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Monthly Brief on the Italian Political Economy

February 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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LAST MONTH IN BRIEF

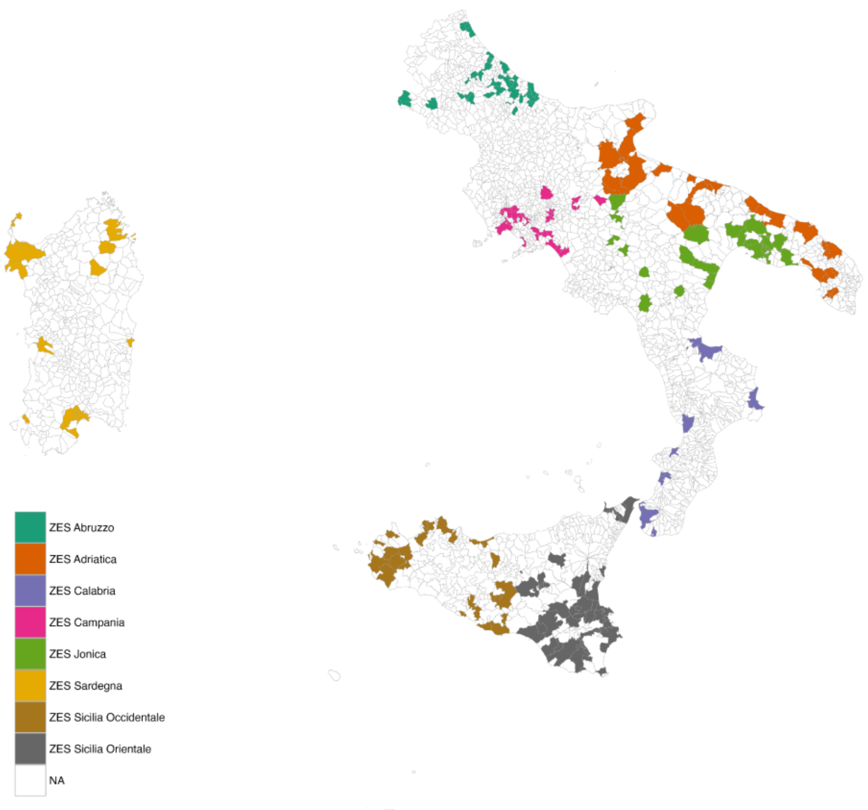
01/02	The Minister for Regional Affairs' Decree establishes January and February as the transition period toward the single Special Economic Zone (SEZ) in Southern Italy, following a law for the reorganisation of Italy's SEZs passed in December 2023 (see **Deep Dive 1**)
03/02	PM Meloni visits the facilities of Enel's 3Sun, a photovoltaic panel factory which has become a symbol of European ambitions in green industrial policy—and signs a €90 million development contract for the project. (see **Deep Dive 2**)
08/02	The Minister for Transportation initiates formal discussions with industry representatives to inform the drafting of upcoming reforms to the taxi and PHV sector, including the creation of a national register for these businesses and new regulations for PHVs and digital intermediation platforms
08/02	The Italian Minister for Enterprises and Made in Italy meets EU Commissioners Vestager and Breton to present the guidelines document for the upcoming G7 meeting on Industry and space economy presided by Italy
09/02	The Europe-wide farmers' protest reaches Rome, pushing the government to reintroduce income tax breaks for certain categories of farmers
12/02	The Automotive Cells Company (a Joint Venture by Stellantis, Mercedes-Benz and TotalEnergies) closes a €4.4 billion debt fundraising to support the construction of three gigafactories for lithium-ion battery cells, including one expected to be built by 2026 in the Stellantis site in Termoli (Molise)
15/02	The European Commission approves the "IPCEI Hy2Infra", the third IPCEI to support hydrogen infrastructure, which includes three projects in Italy (Puglia)—two for large-scale electrolysers and one for transmission and distribution pipelines
19/02	The Italian Minister for Enterprises and Made in Italy presents the new structure of the Ministry, which now includes, among others, a new dedicated unit for key enabling technologies
20/02	The Minister for Enterprises and Made in Italy signs the decree to place Taranto's steelmaking plant Acciaierie di Italia (ADI) under special administration (see **LUHNIP January monthly brief**)
26/02	The government approves a new law to expedite the implementation of the NRRP. It includes a "5.0 Transition Plan" with €6.3 billion for tax credits to companies making investments to improve their digitalisation and energy efficiency
27/02	Parliament approves the so-called "Capital law" aimed at strengthening the competitiveness of Italian capital markets (see **Graph of the Month**)

DEEP DIVE 1

The new single Special Economic Zone in Southern Italy

The reform of Special Economic Zones (SEZs) represents an important change in Italy's industrial policy for the *Mezzogiorno*. SEZs were first introduced in 2017, with a law that identified 8 SEZ administrative units around Southern Italy's strategic ports and airport infrastructures or other logistics and industrial clusters. In these areas, as a result of a legal framework defined through successive acts, companies in specific municipal areas (Fig. 1) could benefit from particular fiscal incentives and administrative simplifications to foster investments in local economic development. The law passed by the Meloni government in December 2023 aimed primarily at simplifying governance and increasing central coordination through one, central and dedicated administrative unit in one of the Prime Minister's departments. On the one hand, the law centralises the administrative power, eliminating the original 8 administrative units. On the other, it replaces the previous model focused on logistics clusters with a general subsidy scheme for the whole of Southern Italy, where companies will benefit from administrative simplifications and a tax credit of up to 60% on their investments (with a ceiling of €100 millions). The central government is also expected to issue a Strategic Plan for the SEZs soon, indicating the main strategic sectors by region. This will be followed by specific agreements with the regions, which will define the investments to pursue and the targets to monitor.

Figure 1: SEZs as per 2017 law



Sources: our elaboration based on the lists of municipalities in each of the 8 SEZs, as available from Agenzia per la Coesione Territoriale.

Commentary

The reform significantly changes the approach to the SEZ instrument. The original 2017 design of the 8 SEZs had a precise industrial policy goal: incentivising investments and developing the logistics sector and infrastructures around Italy's southern ports as well as other logistics hubs and industrial clusters. However, in the period 2017-2021, this policy suffered from implementation delays. Moreover, its original focus was gradually diluted to include a broader set of territories, with little coordination and differentiation on the specific strategic foci of each SEZ.

The new approach has 2 main advantages. First, by creating one single SEZ, the reform simplifies the current system, creating one institutional reference point. If appropriately staffed, the central unit in charge of the SEZ could also help overcome the heterogeneity of implementation experienced so far across regions. Second, the new structure could facilitate the development of a coherent industrial policy for the country's South. Research shows that Italy's southern regions have a distinct economic model and industrial structure from the North. The single SEZ can thus be a welcome return of a dedicated industrial policy for the South, which was one of the main pillars of Italian economic policy during the First Republic.

On the flip side, however, there are some risks. First, the broadening of the SEZ naturally renders the policy less focused compared to the 2017 vision. In the new version, there will be no clear industrial strategy until the government drafts the Strategic Plan. Second, the success of this reform is highly dependent on the efficiency of the central unit that will administer the SEZ. Unless it is appropriately staffed and tightly coordinated with the relevant regional and local authorities, it risks creating a bottleneck. Some local administrations have raised concerns that the central unit might be too detached and lack the local knowledge to administer the policy effectively. Finally, the reform's ambitions contrast with important budgetary and institutional elements. Such an industrial policy needs long-term funding, but so far, the government has allocated resources only for 2024. More importantly, this reform's *centralisation* effort seemingly conflicts with the broader government reform for a *devolution of powers to the regions* (**see LUHNIP January Monthly Brief on the Italian Political Economy**). This somewhat contradictory move thus raises questions about the government's stance on the crucial issue of centralisation *versus* devolution. This law and the executive's highly centralised management of Italy's National Recovery and Resilience Plan (NRRP) suggest a preference for the former.

In short, the move towards a single SEZ has the potential to favour the development of a coherent industrial policy for the South. Whether this will be the case, however, is highly dependent on the implementation steps the government will need to take in the next few months. By centralising governance, the government has now also centralised the responsibility for this policy's future success or failure.

DEEP DIVE 2

PM Meloni visits ENEL's solar panel factory

On February 3, Italian Prime Minister Giorgia Meloni visited the 3Sun Gigafactory, a facility for high-performance solar panels located in Catania, Sicily. The factory is owned by Enel Green Power, a renewable-energy subsidiary of Enel, the Italian energy company controlled by the Ministry for Economy and Finance. During the visit, the PM signed a development contract to allocate around €90 million from Italy's NRRP for the project.

The 3Sun Gigafactory is an important example of Italy's green industrial policy. Located in the so-called "Etna Valley"—the economically vibrant industrial area of Catania specialised in electronics and semiconductors—the 3Sun factory was inaugurated in July 2011. Since then, the factory has moved from producing thin film panels to heterojunction bifacial panels, the latest generation and most efficient type of solar panels in the market. The latest expansion started in April 2022, when Enel Green Power received a €118 million euro grant from the European Commission to scale up the facility. With this evolution, and the fresh €90 million from the NRRP, the site, which today produces around 200MW yearly, is expected to deliver around 3GW per year (or 15,000 solar modules per day). In terms of job creation, this investment is expected to create around 650 direct jobs, and several more indirectly across Catania's technology district, according to ENEL.

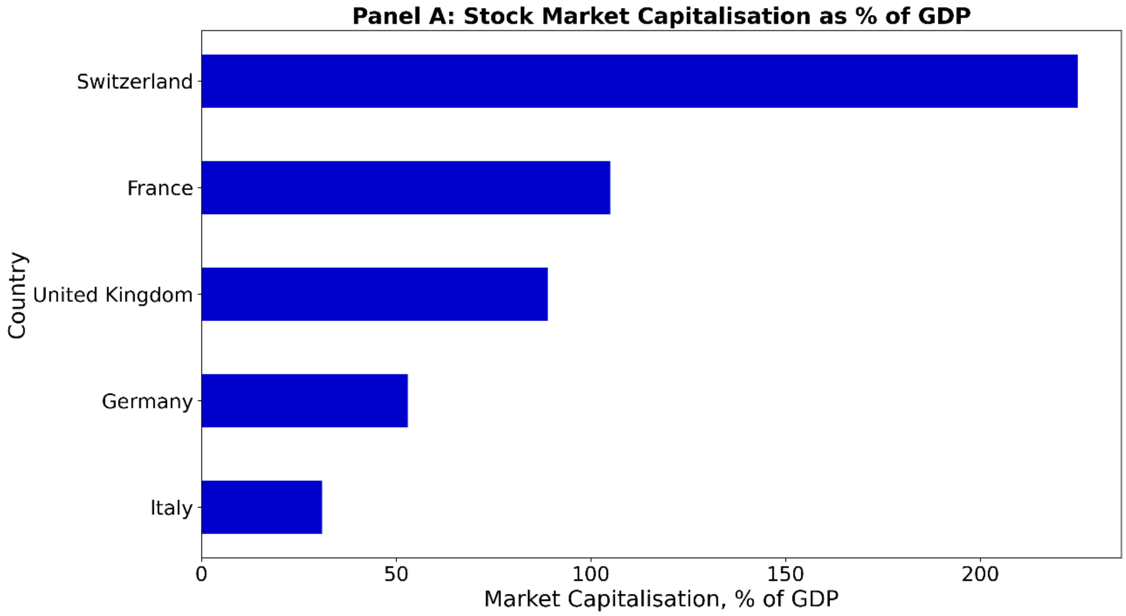
Commentary

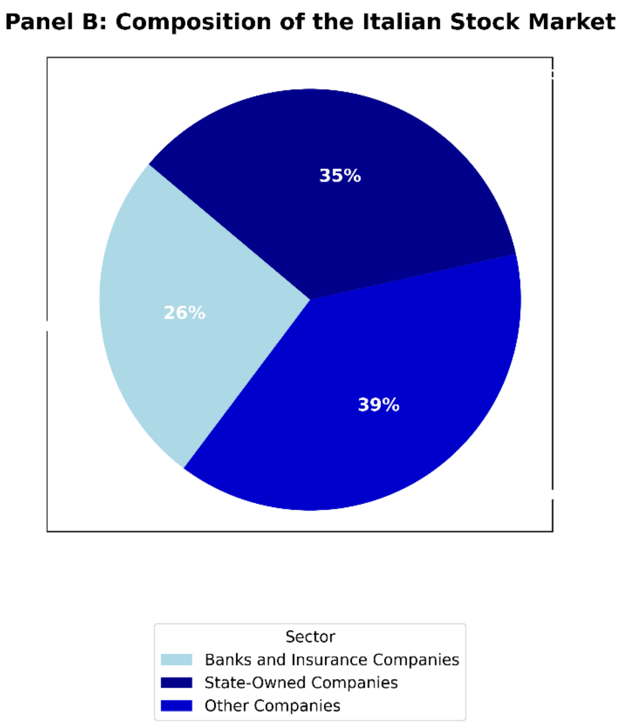
The 3Sun Gigafactory is an important industrial project in Italy and speaks to the EU's effort to bolster the green transition while reducing Europe's strategic dependencies in the clean tech value chains. It is one example of the EU's determination to reach its climate goals by means of a European energy supply base and green industry (see also the Net-Zero Industry Act in the **LUHNIP November Brief on EU Industrial Policy**). However, a clear tension is emerging between climate targets and strategic autonomy ambitions.

Today, China is the largest and most efficient producer of solar panels. It dominates the Photovoltaic Supply Chain (PVSC) across at least 80 per cent of all the stages required for making solar panels. The fastest and cheapest way to deploy solar panel technologies in Europe would therefore be relying on Chinese solar panel imports (95% of installations in Europe today). European policymakers fear, however, that this reliance would prevent the development of local competencies in such a strategic industry and expose the continent to dependency risks analogous to those just experienced with Russian gas. While this concern is legitimate, the temptation to respond with a protectionist approach should be mitigated. The analogy with Russian natural gas is misleading. Fossil fuels are an energy source with which only a few countries are endowed—a natural oligopoly. Solar energy is delivered by a technological product (panels) with a complex value chain that goes from R&D to panel installation and servicing. Today, Europe is particularly dependent in the mid and downstream segments of the PVSC. The Continent should certainly strengthen its position. But attempting to "import-substituting" all components of the PVSC might turn out to be both futile and detrimental to the net zero targets. Instead, Europe should develop a commanding position in those critical segments where it can be most competitive. This is most likely to be the case in high-end products, R&D, and design innovation, rather than panels' assembly, for instance. Against this background, the 3Sun factory may be a promising example of this positioning. The Sicilian factory appears not as a mere attempt at substituting imports from China, but as an investment in developing a product at the technological frontier. Indeed, the site combines production and R&D. As such, it is a good example of how creating European strategic autonomy can translate into leading the way in innovation to create new solutions, rather than playing defence against foreign imports.

GRAPH OF THE MONTH

Italy's stock market





Sources: Panel A from The Economist, Panel B constructed based on data from Borsa Italiana (FTSE MIB)
Notes: Panel A uses 2023 GDP and stock market capitalisation as of February 2024

On February 27, Italy's Parliament approved the so-called "Capital Law." The law aims, among other things, to incentivise Italian founders and business owners to seek equity funding through listings. Still today, stock markets are not Italian companies' preferred financing route. Among others, this is one of the signs of Italy's hybrid model of capitalism—an economic system which during the 1990s transitioned away from a state-directed banking system and networks of local banks which financed SMEs, but has not fully embraced the equity financing model more typical of liberal market economies. Italy's stock market is particularly small compared to those in France, Britain, and even Germany. In addition, around 60% of the market capitalisation of Borsa Italiana (FTSE MIB) is related to Italy's large state-owned companies and banks (Panel B). This further suggests that, despite a long wave of reforms since the 1990s, capital markets in Italy have not yet emerged as a major source for the financing and growth of companies.