initial draft by the national social partners at a seminar held in Rome on 23rd and 24th October 2007. The Italian national seminar was the fourth in a series of similar meetings to be held in ten European Union member states¹ between April 2007 and June 2008. The report was prepared by the selected external expert for Italy, Prof. Dr. Valeria Pulignano, working with the expert coordinator for the project, Mr Alan Wild.

The document is presented as an “expert report”. It represents the views of the individuals involved in its preparation and does not purport to represent the views, either individually or collectively, of the Italian social partners or the Italian case study company representatives that contributed to it, or those of the European level social partner organisations that were responsible for its commissioning.

The prime purpose of the report is to contribute to the development of a synthesis paper that compares and contrasts the roles of the social partners in the ten countries studied with a view to drawing lessons for the future and to help shape the activities and priorities of the social partners at the European level in this area. It also informs readers on the role played by the Italian social partners in the process of economic restructuring at the national, sectoral and enterprise levels. By the end of phase two of the project, similar national reports will have been prepared and been discussed by the social partners in 27 European countries. It is planned to develop an overall discussion document based on the role of the social partners in restructuring in almost every country in the European Union for consideration by social partner representatives from throughout the EU.

Frequently, studies of the role of the social partners in restructuring have focussed on well publicised cases where significant numbers of jobs have been lost in “household-name” companies. In this series of reports it is hoped to capture social partner influence on a broader range of restructuring activities that involve not only major job losses in private sector companies, but also what we have chosen to call “silent restructuring”. Silent restructuring includes change processes that have affected significantly the nature of work undertaken within a company or public sector organisation without major job loss. It also describes the changes taking place in small and micro enterprises that typically fall below the radar of official redundancy statistics. In this way the overall study will seek to capture how the social partners have influenced both the quantitative and qualitative effects of anticipating and managing economic restructuring.

The main body of the report is presented in three sections:

- Section one - A macroeconomic review of restructuring;
- Section two – The role of the social partners in restructuring;
- Section three – Case studies.

A summary reflecting the key elements of the broader research and the content of the discussion that took place at the national seminar can be found at the beginning of each section (One, Two, and Three).

¹ The 2nd Integrated Project on restructuring of the EU Social Partners is divided in two phases. The first one concerns ten EU member states, notably Republic of Ireland; the Netherlands; Greece; Italy; France; the UK; Spain; Sweden; Austria and Denmark. The second phase will start in 2008 and cover Germany, Belgium, Finland, Portugal and Luxembourg. Finally, the EU social partner organisations have run a similar project which involved the 10 countries that joined EU in 2004.

Section one – A macro-economic review of restructuring in Italy

Summary

This section of the report reviews the macroeconomic environment against which structural adjustment has taken place in Italy. In particular, it presents an analysis of the evolution that has taken place in demography, the economic environment, the labour market and the education system in Italy over the last decade. Restructuring has affected different parts of Italy in different ways and the regional variations in structural adjustment between the North, Centre and South of Italy need to be considered.

The following paragraphs summarise the main results of the analysis taking into account the comments made by the Italian national social partners in their consideration of the following issues:

- ◇ What factors explain Italy's relatively poor performance in per capita GDP and productivity growth, and what can the social partners do to help address the problem?
- ◇ What implications do the low levels of labour market participation, especially for women and elderly people, have for future economic growth?
- ◇ Is the increase in the inward-migration currently taking place in Italy sufficient to assure the sustainability of the economy?
- ◇ What measures can help the industrial districts to better respond to the challenges associated with delocalisation?
- ◇ How best can the social partners respond to labour market reforms in both the public and private sector?

More detailed information is contained in the main body of the paper;

- ◇ Italy was for much of the post-war period one of the fastest growing countries in the OECD area, and its labour productivity was among the highest in the OECD. Since 1992, economic policy in Italy has focused primarily on reducing government budget deficits and reining in the national debt. Successive Italian governments have adopted annual austerity budgets combining cutbacks in spending with revenue raising measures. The national debt, which stood at roughly 124% of GDP in 1995, declined steadily until 2002 when it began to deteriorate once more due to slow economic growth. The country faced serious economic difficulties between 2002 and 2005 when GDP started to grow again.
- ◇ Since the period of economic recession (2002-2005), the employment rate in Italy has grown at around 2% a year. The growth trend differs however between the regions – employment is higher in the North and the Centre (where manufacturing still plays an important role) and lower in the South. As an indicator of regional disparities, between the years 2000 - 2002, when the national unemployment rate was officially running at around 8.9%, it was 5% in the North; 6% in the Centre and 21% in the South. Although Italy has a strong industrial occupational base, employment in services, including public administration, is higher than it is in industry.
- ◇ In Italy youth unemployment, the low level of participation of both women (mainly in the private sector) and older people are critical issues. The unemployment rate

among young people aged 15 to 24 years has declined by almost 10 percentage points over the past decade.

- ◇ Italy has become less competitive both within and outside the euro-area. Export volumes have fallen, and market shares in real terms have been eroded. Italian producers (including the small and micro enterprises that traditionally characterise the core of the Italian economy) have faced increasing competition from Eastern European and Asian countries on both the export and domestic markets. Inflation is higher than the euro-area average.

In the context of these difficult economic circumstances important socio-economic reforms in the area of labour market and liberalisation policies have been implemented in Italy since 2000. Italy's model of "family capitalism" is shifting toward a new socio-economic model of competitiveness based on business partnerships and networks. For this to succeed education and lifelong learning will be key issues along with measures to address the regional socio-economic disparities that typify of the Italian economy. Additionally, improving the performance of the Italian public sector will be crucial to the future. The social partners in the seminar highlighted their strong engagement in public sector reform through the restructuring of the collective bargaining system.

Population

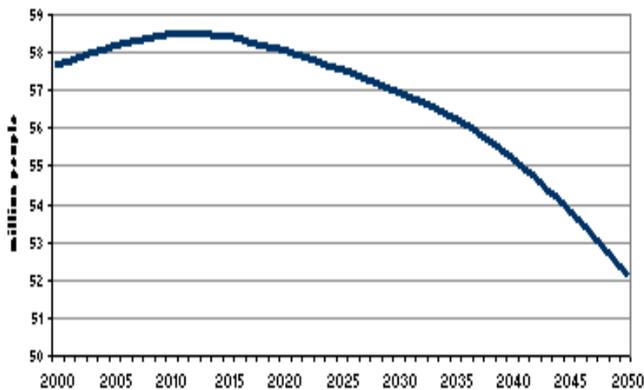
Italy faces significant demographic challenges in coming years. High longevity combines with a chronically low birth to increase the proportion of retirees significantly and to age the economically active population. Whilst recent increases in immigration have mitigated this trend to an extent, further immigration is the only way in which the impact of the ageing of the working population and increasing dependency ratios will be mitigated. When inward and outward migration flows are compared, Italy currently loses more young and well qualified workers than it gains.

According to the latest census, the Italian population on 1 January 2006 had grown to 58,751,711 people. Italy is the fourth largest populated country in Europe and ranks twenty-second in the world. Large populations and high density rarely go hand in hand, but Italy's population density high, rating fifth place in Europe. There are on average 195 people per square kilometre in Italy.

Italy has the lowest average fertility rate amongst OECD countries (1.33 children per woman)². As a result, the population is forecast to fall significantly (by 6.6m or 15%) between 2020 and 2050 (see illustration below).

² Italian National Statistics Office - ISTAT, 2005

Italian population change from 2000 to 2050

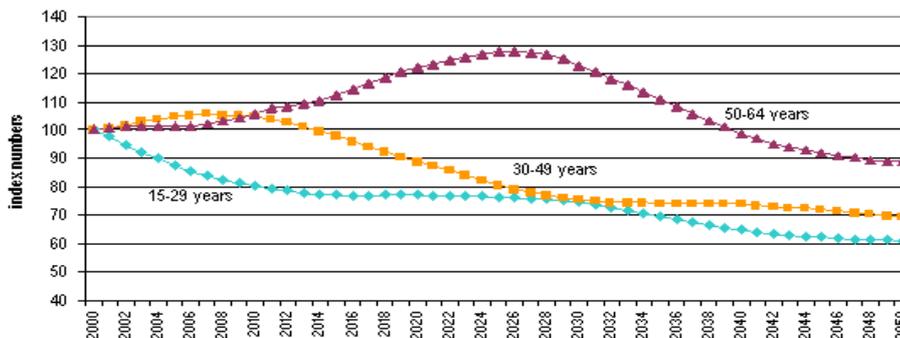


Source: Italian National Statistic Office - ISTAT, 2006

Italy has the oldest age structure in Europe. Out of a total population of around 58m, approximately 10m Italians (18%) are over the age of 65. This number will grow steadily to reach 16m by 2040. By 2050 almost one third of the Italian population will be 65 or over. The almost doubling of the “over 65” population in 40 years will pose difficulties for the Italian government in pension provision. This situation is not made easier by Italian longevity of life. Average life expectancy for the total population is 80 years, 83 for women and 77 for men. Current life expectancy in Italy is more than 2% higher than the EU average³.

The process of ageing, combined with the extent of public funding of pensions, creates a challenging future labour market dynamic with the younger cohorts in the “active population group” shrinking faster than the older over the next 40 years (see illustration below).

Economically active age population – 2000 to 2050 (2000=100)



Source: Italian National Statistic Office – ISTAT, 2006

Immigration is an important issue in Italy today. According to the Italian National Statistics Office⁴, on January 1st 2006 there were 2,670,514 resident foreigners legally in Italy. This represents an increase of 268,357 (or 11.2%) in relation to the same population in 2005 (see illustration below). Large numbers of refugees arrive to Italy illegally by ship. In 2001, about 20,000 illegal migrants came ashore this way. This number has increased to 70,000 per year in recent years. By 2050, large annual immigration flows in the region of 260,000 per year are expected for Italy.

³ Council of Europe 2003; Eurostat 2004

⁴ ISTAT - [Popolazione residente e stranieri residenti nei comuni italiani](#), April, 2007; [La popolazione straniera regolarmente presente in Italia](#), April, 2007; [Indicatori demografici](#), March, 2007

Number of residents foreigners in Italy 1992-2005

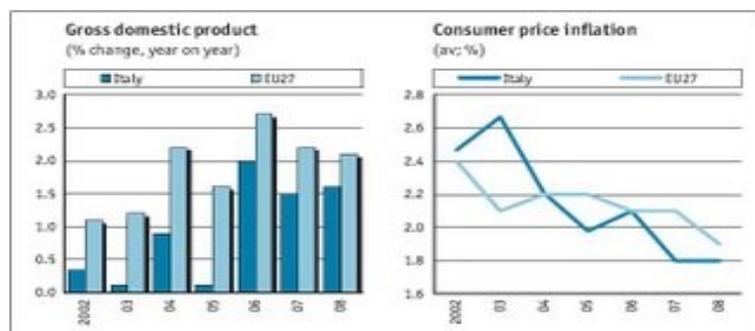
Years	Resident foreigners
1992	573,258
1993	629,165
1994	685,469
1995	737,793
1996	884,555
1997	991,678
1998	1,116,394
1999	1,270,553
2000	1,464,589
2001 ^o	1,334,889
2002	1,549,373
2003	1,990,159
2004	2,402,157
2005	2,670,514

Source: ISTAT – “Popolazione residente e stranieri residenti nei comuni italiani”, April, 2007

Despite this recent and rapid expansion of immigration, on 1 January 2006 foreigners made up just 4.5% of the total Italian population. This level remains well below the general "Old EU 15" average.

GDP, GDP per capita, GDP growth

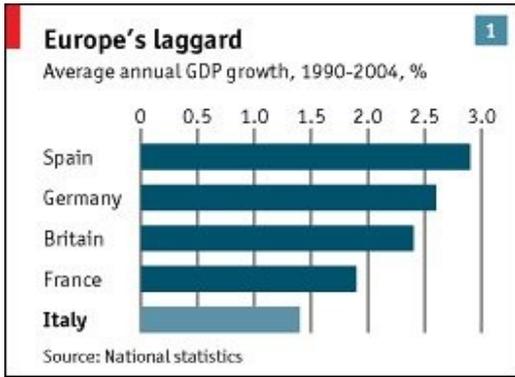
GDP growth in Italy between 2002 and 2005 was significantly below the EU average.



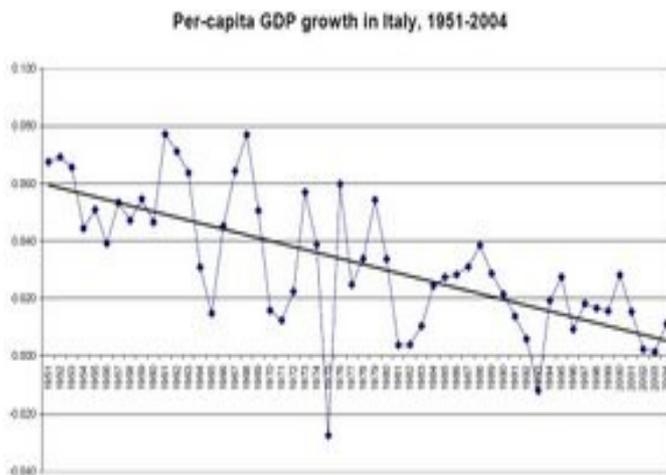
Source: Edward H. (2008) "Italy's Economic Problems Under The Spotlight" Global Economy Matters Blog, January

The progressive extension of the growth gap can only be partially explained by higher levels of GDP growth in the new member states. Italy's performance is not a "post expansion" phenomenon causing The Economist magazine to title the country "Europe's laggard" (see below).⁵

⁵ Hugh E. (2007) "Italy's Economic Problems Under the Spotlight", *Global Economy Matters Blog*, February

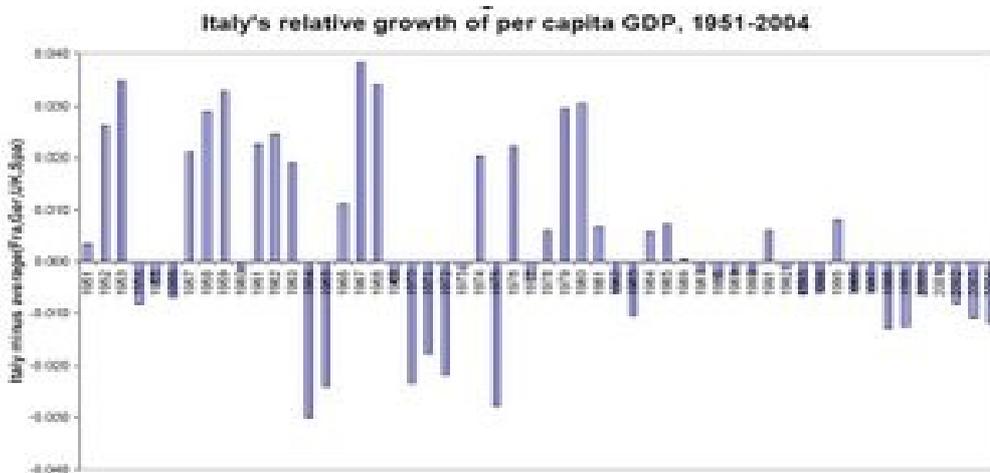


Italy's deteriorating trend of per-capita GDP growth has been consistent over the last 50 years.



Source: OECD Economic Survey of Italy, 2005

Per-capita GDP in Italy has increased more quickly than the combined rate of France, Germany, the UK and Spain in only six years since 1980. GDP growth has been consistently lower than the four benchmark countries during the last decade - at a time when the average per capita GDP growth of these countries has been poor in international comparative terms.



Source: OECD Economic Survey of Italy, 2005

A long-awaited recovery was confirmed in 2006 as GDP in Italy grew by nearly 2% with the following distribution by sectors: 2% agriculture; 29.1% industry; 69% services. Buoyant export markets and quality improvements by Italian exporters led to solid export gains, which have, in turn, stimulated domestic demand and job growth. Growth should remain strong in 2007 and 2008 so long as foreign demand stays robust and restructuring continues.

The Economist Intelligence Unit (see below) expects GDP growth to continue as a result of high foreign demand by emerging countries in Asia, Central and Eastern Europe and South America, which should mitigate the negative effects of more restrictive monetary policies and Euro appreciation. Growth is predicted to slow to 1.4% in 2008, and reach a stable average yearly rate of 1.6% in the following years. After the recovery recorded in 2006 the “growth gap” between Italy and the Euro zone is predicted to reduce further in coming years. A strong Euro, slightly lower oil prices and measures adopted by government to increase competition in the service sector will lead to inflation over the period 2007 – 11 in line with that in the Euro area, i.e. an average of less than 2%.

Key economic indicator predictions

Key indicators	2006	2007	2008	2009	2010	2011
Real GDP growth (%)	1.9	1.9	1.6	1.5	1.6	1.7
Consumer price inflation (av; %)	2.1	1.7	1.9	1.9	1.9	1.9
Consumer price inflation (av, %; EU harmonised measure)	2.2	1.9	2.1	2.0	2.0	2.0
Budget balance (% of GDP)	-4.4	-2.6	-2.8	-2.7	-2.8	-2.8
Current-account balance (% of GDP)	-2.6	-2.3	-2.0	-1.9	-1.5	-1.0
Short-term interest rate (av; %)	3.1	4.2	4.6	4.4	4.4	4.4
Exchange rate US\$:€(av)	1.26	1.36	1.38	1.32	1.28	1.26

Source: *The Economist* - Factsheet Italy, March 2007

Like all advanced market economies, Italy is quickly moving away from manufacturing to services. The economic significance of the Italian industrial sector is higher than the EU average. Today, agriculture accounts for just 2% of GDP; and industry and services account for 29.1% and 69% of GDP respectively⁶.

According to World Economic Forum data⁷ (see illustration below), Italy’s competitive position has continued to decline, falling four places to 42 between 2005 and 2006.

Global Competitiveness Index 2006 and 2005 comparisons

	GCI	GCI	GCI		
Country/Economy	2006 Rank	2006 Score	2005 Rank	Changes 2005-2006	
Switzerland	1	5,81	4	□	3
United States	6	5,61	1	□	-5
Japan	7	5,60	10	□	3
Belgium	20	5,27	20	□	0
Czech Republic	29	4,74	29	□	0
Italy	42	4,46	38	□	-4
India	43	4,44	45	□	2
China	54	4,24	48	□	-6
Chad	123	2,61	117	□	-6

Source: World Economic Forum, 2006

The list of Italy’s economic problems is long. The underlying macroeconomic environment is poor due to a consistent 20 year run of budget deficits. The fiscal situation has deteriorated

⁶ ISTAT, “Italy in Figures”, 2007

⁷ WEF Global Competitiveness Index 2006 and 2005

sharply since 2000 and Italy's public debt/GDP ratio was, at the end of 2006, 106.8%, more than 45 percentage points above the Maastricht reference value of 60% of GDP and among the highest in the world. The poor state of Italy's public finances may itself reflect more deep-seated institutional problems, such as the efficiency of government spending, the burden of government regulation and, more generally, the quality of public sector institutions.

Lisbon indicators

On the Lisbon indicators (see table below), the level of performance of Italy appears no better when compared with other European economies, with an overall 24th position. In global terms, Italy performs worse than both the Central-Eastern economies and the South-European block.

Progress on Lisbon Indicators 2006 – ranking and Scores of EU countries

Source: World Economic Forum, 2007

Country	Final Index		Sub-indexes							
			Information Society	Innovation & R&D	Liberalisation	Network Industries	Financial Services	Enterprise	Social Inclusion	Sustainable Development
	Rank	Score	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
EU 25										
Denmark	1	5,76	4	4	5	2	5	1	1	3
Belgium	10	5,15	14	7	10	10	11	11	6	9
Estonia	12	4,93	5	11	12	17	12	6	12	16
Greece	23	4,19	25	18	21	14	16	20	22	23
Italy	24	4,17	16	19	23	20	23	24	24	19
Poland	25	3,76	24	22	25	25	25	25	25	22
EU25 Average	--	4,84	--	--	--	--	--	--	--	--
United States	--	5,45	--	--	--	--	--	--	--	--
East Asia*	--	5,28	--	--	--	--	--	--	--	--

The UNDP Human Development Index

The human development index (HDI) looks beyond GDP to a broader definition of well-being. The HDI provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrolment at the primary, secondary and tertiary level) and having a decent standard of living (measured by purchasing power parity, PPP, income). The index is not in any sense a comprehensive measure of human development. It does not, for example, include important indicators such as inequality and difficult to measure indicators like respect for human rights and political freedoms. What it does provide is a broadened prism for viewing human progress and the complex relationship between income and well-being. The HDI for Italy is 0.940, which gives Italy a rank of 17th out of 177 countries with data (see below).

Italy's human development index 2004

HDI value	Life expectancy at birth (years)	Adult literacy rate (% ages 15 and older)	Combined primary, secondary and tertiary gross enrolment ratio (%)	GDP per capita (PPP US\$)
1. Norway (0.965)	1. Japan (82.2)	1. Georgia (100.0)	1. Australia (113.2)	1. Luxembourg (69,961)
15. Denmark (0.943)	5. Australia (80.5)	16. Albania (98.7)	26. Uruguay (89.4)	18. Japan (29,251)
16. France (0.942)	6. Sweden (80.3)	17. Kyrgyzstan (98.7)	27. Portugal (89.3)	19. Germany (28,303)
17. Italy (0.940)	7. Italy (80.2)	18. Italy (98.4)	28. Italy (89.3)	20. Italy (28,180)
18. UK (0.940)	8. Canada (80.2)	19. Moldova, Rep. of (98.4)	29. Argentina (89.3)	21. Singapore (28,077)
19. Spain (0.938)	9. Israel (80.0)	20. Bulgaria (98.2)	30. Barbados (88.9)	22. Spain (25,047)
177. Niger (0.311)	177. Swaziland (31.3)	128. Mali (19.0)	172. Niger (21.5)	172. Sierra Leone (561)

Source: UNDP 2006 (http://hdr.undp.org/hdr2006/statistics/countries/country_fact_sheets/cty_fs_ITA.html)

The HDI measures average achievements in a country, but it does not incorporate the degree of gender imbalance in these achievements. The gender-related development index (GDI), introduced in Human Development Report 1995, measures achievements in the same dimensions using the same indicators as the HDI but captures inequalities in achievement between women and men. It is simply the HDI adjusted downward for gender inequality. The greater the gender disparity in basic human development, the lower is a country's GDI relative to its HDI. Italy's GDI value, 0.934 should be compared to its HDI value of 0.940. Its GDI value is 99.4% of its HDI value. Out of the 136 countries with both HDI and GDI values, 61 countries have a better ratio than Italy.

The table below shows how Italy's ratio of GDI to HDI compares to other countries, and also shows its values for selected underlying values in the calculation of the GDI.

The GDI compared to the HDI – a measure of gender disparity

GDI as % of HDI	Life expectancy at birth (years) 2004	Adult literacy rate (% ages 15 and older) 2004	Combined primary, secondary and tertiary gross enrolment ratio 2004
	Female as % male	Female as % male	Female as % male
1. Luxembourg (100.4 %)	1. Russian Federation (122.4 %)	1. Lesotho (122.5 %)	1. United Arab Emirates (126.0 %)
60. El Salvador (99.4 %)	61. French Guiana (108.0 %)	29. Ukraine (99.4 %)	45. Netherlands Antilles (105.8 %)
61. Trinidad and Tobago (99.4 %)	62. Chile (108.0 %)	30. Venezuela, RB (99.4 %)	46. Samoa (Western) (105.8 %)
62. Italy (99.4 %)	63. Italy (108.0 %)	31. Italy (99.2 %)	47. Italy (105.6 %)
63. Bolivia (99.4 %)	64. Germany (107.6 %)	32. Albania (99.1 %)	48. Israel (105.4 %)
64. Tonga (99.4 %)	65. Bosnia and Herzegovina (107.6 %)	33. Bulgaria (99.0 %)	49. Greece (105.3 %)
136. Yemen (94.0 %)	191. Kenya (95.8 %)	115. Afghanistan (29.2 %)	189. Afghanistan (40.9 %)

Source: UNDP 2006 (http://hdr.undp.org/hdr2006/statistics/countries/country_fact_sheets/cty_fs_ITA.html)

The gender empowerment measure (GEM) reveals whether women take an active part in economic and political life. It tracks the share of seats in parliament held by women; of female legislators, senior officials and managers; and of female professional and technical workers- and the gender disparity in earned income, reflecting economic independence.

Differing from the GDI, the GEM exposes inequality in opportunities in selected areas. Italy ranks 24th out of 75 countries in the GEM, with a value of 0.653.

Employment and unemployment

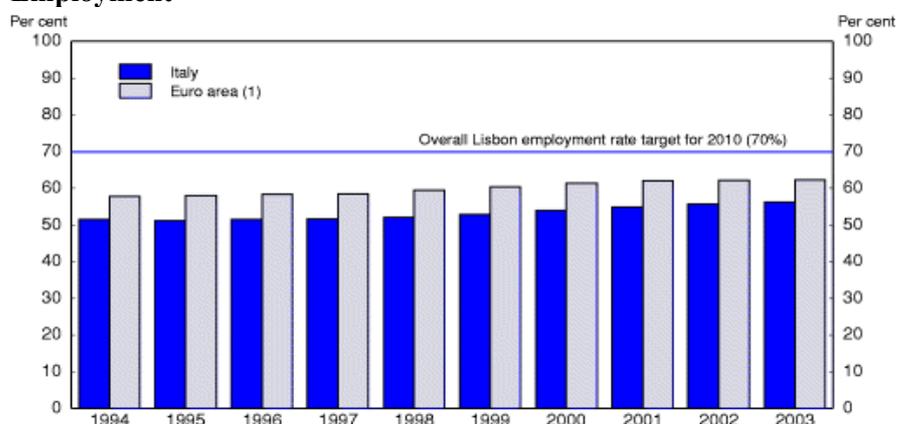
In Italy, employment and unemployment are highly differentiated regionally – unemployment is low in the North and the Centre and high in the South. As an indicator of regional disparities, between 2000-2002, when the national unemployment rate was officially running at around 8.9%, it was 5% in the North; 6% in the Centre and 21% in the South.

The “OECD Employment Outlook” 2007 shows that Italy created almost 500,000 new jobs in 2006. This corresponds to an increase of 2.2%, higher than the EU15 and OECD averages (1.5% and 1.6%, respectively) during the same year. The standardised unemployment rate, now at 6.8%, has fallen steadily since 1998, when it was 11.4%. The relative position of Italy in the OECD has improved considerably. The unemployment rate in Italy is now 0.6 % below the EU15 average and only 0.8 % above the OECD average.

Although employment has risen substantially since the late 1990s, and unemployment rates have fallen, overall employment rates in Italy remain low. Italy's employment rate is one of the lowest (59% in 2006) in the OECD countries, reflecting low labour force participation, particularly in the South. The very recent ISFOL report (2007) indicates that 10 workers in 100 in Italy are currently employed on fixed-term contracts. In particular, almost half of the new jobs on the labour market are fixed-term (up by 9.7% in comparison with 2005).

The overall participation rate for those of working age is 63%, compared with an EU average of close to 70% (and a US figure of 75%). As in most countries, participation rates for prime-age males are well above 90%, but the figure drops to marginally over 30% in Italy for males over 60 years old. Female participation rates are low by international comparison at all ages. Less than 50% of women are in the labour force compared with an EU average of 60%. The employment rate among women is extremely low in the private sector at 46%. In the OECD countries, only Mexico and Turkey record lower levels⁸. In the public sector the participation rate of women in the workforce is higher at 53%. The data also illustrate that the participation gap for women reflects a sectoral and a regional dimension with rates being lower in the South than in the North (ISFOL, 2007). As in other southern European countries, part-time employment of women accounts for a relatively low proportion of their total employment. Participation rates of women and older males are lower than the EU average even in the prosperous Italian regions that experience chronic labour shortages.

Employment



rates

Source: Employment Outlook Database, 2007.

⁸ OECD Employment Outlook”, 2007

The current rate of unemployment is the lowest rate since the National Statistics Institute (ISTAT) started its survey in 1992. There are a number of reasons for the fall in unemployment⁹ ;

- ◇ There has been a long period of wage moderation in the private sector following the renegotiation of wage contracting arrangements (elimination of *scala mobile* or wage indexation system) in the early 1990s;
- ◇ The reform of labour contracts and taxation enacted in Italy since the 1990s have triggered a significant increase in “so called” atypical employment (including part-time and fixed-term contracts), which have encouraged more flexibility in the labour market and promoted the increase in “formal” employment;
- ◇ Inward migrants have contributed positively by filling vacancies unoccupied by Italian workers, helping a better matching and a lowering structural unemployment;
- ◇ The regularisation of migrants has helped the functioning of the labour market, by both creating new jobs and allowing migrant workers to build their skills and move upscale in the labour market. According to ISTAT, the biggest gains in registered employment have come from immigrants gaining legal status. More than 900,000 foreign immigrants, the equivalent of almost 2% of the population, have won residency in the past three years through a series of government amnesties.
- ◇ Perhaps less positively, another reason of the decrease in unemployment is explained by the growing number of the working age population that are not looking for a job. According to OCSE data, the ratio between the inactivity rate and labour force has risen from 2.39% in 2000 to 5% in 2005 compared with the opposite trend in Europe as a whole (from 1.91 to 1.51).¹⁰

Italy's employment statistics reflect its economic trends. The latest ISTAT data¹¹ shows the agricultural labour force steadily diminishing (from 6% in 1995 down to 4.3% of the total workforce in 2006); industrial employment shrinking due to the impact of the new economy (from 32.7% in 1995 to 30.1 % in 2006); and the service sector employing the largest percentage (65.6 %) of the Italian workforce.

The most recent employment data per sector published in by the ISFOL report (2007) is shown in the table below. Significantly, the highest increase in the trend of employment is in services and is concentrated in “*servizi vendibili*” (i.e. Public administration, health and safety and other social services).

Employment rates per sector

	1995	2000	2006	2009
Agricoltura	1.316	1.103	1.015	964
Industria in senso stretto	5.273	5.190	5.167	5.148
Costruzioni	1.481	1.554	1.862	1.854
Servizi	13.771	15.084	16.711	17.395
di cui:				
Servizi vendibili*	8.569	9.673	10.987	11.583
Servizi non vendibili**	5.202	5.410	5.724	5.812

*Commerce, hotels and restaurants, transports, financial and enterprises services

** Public administration, health and safety and other social services

Source: ISFOL, 2007

⁹ OECD, “Economic Survey of Italy”, 2007

¹⁰ La Repubblica article – <http://www.metaforum.it/forum/showthread.php?p=62523>

¹¹ “Italy in Figures”, 2007

During the 1993-95 and 2001-2004 recessions, the industrial sector went through a painful period of restructuring and many jobs were lost. Older workers were offered the option of early retirement, while others were enrolled in retraining programmes. A substantial number of jobs were saved by the introduction of social partnership plans. Despite these phases of industrial restructuring, in European terms Italy remains a country with a strong industrial occupational base (ISFOL, 2007).

Small Businesses

Since the 1970s, one of the outstanding features of the Italian economy's performance has been the dynamism of small firms. Italy displays a specific pattern of industrialisation based on systems of small firms located in a particular geographical areas, the so-called 'industrial districts', which are defined as local concentrations of firms in particular sectors. The firms in the industrial district benefit from a pool of labour and from shared knowledge.

According to OECD data (2002), in Italy SMEs account for over 99% of firms in manufacturing and services. Enterprises with fewer than 50 employees represent almost 98% of manufacturing firms and 99% of service companies. Small businesses account for 71% of manufacturing employment and about 90% of employment in construction and the service activities of wholesale and retail trade, hotels and restaurants, business services and real estate.

The strength of micro and small enterprises was reinforced in the 2005 ISTAT census which showed that almost 48% of the labour force in Italy worked in firms with fewer than 9 employees; 11% in firms with between 10 and 19 employees; 10% in firms with between 20 and 49 employees; 12% in firms with between 50 and 249 employees; and just 19% in firms with more than 250 employees. Almost 95% of firms have fewer than 9 employees; 3.2% between 10 and 19 employees; 1.3% between 20 and 49 employees; 0.5% between 50 and 249; and only 0.07% more than 250 employees (see table below).

Distribution of firms by range of employees (2005)

Range of Employees	Economic activities								Total	
	Industry		Building		Commerce and hotels		Other services		Firms	Employees
	Firms	Employees	Firms	Employees	Firms	Employees	Firms	Employees		
1	179.510	179.969	314.159	314.932	835.991	833.635	1.225.906	1.218.917	2.555.566	2.547.453
2-9	255.763	1.010.839	239.947	838.186	634.948	2.040.919	463.478	1.447.724	1.594.136	5.337.668
10-19	53.397	716.043	22.408	288.434	36.680	472.715	28.580	374.523	141.065	1.851.714
20-49	24.999	745.533	6.371	182.771	10.801	314.865	12.792	386.630	54.963	1.629.799
50-249	10.338	994.383	1.458	121.946	3.254	300.404	6.872	692.184	21.922	2.108.917
250 e più	1.458	1.111.209	85	49.049	471	482.548	1.421	1.694.837	3.435	3.337.643
Total	525.465	4.757.976	584.428	1.795.318	1.522.145	4.445.084	1.739.049	5.814.815	4.371.087	16.813.193

Source: Istat, Archivio Statistico delle Imprese Attive, 2005

The Excelsior survey on the manpower needs of firms, carried out for the Union of Italian Chambers of Commerce in association with the Ministry of Labour¹², indicated a 2.8% growth in employment for the two-year period 1998-99. This growth was concentrated mainly in small firms. While a 0.7% decline in employment was recorded in firms with more than 250 employees, growth occurred in medium-sized firms (50-249 employees: +0.7%) and small firms (10-49 employees: +2%; fewer than 10 employees: +7.8%). More recent developments in Italy¹³ suggest certain problems with the reliability of these data. Some firms, particularly medium-sized ones within industrial districts, have strengthened their networking and in some cases have engaged in mergers in order to develop distinctive competitive strengths. Smaller firms have not always kept pace with such change, and have found themselves increasingly

¹² "European Industrial Relations Observatory" - EIRO, 1999

¹³ Istituto Nazionale di Statistica - ISTAT, 2007

exposed to international competition, with job losses being the result in sectors like footwear. Between 2000 and 2004, traditional industrial district sectors such as clothing and furniture recorded reductions in production of between 8% and 25%.

The “Hidden” economy

The ‘hidden’ economy (*economia sommersa*), involving ‘irregular’ work, should be distinguished from the ‘illegal’ economy (*economia illegale*) and the ‘informal’ economy (*economia informale*). *Illegal* activities are those prohibited by law or those where non-authorised personnel produce and sell goods or services (which are not illegal in themselves). The *informal* sector comprises production units with a low organisational level, with little or no division between capital and labour, and family-based or personal employment relationships. The *hidden* economy consists of legal activities which are unknown to the public authorities for statistical reasons or because of deliberate action taken by firms to conceal their activities from the social security institutions for the following reasons:

- ◇ Tax evasion (of income tax or other duties);
- ◇ Evasion of social security contributions;
- ◇ Non-observance of collectively agreed regulations (on minimum pay levels, working hours, etc.) and of the law on workplace health and safety; and
- ◇ Lack of administrative authorisation or failure to respond to statistical questionnaires.

The hidden economy therefore comprises activities deliberately intended to violate regulations but which are not illegal themselves.

The ISFOL report published in 2007 has estimated trends in the Italian ‘hidden’ economy. ISFOL estimates that the unit of irregular work reduced from 3,280 in 2001 to 2,951 millions units in 2005 (i.e. from 13.8% to 12.1% of total employment).

Irregular labour trends

Settore di attività economica	2001	2002	2003	2004	2005
Agricoltura	20,9	21,0	18,3	19,9	22,2
Industria	7,4	6,6	5,7	5,7	5,9
Servizi	15,8	14,5	13,5	13,6	13,9
Totale	13,8	12,7	11,6	11,7	12,1

ISFOL (2007)

The sectors most affected by irregular work, both in absolute and percentage terms, are those in which it is possible for inefficient production units to survive, or in which work activities are of low complexity, such as domestic or personal care services, building, agriculture, catering, tourism and retailing.

Incidence of irregular work by sector, 2000 (% of all employment)

Mechanical engineering	10.62
Wood/furniture	11.69
Textiles/clothing/footwear	16.04
Advanced services	17.49
Commerce	20.08
Tourism	21.27
Construction (subcontracted work)	23.59
Shops	24.04
Construction (restructuring)	26.95
Agriculture	27.64
Personal care services	32.41
Domestic services	39.67

Source: EIRO (2003)

With regard to the geographical distribution of irregular employment statistical data shows that the phenomenon is more widespread in Southern Italy, where one in every five workers is irregular, and which accounts for the entire increase in the hidden economy with a year on year increase of 0.5%.

Recent legislation has been introduced in Italy in order to combat irregular labour. The Law 248/2006 attempts to enhance the level of working conditions at the workplace through the introduction of rigid control measures on health and safety. The most recent Budget law (*Legge Finanziaria*) 2007 introduced obligatory communication of problems at work to local employment services and new penalty measures.

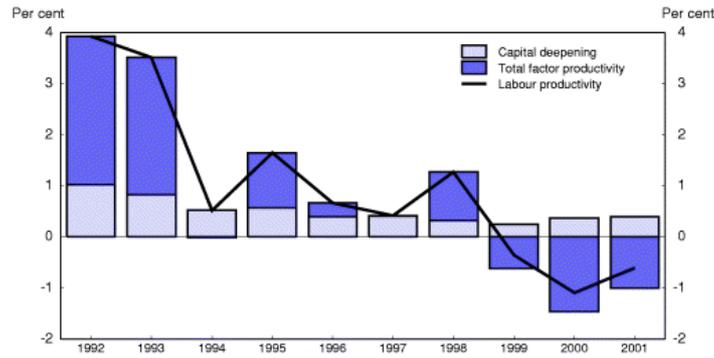
Productivity Growth and Unit Labour Costs

Italy's labour productivity, corrected for the business cycle, grew at the rate of 1.2% per year between 1995 and 2005, much lower than in the OECD as a whole. According to the 2005 OECD "Economic Survey of Italy", Italy's per capita income was about average for the EU and a little higher than the OECD average. Its relative ranking has slipped somewhat because its growth performance has weakened relative to its own past performance and to that of almost all other OECD countries.

Of more concern is the most recently recorded total factor productivity growth which slightly decreased between 2001 and 2004 and which has only recently started to show signs of recovery. One consequence has been that although wages have grown very little in real terms, a decrease in productivity has led to a significant increase in unit labour costs. In recent years, Italy has been losing price competitiveness within the euro-area, and recently even more sharply against non-euro-area countries as the euro has strengthened. Export volumes have fallen, and market shares in real terms have been eroded. Italian producers face heightened competition from Eastern European and Asian countries on both the export and domestic markets.

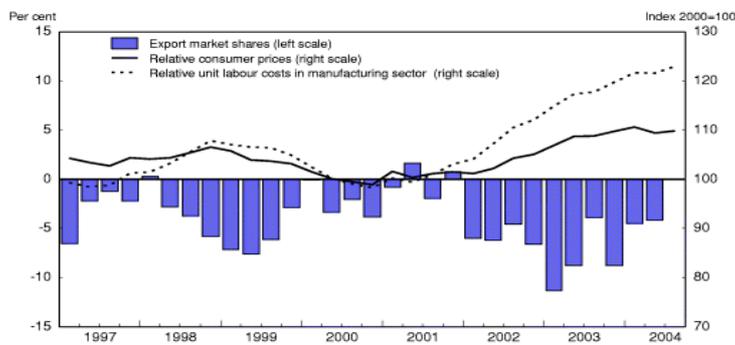
Faced with this challenge, the government has recently adopted liberalisation policies in the area of services (see detail later). In addition, although it is too early to say, the recent employment improvement could result in a further reduction in measured labour productivity. As the employment rate grows, relatively more low-skilled workers tend to be employed, reducing average labour productivity growth, even if the productivity growth of already employed workers remains unchanged.

Productivity decomposition Annual growth rates



Source: OECD (2004), Economic Outlook 76 database

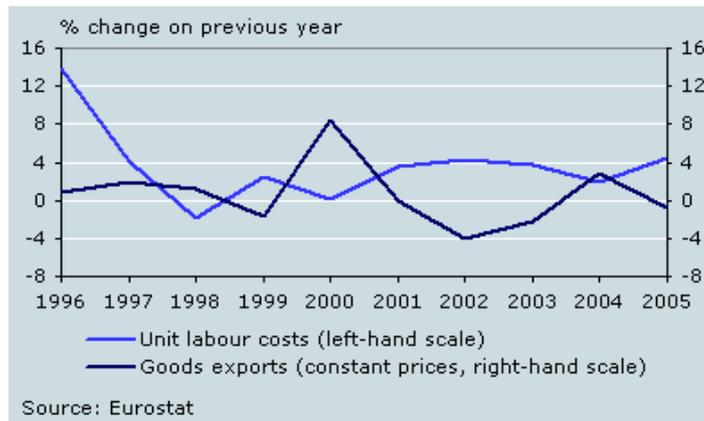
Real exchange rates and export market shares



Source: OECD Economic Outlook 76 database.

Monthly labour costs in Italy (2,904 Euro) were close to the EU25 average (2,877 euro) in 2002. However, since 2004 unit labour costs have risen putting pressure on competitiveness and therefore on exports (see illustration below). The most recent academic data, starting from the second half of 2006, suggests that Italy's exports have been growing at a pace in line with world exports, halting a decade-long decline.

Unit labour costs (market sector) and exports in Italy



Source: Eurostat, 2006

Educational Attainment

Over recent generations, Italy has seen significant progress in the proportion of adults acquiring baseline qualifications, but there remains a significant gap to the best performing OECD countries in terms of quantity, quality and equity¹⁴. On average:

- ◇ Adults in Italy have received just slightly more than 10 years of education, the 4th lowest figure among OECD countries. However, while only 28% of today's 55-to-64-year-olds had acquired an upper secondary qualification, which the OECD considers the baseline qualification for success in modern economies, among today's 25-to-34-year-olds it is now 64%. Only Greece, Ireland, Korea and Spain have seen faster progress than Italy over this period;
- ◇ Progress in educational attainment has been driven by increased completion rates among females. While 45-to-54-year-old women had received slightly more than half a year of education less than their male counterparts two decades ago, the situation has reversed and 25-to-34-year-old women now have slightly more than half a year of education more than males;
- ◇ Upper secondary attainment even among young adults remains far below the OECD average. Students at age 15 display low levels of education performance relative to most of their OECD counterparts.

The comparatively poor performance of Italy on education attainment cannot be tied to low investment. In Italy, annual expenditure per primary and secondary student is well above the corresponding OECD averages – at USD 7,366 for primary students and USD 7,938 for secondary students compared to respectively USD 5,450 and USD 6,962 in the OECD. Moreover, expenditure per student increased by 10% in real terms in primary, secondary and post-secondary non-tertiary education between 1995 and 2004. Over the theoretical duration of primary and secondary studies, Italy invests USD 100,437 per student – the 7th highest level of investment in the OECD behind Denmark, Iceland, Luxembourg, Norway, Switzerland and the United States and more than 30% above the OECD average (USD 77,204) (OECD, 2007).

The structure of industry

Services account for the highest proportion of GDP in Italy (69%) followed by industry (29.1%) and agriculture (2%).

Structure of the economy (2006)

Sector	Share of GDP (%)	Products
Agriculture	2%	Wheat, rice, grapes, olives, citrus fruits, potatoes, sugar beets, soybeans beef, dairy products.
Industry	29.1%	Tourism, machinery, iron and steel, chemicals, food processing, textiles, motor vehicles, clothing, footwear, ceramics.
Services	69%	n/a
Trade (2005 est.)	Exports: \$371.9 billion (f.o.b.)	Mechanical products, textiles and apparel, transportation equipment, metal products, chemical products, food and agricultural products.
	Imports: \$369.2 billion (f.o.b.)	Machinery and transport equipment, foodstuffs, ferrous and nonferrous metals, wool, cotton, energy products.
Major trading partners	Exports (2004)	Germany 13.6%, France 12.4%, U.S. 7.9%, Spain 7.3%, U.K. 7.1%
	Imports (2005)	Germany 18%, France 11%, Netherlands 5.9%, Spain 4.7%, Belgium 4.5%, U.K. 4.3%, China 4.2%

Source: US Department of State 2007

¹⁴ OECD, 2007

Services

Italy has recovered from the economic recession of the early 1990s in part through its efforts to develop the service sector even further. Services both to commercial enterprises and private individuals have grown in importance. This has been a consistent theme in the world's developed economies and, according to the 2007, "OECD Economic Survey of Italy", this growth has been slower over the past decade than in leading OECD countries.

Acknowledging increasing evidence that competition-restraining regulations contributed to this sluggish performance, the Italian government recently passed two major packages of liberalisation laws (the "Bersani Decree" of June 2006) in areas such as retail trade, taxis, pharmaceuticals, professional services, local public services and retail banking. Even though some of these measures are symbolic and some of them were only half-heartedly implemented (taxis), most of the changes should help reduce barriers to entry, cut bureaucratic red tape, expand consumer choice and diminish rents in protected sectors. They are therefore seen as likely to boost competition and to revive productivity.

The "Bersani decree" (June, 2006)

The Bersani decree laws removed some of protectionist regulations in the sector of professional services (such as lawyers, pharmacists, accountants and notaries). Minimum tariffs were banned and advertising was allowed for informative purposes. Important steps forward will include replacing excessive licensing requirements by other mechanisms such as certification, fully liberalizing advertising, removing quantitative restrictions and holding back the influence of firms or professional associations. This is seen to accelerate the process of commercialisation of professional services, thus fuelling price competition and accelerating productivity gains.

Enhancing competition is of paramount importance in the sector of retail and wholesale trade as market contestability, productivity and job creation seem low. The "Bersani decree" removed many restrictions at the central level. The sector however remains heavily regulated at the local levels. As national competition authorities do not have the capacity to review and correct local restrictions, competition "watchdogs" should be established at the regional level and be empowered to monitor their local authorities, applying a checklist of pro-competition practices defined at the national level. In addition, shopping hours could be relaxed.

Manufacturing

Manufacturing in Italy accounts for just under 25% of GDP, which is quite high compared with most other developed countries, although it has been progressively reducing since 1990. Although services are now far more important in overall output terms, much activity in the tertiary sector is linked to the distribution of manufactured goods or the provision of services to the manufacturing industry. Italy has a significant share in world markets for a wide range of medium-technology consumer and investment goods, but is relatively weaker in the rapidly growing, high-technology information and communications sectors.

Compared with other European economies of a similar size, there are few large private manufacturing companies in Italy. FIAT, owned by the Agnelli family and based in Turin, is one of Europe's largest car producers, making the Fiat, Alfa Romeo and Lancia brands. It also owns two sports car producers, Ferrari and Maserati. Other sectors include industrial vehicles (Iveco), engineering (Teksid), agricultural and construction machinery (CNH, New Holland Construction and Steyr), auto components (Magneti Marelli) and machine tools (Comau). In 2003 Fiat sold off its aircraft parts and components subsidiary, FiatAvio, and an insurer, Toro Assicurazioni, to concentrate on its core auto division and tackle the group's financial difficulties. By 2005 the group was posting profit again, and the auto division recorded reduced losses compared with a year earlier, when its medium-term survival seemed uncertain. In 2006 FIAT's annual revenue rose by 35% year on year as it recovered market share in Italy and in Europe thanks to investment in new models and the re-launch of popular old ones. Other long-established large companies are Pirelli (tyres, industrial rubber products,

and telecoms and energy cables and services) and Montedison (agrochemicals and energy), once owned by the Ferruzzi family. However, the break-up of the Montedison group seems likely, following the mid-2003 takeover by Italennergia, which is controlled by Fiat and the French state electricity utility, Electricite de France (EDF). In the past decade several expanding groups have emerged as major forces, in particular Benetton (clothing), Marzotto (textiles and clothing), Del Vecchio (spectacles) and Ferrero (confectionery).

As indicated earlier, small and medium-sized enterprises (SMEs) in northern and central Italy are the backbone of the economy. Many Italian SMEs are located in the export-oriented industrial districts, where they are supported by networks of associations that lobby to promote their interests and by a large number of small local banks, frequently created with the specific purpose of supporting local industry. The fact that there is often geographical specialisation of small industries (for example, ceramic tiles in Sassuolo, wool textiles in Prato, silk in Como, shoes in Verona, sports shoes and boots in Montebelluno, spectacles in Belluno, kitchen equipment in the Marche, and textiles and textile machinery in Biella and Bergamo) makes it easier for local financiers to get to know and to understand the needs of particular industries. There are signs of such local specialties developing in the South, such as furniture in Bari, tiles in Salerno, musical instruments and jewellery in Naples, and textiles in Martina Franca near Taranto, as well as clothing in several areas. Many of Italy's export-oriented industrial districts, which are renowned for their flexibility, have faced difficulties recently, owing to cheaper products coming from China and other low-cost producers. There are signs, however, that after a period of restructuring in several traditional sectors such as textiles and clothing Italian firms are regaining competitiveness.

Agriculture

According to the Agriculture Census, there were 2.6 million farms in 2000 (down from 3 million in 1990) covering 19.6 million hectares. The vast majority (94.7%) are family-operated and small, averaging only 5 hectares in size. Of the total surface area in agricultural use (forestry excluded,) grain fields take up 31%, olive tree orchards 8.2%, vineyards 5.4%, citrus orchards 1%, other orchards 3.8%, sugar beet 1.7%, and horticulture 2.4%. The remainder is primarily dedicated to pastures(25.9%) and feed grains (11.6%).

Foreign Direct Investment (FDI)

In 2002, FDI inflows to Italy grew by about 2% while outflows declined by 13%. Unlike other major countries, inflows have continued a modest rise since 1998. Outward FDI stock during 1991-2001 increased almost six-fold, growing faster than inward stock and the country became a net outward investor in the 1990s.

In 2006 the total of inward FDI, according to the OECD, more than doubled compared with 2005. The total amount of FDI in the country reached \$41.2bn, compared with \$19.9bn in 2005 and \$16.8 in 2004. The 2006 data are the more impressive if compared with other European countries (Spain \$15.9bn and Germany \$16.8bn).

The tertiary sector accounts for the largest share of FDI flows (with an exception of FDI outflows in 1999 and 2001), with financial services accounting for the largest, albeit declining, share of FDI stock. Foreign banks have been monitoring the Italian market over recent years, trying to expand their presence by establishing local agencies or making selective acquisitions. Insurance and communications are fields expected to provide interesting opportunities and many analysts believe that Italy should be, in the next few years, the country with the highest inward FDI growth in Europe. Other sectors attracting FDI from Italy are Transportation Industry (57.28%), Food Processing Industries (9.13%), Metallurgical Industries (8.01%), Electrical Equipment (including computer software (4.48%) and Textiles (4.25%).

The largest foreign affiliates in Italy are mainly from the European Union, and similarly, the largest Italian affiliates abroad are also located in the EU (41.1%); Central and Eastern Europe (18.3%); North and Latin America (11.3%); and Asia (10.9%). In particular, between 2001 and 2005, the number of Italian investors abroad increased by 21.3%. Specifically, the number of Italian investors in China increased by 12.4%. Of these investors in China 36.7% are in the manufacturing sector¹⁵.

India is Italy's fourth largest trading partner outside the EU. Balance of trade has been in India's favour since 1988. During the period, January-October 2003, Indian exports to Italy were of the order of €1440.3m, (an increase of 6.59% over 2002) and Indian imports from Italy were worth €859.5m (a decrease of 3.39% over 2002). The principal items of India's exports to Italy are textiles, readymade garments, leather and leather goods, granite and similar stones, bulk drugs, basic chemicals, gems and jewellery, marine products, engineering goods and auto parts. India's imports from Italy include machinery for precision tools, basic and other chemicals, textile and granite machinery, general machinery, precision tools, leather and goods, fabrics, auto vehicle parts, base metals and tubes and measuring instruments.

The nature and the extent of restructuring

During 2004 and early 2005 problems were experienced in Italy the majority of productive sectors. According to figures from the observatory on manufacturing run by the General Confederation of Italian Workers (*Confederazione generale italiana del lavoro*, Cgil), in August 2004, 2,778 companies had placed a total of around 158,000 workers on a 'mobility procedure'¹⁶ or on the ordinary or extraordinary Wages Guarantee Fund (*Cassa Integrazione Guadagni*, CIG).¹⁷ Northern Italy was the area most affected, and manufacturing the sector hardest hit, with a total of 93 million hours of authorised use of the extraordinary and ordinary CIG, a level which was already by August 10 million hours higher than in the whole of 2003.

The resources used for the ordinary CIG rose from almost €338m in 2000 to €593m in 2003. For the extraordinary CIG they rose from €470m in 2000 to €528m in 2003. The cost of mobility allowances increased from €1,243m in 2000 to €1,511m in 2003¹⁸. The economic crisis affected even the most industrialised and wealthy areas of the country including the North-East which is based on the model of the 'industrial districts'. This trend is confirmed by recent data of the EMCC. In the first quarter of 2007 Italy recorded the largest number of job losses, together with France, the UK, Czech Republic and Germany. However, while France, the UK, Czech Republic and Germany report a large number of announced job creations in the same period (around 29% of the total), Italy lags far behind these countries in terms of positive actions taken to support workers made redundant. Despite the widespread trend of restructuring occurred in Italy in the last decades it is interesting to note that there has been only limited change in the ownership of Italian firms, partly as a result of a small-scale privatisation programme. Restructuring therefore seems to be within the context of continuing Italian family ownership.

Three main "restructuring issues" merit specific attention in this report:

1) Relocation of production: A comparative study by the European Industrial Relations Observatory¹⁹ illustrates that in 2004 Italian investment abroad grew twice as much as foreign investments in Italy. The sectors most affected by internationalisation were

¹⁵ Rapporto Censis (2006) "*La società italiana al 2006*"

¹⁶ A collective dismissal/redundancy procedure under law n.223 of 1991 that involves a 'mobility allowance' for redundant workers and some incentives for firms hiring redundant employees who are included in an availability list.

¹⁷ An income support measure for firms affected respectively by temporary or structural difficulties, which does not necessarily involve the dismissal of the workers

¹⁸ Data from the *Istituto nazionale per la previdenza sociale* (INPS) in Rapporto Censis (2005) "*Lavoro, Professionalità e rappresentanza*"

construction, utilities and manufacturing. In particular, the increase in outward FDI by the “made in Italy” sector (clothing, footwear, leather goods, textiles, wood and furniture) - which is characterised by the large presence of small and medium-sized firms - exceeded 35% of the total. Although the share of scale-intensive sectors diminished, they still made up 42% of the total, while specialist and high technology-intensive sectors accounted for around 10%. Italian holdings abroad are geographically concentrated in Central-Eastern Europe, where the Italian presence has increased threefold in the last twenty years, and in Asia, where it has doubled²⁰. By transferring production abroad, Italian industrial groups seek to increase their competitiveness in international markets by reducing production costs (primarily the cost of labour) while at the same time seeking to enter new and larger markets.

In a survey conducted in 2005 by *Fondazione Nord-Est*²¹ on the relocation of Italian manufacturing industry in recent years, 35.5% of the entrepreneurs interviewed said that they had foreign business relationships. Firms located in the North-East of Italy – where the ‘industrial districts’ are concentrated - confirmed their long-standing commitment to relocation. Between 2001 and 2005, 500,000 textile workers were affected by restructuring. At the same time, new Chinese companies have entered the Italian textiles market.

The main reasons cited for relocating production abroad are:

- ◇ 68.5% of those interviewed said that they had established foreign relationships mainly in order to be present on strategic emerging markets;
- ◇ 23.4% stated that they had established a network of cross-border relationships solely for the purpose of reducing production costs;
- ◇ 44.5% of interviewees with foreign relationships said that they had undertaken relocation on an individual basis.

In May 2005, as part of its sixth-monthly report on manufacturing firms, the Institute for Studies and Economic Analyses (*Instituto di Studi e Analisi Economica*, ISAE) conducted a survey on the propensity of firms to relocate at least some of their production activities (the sample consisted of 4,100 firms with at least 10 employees and was proportional to the population stratified by region, sector of economic activity, and firm’s size). The survey confirms that production relocation principally involves firms in the North-East of Italy (8.7% had already begun the process, while 3.3% declared that they expected to relocate in the next 12 months).

The survey found that firms in North Italy tend to move production mainly to the countries of Eastern Europe; firms in central Italy mainly relocate to China; while those in the South and the Islands prefer the member-states of the European Union. Among those who intended to relocate in the next 12 months, China was the destination country most frequently cited (61.5% of entrepreneurs in the North-West interviewed; 48.9% of those in the North-East; 10.8% of those in the Centre; and 52.2% of those in the South and Islands expressed this preference. Examination of the figures on sectors of economic activity shows that in textiles, clothing and leather goods, the majority of the entrepreneurs interviewed said that they intended to decentralise production to China and India: that is, to the countries that raise the greatest concerns about the competitiveness of Italian textiles and leather products (90.2% of textiles entrepreneurs intended to relocate to China, and 6% to India; 47.5% of manufacturers of leather goods foresaw relocating at least part of their production to China over the next 12

¹⁹ Pedersini R. (2006) “Relocation of Production and Industrial Relations”, EIRO
<http://www.eurofound.europa.eu/eiro/2005/11/study/tn0511101s.htm>

²⁰ *Centro Studi Confindustria, Rapporto Industria 2005*

²¹ *L’Italia delle Imprese*

months, and 24.5% to India). Finally, the majority of the entrepreneurs interviewed declared that they had financed their production relocation exclusively out of their own capital.

Studies report that production relocation has not been resulted in the impoverishment of the local social and economic environment. According to an analysis by university researchers, the areas of the North-East most affected by international relocation have higher employment rates on average, with fewer job losses in the sectors concerned, increased exports with high technology content, and a higher incidence of services. Moreover, foreign investments have increased the sales volumes of Italian plants by 8.8% and their productivity by 4.9%²². The following general observations can be made:

- ◇ Relocation is an important and growing phenomenon, but it has not yet reached significant proportions in absolute terms;
- ◇ Small firms find it particularly difficult to compete internationally;
- ◇ There is widespread concern among the various actors involved in the change process (entrepreneurs, workers, interest organisations, local and central institutions, local authorities) regarding the effects of relocation on the local social and economic situation;
- ◇ It is necessary to create a local environment favourable for the attraction of new economic activities.

2) *Mergers and Acquisitions (M&A)*: A comparative study conducted by EIRO in 2002 illustrates that in Italy for the first six months of 2000 there was an increase of 20% in the number of mergers and acquisitions compared with the same period in 1999. Interestingly, cross-border acquisitions implemented by Italian firms were up by more than 50%, while deals by foreign companies diminished slightly (-13%). The sectors involved were mainly telecommunications, banking and metalworking. M&A activities in internet, publishing and media companies also increased.²³

3) *Privatisation, liberalisation and reform of the public sector*: Since the 1980s privatisation and liberalisation have been important processes of change in Italy. The shift from public law to private law employment contracts involved telecommunications and public utilities workers employed directly by municipalities. Post and telecommunications were part of the central public administration until the end of the 1970s; local public services (mainly water and gas distribution and local public transport) were provided directly by municipalities and were part of the local administrations until 1990. Telecom Italia was privatised in 1997 and Enel in 1999.

The impact of liberalisation and privatisation on labour relations in Enel has been substantial. An internal restructuring of the company has been combined with the transfer of a large part of production and the creation of a new electricity sector. Employment in the group was reduced by more than 20% between the end of 1994 and June 1999. This change was accomplished relatively smoothly by the non-replacement of staff and by a set of incentives for resignations and voluntary retirement. The trade unions concentrated on applying political pressure to determine the form taken by the reform of the sector, while focusing on collective bargaining in order to define a framework to regulate its internal transformation²⁴.

²² Rapporto l'Italia delle Imprese

²³ Macaire S. and Rehfeldt U. (2002) "Industrial relations aspects of mergers and takeovers", EIRO, <http://www.eurofound.europa.eu/eiro/2001/02/study/tn0102401s.htm>

²⁴ EIRO "Liberalisation and privatisation put industrial relations at Enel to the test", 1999 <http://www.eurofound.europa.eu/eiro/1999/11/feature/it9911256f.htm>

Privatisation also affected municipal companies. These include energy companies in the local administrations of Genoa (AMGA, 1996), Milan (AEM, 1998) and Rome (ACEA, 1999). In these cases, the municipalities usually kept a majority shareholding in the privatised and floated companies. An exception is AEM Milano where the municipality of Milan owns today a total of about 43% of the company. The liberalisation of the electricity market has led to the emergence of cross-ownerships between energy operators, including municipal companies and the new private operators. The transformation into joint stock companies of former economic public bodies did not affect the legal form of employment contracts. Workers enjoyed a public law status. However, if the services were provided by a so-called economic public body (*ente pubblico economico*), as in the case of electricity generation, transmission, distribution and supply by Enel, or by so-called municipal companies (*aziende municipalizzate*) employment relationships were regulated by private law. The second driver of change has been the “contractualisation” of the employment relations of public sector employees in the 1990s, which extended formal collective bargaining to the public administration. As a consequence, even the public utility workers who are still employed directly by municipalities have been involved in substantial changes of the regulation of their employment relationships.

In common with many other European Union member states, in recent years the Italian public administration has also gone through a period of important reform. Reforms have attempted to restructure and modernise the public sector whilst containing public expenditure in order to allow the economy to meet and sustain the Maastricht criteria for public finances. Improving the performance of the Italian public sector will be crucial for the future and the social partners are heavily engaged in negotiations through the reformed public sector collective bargaining system.

To achieve this aim, employment relationships in the public sector were “privatised”. With some notable exceptions, work relations are covered by the civil code and collective bargaining. The most important early structural reforms in 1992 – 1993 took place in the National Health Service, pensions administration, local public administration and public employment services. In subsequent years the reform process continued in the education sector. One of the most important reforms, launched in 1997 – 1998, involved the decentralisation of state functions to regions and municipalities. The reforms introduced have been significant and complex, and in many respects Italian public administration is still in transition.

In human resource management and employment terms, the reform of the Italian public sector has involved:

- ◇ Modernisation and rationalisation of public administration;
- ◇ Privatisation of employment relationships to bring them into line with those of the private sector - giving public administrators the same tools as the private sector for more flexible organisation and management of personnel;
- ◇ National collective bargaining;
- ◇ A new Model of social dialogue;
- ◇ The application of similar national wage policies to the private sector.

Section Two - The Role of the Italian Social Partners in Restructuring

Summary

The Italian social partners considered the following issues in their discussion of this section of the report:

- ◇ How far is the territorial level social dialogue an effective instrument for “job creation”? How far does it hinder or enhance the development of measures aimed at anticipating and accompanying change?
- ◇ To what extent is territorial level social dialogue able to produce effective solutions in terms of reducing the social costs of company re-organisation and restructuring?
- ◇ How can social dialogue simultaneously foster an increase of the level of employment and enhance innovation and the internationalisation of firms?
- ◇ How (in quantitative and qualitative terms) can recent changes in the approach to public sector social dialogue be assessed? What can be learned for the future?

As in many other European countries, trade unions membership in Italy suffered losses during the 1980s and the 1990s. Nonetheless trade union density in Italy remains above the EU25 average. Trade unions in Italy follow a horizontal (cross-sectoral) and vertical (territorial or geographical) structure. They are traditionally clustered in accordance with their political orientations or ideologies. Employer organisations vary by activity sector and company size. Until the privatisation programme of the mid- and late 1990s, they were also divided by the type of ownership (public/private). The capacity of employers’ organisations to coordinate their industrial relations strategies is widely perceived to be rather low. This is the result of the lack of representivity that characterises employers’ organisations in Italy.

During the 1990s social dialogue through tripartite national-level agreements has been important in shaping labour markets and social policy reforms. In particular, the Social Pacts on employment and competitiveness in the private sector played an important role in the process of institutionalisation of the Italian industrial relations system (e.g. the system of collective bargaining, the system of employee representation). Furthermore, new developments in decentralised bargaining in the public sector have also been crucial in facilitating the process of public sector restructuring. The ability for local level flexibility in the application of national arrangements is considered important by the social partners for the fostering of successful and innovative enterprises.

Social dialogue in Italy works well at national and territorial levels. Area contracts or Territorial pacts have played an important role during the 1990s. However, their efficiency in improving the attractiveness of specific locations seems to have reduced in recent years. Social dialogue in restructuring is a central issue at enterprise and sector-level, where the instruments used to handle redundancies are regulated. In this respect the Italian integrated territorial approach based on the involvement of the social actors (trade unions, employer organisations and local authorities) at the territorial (regional or province) level in handling restructuring is unique and interesting. In the seminar it was emphasised that discussion between the social partners on restructuring at sector and enterprise-level need to be earlier in the restructuring process and information and consultation processes must be further improved to facilitate this. When decisions are taken outside Italy, European information and consultation machinery (e.g. at EWC’s) are becoming increasingly important. Significantly 81% of Italian jobs are in SMEs, and the elimination of bureaucracy related to “doing

business” and the effective development of social dialogue at this level were mentioned in the seminar as important issues in helping dealing effectively with change.

Specific presentations were given in the seminar by employers centered around Turin and in the sugar industry; and businesses centered around Rome. Discussions on restructuring in the mechanical engineering businesses around Turin during 2006 and 2007 have been very active. Success outcomes were explained but it was suggested that too much attention was paid to longer term worker income support rather than job transition. The sugar industry has faced serious problems as a result of European agricultural reforms; 13 of 19 factories have been closed affecting 75% of workers in the industry. Change has not been without difficulty but important factors in reaching successful outcomes had been trust between the social partners and a shared analysis of the problems facing the industry. Again it was suggested that protective measures hampered the application of job transitions. Widespread restructuring has taken place in the defence electronics and pharmaceuticals businesses operating in the Rome area. In conclusion, social dialogue at all levels in Italy has been intense but it is suggested that active labour market policies to assure employability and secure job transitions need to be further improved in order to anticipate change.

The Italian Social Partners

For the trade unions, CGIL, CILS and UIL are members of ETUC. For the employers, Confindustria is a member of BUSINESSEUROPE, Confapi of UEAPME and Confservizi of CEEP (see descriptions below).

Trade Unions

Italian trade unions suffered large membership losses during the 1980s and the 1990s (-18.3%). However, latest administrative data available from the three main Italian trade union confederations (CGIL, CISL, UIL) illustrate that trade union density in Italy remains above the EU25 average. In 2004, 34% of employees were members of a union (retired employees excluded). In 1995 net trade union density was 38.1%²⁵. In the first three years of the millennium the number of members slightly rose. This is confirmed by the disaggregated data of trade union membership per main union confederation (see below). In the public sector trade unions’ density is between 40% and 55%.

Trade union membership

Year	Union membership in thousands
1970	4,736.2
1980	7,189.0
1990	5,872.4
1991	5,913.3
1992	5,906.1
1993	5,661.0
1994	5,489.5
1995	5,341.2
1996	5,266.4
1997	5,142.3
1998	5,123.4
1999	5,276.8
2000	5,212.2
2001	5,332.6
2002	5,308.5
2003	5,327.7

Source: Visser (2006)

²⁵ European Foundation for the Improvement of Working and Living Conditions, “Industrial Relations in EU member states 2000-2004”, 2007

Percentage of total national union membership represented by national confederations, 1993-2003

Confederation/Centre	1993	1999	2002	Change 1993-2002
CGIL	5 237	5 249	5 461	+4.3%
CISL	3 769	3 913	4 153	+10.2%
UIL	1 588	1 604	1 652	+4%
Total	10 594	10 763	11 266	+6.3%

Source: EIRO, 2007 <http://www.eurofound.europa.eu/eiro/2004/03/update/tn0403105u.html>

The three major Italian union confederations are:

- ◇ *Confederazione Generale Italiana del Lavoro* (CGIL, General Italian Confederation of labour);
- ◇ *Confederazione Italiana dei Sindacati Lavoratori* (CISL, Italian Confederation of Workers' Unions);
- ◇ *Unione Italiana del Lavoro* (UIL, Italian Union of Labour).

The confederations represent different political orientations. The CGIL was mostly linked to the parties of the left (the former communist and socialist parties, which disappeared in the early 1990s, and other leftist parties), and political affiliations are to some extent still important. The CISL was close to the former Christian Democratic Party, which also disappeared in early 1990s, but also includes members who sympathise with parties of the centre-left and left of the political spectrum. The UIL was mainly associated with the non-communist, reformist left (socialist party and republican party). No data on the number of union members who are women are available in Italy.

All unions represented by the three confederations are organised by industry (except, partly, the UIL in the public sector). Despite these divergent political orientations, the three largest confederations have, since the mid- to late 1960s, demonstrated some unity of action. Only occasionally have divergences in opinion been difficult (e.g. 1984–85 and 2002–03).

In addition to the unions represented by the major confederations there are several other confederations (including UGL, CISAL, CONFISAL, CISAS, CONFEDIR, and CIDA) and some independent autonomous unions, particularly in the transport and the public service sector. CONFEDIR and CIDA are confederations for managers and managerial staff – CONFEDIR almost exclusively in the public sector.

Employers' Organisations

Employer organisation density (51%) in Italy is slightly below the EU25 average (57%)²⁶. Employer confederations vary by activity sector and company size. Until the privatisation programme of the mid- and late 1990s, they were also divided by the type of ownership (public/private). The capacity of employer organisations to coordinate industrial relations strategies is widely perceived as rather low.

The most important employer confederation is the *Confederazione Generale dell'Industria Italiana* (Confindustria). Through its network of 259 Associations, Confindustria presently represents 123,000 industrial enterprises employing more than 4.7 million workers over a total of 17.6 million people employed in the whole private sector. Two thirds of member companies and three quarters of employees are in the manufacturing and building sectors, the rest being in the service sector. 85% of member companies employ less than 50 employees, and 60% less than 15 employees.

²⁶ J. Visser "Industrial relations in Europe", 2006

Confindustria acts, on the one hand, on behalf of private employers in their relations with trade unions and on the other, as the employers' common representative *vis-à-vis* those responsible for economic and industrial policy. It is structured by territorial and sectoral subgroups (18 regional and 104 sectoral associations), and includes 18 national sector federations and 14 associated members.

Other employer confederations include the *Confederazione Italiana della Piccola e Media Industria* (Confapi) representing smaller private companies. According to their own statistics at the end of 2004 they represented 50,000 companies with about 1,000,000 employees. Artisans have their own associations that are structured by political current, Confartigianato for the centre-right and CNA for the left. The employer association for larger companies is the Confagricoltura; smaller companies belong to either the Coldiretti, which used to be close to the former Christian Democrats, or the Confcoltivatori, a rather left-wing organisation. Employer organisations in the commercial and tourism sectors are structured by political current, too (Confcommercio, centre; Confesercenti, left). The bank sector is organised within the ABI (Association of Italian banks).

The employers in local public services are represented by Confservizi. All activities associated with negotiation and settlement of collective contracts for the public sector employees (approx. 3 million workers) are undertaken by ARAN (agenzia per la rappresentanza negoziale delle pubbliche amministrazioni).

The Italian system of social dialogue

The Italian system of social dialogue (or “social concertation”) indicates the method of shaping public policy in which the government, together with the social partners, determines the nation's fundamental economic and social goals and delegates a portion of its authority and accountability to the social partners for their implementation. Social concertation, therefore, is based on the concept of policy coordination and control. Social partners negotiate with the government and arrive at compromises and coordinated policy actions to deal with socio-economic challenges. The social partners in Italy can thus play a key role in economic development and they have effectively engaged with government on certain occasions.

Social dialogue at the national level – The social partners in Italy have always been sufficiently strong and self-reliant enough to engage in bipartite social dialogue, while the government's role has always been rather weak. Resort to tripartite social pacts (or social dialogue) at the national level was only deemed necessary by the government – which always took the initiative – when the national political and economic situation was too critical to be dealt with by the government alone.

A number of tripartite agreements (or “social pacts”) have been negotiated in Italy at the national level over the last two decades:

- ◇ The 1992 tripartite agreement introduced a new system replacing the cost of living index mechanism (*scala mobile*). Over the 1992-93 transitional period workers would receive a small fixed amount of additional money every month instead of indexing. As a result, the pact created more space for collective bargaining and in particular for wage bargaining;
- ◇ The 1993 social pact (the Giugni Protocol) was signed by the three major union confederations and the major employers associations. It established a new institutional framework for incomes policy, modified forms of workplace union representation, policies on employment, and measures to support the production system. It also included a new structure of collective bargaining on two levels, the

national and company or territorial level. The 1993 Pact laid down the foundations of the system of industrial relations and collective bargaining currently in practice;

- ◇ The 1995 law on pension reform is an example of so-called negotiated legislation. The workers' organisations participated in the drafting of the law through extensive consultation with the government although formally, no tripartite pact was signed by the social partners and the government;
- ◇ The 1996 social pact was signed against the background of two-digit unemployment rates (12%), with unemployment particularly dramatic in the South (over 20 %, with youth unemployment as high as 32%). Rigid labour market legislation was identified to be the main cause of unemployment. Consensus for the need to enhance labour market flexibility grew among the social partners and the government, resulting in the Pact for Labour, agreeing on the introduction of a new set of labour market legislation;
- ◇ The 1998 Christmas Pact focused on a comprehensive reform of the Italian political and economic system. The pact proposed reforms in the legal and public administration systems as well as the system of collective bargaining. To an extent the pact remained an ambitious wish list. Too many signatory parties were involved, coordination was a major problem in the following years, as was implementation and monitoring;
- ◇ The 2002 "Pact for Italy" was signed by the Italian government, employers' organisations and trade unions (with the exception of CGIL). The pact deals with income policy, labour market reform, tax concessions, and investment and employment. The agreement also included the government's commitment to reform unemployment benefits and social shock absorbers. The CGIL's reasons for not signing the agreement included fundamental concerns about a weakening of the dismissal protection attributed to this agreement.
- ◇ The Welfare Protocol ("Protocollo sul Welfare") was signed by the Government and by the Social Partners on July 23, 2007. The Protocol deals with social security, labour market and competitiveness issues aimed at fostering equity and sustainable growth in the country. In this context, it reforms the social safety nets given to workers in case of unemployment or of suspension from work due to company restructuring. The Protocol also strengthens these instruments by making them apply to workers who have not previously received social-economic protection in the case of unemployment. The reform involves the introduction of "welfare to work" policies; more effective employment services; a national Plan fostering active ageing; and more effective sanctions against those breaking the law. Social safety nets are applied in two phases. The first one provides an improvement in both the duration and amount of unemployment benefit. The second one provides for the progressive unification of the ordinary and extraordinary wage Guarantee Funds. The Protocol also provides significant measures aimed at fostering the employment of women and young people and contains on social security rights (pensions) for people with discontinuous careers.

Social Pacts in Italy during the 1990s were signed mostly under the pressure of two main factors:

- ◇ A critical economic situation (such as high inflation, high deficits and public debt, high unemployment and labour market rigidities); and/or

- ◇ Pressures arising from EU membership, urging Italy to reduce the budget deficit or to implement properly European employment guidelines, etc.

Social dialogue at the territorial level - Territorial pacts (“*patti territoriali*”) are an innovative form of social dialogue that developed in Italy at the territorial (regional) level since the beginning of 1990s. They have played an important role in improving the attractiveness of specific locations.

Territorial pacts were developed autonomously within CNEL (*Consiglio nazionale dell’Economia e del Lavoro*) - which brings together representatives of the social partners – from 1993 onwards. The aim is to sustain and coordinate various economic development projects in a particular area (for example a province, a city or large neighbourhood) and to put them into an integrated framework, based on bargaining. In a territorial pact, the relevant social partners: define a set of development goals for the area concerned; select projects according to these goals; and agree on measures which could facilitate and support their realisation. Pacts, which are signed by employers' organisations, trade unions and local authorities: identify the financial resources that should be contributed, partly by companies and partly by the local authorities; define simplifications of administrative procedures and dispensations from legal provisions, aimed at helping and speed up the implementation of the development projects; and set particular industrial relations rules to be applied within the areas covered by the pact, in order to lower labour costs and/or improve flexibility and thus provide incentives for companies to invest in the area. The territorial pact is thus a means of gathering together all the resources present at local level and directing them towards the realisation of shared development objectives. As territorial pacts rely heavily on financial investments by private companies, an agreement between trade unions and employers to define an industrial relations framework that could attract firms into the areas covered by the pact is crucial²⁷.

In March 1997 a degree of coordination and differentiation between territorial pacts and "area agreements" (*contratti d'area*) was introduced. Area agreements are another instrument for social concertation (or social dialogue) on local development programmes, which were defined by the tripartite national "Pact for Employment" signed in September 1996.

The main differences between territorial pacts and area agreements are as follows:

- ◇ Area agreements can cover only crisis-hit areas;
- ◇ Only trade unions and employers' organisations can conclude area agreements;
- ◇ Area agreements must specifically mention the goals and the contents set out in the September 1996 Pact for Employment.

Bilateral Labour Bodies – The Bilateral Labour Bodies were created in Italy in the tertiary sector at both territorial and national levels in the second half of the 1980s. In the context of making provisions for measures in the areas of employment, labour market, training and vocational qualifications, the Italian social partners have envisaged the idea of setting up bilateral national or territorial bodies with the aim of supporting training at the level of companies in the sector/territory, notably on the basis of joint plans for competences development. The concept of ‘bilateralism’ is intended as a moment of social dialogue and social concertation between the social partners for the effective management of the labour market.

²⁷ EIRO, 1997 “Territorial pacts – a New Form of decentralised social dialogue”
<http://www.eurofound.europa.eu/eiro/1997/04/feature/it9704203f.htm>

A recent example of a Bilateral body

National bilateral body in the integrated services/multi-services and cleaning services sector

On 5 February 2003, the national organisations of cleaning businesses and integrated services/multi-services (FISE, Unionservizi/Confapi, LegaCoop-Ancst, Confcooperative-Federlavoro, Agci-Ancosel) signed an agreement with the trade unions (Filcams-CGIL, Fisascat-CISL, Uiltrasporti-UIL) which makes provision for measures in the areas of employment, labour market and training and vocational qualifications. In this context, the social partners have envisaged setting up a national bilateral body in the integrated services/multi-services and cleaning services sector, with the aim of supporting training and vocational qualifications at the level of companies in the sector, analysis of competences needs and competences recognition for workers in the sector. Other initiatives are envisaged at both local and national level.

Social Dialogue at the enterprise level - The main channel for employee consultation and representation in Italy is the so-called unitary workplace union structure (*rappresentanze sindacali unitarie*, RSU). Generally, the Italian workers' statute (Law 300/1970) gives workers the right to organise a plant-level union representation (*rappresentanze sindacali aziendale*, RSA). Since 1993, the RSU (which includes the RSA structure) is based on the tripartite agreement of July 1993 (the Giugni protocol). The RSUs represent the preference of the social partners for a single-channel representation system, that is, the unions in the workplace representing all employees at a particular work or production unit. Two-thirds of the representatives in the RSU are elected by the workforce (both union and non-union members); one-third is reserved to the trade union organisations affiliated to the signatory organisations of the sectoral national collective agreement (CCNL) applied in the company. An RSU, when present, has all the rights given by law or collective agreements to the RSA (1970 Workers' Statute rights, rights of information and consultation). Since 1993, the RSUs can negotiate at plant level on issues that are delegated from the industry-wide level. RSUs have tended to replace RSAs, which are now usually only in very small companies. EIRO reports that the percentage of employees covered by workplace representation (66%) is currently far above the EU25 average (53%).

Social Dialogue in the Public sector

Social dialogue plays an important role today in the changing public sector. Tripartite concertation with the social partners has been an important part of the public reform process. The aim of the government has been to achieve change by consensus.

The public agency that legally represents the public administrations (the central state included) in national collective bargaining the establishment of employment relationships (rights and duties, hours, shifts, flexibility, productivity) for all contracted public managers and employees (approx. 3 million workers) is ARAN.

Collective bargaining - content, levels and nature – The bargaining structure in Italy - which emerged at the end of the 1960s - is characterised by a high degree of external autonomy and a relative absence of internal procedural rules. The 1993 July tripartite agreement recognised the external autonomy of the Italian bargaining structure, but restricted its internal autonomy and, above all, accentuated its degree of “centralisation”. The agreement stipulates that the lower bargaining level, *i.e.* company-level bargaining or bargaining at district or provincial level must confine itself to matters and practices which are different from and do not cover those already dealt with at national level in the industry-wide agreement .

Furthermore, the agreement permits only two bargaining levels regulating the wage setting system:

- ◇ Industry-wide (sector) bargaining;
- ◇ Company-level bargaining (so-called second-level bargaining).

Currently the dominant level of wage bargaining is the sector. The tripartite agreement of 1993 played a dominating role in the industry-wide agreements on national level. Wage bargaining at plant or territorial level is restricted to matters and practices not already agreed on in the industry-wide agreements. Territorial agreements cover a particular district or province. While industry-wide agreements give a range for pay increases, plant-level agreements allow pay increases to be adjusted to the company's performance. Since their implementation, plant-level agreements have grown in importance and have become quite common in manufacturing and in SMEs.

Collective bargaining in the public sector - In the public sector the national collective bargaining agenda deals with employment relationships and pay and benefits for public administration employees and managers. It also establishes the rules and procedures for lower-level bargaining.

The 1994 – 1997 and 1998 – 2001 session contracts dealt with the “privatisation” of the employment relationship. This gave public administrators similar tools to those used by private employers in managing careers, performance related pay, working conditions and arrangements, training and the performance evaluation system. The national contract establishes the principles and tools that can be tailored by the relevant public administrations at lower levels of bargaining. The new industrial relations system has helped both administrators and unions to change their behaviour.

Negotiation is carried out between ARAN and the representative sector unions and the confederations to which they belong. The allocation of seats around the negotiating table is on the basis of a representivity formula which is reviewed every two years on the basis of a survey undertaken by ARAN.

An important current debate among the social partners in the public sector focuses on the extent to which more power can be delivered to lower-level bargaining. In this respect, the positions of the social partners are different. ARAN's opinion is that lower-level bargaining machinery already has all the tools it needs to make public employment reform more effective. A recent agreement between Government, Regions, Confederations (18 January 2007) includes in the general directive for the renewal of the contract for 2006 – 2009:

- ◇ An evaluation of the results of adopted actions by measuring the quality and quantity of delivered services;
- ◇ Implementation of evaluation system with the joint objectives of managing careers and the distribution of funds for merit based awards;
- ◇ Training and life long learning;
- ◇ Mobility of public employees and managers to assist the reorganisation process associated with ongoing decentralisation.

Collective bargaining coverage - It is estimated that the coverage of company level bargaining is about 30% of companies and 50% of employees in the industrial and service sector. Confindustria says that company level bargaining in its jurisdiction covers about 30% of companies but 70% of employees²⁸. According to Visser's (2006) index the degree of

²⁸ EIRO, “Industrial Relations in Italy”, 2007 <http://www.eurofound.europa.eu/eiro/country/Italy.htm>

bargaining centralisation is at the EU25 average (35%). This indicator takes into account both the low centralisation at the national level and the higher centralisation at the sectoral (industry) level.

Social Dialogue – The role of the Italian social partners in restructuring

Restructuring in Italy is a central issue in enterprise- and sector-level bargaining, where the instruments used to handle redundancies are regulated (see below).

In particular, Italy records a significant experience in facing company restructuring through the implementation of agreements executed between the social partners. These agreements have represented the legal basis for consequent legislative initiatives ruling on the management of the social and economic consequences of restructuring. Specifically, the active role played by social partners in restructuring, mainly through agreements executed between confederations, finally resulted in the enactment of Law n. 223 of July 1991, ruling on company restructuring. This Law also provides the role of the Government (Ministry of Labour) in attesting the conditions for the enactment of the Ministerial decrees which authorise the activation of the social protection measures for the redundant workers.

National legislation and restructuring: The most significant action from the legislative point of view has been the approval by the government of a plan to re-energise the economy set out in the decree law on competitiveness n.35, converted into Law 80/2005 and in a parliamentary bill for development. Among the measures introduced to re-energise the Italian production system, a number of restrictions have been imposed on the already-existing norms designed to encourage internationalisation by firms. In particular, companies which have invested abroad and not kept their upstream research and development activities, their commercial management, and a substantial part of their productive activity in Italy (article 12 of decree law 35/05) are no longer eligible for the following incentives:

- ◇ Easy-term loans for the purchase or creation of firms in non-EU countries through the Italian Society for Italian Companies Worldwide (*Società Italiana per le Imprese all'Estero*, Simest), a joint-stock company set up in 1990 (L. 100/1990) and controlled by the government, which holds 76% of its stock. Simest was created to promote the internationalisation of Italian companies and to assist them in their activities abroad;
- ◇ Rotating funds to support investments and finance venture capital operations in the Mediterranean countries (decree law 143/2002);
- ◇ Export credit facilities and insurance services provided by the Italian Society of Insurance Products for Italian Companies Worldwide (*Servizi Assicurativi del Commercio Estero*, Sace), which guarantees the political and commercial risks affecting Italian enterprises in their international activities (decree law 143/1998).

The government has also recently introduced incentives for Italian firms operating abroad to relocate back to Italy. Decree law 35/2005 extends the benefits provided to foreign companies for locating business in Italy to Italians which have closed down their activities in Italy but now intend to return. In addition, the government has extended the pre-existing procedures (see 270/1999 'Prodi-bis decree' which regulates the extraordinary administration of large companies in crisis) (see box below) to help companies to deal with industrial crises (see the 'Parmalat' restructuring case below).

**New regulation of the extraordinary proceeding of big companies in crisis.
Legislative decree 8 July 1999, no. 270 ('Prodi-bis')**

This law is added to the existing series of laws that prescribe government intervention in cases of company default.

The provisions contained in the 270/1999 'Prodi-bis decree' are reserved for insolvent companies where there is a genuine possibility of economic survival. This law provides for: a) the transfer of the insolvent company's assets; b) the economic and financial re-organisation of a company in crisis within a maximum period of two years. If neither of these aims seems to be reasonably realistic, then the company will be declared bankrupt.

The 'Parmalat' restructuring case

To deal with the Parmalat crisis (one of the largest agro-food Italian groups), at the end of December 2003 the Italian government issued decree law 347/2003 (the 'Parmalat decree' subsequently transformed in Law 39/2004 or Marzano Law) amending decree law 270/1999 (known as the 'Prodi-bis decree').

The exceptions introduced by the decree law 347/2003 to law 'Prodi-bis' primarily aimed to accelerate proceedings relating to reorganisation for financial and industrial reasons. It was as a result of this decree that the continuity of Parmalat's activities was ensured.

The group's industrial and financial restructuring plan - announced in July 2004 by a special commissioner appointed by the government to oversee the transition - was followed by an agreement on industrial relations signed by the main sectoral trade unions in November 2004. This agreement lays down the procedures for protection of employees during Parmalat's restructuring and reorganisation. The agreement on industrial relations seems to be an attempt by the special administrator and the social partners to devise a system of rules - and transparent mechanisms to enforce them - to deal not only with the gravity of the prevailing situation but also to re-launch the company industrially and economically.

Source: EIRO, 2004 "Agreement signed on industrial relations as Parmalat restructures".
<http://www.eurofound.europa.eu/eiro/2004/11/feature/it0411203f.htm>

The main employers' association have also undertaken a wide variety of initiatives. The fifteen employers' associations in areas where manufacturing has the highest incidence in the local economy have set up a consortium called the "Club dei 15" (Club of 15). This association, which had been operating in an informal way for around two years, covers Italian provinces whose industrial output represents 30% of the country's exports and more than 25% of the industrial labour force. The aim of the Club of 15 is to emphasise the real needs of Italian industry and to promote a number of initiatives, including:

- ◇ The creation of thematic industrial parks abroad;
- ◇ The promotion of alliances between small and medium-sized firms;
- ◇ The opening of an anti-counterfeiting bureau to assist companies in protecting their rights;
- ◇ The development of training courses for foreign middle managers so that small and medium-sized Italian firms have the necessary reference persons abroad.

Sector-level bargaining and restructuring: Sector-level bargaining generally regulates the framework for dealing with the employment consequences of financial crisis – such as, through "social shock absorber" mechanisms to mitigate redundancies. For example,

bargaining in the banking sector gave central importance to restructuring in the second half of the 1990s, when liberalisation and technological change necessitated a significant reorganisation of the activities of Italian banks, which had hitherto operated in a protected market. Sector-level bargaining sought to regulate restructuring at company level through the creation of a fund to support the incomes of redundant workers, the reform of job classifications and wage restraint.

Enterprise-level bargaining and restructuring: In Italy elected employee representatives on works council-type bodies, the RSU, that are mainly involved in the processes of restructuring. Trade union representatives also play a role. As the RSUs are made up principally of trade union representatives.

The scope of employee involvement in company restructuring involves rights of information and consultation on the following issues: changes in work organisation; introduction of new technology; changes with consequences for employment structure/levels. In the case of redundancies the employer should give an early written notice to the worker representative body (RSU) and to external trade unions. This must detail the reasons for the lay-off; the reasons why the lay-off is unavoidable; the number of people to be laid off; the timetable and details of measures to help to deal with the social consequences²⁹. When redundancies are unavoidable, there is a joint examination of the possibility of resorting to “social cushioning” measures. These include enhancing redundant workers’ retraining opportunities; boosting their qualifications; redeployment in other companies; moving from full-time to part-time work; voluntary redundancies; and reducing working time through so-called “solidarity contracts”, whereby the workforce agrees to a working time cut with a corresponding reduction in pay. If no agreement can be reached within 45 days, the Director of the Provincial Labour Directorate convenes the parties for a further review and puts forward proposals for reaching an agreement. Only when agreement with the union is reached or after all the procedural requirements have been exhausted, can the employer effect the planned redundancies. There is no obligation on the employer to reach agreement on these issues, although it should be noted that the unions can effectively suspend the redundancy procedure until the procedure is completed.

The statutory framework governing redundancy in Italy is highly complicated and legislation in this area attempts to avoid redundancies by placing workers in a special state support system so as to delay, or avoid redundancy (see box below). Once employment is terminated, workers receive further state aid in seeking alternative employment.

Legislative framework regulating redundancy

Under law 164/1975, workers laid off temporarily are entitled to income support from the ordinary wage Guarantee Fund (*Cassa Integrazione Guadagni Ordinaria*). Under law 223/1991, employees whose firms are undergoing a period of restructuring and reorganisation may receive payments in lieu of normal salary from the extraordinary wage guarantee fund (*Cassa Integrazione Guadagni Straordinaria*) for up to two years. The payment replaces up to 80% of pay, up to an income ceiling. At this stage, workers are technically still employed by their employer and may be reengaged. However, in practice, this is often a first stage in the redundancy process. If, at the end of this period, the employer is not able to rehire the employees, it can begin formally to make the redundancies.

The comparative difficulty in effecting redundancies in Italy is highlighted by the World Bank in its “rigidity of employment index” (see table below).

²⁹ European Industrial Relations Review, March 2004

World Bank Rigidity of Employment Index (2006)

Indicator	Italy	OECD
Difficulty of Hiring Index	61	27.0
Rigidity of Hours Index	60	45.2
Difficulty of Firing Index	40	27.4
Rigidity of Employment Index	54	33.3
Non wage labour cost (% of salary)	41.6	21.4
Firing costs (weeks of wages)	1.7	31.3

Source: World Bank 2007

Below, are recent examples of Italian company agreements which have directly or indirectly dealt with the issue of production relocation. They illustrate the tendency of the social partners to negotiate alternatives and/or employment measures to avoid redundancies in cases of company restructuring:

- ◇ *Bitron (2004)* - company agreement between the Italian multinational Bitron and the main trade unions in the metalworking sector introducing a code of conduct on compliance with labour rules and rights and equal opportunities; observance of health and safety regulations; respect of trade union freedoms and autonomy; observance of the International Labour Organisation's resolutions on child labour; and compliance with European environmental and safety regulations as regards the use of products;
- ◇ *Zoppas (2004)* - company agreement between the Zoppas group, a world leader in the manufacture of domestic appliances, and the main sectoral trade unions - with the involvement of Ministry of Labour and Social Policies (*Ministero del Lavoro e delle Politiche Sociali*) and the Veneto regional government (*Regione Veneto*). Under the agreement, the Zoppas group reduced the number of redundancies through two years use of the Wages Guarantee Fund and provision of an economic incentive for voluntary redundancies;
- ◇ *Michelin* - company agreement reached between the French multinational Michelin and the main trade unions which provides for full cooperation between the company and unions in enhancing the competitiveness of the four plants in Italy through greater flexibility in the organisation of shift schedules and new investments by the company in modernisation of production plant;
- ◇ *Siemens* - company agreement signed between Siemens Vdo Automotive Spa and the Employers' Association of Pisa (*Unione industriali di Pisa*) on the one hand, and the RSU and the main sectoral trade unions on the other. The agreement concerns workers at the German multinational's plants in the area between Livorno and Pisa and contains new measures on working hours, pay, employment, and investments by the company in the area;
- ◇ *Natuzzi (2005)* - company agreement between the government, local authorities, trade unions, and the Natuzzi group (a world leader in the manufacture of sofas) whereby 1,220 workers have been covered by the Wages Guarantee Fund. The company has also guaranteed that it will maintain significant levels of production in Southern Italy;
- ◇ *Fiamm Group (2005)* - company agreement between the Fiamm group, which manufactures vehicle batteries, and the main trade unions in the group's plants in Italy. Under the agreement, the company has undertaken not to implement its

relocation plan which provided for the closure of two plants in Italy and the consequent loss of 410 jobs. In exchange, the workforce has undertaken not to veto the work reorganisation plan, which will introduce greater temporal flexibility, and to give up temporarily their “company level negotiated” pre-holiday bonuses;

- ◇ *Whirlpool* - company agreement reached between the Whirlpool group, the world’s largest manufacturer of domestic appliances, and the main trade unions in the metalworking sector. The agreement - approved by a workforce referendum - establishes a significant reduction (from 1,000 to 520) in the redundancies initially envisaged by the company’s restructuring plan; the use of collective redundancy to cushion the harmful effects of the dismissals; and new investments in Italy by Whirlpool accompanied by the introduction of innovative work organisation methods in its plants.

Some of these company agreements have anticipated territorial accords (among the social partners, territorial agencies, local administrations, and other local institutions like universities) or innovative local-level initiatives to tackle the changes affecting the production system and the society.

Section Three – Case studies

Summary

Three quite different case studies were presented at the seminar by the individuals involved in the restructuring described. The three cases were distinctly different with regard to the size of the company; the nature of the business sector involved in the process of restructuring; and the way they dealt with restructuring. Despite this diversity a common feature across the three case studies is that restructuring has taken place to defend the continued operation of the business. Social dialogue at the territorial, sectoral and enterprise levels has been intense but the nature of the measures implemented in order to deal with the process of restructuring can be described more as “protective” than in order to secure effective “job transitions”.

In the Ferrania case, the Italian integrated territorial approach to accompany the process of restructuring emerges as a distinctive element. Different agreements were reached at the territorial level between the social partners and the local authorities to revitalise the company, to avoid “forced redundancies” and to find social measures to accompany change. In the continuing Distretto di Prato case, the social partners reached agreements on flexibility in order to deal with the social challenges of restructuring. Social measures were also used to protect the existing labour forces from the challenge of “forced dismissals”. The Case Poste Italiane illustrates the importance of social dialogue to deal with the social effects of restructuring while achieving ‘consensus’.

A number of interesting points were drawn out by the presenters and by seminar participants:

- ◇ The role of territorial pacts, the role of social dialogue at different levels, the relationship between central and local collective bargaining and the protective operation of ordinary and extraordinary redundancy funds as relevant features in the process of management of change;
- ◇ The weight of bureaucracy and its damaging effect on the re-launch of a company (or a sector) which has been seriously affected by restructuring;
- ◇ The crucial role of active labour market policies which need to be combined effectively with protective social measures in the management of change.

Case study one – Ferrania Imaging Technologies

Company profile

Ferrania Imaging Technologies is a leading independent, privately-owned, and global imaging company with integrated manufacturing and R&D operations in Europe and the United States. The company designs, develops, manufactures and markets a wide array of imaging-technology-based products. These solutions, systems and services are provided to the Health Care marketplace; the Colour Photography sector; the Inkjet consumables market; and Graphic Arts sector under its own brand names and with a number of private brands worldwide. The company was originally owned by the Italian Ifi-Fiat group and it employed 4,000 employees. In the 1960’s Ferrania was bought by 3M, the major American multinational company, which in 1996 spun off the Imation Corporation including the Ferrania business, plant and related subsidiaries.

In 1999 the Imation Corporation decided to sell its medical imaging sector to Kodak. To avoid the loss of the medical imaging sector, the management in Ferrania, still owned by Imation Corp., found financial help from the British Schroder Ventures financial group (now

called Permira). As a result Ferrania was consequently acquired in 1999 by Schroder Ventures, who are affiliated with Schroders plc. The price of the financial operation was €45m, 80% of which was sustained by the financial group and the rest was paid by the management of Ferrania. As a result a new company named Ferrania Imaging Technologies was created.

In the year 2001 the workforce of Ferrania Imaging Technologies in Italy employed 880 workers. Ferrania Imaging Technologies operates worldwide in 5 different business sectors. The core businesses today are photographic products, including colour photographic films, compact and ready to use cameras, inkjet solutions - with specialist media for high quality imaging results, Graphic Arts film products, Life Imaging Systems and custom-manufactured products in chemical and new thin film layer coating on flexible substrates.

Restructuring at Ferrania

Between 2000 and 2004 Ferrania Italy, located in the north of Savona in the Liguria region, went through a period of restructuring involving the loss of around 250 jobs. It still faces the future prospect of closure of the company.

The main reasons for the restructuring plans are: high competition within international markets and the decline of demand for products, in particular for silver-halide photographic products and single-use camera product lines. Moreover, Ferrania currently suffers significant financial losses (at the beginning of 2004 the debt of the company was over €70m) which makes its prospects for survival in the international market even more difficult.

In February 2004 Ferrania Imaging Technologies was granted 'Prodi-bis' status (described above) by the Italian Ministry of Industry, ensuring that the company could look to restructure and refinance itself more easily. The closure of the Ferrania plant in Savona, in the north of Liguria would have had serious social consequences for the employment due to the geographical location of the plant in an area (Valle Bormida) traditionally well industrialised and characterised by a skilled labour force, which since the 1980's has been negatively affected by restructuring of traditional industrial sectors.

As the result of the government and the local authorities' intervention to avoid the closure by attributing the status of extraordinary administration under the 'Prodi-bis', the company has benefited from all the measures prepared by the legislator to help re-launch on a solid platform. Ferrania's international management team, with the assistance of government, local authority and business consultants have put in place a new business plan. This plan was officially accepted in July 2004 as a result of a series of meetings and related decisions at the national Government level together with the territorial local Authorities, the social partners, the Company management and the commissari appointed under the Prodi-bis. The plan aims at ensuring:

- ◇ Continuation of all current businesses while adapting the company to the market changes;
- ◇ Stabilising and to consolidating industrial and commercial activities;
- ◇ Preparing the company for its future activities and to better meet the exacting demands of its customers in coming years.

In line with the business plan, Ferrania Imaging Technologies should be able to continue to operate in all its current markets: photographic products, compatible inkjet consumables, medical imaging, graphic arts products, and specialty chemicals. The view of management is

that under the legislative provisions foreseen by the 'Prodi-bis' the company will be able to react well to the instability of the market.

In an interview reported in the press, Marco Descalzo, Photocolor & Inkjet Worldwide Business Unit Manager for Ferrania Imaging Technologies said, "This market will continue to be important to Ferrania in both mature and emerging countries, especially on the strength of private brand where Ferrania is world leader. We also expect our single use camera business to experience continued growth, and we will move forward with plans to further develop our inkjet product lines." He continued; "Ferrania Imaging Technologies will continue to experience and enjoy significant growth rates. Our objective is to evolve within our photographic business in order to become less dependent on traditional roll film products, continue to deliver strong growth with single-use cameras and continue our ongoing commitment to increase our portfolio of inkjet consumables". LifeImaging is another key, long-term development area for Ferrania Imaging Technologies. The commitment to this market remains a significant part of the future of the company. The LifeImaging Division focuses on digital solutions involving printers and films for digital printing, as well as digital acquisition systems that include Radiology Information Systems and Picture Archiving and Communication Systems.

In July 2005 Ferrania Imaging Technologies Italia announced that ownership of the company has been transferred to Fitra Investimenti SPA. whose shareholders are top Italian industrialists, who have interests in maritime transportation, steel industry, general construction with related infrastructure, energy production and in a number of associated high technology products. Because many of Ferrania's products and solutions fall into the high technology area, the company has proved an attractive proposition to these shareholders. The take over by Fitra Investimenti SPA. assures the company's present and future continuation of production. It is also expected that part of the new business and investment plan will take Ferrania into new markets and business areas, where its track record of innovation can be utilised to even greater effect. This is indicated in the plan which is presented by the Fitra Investimenti SpA. In particular, the company sees two main objectives at the base of the re-launch of the company: the creation of a "technological plan" aimed at improving R&D within the advanced technology sector; the construction of a thermo-electric central, which is considered relevant to fund the activities linked to the industrial re-launch of the technological plan.

The role of the social partners in restructuring

As a result of the take over by Fitra, at the territorial level new agreements are signed;

- ◇ On the 1st July 2005: An agreement between the trade unions (*Accordo Sindacale*), Fitra Investimenti SpA and the commissionaires was made to fix the number of the active workforce (450 jobs) and the hiring rules, to accept the industrial plan, to cover the Extraordinary Wages Guarantee Fund (*Cassa Integrazione Straordinaria*, CIGS) for the "excess" 182 employees. The social partners agreed a policy of "no forced dismissals" and the use of social tools, such as the CIGS and the mobility procedure (the prelude to dismissal) for people close to retirement age;
- ◇ On the 2nd July 2005: *Protocollo di Intesa* among the Ministry of Industry, Regione Liguria, Provincia di Savona, Comune di Cairo M, Fitra Investimenti SpA, Confindustria Savona and the unions covering all the commitments taken by the national Government and the local Authorities (Regione, Provincia and Comune) and the key factors of the industrial plan. This agreement is the core of the re-launch plan of Ferrania envisaging all the growth programs : energy,

technological platform, infrastructures, logistics, new investments, R&D plans. This document signed by all the concerned parties is the actual plan that covers the re-launch of the Valle Bormida economic activities;

- ◇ On the 13th April 2006 : *Accordo di Programma among the* National Government (four Ministries Industry, Welfare/Labour, Environment and Infrastructure/Transportation), Regional Government of Liguria, Provincia of Savona, the mayor of Cairo Montenotte, Port Authority of Savona, the companies Ferrania, Italiana Coke and Funiviaria Alto Tirreno. This agreement constitutes the wider plan for the revitalisation of the company Ferrania and the take-off of new industrial activities and logistic services within the territory of the Valle Bormida. Moreover, the agreement envisages a certain financial contribution by the national and local authorities to support the company's development plan.

The above agreements constitute a model intended to innovate in the areas of Valle Bormida spurring new industrial activities and projects considering Ferrania a very important and critical starting base. The aim of the agreements and of the resulting growth model is to keep, and if possible increase, the employment of the 600 people hired by Fitra Investimenti SpA at the end of the three year period by which it is planned to have implemented all the new activities.

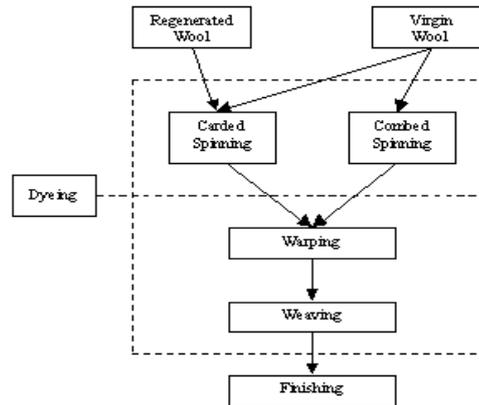
In fact, despite the attempts by the social partners to relaunch the company economically and financially with “no forced dismissals”, currently the problems for Ferrania have not been entirely resolved. The main commitments signed by the national and local Governments and Authorities have not been delivered especially in the areas of energy (through a lack of authorisations and bureaucratic delays) and support for new investments and projects. This has made it very difficult to achieve the objectives of keeping 600 jobs and relaunching the company, its activities and the territory of the Valle Bormida as originally planned.

Case Study two – The Textile Industrial District of Prato

The profile of the Industrial District of Prato

The industrial district in Prato is situated in the Tuscany region fifteen kilometres from Florence. For some years, the district has been an international leader in the production of woollen fabrics (made by reprocessed fibres) at very low costs. The area where the textile industrial district of Prato is geographically located covers a territory of 700 sq km with a population of more of 331,000 habitants. The district includes the villages of Cantagallo, Carmignano, Montemurlo, Poggio a Caiano, Vaiano, Vernio, Agliana, Montale, Calenzano, Campi Bisenzio, Quarrata.

Prato is host to one of the biggest textile production activities in Europe. Under competitive pressures it had been able to move from production of low-quality standardised fabrics to the production of a huge variety of fabrics for the fashion industry. The figure below illustrates a general scheme of the production process to be found traditionally in Prato. Wool (either virgin or regenerated) must be spun (either carded or combed), warped and then woven. Dyeing can either take place before spinning, or between spinning and warping, or after weaving. Finally, fabrics receive a final touch with finishing operations.



The textile and clothing industry in Prato currently employs more than 44,000 people and accounts for approximately 13% of the total population and 34% of the local employment. The number of textile firms is around 8,000, and they cover all stages of production from spinning to finishing fabrics with sales of around €5,500m (of which 60% is dedicated to export). The firms in the district also cover the production of shoes and furniture. One of the most important aspects of the industrial production system in Prato is represented by the relation with the international markets. Almost half of the production in Prato is exported in more than 100 countries in the world, in particular Germany (30%), France (14%), USA (10%), Japan (10%) and United Kingdom (8%).

Historical profile

The specialisation of textiles in Prato goes back to the 12th century when the “Wool Guild” regulated the manufacturing of cloth. In the 16th and 17th century Italy faced a political and economical decline, which resulted in a drop of production in textiles. But in the late 18th century the production was taken up again by producing woollen fezzes that were later sold in the Arabic market. The second half of the 19th century was the time of industrialisation. In the first half of this century the local textile industry grew on the basis of military orders supported by strong tariff systems and as an effect of the autarchy policy. This made Prato one of the larger textile districts, but not as large as the then biggest Italian industrial districts such as Schio, Busto Arsizio, Biella and Como. After World War II, during the period 1950-1981, the district of Prato had its real boom where the number of employees in the textile industry rose from 22,000 to 60,000. This was a time when most places in Europe were facing a high unemployment rate. The region’s success shed doubts on economic theories suggesting that these industries should be located or relocated in countries with different cost factors.

During the late 1980s the textile industry of Prato faced a depression, which led experts to claim that a process of de-industrialisation soon would take place and the textile production would move away. The number of plants as well as the numbers of employees in the textile industry experienced a large drop. At that time experts had good reason to claim that textile production was no longer feasible in a region where income had been raised to the world's highest standards, and that textile production would move away.

However, contrary to all expectations, Prato managed to recover during the 1990s as a result of two factors;

- ◇ The introduction of innovation technology, which allowed to produce more products in shorter time; and
- ◇ The introduction of diversified products.

Prato soon became an important centre for the manufacturing of wool, silk, cashmere, linen. In the 1990s Prato appeared a very different district from the one that had existed in the 1960s and 1970s and 1980s. Most importantly, Prato had switched from competitive advantage based on price to a competitive advantage based on taste and product variety. The competitiveness in the district of Prato in the 1990s was its capacity to combine the advantages of industrial production (efficiency, reliability) with the advantages of the craftsman's small trade, capable of dealing with rapid product change, small lots and prompt response to market demands. As a result, during the 1991-2001 decade, the employment rate in the industrial district grew twice the rate of the national average (+9.1%).

Challenges from the global textile sector: impact for the industrial district in Prato

The 2003 EIRO study into the Italian textiles sector highlighted the profound changes that had taken place over the 1990s. New signs of difficulty emerged in Prato in the course of 1999. According to estimates by *Sistema Moda Italia*, an association of a number of firms in the sector, during 1999 the volume of sales fell by 1.5%; exports diminished by 5.1%; and imports rose by 7%³⁰. It is also important to note that although the 2005 EU adjustment to the liberalisation rules in the global textile industry (see box below) has re-introduced regulation in international trade, the Italian textiles sector continues to lose competitiveness due to a number of factors;

- ◇ The end of the MultiFiberAgreement in 2004;
- ◇ Greater competition from developing countries, especially in more highly labour-intensive manufacturing, from China and Central and Eastern Europe;
- ◇ The strength of the Euro;
- ◇ Economic trends in the European countries, where modest growth rates have led to changes in domestic and foreign demand toward less expensive products;
- ◇ A general change of focus in Italian business from textiles to apparel and fashion.

The transitional programme of the WTO's Agreement on Textile and Clothing

The global textile industry has since 1st of January 1995 been going through vital changes under the transitional programme of the WTO's Agreement on Textile and Clothing (ATC). Before this agreement was set, the quota of textile and clothing exports from developing countries to industrial countries was driven under a special system outside normal GATT rules. By 1st of January 2005 the WTO members had committed themselves to eliminate the quotas and assimilate the sector entirely into GATT rules. The shift towards trade liberalisation has increased China's clothing exports extremely. Their sale of certain items to the EU has risen immensely because they are capable to produce large volumes of cheap clothes at a lower price than producers in Europe. As part of the rules of the WTO's Agreement on Textile and Clothing (ATC), Europe has the right to adapt to the new trading system by temporary placing limitations on textile imports from developing countries. This was the case in June 2005 when the EU and China agreed on quotas concerning ten categories of textile goods, with limitation in growth between 8 and 12, 5 per cent a year. The agreement runs to 2007.

Source: WTO (2005); The Economists (2005)

As a result of the situation described above, a third of the textiles companies that existed in the industrial district in Prato in 1995 (more than 6,000) had disappeared, leaving in just

³⁰ *il Sole 24 ore* newspaper on 18 February 2000

4,274 firms ten years later. Even more companies were scheduled to use the Extraordinary Wages Guarantee Fund (*Cassa Integrazione Straordinaria*, CIGS) or to close down as the result of the crisis.

Between 2004 and 2006 a total of 2,178 employees in the industrial district of Prato were covered by the Wages Guarantee Fund. 342 firms in the manufacturing sector and 637 in the craft sector used the CIGS. Summary of the position can be found in the table below;

Number of firms in the industrial district of Prato in the manufacturing sector which used the CIGS in 2004,2005,2006

Manufacturing sector			
	2004	2005	2006
Number of firms	131	278	168
Number of weeks covered by CIGS	904	2752	1389
Craft sector			
Number of firms	323	408	241
Number of weeks covered by CIGS	3651	6152	2313

Source: CIGS Industria and Artigianato dal 2004 al 2006

In an interview reported in the “Herald Tribune” on February 22, 2005 the current president of Prato's chamber of commerce, says “it is the biggest crisis the district has experienced. The smaller companies are no longer able to sustain the costs necessary to compete”.

In addition, recent research highlights increasing the relocation of activities to Central East Europe (CEE) as another important danger for the economy of the industrial district. Since the fall of the Berlin Wall, Italian firms have been major investors in CEE, surpassed only by Germans and Americans.

The role of the social partners in restructuring: proposals in the making

Two sectors level agreements have been signed recently dealing with the crisis of the Italian textiles sector overall. The first was signed on 26 March 2000. The most innovative aspects of the agreement concern working time: besides the introduction of an "hours bank" and an increase in the use of part-time work (to a maximum of 8% of the workforce), the agreement allows firms to use flexible working hours in unforeseen circumstances. The second was signed in April 2004. This deal provides for the creation of new joint bodies; improved information and consultation rights; and rules on using new forms of employment.

In March 2005 around 90% of workers in the Italian textile industry took part in a national strike asking for support to the government in addressing the crisis affecting the textile sector³¹. The main demands underpinning the protest are;

- ◇ The compulsory introduction of a “Made in Italy” label describing the origin of the product;
- ◇ A strengthening of the fight against counterfeited products; sharpening of the sanctions for those who purchase and sell counterfeited products; the fight against illegal importation;
- ◇ A new sectoral industrial policy to be launched by the European Commission with the aim of the imposition of global core labour and social standards;

³¹ see EIRO “Collective agreement signed in the textile sector”, 28 April 2000; EIRO “New national agreement signed for garment and textiles sector”, 11 May 2004)

- ◇ Incentives for training and vocational re-qualification;
- ◇ A reduction in labour taxes;
- ◇ Reform of the general application of social-shock absorbers to support workers' income, and specifically those applying to workers in the artisan sector;
- ◇ Extension of the Wage Guarantee Fund from 52 to 104 weeks.

In addition to the cluster of the actions taken by the national social partners (in particular the trade unions) at the sector level, more specific requests have been made by the local social partners to the local (territorial) authorities to safeguard local employment. The requests include;

- ◇ Elaboration of a new “Progetto Moda” for the safeguard of the industrial district through the modernisation of the territory;
- ◇ Growth of the productive capacity of the industrial district through the enhancement of the level of integration between the firms in the district in accordance to a model of “long firm-network” (*reti lunghe di imprese*) and the introduction of information technologies;
- ◇ Measure to improve training, vocational qualification and employability;
- ◇ Improvement of the infrastructure;
- ◇ Revision of the regional law on the subcontracting;
- ◇ More financial help by the local authorities (i.e. province and region) to enhance the level of competitiveness of the Italian firms in the district.

Case study three - The Group “Poste Italiane” (Provided by Poste Italiane)

Group’s Profile

Poste Italiane Group provides the Universal Postal Service, offering, integrated Communication, Logistics, Courier, Express and Financial Services together with highly value added services. With 14.000 post offices throughout Italy and 150.000 employees, Poste Italiane SpA. is the biggest Italian utility. Poste Italiane SpA. It is 65% owned by the Ministry of the Economy and Finance, and 35% owned by Cassa Depositi e Prestiti SpA.

The process of restructuring and the involvement of the national social partners

From Public Administration to Corporation

From Public Administration Poste Italiane became a Corporation in 1994 (pursuant legislative decree 487/93, then law 71/94).

Such a change was necessary for the following reasons:

- ◇ To set the grounds for a closer approach towards European Postal Market Liberalisation, which, through Directive CE 96/97 would have made the first fundamental step;
- ◇ To close the relevant qualitative services’ gap in comparison with the ones offered by the main European postal competitors;
- ◇ To meet growing customers’ needs , asking for more and more efficient, good quality and in fixed time services;
- ◇ Low productivity rate per employee;
- ◇ High cost of labour;
- ◇ Serious liabilities in the balance;

The transformation into a Corporation enabled Poste Italiane to establish a new kind of relationship with the State, inspired by a distinction of functions and by the achievement of quality and efficiency objectives (Agreement on Programme), leading to a growing operational/tariff autonomy. The Ministry of Posts was in charge of the regulatory function, while Poste Italiane, as Corporation, was wholly responsible for the budget and services management. Thus grounds were set for economic/financial, organisational and operational recovery, really inspired by company oriented criteria. In such a period of time Trade Unions action distinguished themselves for an important, strategic opening vision. Although aware that change would have caused important consequences on work conditions and organisation, they did not oppose themselves to change and, in addition to that, they encouraged it and offered their contribution as an active element in diffusing a new company’s culture, revealing themselves as fundamental actors for the success of Poste Italiane’s development.

The transformation into Joint Stock Company

With the transformation into Joint Stock Company (February 28th 1998) the Company, once 100% owned by Treasury, enters a delicate but necessary restructuring/recovering period. The principal need was to look for and inspire at all levels a new industrial/managerial awareness without abandoning the commitment to ensure the supply of general services of economic value and the coverage of universal service.

It was necessary then to organise and accomplish an Industrial Plan, that in a short period of time, would have achieved quality/efficiency objectives thorough a modern and agile organisational system

The previous organisation was then modified by means of:

- ◇ The settlement of business units, responsible for the economic results in their core areas of business;
- ◇ The emphasizing of organisation related to access and distribution channels, as crucial factors in enabling business development;
- ◇ The setting up of central departments responsible for defining rules and guidelines and guaranteeing their respect thus maintaining company's unity, in the framework of a progressive development of business units' autonomy;
- ◇ The founding and take-over of self governing companies, to carry out specialised activities aiming at developing alliances for the protection of related business areas.

In addition to implementing a new organisational structure it was necessary to update workers on the needs of change. Training played a role of key significance. No cultural, organisational and operational change could be defined without taking advantage from massive investments in Training and Skill Development. On this point, it should be noticed as Poste Italiane addressed itself and still is, to Long Life Learning approach.

The support of Training to restructuring process was orientated towards new business segments, technological innovation, new operational models and change management, without ignoring initiatives of social relevance. The strong company's commitment on Training can be gathered, for example, by day/person supplied, that, in the period 1998-2006 were about 4 millions. It should be also mentioned the use by Poste Italiane of most modern Training tools, such as E-learning. Besides actions on Training issue, In A continuous dialogue with trade unions, Poste Italiane started a staff redefinition, which reduced staffing from 200.000 units in 1998 to the present 150.000. This was combined with steps to search for the highly qualified/experienced personnel that would enable the company to cope with the critical aspects brought about by the restructuring process.

The method applied by Poste Italiane in order to implement the complicated transformation process, drew its inspiration from the principles of "consensus" and "participation". In fact, it was clear that no restructuring process would have been possible without diffusing the awareness of the need of change among workers, and without involving them in the main choices the company was compelled to make. With such a view point, it has been fundamental the role played by Trade Unions, on one side, and company's management, on the other one, including middle management, that were able to communicate with their people illustrating the reasons and the inspiring principles based on reorganisation, thus making them shared and, most of all, understood by workers. In such a period of time, the methodological approach to establish Industrial Relations was that one of "separation" and "participation". Separation of respective roles, participation as search for consensus to accompany the change process.

As an example of such a synergic dialogue between the Social Partners, mention should be made to the National Collective Labour Agreement signed on January 11th 2001, which among its fundamental values, mentioned the one of real orchestration that should characterise Industrial Relations. Moreover, such a system characterised itself also for the strengthening of equal bodies participation. In particular, the activities of the following bodies have been consolidated and developed:

- ◇ **Joint National Observatory:** (already envisaged by 1994 National Agreement, and limited only to service's quality issue) to analyse and to study prospects/productive strategies in the reference market, to monitor employment's levels, the developing of new technologies, to assess the impacts on employment, and on sanitary conditions at work.
- ◇ **Bilateral Body for Training and Skill Development** (already envisaged in the previous National Agreement of 1994) with the objective of continuously promoting Training and Skill Development activities, also related to reorganisational and restructuring process.
- ◇ **Equal Opportunities Body**, established both at national and regional level with the objective of promoting positive actions to safeguard female employment and achieve equality at work between men and women, removing those obstacles effectively hampering its implementation.

Another fundamental aspect of CCNL 2001 (Collective National labour Agreement) is represented by the appreciation of the central role of the orchestration and then of the negotiation, both at national and decentralised level.

The consolidation and development period 2002/2005.

At the end of the critical phase related to the company's restructuring, the phase that could be defined of "consolidation/development", took place. The company's organisation adapts itself to achieve strategic objectives, progressively moving towards an "integrated divisional" model in which:

- ◇ Divisions become focal points for innovation and product development;
- ◇ Sales channels are united under the same organisational responsibility;
- ◇ Shared services logics are implemented to increase efficiency of support mechanisms are applied;

It should be noticed as changes, in the organisational model of Poste Italiane, were also determined by the needs of products and services diversification in order to better meet market's demand. In such way it was possible to conform, more and more, the company to the new liberalisation phase of European postal market (European Directive 2002/39/CE), that envisaged a further reduction of the reserved area.

In line with what previously analyzed, Poste Italiane confronts higher competition of the markets with purely industrial criteria, ensuring the provision of the universal service and progressively achieving quality objectives defined/established at European level. Even in this phase Trade Unions were wholly involved in the company's economic revival, and negotiations were inspired by the principle of "continuous dialogue", aiming at a growing participation.

A significant example of the period above mentioned has been the signature, on the 11th of July 2003, of the Collective National Labour Agreement, first agreement signed by the two Parties without any Government mediation, thus witnessing the raise in quality of the dialogue. Such a Contract, renews the personnel's classification system, with a special appreciation for the search and recruitment of new professional profiles. The Industrial Relations system was also consolidated and developed, mostly referring to the Information and Consultation processes of the workers, organised on three levels (regional, national and productivity units).

As a witness of the maturity achieved in the dialogue between Social Partners, a mention should be made to the Agreement on Target Result (Premio di Risultato) of June 14th 2005. Such agreement, puts a considerable amount of the workers' income in touch with the achievements of company's objectives, gives value to second level negotiation, in order to identify specific objectives related to the distribution of some amount of the premium, while appreciating the assiduity on service of each single employee, to which the real distribution of the premium is linked. It is in such a context of transformation of Poste Italiane into a company, in the strict sense of the word, that the adhesion to Confindustria System matures, while still participating and taking actions within the Italian section of CEEP, taking into account the nature of services of general economic interest offered, and the commitment to provide the universal postal service to the whole national community.

Phase of competitive remodelling

The years 2006/2007 characterised themselves for being interested by a further restructuring phase, no more characterised by the fact of being related to an emergency process, but for the more profound preparation of the company in view of the total opening of the European postal market expected for the beginning of 2011. The company, thus, provides itself with an innovative structure (e.g. delivery reorganisation) and implements significant processes of diversification and development (i.e. PosteMobile, Poste Energia, MistralAir). From the organisational point of view the company continues its action with the improvement of the divisional integrated model by implementing:

- ◇ The total separation between logistics and commercial segments;
- ◇ The consolidation of Shared Services;
- ◇ In such a context the Parties, confirming their specific roles, signed some Agreements of absolute importance, such as:

Agreement on Employment of January 13th 2006 which transformed an objective criticality (such as claimants hired by fixed time contracts) in a chance of development and employability in view of future staffing in crucial sectors as sorting and delivery;

Agreement on Delivery of September 15th 2006 which redesigned the Delivery Division's structure balancing both the need for efficiency, thus cutting the delivery areas, with those of development thus launching the company in the competitive challenge of liberalisation;

Agreement on Solidarity Fund of February 23rd 2007, financed by the company and the workers on a voluntary base, enables implementation of a turn over system improving the company employment mix.

In such a period of time the **Collective National Labour Agreement of July 11th 2007** gives special attention to the regulatory issues such as flexibility and cost of labour (with the innovative three years duration of the economic agreement). The continuous boost towards modernisation and efficiency research is indeed witnessed by the introduction of new contractual typologies (professional apprenticeship for High Training, *contratto di inserimento lavorativo*, *contratto di somministrazione a tempo determinato*) and the modernisation of some pre existing working typologies (fixed term work, part-time, teleworking). Moreover, the effectiveness of the normative provisions (2007/2010) will accompany next Industrial Plan, it will make it possible to elaborate a new legislation more harmonised by the logic of sector negotiations, thus orienting the company towards full liberalisation of the European postal market.

Evidence should be made, to the attention dedicated to Company Social Responsibility issue, with the signature of a Social Company Agreement with Trade Unions. Such an Agreement, completing the Collective National Labour Agreement of 2007, defines areas of intervention on Training and workers' involvement, behavioural principles and values, employees well being, quality of work, employment and welfare policies.

Strictly related to what above mentioned is Poste Italiane's attention to Social Policies. Among the many so far initiatives undertaken, the opening of the first nursery (others planned to be opened in the main national headquarters), and the beginning of an experimental phase on Teleworking, compliant with a Trade Union Agreement of 2006 adopting national legislation, and European Social Partners Agreement, should be mentioned.

The opening to the European Social Dialogue

If the above described restructuring phases aligned to the new, and more and more, pressing solicitations indicated by European Community Legislation, the attention of Poste Italiane to European Social Partners activities better frame the Company's interest towards European dynamics, from an Industrial Relations point of view, on issues significantly impacting on Company's Human Resources issues. The growing participation of Poste Italiane to the European Social Dialogue Committee in the postal sector, and to the Intersectoral European Social Dialogue, enabled the connection of company's system to the European Community Legislation and to the European Social Partners Agreements.

The synergy between European Industrial Relations and Company's Industrial Relations originates from that situation. The result of it was the conclusion of some Agreements with Trade Unions, such as, for example, the one on Teleworking in 2006, and the Company Social Responsibility Agreement, which finds one of its most important origin in the Joint Declaration of European Social Partners in the postal sector, signed in November 2005.

Some conclusions could be drawn:

- ◇ Poste Italiane restructuring process is not over yet. It is an ongoing process that needs to adapt itself to national and international markets' dynamics and needs, in the framework of full liberalisation and, in prospect, of privatisation;
- ◇ Such restructuring process started, and it still ongoing, without any financial state aids. Poste Italiane has indeed always resorted to its own resources originated by financial/economic activities, and, after closing its budget to break even, it was able to accomplish five years of steady income growth;
- ◇ The role of Trade Unions in the restructuring process has always been of fundamental importance, accompanying and supporting the cultural, organisational and operational change of the company;
- ◇ The dialogue with Trade Unions, based on the distinction and reciprocal respect of the specific roles, enabled a more fluid and shared definition of challenging objectives, and their achievement; thus putting, at the same time, at the centre of different strategies the development of human resources, in an organisational context aiming at promoting good working climate and fair/functional communication processes;
- ◇ Training and Skill Development proved to be of critical importance, not only for the creation of new professional families in line with market demand, but also for the anticipation of training needs, in view of the restructuring process, as well as for the diffusion of new cultural models among workers;
- ◇ Poste Italiane, during all the restructuring period mentioned above, has never forgotten to be an actor in the State System, and to represent an important element of social cohesion. For such a reason Poste Italiane has always put Universal Service in touch with efficiency and quality objectives that the company was able to achieve through the commitment of all its workers.

