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Monthly Brief on the Italian Political Economy

January 2024

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Every month, our Monthly Brief on the Italian Political Economy provides a bullet-point recap of the month's main events, followed by reasoned deep dives and/or interesting graphs and commentaries on topics of significance for economic policymaking in Italy.

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[1] We thank Stefano Chiappo for his excellent research assistance.

LAST MONTH IN BRIEF

10/01 The Italian Communications Authority (AGCOM) approves new, more stringent rules for social media influencers in an attempt to impose more transparency

11/01 The law for the enhancement and protection of so-called "Made in Italy" industries enters into force (**see deep dive 1**)

11/01 The Minister for Enterprises and Made in Italy presents to Parliament the government's investment plan for Italy's troubled steelmaking plant in Taranto (ADI), anticipating a return of the state as a majority shareholder (**see deep dive 2**)

16/01 The NRRP steering committee convenes to review progress towards the 113 milestones and targets required for the sixth and seventh instalments of Italy's NextGenEU plan, which would unlock almost €30bn of new funding from the European Commission

17/01 Government authorises the sale of TIM's fixed assets to American private equity firm KKR, in an important next step to facilitate the potential future creation of a single fixed network company in the country (**see deep dive 2**)

17/01 PM Meloni receives Bill Gates at Palazzo Chigi, as part of a series of meetings focused on Artificial Intelligence

24/01 At Davos summit, Economy and Finance Minister Giorgetti announces plans for partial privatisations of some state-owned companies

23/01 The Senate approves the devolution bill ("autonomia differenziata"), in the first of two parliamentary approvals needed for a reform that would pave the way for significantly greater autonomy of Italy's regions

29/01 Government unveils its €5.5bn plan (Mattei Plan) for strategic investments in the African continent, presenting it to a vast group of international and supranational organisations

DEEP DIVE 1

Ambitions and Challenges of Italy's 'Made in Italy' Law

On January 11, the so-called "Law in support of Made in Italy" officially entered into force. The initiative came directly from the Minister for Enterprises and Made in Italy, Adolfo Urso. The law contains a variety of measures all aimed at promoting the supply chains behind high-quality Italian products ("Made in Italy"). The sectors covered span from timber to MICE tourism, food & wine, and fashion. For the sectors qualifying, the law provides economic incentives as well as non-financial benefits. Among the main financial provisions, there is the creation of a €1bn sovereign fund (National Fund for Made in Italy) aimed at strengthening the supply chains of the most strategic "Made in Italy" sectors. Non-financial measures include further legal and trademark protections, including a "Made in Italy" accreditation system for products that meet certain standards, as well as the promotion of high-school curricula dedicated to studying Made in Italy industries.

Figure 1: Main sectors and measures included in the "Made in Italy" law

Measure	Resources allocated (€m in 2023-25)
National Fund for Made in Italy	1,000
Support for women entrepreneurs	15
Support for the timber sector	25
Enhancement of the natural textile industry	15
Green transition in the fashion industry	15
Green transition in the nautical sector	3
Promotion of digital SMEs	5
State grants for cultural and creative enterprises	27
Strengthening of consulates managing high flows of tourists towards Italy	2
Support to the MICE tourism sector	10
Fund to promote the consumption of Italian food abroad	1
Fund for the protection of Italian food's geographical indications	2

Source: Official dossier of the Made in Italy Law; LUHNIP's elaboration

Commentary

Beyond the details of the single measures, the narrative around the law and its scope deserve some attention. It is clear that the law is a strategic initiative to translate into concrete actions the current right-wing government's narrative around the protection of Italy's identity and interests. Minister Urso defined this law as a revolution for Italian industrial policy as it protects the country's most renowned products. Indeed, the government has allocated over €1bn (see figure 1) for this objective. However, the scope of the measures and target sectors is so broad that it raises concerns that the law's purpose may be more to support its nationalist narrative than truly constitute an industrial policy with a structural impact on the country's competitiveness. Among other things, industrial policy is about granting some parts of the economy more resources than others. To be effective and be perceived as fair, it is important that it possesses two characteristics. First, it needs to have a clear goal that is strategically justified and quantifiable. For instance, the EU Chips Act aims to increase the EU's production capacity of semiconductors from 10% to 20% of global markets by 2030 because of a perceived risk of vulnerability in a technology underpinning today's economy. Second, it must have transparent and selective criteria for the beneficiary of the measures. In the Made in Italy law it is not very clear what will constitute "success" nor have the criteria been transparent for what determined the strategic importance of so many sectors but not of others (see figure 1). The law might thus be criticised for allocating resources based on the government's somewhat arbitrary view about which sectors represent strategic "Made in Italy" sectors today.

DEEP DIVE 2

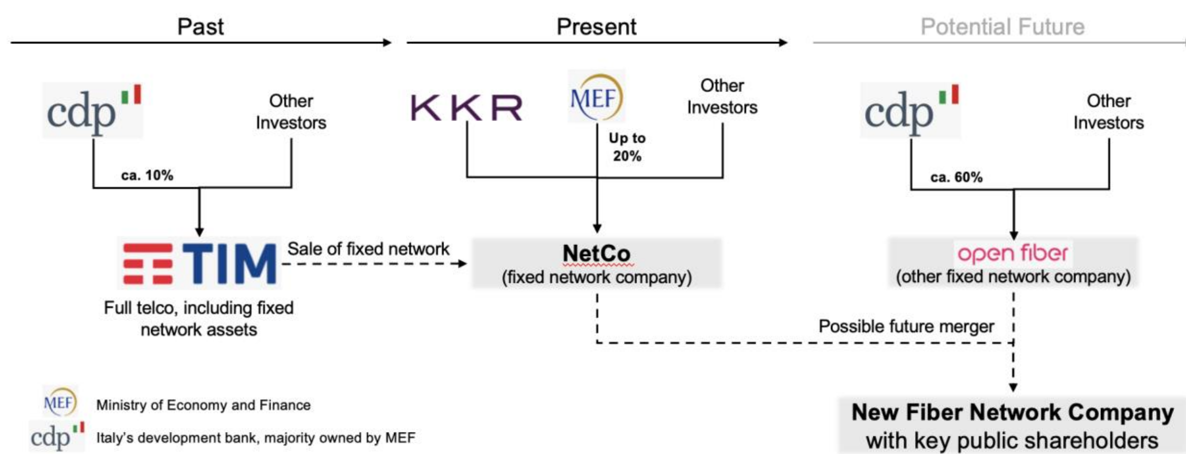
TIM and ADI: Stories of Privatisations in Strategic Sectors

January saw noteworthy developments for two of Italy's most important formerly state-owned companies: the telco TIM and the steelmaker ADI. The stories of both companies are telling of Italy's mixed results in managing the privatisation processes that started in the mid-90s.

On January 17, the Italian government approved the sale of Telecom Italia's (TIM) fixed-line network to the US-based investment fund, KKR, for €22 billion. This deal is part of an effort to reduce TIM's €26 billion debt. Crucially, it also increases public control over its strategic fixed network infrastructure (fibre) in what can be described as a partial re-nationalisation. As part of the deal, the Ministry of Economy and Finance (MEF) will co-invest with KKR around €2bn in the new fixed-line network company, acquiring a 20% stake as well as special rights on matters of strategic importance. These were detailed in a memorandum of understanding between MEF and the fund.

In the same weeks negotiations also intensified on the future of Acciaierie d'Italia (ADI). The formerly state-owned steel producer was also privatised in the 1990s and later sold (62% stake) to Luxembourg-based steel conglomerate ArcelorMittal in 2018. However, burdened with a negative financial performance and with further challenges due to the energy crisis and transition, it required a new public investment in 2021. The government is now devising a plan for an additional capital injection that would increase the public share to 66%.

Figure 2: KKR and TIM's deal could facilitate the future creation of a sole fixed network company in Italy



Source: Tim Group and OpenFiber for current ownership shares; LUHNIP's elaboration for representation of scenarios

Commentary

TIM and ADI are both cautionary tales about the complexity of privatising strategic industries. Privatisations typically involve a trade-off between retaining public control of strategic sectors and improving economic efficiency. In both TIM and ADI's cases, however, past privatisations reduced the state's influence without leading to sustainable financial performance.

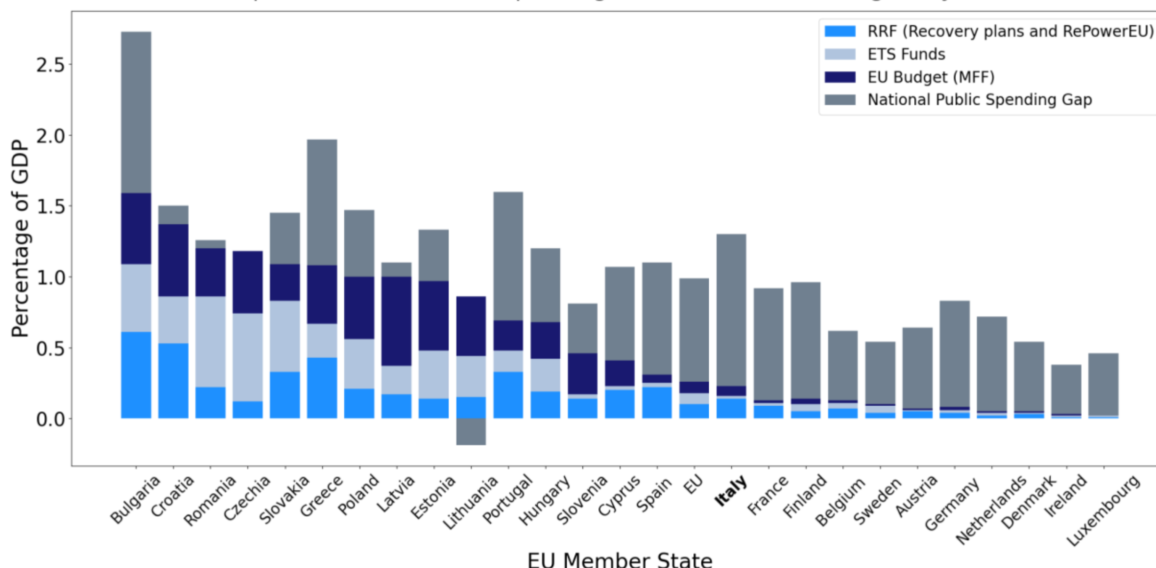
Since its initial privatisation in 1997, TIM has struggled to maintain its once dominant position in the communications sector. Previously valued at €65.3 billion, TIM was highly productive and innovative. It had minimal debt and employed over 120,000 employees. Since the privatisation, its financial and operational scale has significantly dwindled. Today, it is worth €6.5 billion, has only 50,000 employees, and has little international presence beyond Italy. This does not reflect the challenges posed to the sector after the dot.com bubble. Over a similar time period, in fact, Telefonica—Tim's Spanish equivalent—experienced impressive growth and internationalisation following a comparable privatisation. Research found that one important driver of such diverging outcomes was the difference in the two states' ability to assemble a stable syndicate of patient private investors capable of guaranteeing a solid strategy of long-term growth. Indeed, 20 years later, Italy's government now wants to regain influence on what it perceives as the most strategic part of the sector—the broadband network infrastructure. It aims to promote the creation of a single infrastructure company, which it considers crucial for accelerating the country's digital transition (see figure 2).

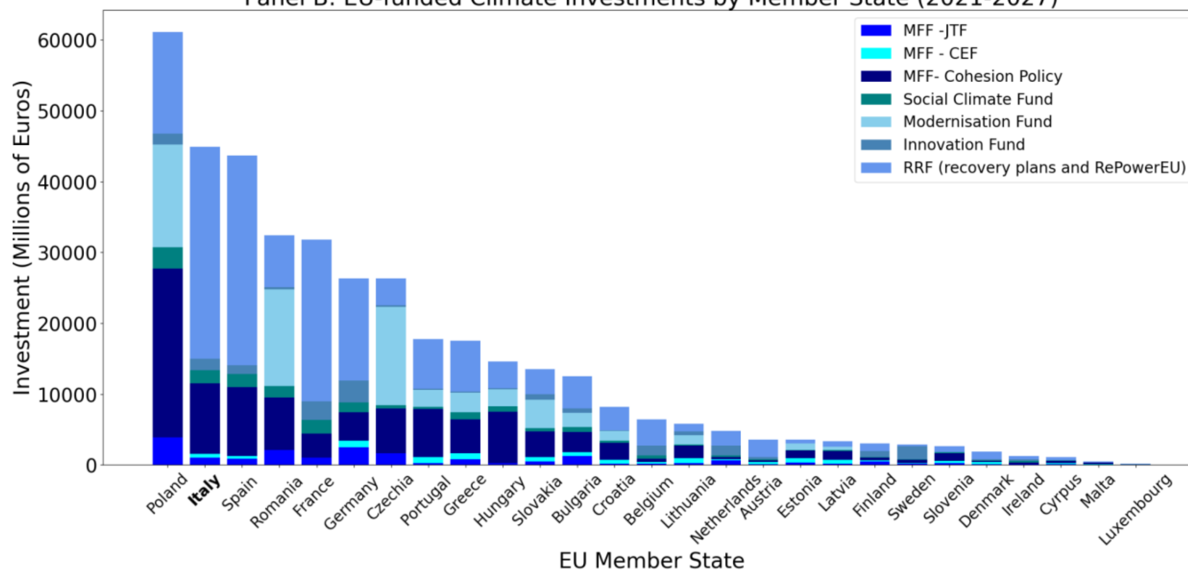
Italian steelmaker's privatisation has also experienced a bumpy road. Since the 1990s the state has tried multiple times to privatise ADI, which directly employs 8,200 people in the southern city of Taranto. Due to a combination of environmental scandals and financial difficulties, neither the first acquirer, the Riva family, nor the global steelmaker group ArcelorMittal, were able to relaunch the company and avoid reliance on the state. In 2021, the government had to intervene with a €400mln investment and now the current executive is proposing a bill to invest a further €320 million in the plant, bringing the state's ownership share to 66%. Thus, in the 30 years since "privatisation" the Italian state has had to step in several times with public resources but has had little ability to direct the development of this strategic company towards a sustainable model that could ensure its future competitiveness.

It is hard to envisage what awaits these two companies' future, especially in a country as volatile as Italy. The learning so far, however, is that privatisation and nationalisation decisions and are means to achieve an end. They should result from a clear industrial policy strategy rather than be a reaction to temporary circumstances such as fiscal constraints or temporary crises. Either way, for strategic sectors governments need to have a clear view of their preferred development path and ensure they have the policy levers to influence it.

GRAPH OF THE MONTH

Italy's Challenges Funding the Green Transition





Source: our elaboration based on data from [Agora EnergieWende]

The graphs above show the financial resources needed to achieve the European Union's 2030 climate target (panel A) and the funding states receive towards these objectives through various EU funding schemes for the green transition (panel B). From the two graphs it emerges clearly that, despite being one of the largest recipients of EU funding for the green transition (Panel B), Italy will still need to invest sizeable amounts of national public resources (approx. 1% of GDP, Panel A) to achieve its clean energy goals. In the context of renewed and stringent Stability and Growth Path rules, this appears particularly challenging (see graph of the month in our December brief).