A

GLOBAL COUNTRY STUDYREPORT

ON

“ FASHION INDUSTRY OF ITALY

WITH REFERENCE TO DIESEL S. p. A.”

SUBMITTED TO

N.R. VEKARIA INSTITUTE OF BUSINESS MANAGEMENT STUDIES

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STUDENTS' DECLARATION

, hereby declare that the report for Global/ Country Study Report entitled "ON FASHION INDUSTRY OF ITALY WITH REFERENCE TO DIESEL S. p. A" in (Italy) is a result of our own work and our indebtness to other work publications , references, if any have been duly acknowledged.

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Certified that this Global / Country Study and Report Titled "FASHION INDUSTRY OF ITALY WITH REFERENCE TO DIESEL S. p. A is the bonafide work of Bhatt Viral ,Vadhvani Pankaj ,Jogiya Pinak ,Selani Viral ,Kukreja Ajay who carried out the research under my supervision. I also certify further, that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

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PREFACE

As a new paradigm based on proper integration of formal teaching and actual practice, this Global/ Country Study and Report has been introduced under the Degree of Master of Business Administration (M.B.A) one can know how can he become a master in business and management field.

By theory a student can only make picture about the corporate world in his mind, but with the practical he can become a successful actor in that picture. Classroom theory is not enough for the M.B.A. students, for the practical program our university arranges a Global Country Report . To know the various angles of business, practical knowledge is very essential and this report is a part of study to develop the skill and ability in a student.

Global Country Report has enabled us to understand Italy's Political Environment and how to do business within that country. So it not only developed us nationally but also Globally.

After completion of our degree of Master of Business Administration we would be developed to understand all the global changes and face it and bring solutions to it.

ACKNOWLEDGEMENT

It is a great pleasure of ours to make Global Country Report on Political Environment In Italy.Man's quest for knowledge never ends. Theory and practice are essential and complementary to each other. I am thankful for the assistance received from various individuals in making this project report successfully

My acknowledgement remains incomplete without great thanking to respective member Dr. Rajesh A. Patel (Director),I am thankful to my internal guide Prof.B.B.Joshi and Prof.Bansi Shah for their valuable guidance and help us throughout my project report work as well as documentation .

Date:

Place:

EXECUTIVE SUMMARY

The **politics of Italy** is conducted through a parliamentary, democratic republic with a multi-party system. Executive power is exercised collectively by the Council of Ministers, which is led by the Prime Minister (officially referred to as President of the Council, "*Presidente del Consiglio*").Legislative power is vested in the two houses of parliament primarily, and secondarily on the Council of Ministers. The judiciary is independent of the executive and the legislative branches. The current President of Italy is **Giorgio Napolitano** and current Prime Minister of Italy is **Mario Monti**.

The President of the Republic is elected by Parliament in joint session, together with three representatives of each region (except for the Aosta Valley, which gets only one representative) in such a way as to guarantee representation to minorities. His election needs a wide majority that is progressively reduced from two-thirds to one-half plus one of the votes as the ballots progress. The only Presidents ever to be elected on the first ballot are Francesco Cossiga and Carlo Azeglio Ciampi. Mr. Ciampi was replaced by Giorgio Napolitano, who was elected on 10 May 2006. While it is not forbidden by law, no president has ever served two terms.

Judicial branch

The Italian judicial system is based on Roman law, the Napoleonic code and later statutes. It is based on a mix of the adversarial and inquisitorial civil law systems, although the adversarial system was adopted in the Appeal Courts in 1988. Appeals are treated almost as new trials, and three degrees of trial are present. The third is a legitimating trial.

Political Parties and Elections

All Italian citizens **older than 18** can vote. However, to vote for the senate, the voter must be at least 25 or older. Italy's dramatic self-renewal transformed the political landscape between 1992 and 1997. Scandal investigations touched thousands of politicians, administrators, and businessmen; the shift from a proportional to an Additional Member System (with the requirement to obtain a minimum of 4% of the national vote to obtain representation) also altered the political landscape.

Party changes were sweeping. The Christian Democratic party dissolved; the Italian People's Party and the Christian Democratic Center emerged. Other major parties, such as the Socialists, saw support plummet. A new liberal movement, Forza Italia, gained wide support among moderate voters. The Alleanza Nazionale (National Alliance) broke from the (alleged neo-fascist) Italian Social Movement (MSI). A trend toward two large coalitions (one on the center-left and the other on the center-right) emerged from the April 1995 regional elections. For the 1996 national elections, the center-left parties created the Olive Tree coalition while the center-right united again under the House of Freedoms. These coalitions continued into the 2001 and 2006 national elections.

HISTORY OF POLITICAL ENVIRONMENT OF ITALY

Fifth-Century Political Trends

The Germanic invasions of the years after 400 did not, then, strike at an enfeebled political system. But in facing them, ultimately unsuccessfully, Roman emperors and generals found themselves in a steadily weaker position, and much of the coherence of the late Roman state dissolved in the environment of the continuous emergencies of the 5th century. In Italy the 4th-century system remained relatively unchanged for a long time. The Germanic king Odoacer ruled Italy after 476, the peninsula was not conquered. Odoacer, however, did not merely call himself *patricius*—local ruler for the Eastern Empire—but also *rex*—king of his Germanic army of Sciri, Rugians, and Heruls. To what extent he was a military commander of a Roman army as opposed to being a German “tribal” leader was by now impossible to tell. Nonetheless, he, like Ricimer, was an effective defender of Italy against invaders for a long time.

The Ostrogothic Kingdom

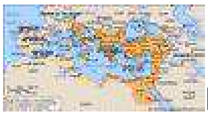
Theodoric, king of the Ostrogoths, conquered Italy and killed Odoacer in 493. The decades of the Ostrogothic kingdom in Italy (493–552) can be seen as the first true period of Germanic rule in the peninsula, for an entire tribe of 100,000 to 200,000 people came with Theodoric. Theodoric’s rule was probably the most peaceful and prosperous period of Italian history since Valentinian, but a decade after his death Italy was already in ruins.

The End Of The Roman World

In 533–534 Belisarius, general for the Eastern emperor Justinian I (527–565), conquered Vandal Africa; Amalasuntha's death was the necessary excuse to invade Italy. Belisarius arrived in Sicily in 535, and by 540 he had fought his way north to Ravenna. The Ostrogothic king Witigis (536–540) surrendered to him. The Gothic armies of the north, however, elected new kings, and Totila (541–552), the most successful of them, kept the war going throughout the peninsula until his death in battle.

The Gothic wars were a disaster for Italy; almost no region was untouched by them. Together with the subsequent wars of the Lombard conquest (568–605), they mark the end of the Roman world there to be dissolved. Indeed, the Ostrogoths virtually vanished as a people from then on; it is assumed they were absorbed into the Roman population or into that of the Lombards.

Lombards And Byzantines



In 568–569 a different Germanic tribe, the Lombards, invaded Italy under their king, Alboin (*c.* 565–572). Alboin took the north but was soon murdered, probably with Byzantine connivance. His successor, Cleph (572–574), was murdered as well, and for a decade (574–584) the Lombards broke up into local duchies with no king at all. The Byzantines seem to have been partially responsible for this too; at that time they did not have the military capacity to drive the invaders back, and it was easier for them to divide the Lombard leadership and buy some of them into the Byzantine camp. But the confusion of the first decades of the Lombard kingdom did not favour the development of a coherent political system, and, when the wars stopped in 605, Italy was divided into several pieces with boundaries that were in some cases to survive for centuries.The largest of these pieces was the Lombard kingdom of northern Italy and Tuscany. By the 620s its capital was at Pavia, which remained the capital of the north until the 11th century; other major centres were Verona, Milan, Turin (Torino), Lucca, and Cividale, the capital of the duchy of Friuli. Friuli played an important role as the Italian frontier against the Avars, a powerful military confederation of Central Asian origin that had taken over Pannonia. The two great southern duchies of the Lombards, Spoleto in the central Apennines

and Benevento in the mountains and plains of the south, are best considered independent states. The Lombards of Benevento took Apulia (now Puglia) from the Byzantines, except for Otranto at its southern tip, in the late 7th century; southern Calabria remained under Byzantine control and was Greek-speaking by the 10th century.

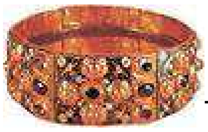
The Lombard Kingdom, 584–774

King Authari ensured the survival of the Lombards, threatened as they were by both the Byzantines and the Franks. The last Frankish invasion, in 590, probably resulted in some sort of Frankish supremacy; the Lombards payed tribute, at least for a time, and sent detachments to fight in the Frankish army as late as the 620s. King Agilulf reorganized the kingdom and suppressed several dukes with pretensions to autonomy. He also concluded a treaty with the Byzantines in 605 that established permanent borders with the exarchate, which scarcely changed over the next century (the only major exception being the Lombard conquest of the Ligurian coast in the early 640s). Agilulf also seems to have reorganized the central government with the help of Roman administrators, and indeed he imitated or reestablished some late Roman and Byzantine court rituals; he did not, however, exact the land tax and must have lived mostly off his substantial royal estates.

Popes And Exarchs, 590–800

It was in this context that the popes gradually increased their secular authority. The exrachs did relatively little to defend Rome, which was largely cut off from Ravenna by the Lombard states; the papal city thus had to develop its own political institutions. In the late 6th century, responsibility for feeding the population of Rome and, by the 590s, for defending it from the Lombards (both of Pavia and Spoleto) slowly shifted from the fast-disintegrating Roman Senate to the popes, who themselves still tended to come from senatorial families. In the course of the 7th century, his successors slowly detached themselves from the power of the exarchs, and by about 700 they could successfully defy any attempt from Ravenna to remove them. This also meant that they had gained autonomy from the more distant authority of the Byzantine emperor, with whom they were also often in religious disagreement. But the popes kept control of the Campagna, and the belt of papal lands between Rome and Ravenna remained intact as well; the Papal States, as reconstituted by the late-medieval popes, reproduced almost exactly the boundaries of the former exarchate.

Ethnic Identity And Government



The Ostrogothic kingdom used so many Roman governmental institutions that it can best be understood as a virtual continuation of the late Roman imperial system. Lombard rule marked much more of a break, without doubt. But exactly how much the Lombard states owed to the Roman past and how much to Germanic traditions is an ongoing debate. The administrative system of the Lombard state was even more Roman than its laws. This is not very surprising, for Roman models offered far more power to rulers than did any Germanic tradition of government. The Lombards, like other Germanic invaders, took what they could from their new subjects and used Roman administrators where they could find them. Their system, as it is visible in documents from the 8th century, seems to have been more coherent than that of most other Romano-Germanic kingdoms. It was based on a central government in Pavia with numerous permanent administrators (such as the referendarii, who organized the writing of royal charters) and legal experts; there is evidence of legal appeals to judges in Pavia, and some of them were settled by the king himself.The stability of city-based regional governments was probably the essential foundation for the political coherence of the Lombard kingdom itself.

Byzantine Italy

Byzantine Italy was different from the Lombard lands in obvious and crucial respects. It was not independent; it was not ruled by an incoming, ethnically distinct group; and it gave more political space to the church. Perhaps above all, it still exacted the land tax and thus could afford a salaried army and a far more complex administrative system than the Lombards ever had. But in some respects it had a very similar development. The local power of the army and the constant need for defense led to the formation of a militarized landed aristocracy and indeed to a military identity for free landowners at all levels and thus to social patterns that were not at all unlike those in the Lombard states. Even the church became increasingly militarized; by the 9th century the bishop and the duke of Naples were sometimes the same person.

Similarities Between Lombard And Byzantine States

The Lombard states and the Byzantine provinces in Italy thus resembled each other more than either did the Roman Empire of the 5th century. The Lombard kings had a far less complex administrative system than had existed before 550, based as it was on royal landowning rather than the complex tax-raising mechanisms of the Roman world. But the complexity of public life could more easily survive in Lombard Italy than farther north in Germanic Europe, owing above all to the vitality of Italian city society: in this sense, the Lombards looked far more Roman than did the Franks or, still less, the Anglo-Saxons. They were never identical, however; major Byzantine cities seem to have been larger than Lombard ones, and the Byzantine political system remained the more complex and articulated of the two to the end.

Carolingian And Post-Carolingian Italy, 774–962

The Kingdom Of Italy

The Carolingian kingdom of Italy occupied the northern and central peninsula down to Rome, with the sole exception of the nominally Byzantine duchy of Venice; the former exarchate and all the Lombard lands except Benevento (to be dealt with separately) were part of it. Carolingian government, which is better-documented than that of the Lombards, seems to have slowly increased in sophistication. Carolingian rule in northern and central Italy (774–887) brought a century of uninterrupted peace, and kings had time to perfect the already systematic ties between Pavia and the increasingly literate city-based administrations.

The Role Of Rome

Rome was in practice part of Carolingian Italy, but the popes had a great deal of autonomy and also religious status. Nicholas I (858–867), for example, was particularly influential in Francia. The 9th-century popes controlled a complex local administrative apparatus and, like their predecessors, played an important role in military defense, particularly against Arab sea raids from North Africa and Sicily (which was conquered by the Arabs in the years 827–902). Leo IV (847–855) in particular refortified Rome; John VIII (872–882) tried hard to develop military alliances against the Arabs; John X (914–928) eventually succeeded in this, and a coalition of cities uprooted the Arabs from their stronghold on the sea near Gaeta in 915.

The Reign Of Berengar I

Louis II died in 875 without male heirs. He was succeeded by a series of short-lived uncles and cousins, who came from either France or Germany and stayed in Italy as short a time as possible. But after the fall of the last of these, Charles the Fat (king in Italy 879–887), most of the Carolingian kingdoms turned to non-Carolingian aristocratic families to rule them. In Italy, Berengar I, a female-line Carolingian and also marquess of the still-important border area of Friuli, was well placed to be elected as a king with genuine Italian commitments in 888. Even when he did not have internal rivals, as in 898–900, he was unlucky; in 899 the Hungarians invaded Italy, destroying Berengar's army and initiating a series of raids that were to last, off and on, until the 950s.

The South, 774–1000

When Charlemagne conquered central and northern Italy, Duke Arichis II of Benevento (758–787) responded by titling himself prince and claiming the legitimist tradition of the Lombards. Lombard princes then ruled in the south for 300 years, until the Norman conquest.

Italy, 962–1300

Italy Under The Saxon Emperors

In the second half of the 10th century, Italy began a slow recovery from the turmoils of late Carolingian Europe. During the previous century the Po River valley had been exposed to Magyar raiders. Sardinia, Corsica, and Sicily had fallen to the Muslims; even Rome had felt their threat. In the north the Lombard kingdom was little more than a collection of great lordships vying with one another for the Carolingian inheritance. In the south the peninsula was shared by the remnants of the Byzantine and Lombard states and by local powers. The 10th-century papacy had fallen into the hands of various Roman aristocratic factions. But already there were signs of revival. Genoa, Pisa, and Venice were joining other cities in developing local and international trade.

The Rise Of Communes

During the 12th century, communes, or city-states, developed throughout central and northern Italy. After early beginnings in cities such as Pisa and Genoa, virtually every episcopal city in the north formed a communal government prior to 1140. Violence resulted from such diverse factors as the conflicting interests of ecclesiastical institutions, the complex ties of loyalty that bound men to one another and to the institutions of their society, and shifts in the distribution of power.

It is evident, however, that the communes of northern and central Italy benefited from the Investiture Controversy. The ineffectiveness of imperial power in Italy during the first half of the 12th century, which favoured the development of the communes, stemmed largely from the struggle over investitures and the attendant political instability in Germany.

The Kingdom Of Jerusalem

An excommunicated Frederick embarked for the East, where he negotiated an agreement with the sultan al-Malik al-Kamil of Egypt for the return of Jerusalem on terms somewhat less favourable than the sultan had earlier offered the Crusaders in return for Damietta.

The Sicilian Kingdom

The kingdom of Sicily was Frederick's first priority. It had long suffered neglect from his absence and internal strife. The Constitutions of Melfi, or *Liber Augustalis*, promulgated by Frederick in 1231, was a model of the new legislation developing from the study of Roman and canon law. In 1224 he founded the University of Naples. His legislation then dealt with medical education and licensing, public health, and air and water pollution

The War In Northern Italy

As a part of the settlement reached between him and Honorius III at the time of his coronation in 1220, Frederick had arranged to have his son Henry crowned as king of the Romans (i.e., ruler of Germany) while retaining the imperial, Italian, and Sicilian crowns for himself.

The growing rift between Frederick and the papacy was not merely a revival of the papal-imperial conflict of the 12th century, though it certainly had elements in common. It had its immediate roots in the failure of the policy of cooperation employed under Innocent III, Honorius, and even Gregory himself. Buoyed by early success in northern Italy, Frederick returned to Germany. He even hoped to repair his differences with Gregory, who proved amenable. However, the attempted settlement broke down. On Nov. 27, 1237, Frederick, back in Italy, dealt the Lombards a heavy blow in the Battle of Cortenuova. He followed his military success with a strong propaganda attack, chiefly directed against Gregory IX. But the victory won at Cortenuova proved difficult to convert into permanent gains. Milan continued to hold out. In the following summer Frederick laid siege to Brescia but failed to take the city.

The Factors Shaping Political Factions

The breach between emperor and pope that marked the remainder of the reign of Gregory IX and that grew more intense under Innocent IV (1243–54) undoubtedly helped shape political factions in northern Italy throughout the 13th century. But it would be an exaggeration to say that the conflict over church and state determined political developments. The changing character and composition of communes often followed the fortunes of this struggle over rights. Increasingly, divisions between landowning magnates and *popolo* concealed the process of coalition making characteristic of early 13th-century urban politics. The *pars ecclesiae* very often controlled the commune and stood for communal independence. Although some disputes with bishops were an inevitable feature of the Italian urban scene, alliances between bishops and communes grew more common in the 13th century

Italy To *C.* 1380

The Southern Kingdoms and The Papal States

Not all regions were to undergo favourable economic or constitutional development or to receive anything but reflected rays from the sun of the Renaissance. In the south the Sicilian Vespers of 1282 separated the island of Sicily for more than 150 years from the rest of the Kingdom of Sicily, which until then had consisted of both the island and the southern mainland. On the mainland thenceforth, the successors of King Charles of Anjou ruled as vassals of the papacy. Normally described by contemporaries as “kings of Napels” (though resolutely continuing to call themselves “kings of Sicily”), they pursued a 90-year war against the Aragonese kings of (island) Sicily. They financed that war, which was ultimately unsuccessful, through harsh taxation of the only productive element in the kingdom—namely, its impoverished peasantry. This increase in the royal tax burden, already oppressive at the time of the Norman kings, fixed the region in wretched poverty and destroyed all possibility of native capitalist growth. As a result, during the 14th century almost all trade and banking came into the hands of northern Italians, particularly Florentines. At the same time, outside a few restricted areas (Sulmona, coastal Puglia, Campania) that produced considerable surpluses of grain, an arid climate and inferior soil made for poor agricultural development in the Kingdom of Naples.

First Republic

There have been frequent government turnovers since 1945, indeed there have been 61 governments in this time.The dominance of the Christian Democratic party during much of the postwar period lent continuity and comparative stability to Italy's political situation, mainly dominated by the attempt of keeping the Italian Communist Party (PCI) out of power, to maintain Cold War equilibrium in the region.

The communists were in the government only in the national unity governments before 1948, in which their party's secretary Palmiro Togliatti was minister of Justice. After the first democratic elections with universal suffrage in 1948, in which the Christian Democracy and their allies won against the *Popular front* of the Italian Communist and Socialists parties, the communist party never returned in the government.

The Socialists enter the Government

The main event in the First Republic in the sixties was the inclusion of the Socialist party in the government, after the reducing edge of the Christian Democracy (DC) had forced them to accept this alliance; attempts to incorporate the Italian Social Movement (MSI) in theTambroni government led to riots, and were short-lived.Aldo Moro, a relatively left-leaning Christian democrat, inspired this alliance. He would later try to include the Communist Party as well, with a deal called the *historical compromise*. This attempt at compromise was, however, stopped by the kidnapping and murder of Moro in 1978 by the Red Brigades, an extremist left-wing terrorist organization.

The Years of Lead

On 12 December 1969 a roughly decade-long period of extremist left- and right-wing political terrorism, known as *the years of lead* (as in the metal of bullets, Italian: *anni di piombo*), began with the Piazza Fontana bombing in the center of Milan. Neo fascist Vincenzo Vinciguerra later declared the bombing to be an attempt to push the Italian state to declare a state of emergency, in order to lead to a more authoritative state. A bomb left in a bank killed about twenty, and was initially blamed on anarchist Giuseppe Pinelli. This accusation was hotly contested by left-wing circles, especially the Maoist Student Movement, which had support in those years from some students of Milan's universities, and who considered the bombing to have all the marks of a fascist operation. Their guess proved correct, but only after many years of difficult investigations.

The Eighties

With the end of the lead years, the communist party gradually increased their votes under the leadership of Enrico Berlinguer. The Italian Socialist Party, led by Bettino Craxi, became more and more critical of the communists and of the Soviet Union; Craxi himself pushed in favor of Ronald Reagan's positioning of Pershing missiles in Italy, a move many communists strongly disapproved of.

In 1987, one year after the Chernobyl disaster following a referendum in that year, a nuclear phase-out was commenced. Italy's four nuclear power plants were closed down, the last in 1990. A moratorium on the construction of new plants, originally in effect from 1987 until 1993, has since been extended indefinitely.

In these years, corruption began to be more extensive, a development that would be exposed in the early nineties and nicknamedTangentopoli. With the Mani Pulite investigation, starting just one year after the collapse of the Soviet Union, the whole power structure faltered, and seemingly indestructible parties, such as the Christian Democrats and the Socialist party, disbanded; the communist party changed its name to the Democratic Party of the Left and took the role of the socialist party as the main social democratic party in Italy. What was to follow was then called the transition to the *Second Republic*.

Second Republic

From 1992 to 1997, Italy faced significant challenges, as voters, disenchanted with past political paralysis, massive government debt, extensive corruption, and organized crime's considerable influence—collectively called Tangentopoli after being uncovered by Mani pulite—demanded political, economic, and ethical reforms.

In the Italian referendums of 1993, voters approved substantial changes, including moving from a proportional to an Additional Member System, which is largely dominated by a majoritarian electoral system and the abolition of some ministries, some of which, however, have been reintroduced with only partly modified names, such as the *Ministry of Agriculture* reincarnated as the *Ministry of Agricultural Resources*.

Major political parties, beset by scandal and loss of voter confidence, underwent far-reaching changes. New political forces and new alignments of power emerged in the March 1994 national elections. This election saw a major turnover in the new parliament, with 452 out of 630 deputies and 213 out of 315 senators elected for the first time.The 1994 elections also swept media magnate Silvio Berlusconi (leader of "Pole of Freedoms" coalition) into office as Prime Minister. Berlusconi, however, was forced to step down in December 1994 when the Lega Nord withdrew support. The Berlusconi government was succeeded by a technical government headed by Prime Minister Lamberto Dini, which left office in early 1996.A series of center-left coalitions dominated Italy's political landscape between 1996 and 2001. In April 1996, national elections led to the victory of a center-left coalition, Olive Tree, under the leadership of Romano Prodi. Prodi's government became the third-longest to stay in power before he narrowly lost a vote of confidence, by three votes, in October 1998.

Between 17 May 2006 and 21 February 2007 Romano Prodi served as Prime Minister of Italy following the narrow victory of his l'Unione coalition over the Casa delle Libertà led by Silvio Berlusconi in the April 2006 Italian elections. Following a government crisis, Prodi submitted his resignation on 21 February 2007.Three days later he was asked by the Italian President, Giorgio Napolitano to stay on as Prime Minister and he agreed to do so. On 28 February 2007 Prodi narrowly survived a senate no confidence vote.Later, on 24 January 2008 the Prodi II Cabinet went through a new crisis, because the Minister of Justice, Clemente Mastella, retracted his support to the Cabinet. Consequently the Prodi Cabinet lost the vote of confidence and the President Giorgio Napolitano called a new general election.The election set against two new parties, the Democratic Party (founded in October 2007 by the union of the Democrats of the Left and Democracy is Freedom – The Daisy) led by Walter Veltroni, and The People of Freedom (federation of Forza

Italia, National Alliance and other parties) led by Silvio Berlusconi. The Democratic Party was in alliance with Italy of Values, while The People of Freedom forged an alliance with Lega Nord and the Movement for Autonomy. The coalition led by Berlusconi won the election and the leader of the centre-right created the Berlusconi IV Cabinet.

POLITICAL PROCESS

Electoral System

For almost half a century after World War II, Italy's electoral system was based on proportional representation. Between 1993 and 1995, several changes were made by national legislation and popular referenda. Following these changes, on the national level the Chamber of Deputies and the Senate were elected by a combination of proportionality and plurality. Seventy-five percent of the seats in these two chambers were filled from single-member districts by individual candidates who won the largest number of votes in each district. The other 25 percent of the seats were awarded to candidates from party lists on a proportional basis. . A new electoral law passed in late 2005 overturned this system by restoring full proportional representation. However, the law also allocated a number of bonus seats in the Chamber of Deputies to the winning coalition—thus guaranteeing a majority for the victors.

The Participation Of The Citizen

All citizens 18 years and older may vote. The turnout for elections in Italy is high, often reaching well over 80 percent of the electorate for parliamentary elections. Citizens may also subscribe to national referenda or petitions designed to abrogate a law or an executive order; such a petition must be signed by 500,000 members of the electorate or sponsored by five regional councils.

ITALIAN FASCISM

Italian Fascism, also known simply as **Fascism** (Italian: ***Fascismo***), is the original capital-"F"fascist ideology in Italy and the world. Italian Fascism is based upon Italian nationalism and the restoration of "*Italia Irredenta*" (claimed unredeemed Italian territories) to Italy as well as territorial expansionism that Italian Fascists deemed necessary for a nation to assert its superiority and strength to avoid succumbing to decay. Italian Fascists claim that modern Italy is the heir to ancient Rome and its legacy, and support the creation of an Italian Empire to provide "vital space" for colonization by Italian settlers and establishing control over the Mediterranean Sea as Italy's *Mare Nostrum* ("Our Sea"), as it had been under the Roman Empire.

Doctrine

The Doctrine of Fascism (La dottrina del fascismo, 1932), by the Actualist philosopher Giovanni Gentile, is the official formulation of **Italian Fascism**, published under Benito Mussolini's name in 1933.Gentile was intellectually influenced by Hegel, Plato, Benedetto Croce, and Giambattista Vico, as such, his Actual Idealism philosophy was the basis for Fascism. Hence, the Doctrine's Weltanschauung proposes the world as action in the realm of Humanity — beyond the quotidian constrictions of contemporary political trend, by rejecting "perpetual peace" as fantastical, and accepting Man as a species continually at war; those who meet the challenge, achieve nobility.

Nationalist discontent

After the First World War (1914–18), despite the Kingdom of Italy (1861–1946) being a full-partner Allied Power against the Central Powers, Italian nationalism claimed Italy was cheated in the Treaty of Saint-Germain-en-Laye (1919), thus the Allies had impeded Italy's progress to becoming a "Great Power". In September 1919, the nationalist response of outraged war hero Gabriele d'Annunzio was declaring the establishment of the Italian Regency of Carnaro. To his independent Italian state, he installed himself as the Regent *Duce* (Leader), and promulgated the *Carta del Carnaro*(*Charter of Carnaro*, 8 September 1920 , a politically-syncretic constitutional amalgamation of right-wing and left-wing anarchist, proto-fascist, and democratic republican politics, which much influenced the politico-philosophic development of early Italian Fascism.

Labor Unrest

At first, the Fascists [PNF] were concentrated in Milan and a few other cities. They gained ground quite slowly, between 1919 and 1920; not until after the scare, brought about by the workers "occupation of the factories" in the late summer of 1920 did fascism become really widespread. The industrialists began to throw their financial support to it. Moreover, toward the end of 1920, fascism began to spread into the countryside, bidding for the support of large landowners, particularly in the area between Bologna and Ferrara, a traditional stronghold of the Left, and scene of frequent violence.

Fascism Empowered

The First World War (1914–18) inflated Italy's economy with great debts, unemployment (aggravated by thousands of demobilised soldiers), social discontent featuring strikes, organised crime, and anarchist, Socialist, and Communist insurrections. When the elected Italian Liberal Party Government could not control Italy, the Revolutionary Fascist Party (*Partito Fascista Rivoluzionario*, PFR) Leader Benito Mussolini took matters in hand, combating those societal ills with the Black shirts, paramilitary squads of First World War veterans and ex-socialists; Prime Ministers such as Giovanni Giolitti allowed the Fascists taking the law in hand.The Liberal Government preferred Fascist class collaboration to the Communist Party of Italy's bloody class conflict, should they assume government, as had Vladimir Lenin's Bolsheviks in the recent Russian Revolution of 1917.*The Manifesto of the Fascist Struggle* (June 1919) of the PFR presented the politico-philosophic tenets of Fascism; it included women's suffrage, a minimum wage, an eight-hour workday, and reorganisation of public transport Appeasing its initially strong feminist wing, the Fascist party actually bowed in November 1925, allowing the introduction of limited women's suffrage, much to the dismay of Fascist feminists.

Economy

One of Prime Minister Mussolini's first acts was the 400-million-Lira financing of Gio. Ansaldo & C., one of the country's most important engineering companies. Subsequent to the 1926 deflation crisis, banks such as the *Banco di Roma* (Bank of Rome), the *Banco di Napoli* (Bank of Naples), and the *Banco di Sicilia* (Bank of Sicily) also were state-financed.In 1924, a private business enterprise established the *Unione Radiofonica Italiana* (URI — Italian Radiophonic Union), as part of the Marconi group, to which the Italian Fascist Government granted official radio-broadcast monopoly; after the Second World War, URI became the *Radio Audizioni Italiane* (RAI — Italian Radio Audience, 1944–54), then the *Radio televisione Italiana* (RAI — Italian Radio television).

. In 1933, the Istituto per la Ricostruzione Industriale (IRI — Institute for Industrial Reconstruction) was established to subsidize failing companies, and soon controlled important portions of the national economy via government-linked companies, among them Alfa Romeo. The Italian economy's Gross National Product increased 2 per cent; automobile production was increased, especially that of the Fiat motor company,and the aeronautical industry was developing. Especially after the 1936 Society of Nation's sanctions against Italian invasion of Ethiopia, Mussolini strongly advocated agrarianism and autarchy as part of his economic "battles" for Land, the Lira, and Grain. As Prime Minister, Benito Mussolini physically participated with the workers in doing the work; the "politics as theatre" legacy of Gabriele D' Anunzio yielded great propaganda images of *Duce* as "Man of the People".

Internal Relations

, the Fascist Government established Roman Catholic religious education in every education level; the Vatican would diplomatically recognize the Italian Fascist State.Moreover, to render the Italian people cosmopolitan, the Fascist Government applied every cultural artefact — from postage stamps to monumental architecture to sculpture — in making every social class conscious of Italy's cultural heritage, namely the Roman, Mediæval, Renaissance, and Baroque periods, and the modern age.Mussolini's establishment of law and order to Italy and its society was praised by Winston Churchill, Sigmund Freud, George Bernard Shaw, and Thomas Edison,as the Fascist Government combated organised crime and the Mafia with violence and vendetta (honour).

The first victims of Fascism

Influenced by the Roman Empire, *Duce*, Prime Minister Benito Mussolini, perceived himself as a contemporary Roman Emperor, and set to establishing a new Italian Empire. With an expansionist and militarist agenda, Italian colonialism penetrated Africa in competition with the British and French empires. The first Italian Fascist colony was Eritrea, in East Africa; then Libya, Somalia, and Ethiopia. The Fascists ruled via authoritarian government, especially in combating insurgents and guerrillas attempting to expel the Italians from their colonized countries; Omar Mukhtar was a notable Libyan example. To prepare the Italians for military conquest, Mussolini's agenda became radical in the 1930s; seeking a physically fit and psychologically tough imperialist people to establish a modern Italian Empire, like the Roman Empire, he advocated discarding formalities of language, thought, and action; a coarse mind and hard body suited for aggressive war.After Benito Mussolini came to power (1922), the forced Italianization of Slovene and Croatian populations in the 1920s and 1930s was under no international restraint in the areas that were given to Italy in exchange for joining Great Britain in the World War I.

Slovene Anti-Fascist resistance and Italian war crimes

On February 25, 1942, only two days after Italian Fascist regime established Gonars concentration camp that the first transport of 5,343 internees (1,643 of whom were children) arrived from - at the time already overpopulated - Rab concentration camp, from the Province of Ljubljana and from another camp in Monigo (near Treviso). To suppress the mounting resistance led by the Slovene Partisans, Italian soldiers adopted "draconian measures to intimidate the Slovene populations into silence by means of summary executions, hostage-taking, reprisals, internments into Rab and Gonars concentration camps and the *burning of houses and villages*".
Mario Roatta's merciless suppression of partisan insurgency was not mitigated by his having saved the lives of Jews and Serbs (from the persecution of German Nazis and NDH). The "3C" pamphlet, tantamount to a declaration of war on civilians, involved him in war crimes.

External Influence

The Italian Fascism government model was very influential beyond Italy; in the twenty-one-year intermarium of the First and Second world wars, many political scientists and philosophers sought ideological inspiration from Italy. Italian Fascism was copied by Adolf Hitler's Nazi Party, the Russian Fascist Organization, the Romanian National Fascist Movement (the National Romanian Fascia, National Italo-Romanian Cultural and Economic Movement), the Dutch fascists based upon the *Verbond van Actualisten* journal of H. A. Sinclair de Rochemont and Alfred Haighton.

POLITICAL SPECTRUM

A **political spectrum** is a way of modeling different political positions by placing them upon one or more geometric axes symbolizing independent political dimensions.

Most long-standing spectra include a right wing and left wing, which originally referred to seating arrangements in the 18th century French parliament. According to the simplest left right axis, communism and socialism are usually regarded internationally as being on the left, opposite fascism and conservatism on the right. Liberalism can mean different things in different contexts, sometimes on the left, sometimes on the right. There is politics that rejects the conventional left-right spectrum, this is known assyncretic politics.

However, researchers have frequently noted that a single left-right axis is insufficient in describing the existing variation in political beliefs, and often include other axes. Though the descriptive words at polar opposites may vary, often in popular biaxial spectra the axes are split between cultural issues and economic issues, each scaling from some form of individualism (or government for the freedom of the individual) to some form of communitarianism (or government for the welfare of the community). In this context, the contemporary American left is often considered individualist (or libertarian) on social/cultural issues and communitarian (or populist) on economic issues, while the contemporary American right is often considered communitarian (or populist) on social/cultural issues and individualist (or libertarian) on economic issues.

Fascism In Today’s Political Spectrum

Fascism is commonly placed on the far right of today’s political spectrum when it is described. Despite this, most scholars agree that influences by the left and right contributed to its development.

Italian Fascism was created with both right and left influences. The “Fascist right” was made of members of fascist paramilitary and some ex-members of the Italian Nationalist Association. The “Fascist left” included those who wanted to replace Italy’s liberal parliament with a national syndicalism and promote the interests of common people and workers.

In The Burqa Ban, Italy's Left And Right Find Something To Agree On

An Italian parliamentary commission has approved a draft law banning women from wearing veils that cover their faces in public. The thing about Italy's proposed law to ban women from wearing veils that cover their faces is that it's not clear what difference it would make. For Elzir of UCOII, to reject the bill is to stand for religious freedom — a devout woman should be free to cover herself if she wants. He adds that those women who are being forced to don a burqa by their husbands risk being confined to their homes if the proposal is made law. "We say we are for the liberty of all," says Elzir. "If there's a woman who is obliged to [wear the veil], let's work together to help get her out of this situation. Let's not make a law against her." He believes the bill is more about politics than policy, a distraction from the bigger issues. "Our parliament should focus on issues that impact all citizens, not just one or two people," he says. "The citizens of Italy need an answer to this economic crisis. And instead our parliament is studying whether our Islamic women should be covered or not."

POLITICAL RISK

Prime Minister Mario Monti is preparing reforms to boost Italy's economy after parliament approved a 33 billion euro austerity plan last month which aims to shore up the country's strained public finances but risks weighing on growth.The measures, which Monti will present at the end of January, are set to include **liberalisations, welfare and labour market reforms, but the government faces tough negotiations with unions, who have warned of social tension this year.** Italy, the euro zone's third largest economy, has been at the centre of the debt crisis since last summer, when its borrowing costs began to approach the levels which forced Ireland, Greece and Portugal to seek an international bailout. The situation in Italy is front and center , after S&P downgraded its outlook for the country , and its stocks and Credit markets got slammed . The political situation in Italy is an utter shambles. Its president, caught up in a sex scandal, has spent more time defending his public image then working to deal with the country's debt crisis.

Markets

Yields on 10 year bonds have come down from record highs of more than 7 percent in November following the approval of Monti's austerity measures.But they are still hovering just under 7 percent, which is seen as unsustainable given the amount that Italy needs to raise through debt issuance in 2012.With almost 160 billion euros of bonds needing to be refinanced by the end of April, there are concerns that market confidence may be hit by more shocks, wiping out the gains made in the aftermath of Monti's announcement.

Political Support

Monti has said he intends to remain in office until the next scheduled elections in 2013 but he will need to retain the support of parliament and prevent opposition from unions spilling over into mass street protests.Italy's three main unions attacked his austerity package for unfairly targeting workers and ordinary pensioners and held a series of strikes in December.After years of division the three unions appear to have united against Monti's reform plans, and analysts say he must move fast on additional reforms while his popularity is high and the sense of emergency over Italy's debt crisis is acute

The Economy

A chronically stagnant economy which is probably already in recession could torpedo efforts to cut the debt, trapping Italy in a spiral in which growth is choked off by repeated doses of austerity administered to control the budget. Italy's economy contracted by 0.2 percent in the third quarter from the second due to a slump in domestic demand, and analysts expect the downward trend to continue in subsequent quarters.The government forecasts economic contraction of 0.4 percent this year and zero growth in 2013 but believes that the measures it has introduced should allow it to hit its target of a balanced budget by 2013.

Sharp Increase In Funding Cost

Italy is more likely to experience a further **sharp increase in its funding costs or the loss of market access** than at the time of our rating action five months ago due to increasingly fragile market confidence, contagion risk emanating from Greece and Spain and signs of an eroding non-domestic investor base.

Near Term Economic Outlook Deteriorated

Italy's **near-term economic outlook has deteriorated**, as manifest in both weaker growth and higher unemployment, which creates risk of failure to meet fiscal consolidation targets. Failure to meet fiscal targets in turn could weaken market confidence further, raising the risk of a sudden stop in market funding.

Italy's unelected Prime Minister Mario Monti said he won't serve in another government when his term ends next year."I have always excluded and I still exclude considering an experience of government that goes beyond the next election, which is naturally the end of the government that I have the honor of presiding over," he told reporters in Brussels today after a meeting of finance ministers.

Monti made the comments after speculation in the Italian press about the possibility that the premier would be asked to remain in office after elections due in April of next year. The nation's two main political parties, which suspended their rivalries and have jointly supported Monti's policies, may not be able to win a governing majority in parliament on their own, polls indicate.Given these reports it would appear that Italy is moving towards a period of political instability. This is certainly not an environment in which you would expect to see substantial progress on the structural reforms or maintenance of fiscal austerity. We are yet to see exactly what the Italian political landscape becomes if Mr Monti does take to the exits, but it is quite possible that Italy's politics once again become far more of a concern to the financial world than the nation's economy.

POLITICS OF ITALY

ITALY

The **politics of Italy** is conducted through a parliamentary, democratic republic with a multi-party system. Executive power is exercised collectively by the Council of Ministers, which is led by the Prime Minister (officially referred to as President of the Council, "*Presidente del Consiglio*").Legislative power is vested in the two houses of parliament primarily, and secondarily on the Council of Ministers. The judiciary is independent of the executive and the legislative branches.

Italy has been a democratic republic since June 2 1946, when the monarchy was abolished by popular referendum (see birth of the Italian Republic). The constitution was promulgated on January 1, 1948.The current President of Italy is Giorgio Napolitano and current Prime Minister of Italy is Mario Monti.

GOVERNMENT

The 1948 Constitution of Italy establishes the parliament, an executive branch (cabinet), headed by the Prime Minister (also called President of the Council), and an independent judicial branch headed by the 'Consiglio Superiore della Magistratura'. The President is the head of state, though his position is separate from all branches

HEAD OF STATE

Giorgio Napolitano was elected President on 10 May 2006.

As the head of state, the President of the Republic represents the unity of the nation and has many of the duties previously given to the king of Italy. The president serves as a point of connection between the three branches: he is elected by the lawmakers, he appoints the executive, and is the president of the judiciary. The president is also commander-in-chief of the armed forces.

The President of the Republic is elected by Parliament in joint session, together with three representatives of each region (except for the Aosta Valley, which gets only one representative) in such a way as to guarantee representation to minorities. His election needs a wide majority that is progressively reduced from two-thirds to one-half plus one of the votes as the ballots progress. The only Presidents ever to be elected on the first ballot are Francesco Cossiga and Carlo Azeglio Ciampi. Mr. Ciampi was replaced by Giorgio Napolitano, who was elected on 10 May 2006. While it is not forbidden by law, no president has ever served two terms.

Usually, the President tries to stay out of the political debate, and to be an institutional guarantee for all those involved in the political process. The president can also reject openly anti-constitutional acts as the *guardian* of the Constitution of Italy.

JUDICIAL BRANCH

The Italian judicial system is based on Roman law, the Napoleonic code and later statutes. It is based on a mix of the adversarial and inquisitorial civil law systems, although the adversarial system was adopted in the Appeal Courts in 1988. Appeals are treated almost as new trials, and three degrees of trial are present. The third is a legitimating trial.

There is only partial judicial review of legislation in the American sense. Judicial review exists under certain conditions in the Constitutional Court, or Corte Costituzionale, which can reject anti-constitutional laws after scrutiny.

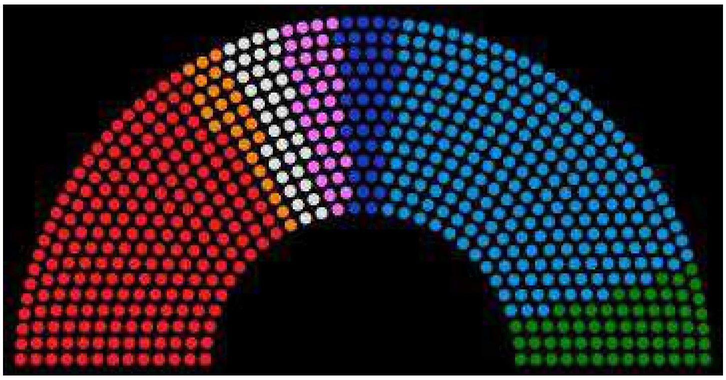
The Constitutional Court is composed of 15 judges one of which is the President of the Italian Constitutional Court elected from the court itself. One third of the judges are appointed by the President of the Italian Republic, one-third are elected by Parliament and one-third are elected by the ordinary and administrative supreme courts. The Constitutional Court passes on the constitutionality of laws, and is a post-World War II innovation. Its powers, case load, and frequency of decisions are not as extensive as those of the U.S. Supreme Court.

Italy has not accepted compulsory jurisdiction of the International Court of Justice.

POLITICAL PARTIES AND ELECTIONS.

All Italian citizens **older than 18** can vote. However, to vote for the senate, the voter must be at least 25 or older.

CHAMBER OF DEPUTIES



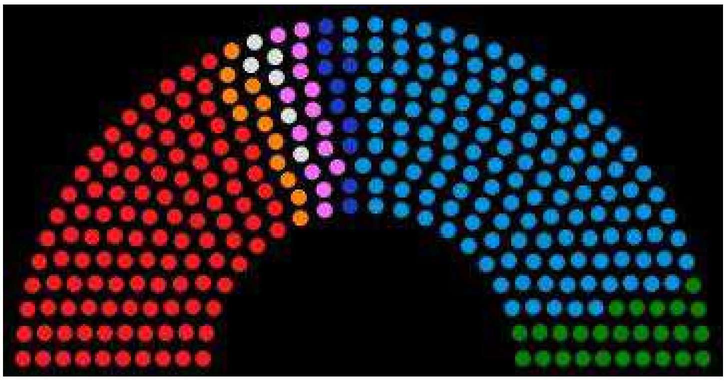
Composition of the Chamber of Deputies. The Berlusconi-led coalition won the nationwide majority bonus with a 9 point lead over the nearest coalition.

Summary of the 13–14 April 2008 Chamber of Deputies election

Parties and alliances	Votes	%	Change	Seats	Change
S. Berlusconi coalition	17,064,314	46.81	+3.83	344	+102
▪ The People of Freedom	13,629,096	37.39	–1.02	276	+60
▪ Lega Nord	3,024,758	8.3	+3.72	60	+34
▪ Movement for Autonomy	410,487	1.13	+1.13	8	+8
W. Veltroni coalition	13,686,501	37.54	+4.05	246	+3
▪ Democratic Party	12,092,969	33.17	+1.97	217	–9
▪ Italy of Values	1,593,523	4.37	+2.08	29	+12
Union of the Centre	2,050,309	5.62	–1.13	36	–3
The Left – The Rainbow	1,124,428	3.08	–7.11	0	–72

	The Right–Tricolour Flame	885,226	2.43	+1.82	0	—
	Socialist Party	355,575	0.98	–1.91	0	–18
	South Tyrolean People's Party	147,666	0.41	–0.07	2	–2
	Autonomy Liberty Democracy	—	—	—	1	±0
	Movimento Associativo Italiani all'Estero	—	—	—	1	+1
	Others	1,146,978	3.13	+0.52	—	–11
Total		**36,452,286**	**100%**		**630**	

SENATE OF THE REPUBLIC



ELECTED SENATORS.

Summary of the April 13–14, 2008 Senate election

Parties and alliances		**Votes**	**%**	**Change**	**Seats**	**Change**
	S. Berlusconi coalition	15,678,114	46.94	+4.33	174	+39
	▪ The People of Freedom	12,678,790	37.96	–0.24	146	+24
	▪ Lega Nord	2,644,248	7.92	+3.52	26	+13

▪ Movement for Autonomy	355,076	1.06	+1.06	2	+2
W. Veltroni coalition	12,620,660	37.79	+6.30	134	+21
▪ Democratic Party	11,052,577	33.10	+5.01	118	+12
▪ Italy of Values	1,414,118	4.23	+1.40	14	+10
▪ PD-SVPalliance	153,965	0.46	–0.11	2	-1
Union of the Centre	1,898,842	5.69	–0.95	3	–18
The Left – The Rainbow	1,093,135	3.27	–8.06	0	–38
The Right–Tricolour Flame	703,685	2.11	+1.48	0	—
Socialist Party	285,802	0.86	–1.95	0	—
South Tyrolean People's Party	98,947	0.30	–0.04	2	±0
Union Valdotaine	29,186	0.09	+0.02	1	+1
Movimento Associativo Italiani all'Estero	—	—	—	1	+1
Others	969,825	2.95	–1.13	—	–6
Total	**33,396,196**	**100%**		**315**	

Italy's dramatic self-renewal transformed the political landscape between 1992 and 1997. Scandal investigations touched thousands of politicians, administrators, and businessmen; the shift from a proportional to an Additional Member System (with the requirement to obtain a minimum of 4% of the national vote to obtain representation) also altered the political landscape.

Party changes were sweeping. The Christian Democratic party dissolved; the Italian People's Party and the Christian Democratic Center emerged. Other major parties, such as the Socialists, saw support plummet. A new liberal movement, Forza Italia, gained wide support among moderate voters. The Alleanza Nazionale (National Alliance) broke from the (alleged neo-fascist) Italian Social Movement (MSI). A trend toward two large coalitions (one on the center-left and the other on the center-right) emerged from the April 1995 regional elections. For the 1996 national elections, the center-left parties created the Olive Tree coalition while the center-right united again under the House of Freedoms. These coalitions continued into the 2001 and 2006 national elections.

This emerging bipolarity represents a major break from the fragmented, multi-party political landscape of the postwar era, although it appears to have reached a plateau, since efforts via referendums to further curtail the influence of small parties were defeated in 1999, 2000, and 2009.

HISTORY OF POLITICAL ENVIRONMENT OF ITALY

FIFTH-CENTURY POLITICAL TRENDS

The Germanic invasions of the years after 400 did not, then, strike at an enfeebled political system. But in facing them, ultimately unsuccessfully, Roman emperors and generals found themselves in a steadily weaker position, and much of the coherence of the late Roman state dissolved in the environment of the continuous emergencies of the 5th century. One of the tasks of the historian must be to assess the extent of the survival of Roman institutions in each of the regions of the West conquered by the Germans, for this varied greatly. It was considerable in the North Africa of the Vandals, for example, as Africa was a rich and stable province and was conquered relatively quickly (429–442); it was more limited in northern Gaul, a less Romanized area to begin with, which experienced 80 years of war and confusion (406–486) before it finally came under the control of the Franks. In Italy the 4th-century system remained relatively unchanged for a long time. The government of the Western Empire, which was permanently based at Ravenna after 402, became progressively weaker but remained substantially intact. While the Germanic king Odoacer ruled Italy after 476, the peninsula was not conquered by a Germanic tribe until the Ostrogothic invasion in 489–493. Although the peninsula had faced invasions, such as those of Alaric the Visigoth in 401–410, Italian politics continued during the 5th century to be those of the Roman Empire. This meant, in the context of the military crisis of the period, a continual struggle between civil and military leaders, with the emperors themselves more or less pawns in the middle.

The careers of three of these leaders serve as examples of 5th-century political trends. Aetius controlled the armies of the West between 429 and his murder in 454; he was the last man to be active in both Italy and Gaul, as a Roman senatorial leader of a barbarian army that was Germanic, Hunnic, or both. His career was typical of those in the military tradition of Roman politics, and, had his life not been cut short, he might well have become emperor. The makeup of his army was, however, already significantly different from that of Diocletian or Valentinian, and its growing number of non-Roman military detachments tended increasingly to have their own ethnic leaders and to be organized according to their own rules. Ricimer (in power 456–472, by this time only in Italy) was a Germanic tribesman, not a Roman.

He was culturally highly Romanized and, as such, was himself part of a tradition of Romano-Germanic military leadership that went back to the 370s, but he could not, as a "barbarian," be emperor, and he made and unmade several emperors in a search for a stable ruler who would not undermine his own power. Significantly, in 456–457 and 465–467 he ruled alone, subordinate only to the Eastern emperor in Constantinople. Odoacer was militarily supreme from 476 to 493. In a coup in 476 he replaced the last ethnic-Roman military commander, Orestes, and deposed Orestes' son, Romulus Augustulus, the child emperor and the last of the Western emperors. Odoacer pushed Ricimer's politics to its logical conclusion and ruled without an emperor except for the nominal recognition of Constantinople as supreme authority. Odoacer, however, did not merely call himself *patricius*—local ruler for the Eastern Empire—but also *rex*—king of his Germanic army of Sciri, Rugians, and Heruls. To what extent he was a military commander of a Roman army as opposed to being a German "tribal" leader was by now impossible to tell. Nonetheless, he, like Ricimer, was an effective defender of Italy against invaders for a long time.

THE OSTROGOTHIC KINGDOM

Theodoric, king of the Ostrogoths, conquered Italy and killed Odoacer in 493. The decades of the Ostrogothic kingdom in Italy (493–552) can be seen as the first true period of Germanic rule in the peninsula, for an entire tribe of 100,000 to 200,000 people came with Theodoric. Still, the Ostrogothic kingdom continued to operate inside a largely Roman political system. Like Odoacer, Theodoric courted the Roman aristocracy, both the civil administrators at Ravenna and the great landowners who made up the Senate at Rome. He needed them to run a still largely functioning tax system, which continued, in part, to pay for the army, though the latter was now entirely Ostrogothic. Roman law remained the basis of political and civil life except for the Ostrogoths, who continued to observe their own customary laws and practices. Theodoric, who did not want the Ostrogoths to become Romanized, encouraged them to keep their distance from the Romans. Yet such apartheid did not last. Some Romans joined the army; many more Goths became landowners, legally or illegally, and adopted civilian Roman cultural traditions.

Theodoric's rule was probably the most peaceful and prosperous period of Italian history since Valentinian, but a decade after his death Italy was already in ruins. Theodoric himself had fallen out with an important, traditionalist senatorial faction and had executed several senators, including the philosopher-politician Boethius in 524; the Roman elites looked increasingly to Constantinople as a result. The Goths began to split between factions representing more-Roman or more-Germanic cultural traditions; when the latter faction murdered Theodoric's daughter and successor, Amalasuntha (regent 526–534; queen 534–535), a crisis began that was to end the kingdom.

THE END OF THE ROMAN WORLD

The Eastern emperors in Constantinople regarded themselves as the legitimate rulers of the West, including Italy, after 476; both Odoacer and, for a time, Theodoric had recognized them, and they had strong links with the Roman Senate. In 533–534 Belisarius, general for the Eastern emperor Justinian I (527–565), conquered Vandal Africa; Amalasuntha's death was the necessary excuse to invade Italy. Belisarius arrived in Sicily in 535, and by 540 he had fought his way north to Ravenna. The Ostrogothic king Witigis (536–540) surrendered to him. The Gothic armies of the north, however, elected new kings, and Totila (541–552), the most successful of them, kept the war going throughout the peninsula until his death in battle.

The Gothic wars were a disaster for Italy; almost no region was untouched by them. Together with the subsequent wars of the Lombard conquest (568–605), they mark the end of the Roman world there. In the 550s and the early 560s, however, the Eastern (thenceforth, Byzantine) Empire succeeded in reestablishing its political order in Italy, and in 554 Justinian issued the Pragmatic Sanction setting forth its terms: Italy was made a province of the Byzantine Empire, with its capital still at Ravenna (Sicily, Sardinia, and Corsica, however, were to remain administratively separate), and the Ostrogothic political system was to be dissolved. Indeed, the Ostrogoths virtually vanished as a people from then on; it is assumed they were absorbed into the Roman population or into that of the Lombards.

LOMBARDS AND BYZANTINES

In 568–569 a different Germanic tribe, the Lombards, invaded Italy under their king, Alboin (*c*. 565–572). They came from Pannonia (modern western Hungary), which had itself been a Roman province. Exactly how Romanized they were is a matter of dispute, but they certainly did not have the political coherence of the Ostrogoths, and they never conquered the whole of Italy. Alboin took the north but was soon murdered, probably with Byzantine connivance. His successor, Cleph (572–574), was murdered as well, and for a decade (574–584) the Lombards broke up into local duchies with no king at all. The Byzantines seem to have been partially responsible for this too; at that time they did not have the military capacity to drive the invaders back, and it was easier for them to divide the Lombard leadership and buy some of them into the Byzantine camp. For the rest of the century, even after the reestablishment of Lombard kingship under Authari (584–590) and then Agilulf (590–616), nearly as many Lombard leaders seem to have been fighting with the Byzantines as against them. In 584, in the face of Frankish invasions from beyond the Alps, the Lombard dukes met and elected Authari king, ceding him considerable lands; in the process, Agilulf managed to unify the duchies of the north into a single kingdom. But the confusion of the first decades of the Lombard kingdom did not favour the development of a coherent political system, and, when the wars stopped in 605, Italy was divided into several pieces with boundaries that were in some cases to survive for centuries.

The largest of these pieces was the Lombard kingdom of northern Italy and Tuscany. By the 620s its capital was at Pavia, which remained the capital of the north until the 11th century; other major centres were Verona, Milan, Turin (Torino), Lucca, and Cividale, the capital of the duchy of Friuli. Friuli played an important role as the Italian frontier against the Avars, a powerful military confederation of Central Asian origin that had taken over Pannonia. The two great southern duchies of the Lombards, Spoleto in the central Apennines and Benevento in the mountains and plains of the south, are best considered independent states; they were not connected to the Lombard kingdom geographically and seem to have developed separately, as territories conquered in the 6th century by Lombard detachments originally in some sense under Byzantine control. They were part of the same political structure as the north only for brief periods, most notably the 660s and the 730s–760s.

Byzantine Italy was nominally a single unit, but it too in reality fell into several separate pieces. Its political centre was Ravenna, which was ruled by a military leader appointed from Constantinople and called exarch from about 590. Exarchs were changed quite frequently, probably because military figures far from the centre of the empire who developed a local following might revolt (as happened in 619 and 651) or else turn themselves into autonomous rulers. But the impermanence of the exarchs made it easier for their local subordinates to gain some measure of autonomy. The duke of Naples, the largest city of the south, was effectively independent by the 8th century, as was the duke of the newly formed lagoon city of Venice. The most important of these local rulers, however, was the pope, the bishop of Rome, for Rome remained the largest city of Italy and its bishop, in theory the spiritual head of the whole of Latin Christendom, had considerable status. Rome had dukes too, but they did not have the local support the popes had, and they remain shadowy figures. The popes, on the other hand, had a political position that in practice equaled that of the exarchs and lasted a great deal longer. In the far south, Sicily remained administratively separate from Ravenna, as did Sardinia, which followed its own path under increasingly independent “judges” in almost total obscurity until the Pisan and Genoese invasions of the 11th and 12th centuries. The Lombards of Benevento took Apulia (now Puglia) from the Byzantines, except for Otranto at its southern tip, in the late 7th century; southern Calabria remained under Byzantine control and was Greek-speaking by the 10th century.

THE LOMBARD KINGDOM, 584–774

King Authari ensured the survival of the Lombards, threatened as they were by both the Byzantines and the Franks. The last Frankish invasion, in 590, probably resulted in some sort of Frankish supremacy; the Lombards payed tribute, at least for a time, and sent detachments to fight in the Frankish army as late as the 620s. King Agilulf reorganized the kingdom and suppressed several dukes with pretensions to autonomy. He also concluded a treaty with the Byzantines in 605 that established permanent borders with the exarchate, which scarcely changed over the next century (the only major exception being the Lombard conquest of the Ligurian coast in the early 640s). Agilulf also seems to have reorganized the central government with the help of Roman administrators, and indeed he imitated or reestablished some late Roman and Byzantine court rituals; he did not, however, exact the land tax and must have lived mostly off his substantial royal estates.

Agilulf seems to have been a pagan in his personal religion, though he may have been an ArianChristian; there were certainly many Arians among the Lombards, including most of the kings between 568 and 652. His wife and son were, however, Catholic, and Catholics were common among the Lombards as a whole from at least the 590s as well. Germanic peoples had often been Arians in the 5th and 6th centuries (the Ostrogoths were, for example), but the Lombards seem to have been less committed to Arianism than were the Goths or the Vandals, and they abandoned it without documented struggle in the mid-7th century. Although the Lombards do not in any case seem to have been religious fanatics, it may well have been Agilulf who laid the basis for a peaceful conversion of his people to Catholicism, owing to his careful cultivation of links to Catholic figures such as Pope Gregory I (despite his wars with Rome) or to the Irish missionary Columban, who founded the monastery of Bobbio, near Pavia, about 612.

For the political history of the Lombards, scholars rely primarily on one source, Paul the Deacon's*History of the Lombards*, written in the 790s. For the reigns of Agilulf and his predecessors, Paul's information is in part contemporary, for it is based on a lost historical work by Secundus of Non, one of the Romans at Agilulf's court. Secundus's work, however, seems to have ended after 616, and Paul's knowledge—and thus posterity's—becomes much more fragmentary. Paul says little, for example, about Rothari (636–652) except that he was militarily successful (it was he who conquered Liguria) and, most importantly, that he was the first king to set out Lombard custom, in his Edict of 643, a substantial law code that survives independently. It is evident, however, that the basic institutions of the kingdom were by then fairly stable. Between 616 and 712 the Bavarian dynasty—the family of Agilulf's wife, Theodelinda—dominated the succession; kings who were not members of this family, such as Rothari and Grimoald of Benevento (662–671), married into it. Grimoald was the only southern duke to claim the throne of Pavia; like Rothari, he fought the Byzantines and made laws. Male-line Bavarian kings such as Perctarit (661–662, 672–688) and his son Cunipert (680–700) preferred peace and seem to have developed the ceremonial role of the royal court. This contrast may have represented a real political difference, but, if so, it was only a difference of emphasis. Every king accepted the cornerstones of the Lombard political tradition: Agilulf's Romanized court and Rothari's Lombard law.

Coups dominated the Lombard political succession, like that of the Visigoths in Spain, and between 700 and 712 these became particularly savage, resulting in the end of the Bavarian dynasty. Liutprand (712–744) reestablished peace; he is generally regarded as the most successful Lombard king. He issued a series of laws, as a conscious and well-organized updating of Rothari's Edict, which introduced a fair amount of Roman law into the Lombard system. He also waged war on the Byzantine exarchate and the southern duchies alike. The duchies of Spoleto and Benevento had, as noted, maintained their independence and their separate political traditions. Liutprand conquered the southern duchies in the 730s, setting up his own dukes in both; by his death, Spoleto (though not Benevento) was stably in Pavia's orbit. He also took about half the land controlled by the exarch and occupied Ravenna itself, temporarily, in 743. His attitude toward Rome is less clear; he took some papal territory but never threatened the city itself. During Liutprand's reign the Lombard king, for the first time since 568, was militarily dominant in the peninsula. He seems, however, to have still accepted the right of the exarch and the pope to an independent existence.

Aistulf (749–756) followed Liutprand's policies to their logical conclusion: he conquered Ravenna in 751, ending the exarchate; he ruled in Spoleto without a duke from 751 to 756; and in 752 he began to move on Rome, demanding tribute from the pope. But times had changed for the Lombards. In the 740s the popes had become close to the rising Carolingian dynasty in Francia, and in 751 its head, Pippin III, was recognized as king of the Franks by Pope Zacharias (741–752). Faced with Aistulf's attacks, Zacharias's successor, Stephen II (752–757), went to the Franks and sought their military support. In 754 and again in 756, Pippin invaded Italy and defeated Aistulf; he took Ravenna from the Lombard king and gave it directly to the pope, notwithstanding protests both from Byzantium and from the inhabitants of Ravenna itself. This pattern was to persist. Aistulf's successor, Desiderius (757–774), allied himself by marriage with the Franks and kept control of the southern duchies. But when he too threatened Rome in 772–773, the Frankish king, Charlemagne, invaded and this time conquered the Lombard kingdom outright (773–774). Italy became absorbed into the Carolingian lands right down to the border of Benevento, which remained independent.

POPES AND EXARCHS, 590–800

The Byzantine lands in Italy were, in theory, only provinces of the empire of Constantinople and to that extent do not have much of an independent political history. Although Ravenna often found itself politically opposed to Constantinople, few exarchs made a permanent impression. The most consistent local political tradition was probably that of the archbishops of Ravenna, who were rich and powerful and, like their counterparts in Rome, had a considerable role in the civil administration.

It was in this context that the popes gradually increased their secular authority. The exarchs did relatively little to defend Rome, which was largely cut off from Ravenna by the Lombard states; the papal city thus had to develop its own political institutions. In the late 6th century, responsibility for feeding the population of Rome and, by the 590s, for defending it from the Lombards (both of Pavia and Spoleto) slowly shifted from the fast-disintegrating Roman Senate to the popes, who themselves still tended to come from senatorial families. Gregory I (the Great; 590–604) was the most important of these, and, thanks to his own extensive theological writings and collection of letters, his papacy is by far the best-documented of this period. In the course of the 7th century, his successors slowly detached themselves from the power of the exarchs, and by about 700 they could successfully defy any attempt from Ravenna to remove them. This also meant that they had gained autonomy from the more distant authority of the Byzantine emperor, with whom they were also often in religious disagreement. Pope Martin I could in 653 still be arrested for such disagreement (he died in exile in the East in 655), but not his successors. This autonomy became particularly important in the 730s, because Emperor Leo III (717–741) was an iconoclast (i.e., opposed to religious images, or icons), and the popes were firmly opposed to iconoclasm. The emperor confiscated papal rights in southern Italy and Sicily from Rome for the popes' defiance, but he could not remove a pope. From then on, however, the Byzantine army no longer helped the popes, who were increasingly reliant on their lands in the Campagna (now part of Lazio) around Rome for food and military support. It was in this context that the popes began to look to the Franks for help against the Lombards. But the popes were also, in the face of nothing but hostility from Byzantium, beginning to think for the first time in terms of their own practical independence.

This came to fruition when the popes gained control over Ravenna itself after 756. By 774, when Charlemagne conquered northern and central Italy, Pope Adrian (772–795) had extensive territorial designs in the peninsula. Yet these came to nothing, and indeed Adrian and Pope Leo III (795–816) found Charlemagne a far more intrusive patron than the Byzantines had ever been. But the popes kept control of the Campagna, and the belt of papal lands between Rome and Ravenna remained intact as well; the Papal States, as reconstituted by the late-medieval popes, reproduced almost exactly the boundaries of the former exarchate.

ETHNIC IDENTITY AND GOVERNMENT

The Ostrogothic kingdom used so many Roman governmental institutions that it can best be understood as a virtual continuation of the late Roman imperial system. Lombard rule marked much more of a break, without doubt. But exactly how much the Lombard states owed to the Roman past and how much to Germanic traditions is an ongoing debate. The basic notion of the kingdom as a political system was a Germanic concept in large part, for the legitimacy of the king rested on his direct relationship with the free Lombard people in arms—the *exercitales*, or *arimanni*, who formed the basis of the Lombard army. This

concept did not leave much room for Romans, who indeed largely disappear from the evidence, even when documents increase again in the 8th century; it is likely that any Romans who wished to remain politically important in the Lombard kingdom had to become "Lombardized." It is even in dispute, for that matter, how many such Romans there were. Paul the Deacon, for instance, claimed that the Roman aristocracy were largely killed in the first generation of the Lombard invasion. But this was certainly an exaggeration, because the Lombards adopted too many customs from the Romans for the latter to have been reduced entirely to subjection. Some Roman aristocratic families must have survived among the Lombards, as is suggested, for example, by the name of a royal protégé and founder of a monastery in Pavia in 714: Senator, son of Albinus.
The Lombards seem to have settled largely in the region to the north of the Po River, the area with the majority of Lombard place-names and Germanic-style archaeological finds (mostly from cemetery sites). But even there Lombards must have been a minority, and they must have been even more so farther south. There were probably few concentrations of Germanic settlers entirely immune to Roman cultural influence. The Lombard language seems to have disappeared by the 8th century, leaving few loanwords in the Italian language. The impression conveyed is of a gradual Romanization of the society and culture of the Lombards within the framework of their continuing political dominance. When the Franks invaded, Lombards and Romans moved together still more as a conquered, by now "Italian," people: the *regnum Langobardorum* ("kingdom of the Lombards") of the Lombard period was called the *regnum Italiae* ("kingdom of Italy") from the 9th century onward.

The evidence of Lombard law reinforces this pattern. Rothari's Edict and Liutprand's laws look much like the legislation of the Franks and of other Germanic peoples; they deal, for example, with the carefully calculated compensations for various crimes of violence that aimed to replace violent feuds or at least to make easier the resolution of feuding. These ideas were certainly foreign to traditional Roman law. When Liutprand in 731 restricted the scope of the judicial duel, for he suspected that it was unjust, he explicitly recognized that it could not be abandoned altogether, as it was part of Lombard custom. Within this Lombard frame, however, the content of law was often in practice heavily Roman. Lombard land law, for example, was almost entirely late Roman, except for the rules for inheritance.

The administrative system of the Lombard state was even more Roman than its laws. This is not very surprising, for Roman models offered far more power to rulers than did any Germanic tradition of government. The Lombards, like other Germanic invaders, took what they could from their new subjects and used Roman administrators where they could find them. Their system, as it is visible in documents from the 8th century, seems to have been more coherent than that of most other Romano-Germanic kingdoms. It was based on a central government in Pavia with numerous permanent administrators (such as the referndarii, who organized the writing of royal charters) and legal experts; there is evidence of legal appeals to judges in Pavia, and some of them were settled by the king himself.

Locally, cities provided the basis of government, which was another Roman tradition. In the kingdom, either a duke or a gastald governed each city and its territory; the difference seems to have been principally one of status. In the southern duchies, local rulers were all *gastald*s. These officials were in charge of the local law courts, led the city army, and administered the royal lands in the city's territory. (These three duties more or less exhausted the functions of government in the early Middle Ages.) Such responsibilities were typical everywhere in the post-Roman world; in Lombard Italy, however, the local power of dukes and *gastald*s seems to have maintained a more official character than in, say, Francia, with less development of private, or family, power and more royal intervention in local political processes. The Lombard kingdom also differed from Francia in the relatively limited political importance of its bishops and other churchmen; the kings of Pavia used church institutions as an element to bolster their power less than did any other rulers in the West (including the Byzantines in Italy). This may well show that secular institutions were strong enough for kings to rule through them without ecclesiastical help; if so, the reason must have been the survival of a relatively complex social and political life in the cities themselves. Eighth-century documents, particularly for Lucca, show a network of medium-level aristocratic families based in cities, who tended to furnish both counts and bishops for their localities and whose genealogies can sometimes be traced for centuries to come. The stability of city-based regional governments was probably the essential foundation for the political coherence of the Lombard Kingdom itself

BYZANTINE ITALY

Byzantine Italy was different from the Lombard lands in obvious and crucial respects. It was not independent; it was not ruled by an incoming, ethnically distinct group; and it gave more political space to the church. Perhaps above all, it still exacted the land tax and thus could afford a salaried army and a far more complex administrative system than the Lombards ever had. But in some respects it had a very similar development. The local power of the army and the constant need for defense led to the formation of a militarized landed aristocracy and indeed to a military identity for free landowners at all levels and thus to social patterns that were not at all unlike those in the Lombard states. For that matter, the foreign origin (Greek or Armenian) of many newly landed army leaders made the ethnic mix in the Byzantine lands almost as visible as in the lands of their Germanic neighbours. The civilian aristocracy of the Roman Empire vanished; Roman landowners who wished to maintain political influence had to become militarized and "Byzantinized," at least if they did not attach themselves to the bureaucratic network around the popes and the archbishops of Ravenna.

Even the church became increasingly militarized; by the 9th century the bishop and the duke of Naples were sometimes the same person. The dominance of local military aristocracies in ecclesiastical politics appeared most clearly in the civil wars in Rome in the late 760s, the first period of effective papal independence and one in which rival families fought it out for the papal office. Roman politics was to take on this internecine character again when popes became politically independent; the next sequences of violence occurred in the years around 900 and in the early 11th century.

Similarities Between Lombard And Byzantine States

The Lombard states and the Byzantine provinces in Italy thus resembled each other more than either did the Roman Empire of the 5th century. The Lombard kings had a far less complex administrative system than had existed before 550, based as it was on royal landowning rather than the complex tax-raising mechanisms of the Roman world. One example of this is that they usually minted only a high-value gold currency rather than the gold, silver, and bronze coins normal under the empire; their state did not need as complex a financial system as the Romans had had. But the complexity of public life could more easily survive in Lombard Italy than farther north in Germanic Europe, owing above all to the vitality of Italian city society: in this sense, the Lombards looked far more Roman than did the Franks or, still less, the Anglo-Saxons. This city society must have been fairly similar on both sides of the Lombard-Byzantine frontier, in Ravenna as in Pavia, in Rimini or Naples as in Lucca or Verona. And, as the Byzantines developed local military aristocracies resembling those of the Lombards, so the cultural traditions of the two parts of the peninsula tended to move in the same direction. They were never identical, however; major Byzantine cities seem to have been larger than Lombard ones, and the Byzantine political system remained the more complex and articulated of the two to the end.

CAROLINGIAN AND POST-CAROLINGIAN ITALY, 774–962

THE KINGDOM OF ITALY

The Carolingian kingdom of Italy occupied the northern and central peninsula down to Rome, with the sole exception of the nominally Byzantine duchy of Venice; the former exarchate and all the Lombard lands except Benevento (to be dealt with separately) were part of it. Charlemagne called himself "king of the Franks and the Lombards," thus recognizing the separate identity of Italy inside the Carolingian empire. He left the Lombard dukes and *gastald*s in place unless they openly rebelled against him. Indeed, Italy was so much more tightly governed than Francia that to some extent it served as a model for Charlemagne's governmental reforms. However, these reforms were intended for the entire empire, and, in general, the reign of Charlemagne in Italy (774–814) effected the slow integration of the latter into the political world of the Franks. Frankish names for institutions and offices replaced Italian ones; for example, dukes and *gastald*s became counts, *gasindi* (private military dependents) became *vassi* ("vassals"), and minor judicial officials were henceforth called *scabini*, as their counterparts were called north of the Alps. As in Francia, the church acquired greater political importance, for the Carolingians in Italy used bishops in their central and local administrations almost as much as they used counts. And, as long as the Carolingian empire remained united, its legislation, with some modifications, was as valid south of the Alps as it was to the north. The Frankish conquest began, then, a period of slow change rather than rupture;

certainly, there was less rupture than with the Lombard conquest in 568. Few Franks, in fact, settled in Italy. These were mostly aristocrats, and indeed they made up almost the entire body of Italian counts appointed after about 800. The Lombard aristocracy, however, remained in the cities and supplied most of the bishops, and bishops were steadily gaining in political importance.

Carolingian government, which is better-documented than that of the Lombards, seems to have slowly increased in sophistication. Carolingian rule in northern and central Italy (774–887) brought a century of uninterrupted peace, and kings had time to perfect the already systematic ties between Pavia and the increasingly literate city-based administrations. The king's messengers regularly brought royal commands to the cities, and appeals came back to a complex judicial network in Pavia. Locally, legal procedures became standardized and reliable, as surviving documents of court cases show. This does not mean that government or laws were equitable or just, and there is plenty of evidence to indicate they were not, but they were at least systematic. This administrative network remained, even after the crisis of royal power in the early 10th century.

For most of the 70 years after 774, the kings of Italy were either children or living in the north of Europe. Charlemagne rarely came to Italy; his son Louis the Pious (814–840) never did. Charlemagne was at least involved with Roman politics, and Pope Leo III crowned him emperor in 800; but this title held little practical significance until the German emperors reestablished it in 962, and Louis was anyway crowned emperor in Aachen (now in Germany), not in Rome, in 813. Louis's brother Pippin was subking of Italy until his death in 810, and he was succeeded by his son Bernard(812–817). Louis, however, replaced Bernard with his own son Lothar I (817–855); Bernard revolted, but he was captured and blinded, and he died in 818. Lothar, like his father and grandfather, was more interested in Frankish politics, particularly during the Frankish civil wars of the 830s.

After the Treaty of Verdun in 843, the Carolingian empire began to be divided between the male heirs of the dynasty; West Francia (roughly, modern France), East Francia (roughly, modern Germany), and Italy were the major new kingdoms that emerged. Lothar's son Louis II (844–875) was king-emperor only in Italy. Louis II, whose reign was in many ways the high point of the Carolingian kingdom in the peninsula, was an active interventionist king. He used both the Pavia administration and new legislation to restore royal authority, which had slipped a little during the civil wars in Francia. His laws of 850, in particular, directed against robbery and the abuse of power by the rich, attest to the seriousness of his intent. Louis, and an entourage of powerful bishops and lay aristocrats (notably the Supponids, relatives of his wife Engelberga), reestablished firm royal hegemony in northern Italy in the 850s.

THE ROLE OF ROME

Rome was in practice part of Carolingian Italy, but the popes had a great deal of autonomy and also religious status. Nicholas I (858–867), for example, was particularly influential in Francia. The 9th-century popes controlled a complex local administrative apparatus and, like their predecessors, played an important role in military defense, particularly against Arab sea raids from North Africa and Sicily (which was conquered by the Arabs in the years 827–902). Leo IV (847–855) in particular refortified Rome; John VIII (872–882) tried hard to develop military alliances against the Arabs; John X (914–928) eventually succeeded in this, and a coalition of cities uprooted the Arabs from their stronghold on the sea near Gaeta in 915.

The Arabs were a threat to southern Italy too, particularly after they occupied Bari in 847 during the Beneventan civil war (839–849). Louis II helped to negotiate an end to that war and was interested in rebuilding Liutprand's southern hegemony. In 866–867 he called up a large army, probably the largest seen in Italy in the entire century, and marched on Bari, which fell to a Frankish, Beneventan, and Byzantine coalition (largely owing to a Byzantine-Slavic naval blockade) in 871. Louis, however, did not leave the south; the Beneventans had to capture him and hold him prisoner for a few days to induce him to return home. This debacle ended Carolingian attempts at hegemony over the entire peninsula; their Ottonian successors were to have no better luck.

THE REIGN OF BERENGAR I

Louis II died in 875 without male heirs. He was succeeded by a series of short-lived uncles and cousins, who came from either France or Germany and stayed in Italy as short a time as possible. But after the fall of the last of these, Charles the Fat (king in Italy 879–887), most of the Carolingian kingdoms turned to non-Carolingian aristocratic families to rule them. In Italy, Berengar I, a female-line Carolingian and also marquess of the still-important border area of Friuli, was well placed to be elected as a king with genuine Italian commitments in 888. However, since Carolingians did not have a monopoly over the succession, anyone could claim the kingship; indeed, Berengar during his long reign (888–924) faced five such rivals, most of them militarily more successful than he was. Berengar was, in fact, not only long-lived but also unpopular; he spent much of the early part of his reign confined in his power base, Friuli. Even when he did not have internal rivals, as in 898–900, he was unlucky; in 899 the Hungarians invaded Italy, destroying Berengar's army and initiating a series of raids that were to last, off and on, until the 950s.

Berengar I's reign was a key period in Italian history. At its beginning the Italian kingdom was still a powerful and coherent institution, worth fighting civil wars to control. By his death the relevance of kingship itself was in doubt. This development resulted partly from Berengar's personality, which was unadventurous and, militarily, unusually inept—but only partly. As the Carolingian political system had settled in, over four generations, local politics had become more stable and inward-looking. Hereditary families had taken over many counties, particularly the big marches of Friuli, Tuscany, and Spoleto. Sometimes local power was balanced between count and bishop, and the king's capacity to intervene locally increasingly depended on their ability to maintain this balance of power. They usually accomplished this by supporting bishops, conceding more judicial and administrative power to them, particularly after 888. Sometimes, as at Bergamo or Cremona, counts were excluded from inside the city walls altogether. This was occasionally dangerous, for bishops, however loyal, were not royal officials and were more interested in the politics of the city than in those of the kingdom; it also represented a clear move toward both the institutionalization of local power autonomous from kings and the fragmentation of that power. In the face of the Hungarian danger, Berengar took this development one step further and localized military defense; after 900 he issued large numbers of grants to private persons, lay and ecclesiastical, of rights to build and fortify castles. His intention was carefully strategic, and his defense in depth was quite effective, but these castles in turn slowly became local centres of personalized military power, and they gained rights of private justice by the 11th century as well.

Carolingian government had always worked better when strengthened by private relationships of a political and military nature; for example, counts relied on their vassals more than on other subordinates to do their bidding, for vassals had sworn personal oaths of loyalty to them. In the castles of the 10th century, personal military bonds became the basis for effective local action. The office of count too was to become more and more the basis for private family power, particularly with the appearance in the counties during the early 10th century of newer ruling families with primarily local roots and fewer national pretensions. Cities remained important administrative centres, but they increasingly became points of reference for the family politics of the military aristocracy rather than bases for royal intervention. These processes had begun well before 888 and were not to be complete until the 11th century, but it is arguable that Berengar's reign marked the turning point. They were crucial for the development of later urban autonomies, culminating in the city communes, but they were disastrous for kings.

Berengar gained 15 years of unopposed rule (905–921) by his cessions of rights and lands after 900. But power was slipping away. Tuscany and Spoleto were semiautonomous under their marquesses; so was the Rome of John X (pope 1914–18) and of the powerful senator Marozia and her son, the*princeps* (prince) Alberic, who were able and effective rulers between 924 and 954. Hugh of Arles(king 926–947) found the situation irreversible. He could no longer use Carolingian-style procedures, such as new legislation or local administrative intervention, to assert his power. His most typical solution was to overthrow all obvious rivals and replace them with his own relatives, who would in theory be more loyal to him. As a result, he seemed simply violent and high-handed. But the fact is that royal power by now seemed to consist of outside intervention; kings, though still influential and rich, were outsiders to most of Italy. When Hugh faced a coup in 945, his support melted away, and he fell. When Otto I of Germany conquered the Italian kingdom, almost bloodlessly, in 962, his entirely non-Italian power base may simply have seemed to the Italians the logical conclusion of the kingship's increasing marginality. The Italian kingdom was to survive as a coherent administrative structure at least until the 1080s, and Frederick Barbarossa even in the 1150s could seek to revive it with some success, but it was by now external to the immediate interests of most of its subjects. After Hugh, no king could establish stable power in the peninsula without a foreign power base and a foreign army.

THE SOUTH, 774–1000

When Charlemagne conquered central and northern Italy, Duke Arichis II of Benevento (758–787) responded by titling himself prince and claiming the legitimist tradition of the Lombards. Lombard princes then ruled in the south for 300 years, until the Norman conquest. Arichis and his son Grimoald III (787–806) were powerful rulers who held off the Franks, even if Grimoald temporarily had to pay tribute to Charlemagne after an invasion in 787. They controlled the entire southern mainland except for the Bay of Naples and the end of the "heel" and "toe" of the peninsula, using a governmental system similar to that in the north. But this area is largely barren mountain land and difficult to rule completely; many of the remoter *gastald*s were independent-minded and resentful of Beneventan power. Two of the early 9th-century princes were murdered in aristocratic plots—Grimoald IV in 817 and Sicard in 839. The second of these plots sparked a 10-year civil war that resulted, in 849, in the creation of two rival principalities, based at Benevento and Salerno. The*gastald* of Capua, Landulf I (815–843), also was interested in independence, and by the end of the century Capua was in effect a third state in the old Beneventan principality.

Even Naples, though much smaller, was affected by this move toward local autonomy, for the mid-9th century saw the effective secession of nearby Amalfi from Neapolitan control, and the consuls of Gaeta, on the coast toward Rome, were autonomous from the 860s onward. These three cities, like Venice in the Adriatic, were becoming important maritime powers in this century; Salerno was to join them later. The disintegration of the political system of the 8th century was pushed further by the Arabs, who conquered Sicily from the Byzantines after 827 and established bases such as Barion the coasts of the Italian mainland from the 840s. Gaeta and Amalfi probably owed much of their naval activity and early commercial development to alliances with the Arabs; but others found the Arabs a rather serious danger, notably Bari's neighbours in Puglia and the great monasteries inland from Capua—Montecassino and San Vincenzo al Volturno, which were sacked in 883 and 881, respectively.

It was this confused world that Louis II wished to dominate in his great expedition of 867–871, but he failed. More successful was the Byzantine emperor Basil I (867–886), who followed up his blockade of Bari with a set of campaigns that aimed at taking the whole southern mainland from the Lombard princes. Shortly after his death, the latter were pushed out of the plains of Puglia, and by 900 only parts of the Capua-Salerno plain and of the south-central Apennines remained Lombard. In that year the count of Capua, Atenulf I, conquered Benevento, and the Lombard-Byzantine border stabilized. Capua-Benevento maintained a certain cohesion under a single dynasty until the 980s, its most notable prince being Pandulf I (Ironhead; 961–981).

After the departure of the Arabs (except from Sicily) and the straightening out of the political boundaries, the south was much more peaceful in the 10th century than it had been in the 9th. The Byzantines dominated the south through a local ruler, or *catepan*, who headed an administrative and fiscal system that was apparently more complex and stable than that of the exarchs had been. Culturally, the Byzantines were by now entirely Greek, and southern Calabria was, as already noted, Greek-speaking; in Puglia, however, the Italian-speaking Lombards dominated, and the Byzantines had to rule through them. They managed this effectively until a series of urban uprisings in 1009–18 brought more autonomy for the Puglian cities—as well as the first Norman mercenaries.

The Lombard states and the independent coastal cities were much weaker. They recognized some sort of Byzantine hegemony, except for the brief periods when the Ottonian emperors sent armies from the north. Their internal structures were less coherent than those of the territories under direct Byzantine rule. During the 10th century castles were built everywhere in southern Italy, just as in the Po plain; in the south (including the papal territories and the march of Spoleto), however, their social effect was in many areas more considerable than in the north, because the scattered population living in the territory of a castle tended to move, or be moved, inside its walls. This process, called in Italian *incastellamento*, created a network of fortified hilltop settlements, some of which still survive. The state could direct and control this process, as in the Byzantine lands, but in Lombard areas private landowners undertook it, which greatly extended their local control. The Lombard princes could not control this steady political localization, particularly in the mountains. They instead concentrated on the richer plains between Gaeta and Salerno. Unfortunately, in this small area there were by now six independent states—Gaeta, Capua, Benevento (when it regained independence in the 980s), Naples, Amalfi, and

Salerno. They spent a great deal of time fighting each other after Pandulf I's death in 981, and the Normans in the next century had little difficulty conquering them. The only local success story was international trade, which benefited all the coastal cities (Amalfi being the best known); their fleets had good relationships with Arabs, Byzantines, and Latin Christians and conveyed goods among all three. They dominated long-distance commerce in the western Mediterranean until the rise of the more militarily aggressive cities in the north—Genoa and Pisa—in the 11th century.

ITALY, 962–1300

ITALY UNDER THE SAXON EMPERORS

In the second half of the 10th century, Italy began a slow recovery from the turmoils of late Carolingian Europe. During the previous century the Po River valley had been exposed to Magyar raiders. Sardinia, Corsica, and Sicily had fallen to the Muslims; even Rome had felt their threat. In the north the Lombard kingdom was little more than a collection of great lordships vying with one another for the Carolingian inheritance. In the south the peninsula was shared by the remnants of the Byzantine and Lombard states and by local powers. The 10th-century papacy had fallen into the hands of various Roman aristocratic factions. But already there were signs of revival. Genoa, Pisa, and Venice were joining other cities in developing local and international trade. In Germany the last of the East Frankish Carolingians had died, and in 911 Conrad I of Franconia became king, to be succeeded in 919 by the energetic Henry the Fowler, duke of Saxony and founder of the Saxon dynatsy of German emperors. In France the Carolingians yielded to the Capetians before the century was out. In the monasteries of Burgundy and Lorraine a new spirit of religious reform arose, which reached outward to the whole of Latin Europe and soon influenced the rich monastic traditions of Italy.

THE RISE OF COMMUNES

During the 12th century, communes, or city-states, developed throughout central and northern Italy. After early beginnings in cities such as Pisa and Genoa, virtually every episcopal city in the north formed a communal government prior to 1140. The origins and developments of communes are complex, and attempts to explain them in simple terms are doomed to failure. The emphasis of 19th-century liberal historians on communal revolts against ecclesiastical repression as well as the later Marxist focus on class conflict in the development of the communes have proved too narrow. They have failed to recognize both the many different causes of violence in the communes and the diversities within the communal movement. Violence resulted from such diverse factors as the conflicting interests of ecclesiastical institutions, the complex ties of loyalty that bound men to one another and to the institutions of their society, and shifts in the distribution of power.

The Investiture Controversy focused the efforts of the higher clergy on consolidating their rights against infringement not merely by the lay aristocracy but also by ecclesiastical competitors. Examples of conflict from various places and periods show how relationships changed dramatically, often within a short period. At Brescia, for example, the bishops, who contested the abbots of Leno for control of the church of Gambara, drew support from a faction of the *milites*, the landed aristocracy, as well as from the popolo, which was composed of professional people, craftsmen, and merchants. Elsewhere, local circumstances dictated other alliances. During the period in which the cities were expanding their power into the contado (the region surrounding the city), elements drawn from town and countryside continually struggled for control of the commune. Alliances shifted depending on the success or failure of these efforts. At Lucca the bishop and the commune were jointly concerned about the claims of the Abbey of Fucecchio because of its ties to neighbouring Pisa. But the efforts of bishops to establish their rights in the *contado* could also provoke conflict with the commune. Much depended on the makeup of the commune, which varied widely not only from city to city but also from period to period. The relative influence of urban merchants or rural landholders depended on the size of each group within a particular community. Where one group was small, it allied itself with others. The quest for power led to shifting and, at times, strange alliances; for example, at Brescia in the early 13th century, one faction of local magnates drew support from heretics. Even when the commune brought together various factions in sworn associations, it still faced not only the problem of its enemies in the city and countryside but also that of the fragile nature of the coalition on which it rested. Communes created elaborate systems of checks on power that aimed to prevent dominance by any single faction. Term limits were imposed to force changes in the ruling councils. The consuls, so named from Roman precedent, similarly faced limits on their power.

From its inception it was clear that communal government aspired not merely to political independence but also to control of the *contado*. As a result, a complex relationship developed in which the *contado* found markets for its products, offered opportunities for investment for city dwellers, and suffered oppression from urban interests. The city, in turn, offered opportunities to the people of the countryside and helped to ensure a measure of security. There is probably no way for scholars to establish the balance of benefits and disadvantages, but one may be certain that it shifted continuously, depending on region, local conditions, and the general economic climate at a given time.

It is evident, however, that the communes of northern and central Italy benefited from theInvestiture Controversy. The ineffectiveness of imperial power in Italy during the first half of the 12th century, which favoured the development of the communes, stemmed largely from the struggle over investitures and the attendant political instability in Germany. These external factors, however, do not in themselves account for the rise of the communes. For that, one must turn to internal factors, particularly the dynamics among various factions and the social dislocations during and following the Investiture Controversy that accompanied rising populations and increased prosperity. The reformers' success in weakening the bonds between church and empire remained a decisive force throughout the 12th century and well into the 13th century. The partisan perspectives of contemporaries oversimplified the Investiture Controversy, showing it either as a struggle for the freedom of the church from lay power or as an effort to preserve the traditional—that is, imperial—order within society. Actually, however, given the complex network of local loyalties within both church and secular society, the controversy fragmented loyalties of both the clergy and the laity. If the old order was weakened, it was not merely a secular order that lost but an ecclesiastical order as well. Nor was it merely the unreformed monasteries and imperial bishoprics that lost; at times, communal authority emerged stronger than any ecclesiastical power in the region. Certainly, by the early 13th century this was true in Genoa, and it was soon to be the case in Milan, Florence, Bologna, and elsewhere.

THE KINGDOM OF JERUSALEM

An excommunicated Frederick embarked for the East, where he negotiated an agreement with the sultan al-Malik al-Kamil of Egypt for the return of Jerusalem on terms somewhat less favourable than the sultan had earlier offered the Crusaders in return for Damietta. Frederick, who had married the heiress to the kingdom of Jerusalem in 1225 and had an infant son Conard from this marriage, laid claim to the kingdom. He set up a regency and embarked on a program to strengthen royal administration. In the meantime, Gregory IX, claiming provocation by the imperial vicar Reginald (or Rainald) of Spoleto, gathered an army and invaded the kingdom of sicily. Frederick returned from the East, defeated the papal forces, and reached an agreement with the pope at Ceprano in 1230 that did much to restore the basis for cooperation. He could at last devote his efforts to Italy.

THE SICILIAN KINGDOM

The kingdom of sicily was Frederick's first priority. It had long suffered neglect from his absence and internal strife. The Constitutions of Melfi, or *Liber Augustalis*, promulgated by Frederick in 1231, was a model of the new legislation developing from the study of Roman and canon law. The intent of this legislation was to bring together the disparate elements within the kingdom and to unify them more effectively under royal leadership. It provided for improvements in royal administration, greater efficiency in the courts, and a rationalization of civil and criminal procedures in the interests of justice. Frederick also worked to promote the general welfare of his kingdom. In 1224 he founded the University of Napels. His legislation then dealt with medical education and licensing, public health, and air and water pollution. But he did not lose sight of the place that the kingdom occupied within imperial thinking. Increasingly in the 1230s he was drawn into affairs in northern Italy and Germany that made him conscious of the importance of the Sicilian kingdom as a base for his imperial power. Very possibly, circumstance played a greater role than ideology in forcing this conclusion upon him.

THE WAR IN NORTHERN ITALY

As a part of the settlement reached between him and Honorius III at the time of his coronation in 1220, Frederick had arranged to have his son Henry crowned as king of the Romans (i.e., ruler of Germany) while retaining the imperial, Italian, and

Sicilian crowns for himself. Henry, encouraged by some people at his court, embarked on a policy that threatened Frederick's relations with the German aristocracy. As a result, Frederick moved against Henry and placated the German nobles with his Constitution in Favour of the Princes (1232). Yet, whereas Frederick was willing to trade away some of his authority in Germany, he was determined to assert imperial rights in northern Italy. The Lombard cities, as early as 1226, had renewed the Lombard League. While Frederick was dealing with the problems caused by Henry's rebellion between 1233 and 1235, the Lombards grew increasingly restless. Frederick confirmed their fears with his decision to summon a diet to Piacenza in 1236 to impose his imperial authority on them. His action demonstrated his lack of interest in papal efforts to arrange compromises between him and the Lombards. Moreover, the emergence of his chancellor, Pietro della Vigna, as his chief spokesman signaled a shift away from the quiet diplomacy between emperor and papacy that he had carried on with the aid of Hermann von Salza, the grand master of the Teutonic Order, a man respected by the pope and the Roman Curia. Pietro's rhetoric was well fashioned for a propaganda war. On his side, Gregory appointed the strongly anti-imperial Cardinal James of Palestrina as his new legate in northern Italy and blocked Frederick's planned diet. In his propaganda Frederick portrayed himself as the champion of orthodoxy working to prevent the spread of heresy in Lombardy, thus building on the theme of the cooperation between him and Honorius III aimed at stopping the growth of heresy. Gregory's rhetoric appealed to papal claims based on the Donation of Constantine and expressed his earlier concerns about Frederick's abuse of ecclesiastical rights.

The growing rift between Frederick and the papacy was not merely a revival of the papal-imperial conflict of the 12th century, though it certainly had elements in common. It had its immediate roots in the failure of the policy of cooperation employed under Innocent III, Honorius, and even Gregory himself. There is every indication that Frederick valued this relationship, but he increasingly came to see it as an obstacle to securing his imperial rights in northern Italy. The papacy had also worked to preserve good relations. But fear of Frederick's policies in northern Italy evoked memories of Frederick Barbarossa among members of the Curia. Above all, neither the emperor nor the pope could turn back the clock on the development of the communes. In fact, from the very outset Frederick seemed more a pawn of the emerging forces in northern Italy than a restorer of the ideal of empire. The new forces were represented above all by two tyrants, Ezzelinoand his brother, Alberigo, from the ancient da Romano family, who were working to expand their lordship from their base in Verona at the expense of towns such as Padua, Vicenza, and Brescia. Frederick relied on them for support, and in doing so he provoked the opposition of earlier supporters, such as Azzo, marchese d'Este, who now sided with the Lombards. Potentates such as the Romanos were the potential beneficiaries of Frederick's military activities, more so than the emperor himself.

Buoyed by early success in northern Italy, Frederick returned to Germany. He even hoped to repair his differences with Gregory, who proved amenable. However, the attempted settlement broke down. On Nov. 27, 1237, Frederick, back in Italy, dealt the Lombards a heavy blow in the Battle of Cortenuova. He followed his military success with a strong propaganda attack, chiefly directed against Gregory IX. But the victory won at Cortenuova proved difficult to convert into permanent gains. Milan continued to hold out. In the following summer Frederick laid siege to Brescia but failed to take the city. Gregory excommunicated the emperor, repeating previous papal criticisms. What was at stake, however, was not some ideological high ground but recognition that Frederick had violated the rights of the church in the kingdom of Sicily. Gregory attempted to use the machinery developed for the Crusade to the East to gather money and manpower to oppose Frederick, who, in turn, warned his fellow rulers of the danger that these efforts posed. The papacy accused Frederick of failing to support the Crusade mounted by Thibaut of Champagne in 1239 and delaying its departure for the East. Gregory wished to recall him to the program on which the papacy had been insisting since the reign of Innocent III, but Frederick's own concerns were with his European domains. It was not that he opposed the papacy's desire for a Crusade; he wanted to settle matters in Italy first.

THE FACTORS SHAPING POLITICAL FACTIONS

The breach between emperor and pope that marked the remainder of the reign of Gregory IX and that grew more intense under Innocent IV (1243–54) undoubtedly helped shape political factions in northern Italy throughout the 13th century. But it would be an exaggeration to say that the conflict over church and state determined political developments. As already noted, local and regional factors underlay the politics of the northern communes. The conflict of religious and political ideology emerged chiefly in the second half of the 13th century, but later debates often hearkened to the vituperative papal-imperial propaganda of the 1240s. In some respects the lines had already been drawn, at least in part, by the internal political disputes that had begun to dominate Italian urban life from the mid-11th century on. The role that the reform movement played in the emergence of political factions is known only in part, but its importance cannot be denied. However, it would be a mistake to view this influence solely as a clerical-lay dichotomy. The emergence of papalist and imperial parties that later in the century called themselves Guelf and Ghibelline, respectively—based on terms taken from the divisions between the Welf house of Otto IV and the Hohenstaufen (Waiblingen) house of Philip of Swabia and Frederick II—echoed the struggle over rights. The term *pars ecclesiae* ("party of the church"), which became more common in the second half of the 13th century, has generally been viewed as a reference to support for the papacy, but it also referred to support for local churches. Both meanings of the term are correct, and the earliest usages seem to favour a more local interpretation.

The changing character and composition of communes often followed the fortunes of this struggle over rights. Increasingly, divisions between landowning magnates and *popolo* concealed the process of coalition making characteristic of early 13th-century urban politics. The regime of the podesta(which had its origins in imperial appointees), formed in the second half of the 12th century to provide greater stability and protection against violence, was already becoming more professionalized in the age of Frederick II. The preference for professional officials, strongly evidenced by mid-century in the writings of Albertanus of Brescia and others, aimed to prevent the military aggrandizement of an Ezzelino da Romano or an Azzo d'Este and to defend communal values.

The *pars ecclesiae* very often controlled the commune and stood for communal independence. Although some disputes with bishops were an inevitable feature of the Italian urban scene, alliances between bishops and communes grew more common in the 13th century. Imperial ideology was largely driven from the field. Likewise, class-based economic disputes varied in importance from one place and time to another; these disputes reflected the fundamental concerns over rights, especially over property, on both the local and the imperial-papal level, that shaped Italian urban politics.

THE SOUTHERN KINGDOMS AND THE PAPAL STATES

Not all regions were to undergo favourable economic or constitutional development or to receive anything but reflected rays from the sun of the Renaissance. In the south the Sicilian Vespers of 1282 separated the island of Sicily for more than 150 years from the rest of the kingdom of Sicily, which until then had consisted of both the island and the southern mainland. On the mainland thenceforth, the successors of King Charles of Anjou ruled as vassals of the papacy. Normally described by contemporaries as “kings of Naples” (though resolutely continuing to call themselves “kings of Sicily”), they pursued a 90-year war against the Aragonese kings of (island) Sicily. They financed that war, which was ultimately unsuccessful, through harsh taxation of the only productive element in the kingdom—namely, its impoverished peasantry. This increase in the royal tax burden, already oppressive at the time of the Norman kings, fixed the region in wretched poverty and destroyed all possibility of native capitalist growth. As a result, during the 14th century almost all trade and banking came into the hands of northern Italians, particularly Florentines. At the same time, outside a few restricted areas (Sulmona, coastal Puglia, Campania) that produced considerable surpluses of grain, an arid climate and inferior soil made for poor agricultural development in the Kingdom of Naples.

Against this background, political unrest flourished. Under King Robert (reigned 1309–43; known to his literary flatterers as “Robert the Wise”), who made no less than five attempts to conquer the island of Sicily, the monarchy was able to resist the more extravagant demands of the nobility for rewards for their military and political support. But, with the accession of Robert’s granddaughterJoan I (1343–82), royal authority withered away, court factions dominated, and civil war (1347–52) ensued. Quelled for a time, baronial strife revived at the end of Joan’s reign in a conflict between two branches of the Angevin family (those of Durazzo versus those of Provence) that claimed recognition as heirs of the queen. The eventual victor, King Ladislas (1386–1414), benefiting from the turbulence provoked by the Great Schism (*see below*), was able to boast of considerable military success in central Italy and even gained—according to some observers—a brief predominance in the peninsula. But the accession of his sister, Joan II (1414–35), inexperienced and childless (that is to say, without obvious heirs), brought a renewal of anarchy to the

Neapolitan kingdom, in which true power rested not with the monarchy but with a few powerful owners of vast estates (latifundia) who were allied to the monarchy through blood or service. Below these barons existed a large number of petty nobles with minuscule fiefs; still lower was the mass of peasants, who eked a bare subsistence from the soil.

Meanwhile, the island kingdom of Sicily—or Trinacria, as it was often called—was ruled from 1296 to 1409 by a cadet branch of the royal house of Aragon. This house, in rebellion against papal claims of suzerainty and engaged in constant war with the Kingdom of Naples, went through a pattern of monarchical weakness and economic decline similar to that shown by the Angevins of Naples. In Hohenstaufen and early Aragonese Sicily, extensive royal landholdings had given the monarchy effective power throughout the kingdom. With the death of King Frederick III (1337), however, substantial concessions of royal lands to a grasping baronial class increasingly divided the island. Of particular importance in this group were the three great families of the Ventimiglia, the Chiaramonte, and the Passaneto—men so powerful that contemporaries described them as “semi-kings,” having below them some 200 lesser, poor, and violent vassals. In these years, with an economy dominated largely by Catalan merchants, Sicily looked to Aragon (which in 1326 had also gained control of the island of Sardinia) and its great port of Barcelona rather than to the peninsula to the north.

If the southern kingdoms limped through the 14th century in internal strife and economic backwardness, so too did the Papal States lying to the north of the Kingdom of Naples. In March 1303 Pope Boniface VIII, in conflict with King Philip IV of France over papal jurisdiction, had been seized at the papal residence of Anagni by a small band of French and Roman adventurers. Though released almost immediately, he died a month later of, it was said, deep humiliation. The Papal States had been founded to preserve the independence and spiritual authority of the papacy, yet here, clearly, it seemed to have failed. Partly because of the menacing Roman baronage and partly again through the pressure of the French king, Pope Clement V decided to abandon the peninsula and seek refuge at Avignon. Here between 1307 and 1377 the papacy was to reside in greater safety. Italy was now “bereft”—as Dante, who witnessed these developments, testified—“of its two suns,” both the papacy and the empire.

The effects of that withdrawal were twofold. First, the "lands of the Crucified One," as the church dramatically described its territorial state, were reinforced in their secular anarchy, and everywhere local "tyrants" seized power from papal officials. Yet, at the same time, the traditions of the church inevitably required that the papacy should return to the Rome where St. Peter had, it was said, preached and suffered. Hence, over the years, with fluctuating enthusiasm, the French popes struggled sporadically to establish obedience, peace, and control over their Italian lands. These efforts indeed played an important role in the foreign affairs of the Italian states in the period. Notable were the attempts at reconquest of the Papal States by Cardinal Bertrand du Poujet (1319–34) and Cardinal Gil Albornoz (1353–63). Yet the results were slight. After a heroic expenditure of money and blood, Albornoz attained some measure of order, largely by appointing the more amenable tyrants as "papal vicars" and by securing from them promises of payment of taxes and services in return for acknowledgment of overlordship. But even these muted successes proved unstable. With the outbreak of war between the Avignon papacy and Florence in 1375, most of the vicars cast off their allegiance. Three years later the Papal States fell into even greater disarray with the outbreak of the Great Schism (1378–1417). For almost four decades, until the Council of Constance, unity was shattered by rivalries between popes and antipopes—one French, one Italian, and later a third one, also Italian.

Amid the confused struggles that engulfed the Papal States in this period, one incident in particular stood out for men of the day and excited the imagination of posterity. The city of Rome, deserted by the papacy, presented a sombre picture of shepherds, herdsmen, labourers, and artisans dwelling by ruins that testified to past glory and were now taken over as the residences of powerful aristocratic families. The Colonna, Orsini, and Annibaldi established their fortifications amid the remains of the Mausoleum of Augustus, the Forum, and the Colosseum, and from there they fought out their ancient rivalries. Here in the 1340s rose the remarkable figure of Cola di Rienzo. A notary and the son of an innkeeper, possessing an imagination that easily accepted the most flattering fantasies, he gained esteem from the rumours he circulated that he was the son of Emperor Henry VII. An avid reader of Classical history and an interpreter of ancient inscriptions, intoxicated by the past splendours of Rome, he preached to his fellow citizens the recovery of its former greatness. Inspired by the Lex Regia, the supposed right of the Roman people to confer authority on the emperor, he announced that the citizens of his own day, under his leadership, could assume that right and resolve all disputes between rival claimants to the office. Achieving prominence as the most eloquent member of an embassy dispatched to Avignon to complain of the absence of the papacy, he excited the admiration of many (including the poet Petrarch) at the papal court. On his return in May 1347, with the help of some mercenary soldiers, he seized power in the city, and a parliament summoned at his command awarded him the title of "Nicolai, the Severe and Clement, the Tribune of Freedom, Peace and Justice, and Liberator of the Holy Roman Republic."

The following month Cola invited all the Italian states to appear before him to discuss "the security and peace of Italy." It is a remarkable testimony not so much to his eloquence as to their desperate wish for peace that no less than 25 communes answered his call. During a remarkable round of ceremonies, in the presence of the communes' representatives, Cola announced that the Romans held jurisdiction over the whole world and conferred Roman citizenship upon all citizens of other Italian states. These chimerical pretensions (described by a contemporary as "fantastic stuff which won't last long") very soon came to be unveiled as such. In the following December, faced with an increasingly suspicious pope and a Roman citizenry satiated by novelties, Cola was driven from the city. He returned to Rome and was appointed senator in 1354 (essentially a puppet of Albornoz's attempt to dominate the Papal States), but within less than three months he faced a popular revolt that ended with his death. Cola's importance lay not so much in anything he had achieved as in the demonstration of how powerful an influence the thought of Classical Rome could exercise on men of the time. He survives in cultural history (as hero, for example, of the German composer Richard Wagner's opera *Rienzi*) and in the myths (certainly no more than myths) that he had planned the unification of Italy and was a prophet of the 19th-century Risorgimento.

FIRST REPUBLIC

There have been frequent government turnovers since 1945, indeed there have been 61 governments in this time.The dominance of the Christian Democratic party during much of the postwar period lent continuity and comparative stability to Italy's political situation, mainly dominated by the attempt of keeping the Italian Communist Party (PCI) out of power, to maintain Cold War equilibrium in the region.

The communists were in the government only in the national unity governments before 1948, in which their party's secretary Palmiro Togliatti was minister of Justice. After the first democratic elections with universal suffrage in 1948, in which the Christian Democracy and their allies won against the *Popular front* of the Italian Communist and Socialists parties, the communist party never returned in the government.

Even though many repeat the cliché that Italy had over fifty governments in its first fifty years of democracy to stigmatise its alleged political instability, Italy's main political problem was actually the opposite: in all the course of the so-called First Republic, the government was in the hands of the Christian Democrats and their allies, since it was unacceptable for a communist party to rule a western country during the Cold war. The system had been nicknamed the *imperfect bipolarism*, referring to more proper bipolarism in other western countries (the United States, Germany, the United Kingdom, France etc.) where right-wing and left-wing parties alternated in government.

THE SOCIALISTS ENTER THE GOVERNMENT

The main event in the First Republic in the sixties was the inclusion of the Socialist party in the government, after the reducing edge of the Christian Democracy (DC) had forced them to accept this alliance; attempts to incorporate the Italian Social Movement (MSI) in theTambroni government led to riots, and were short-lived.

Aldo Moro, a relatively left-leaning Christian democrat, inspired this alliance. He would later try to include the Communist Party as well, with a deal called the *historical compromise*. This attempt at compromise was, however, stopped by the kidnapping and murder of Moro in 1978 by the Red Brigades, an extremist left-wing terrorist organization.

The Communist party was at this point the largest communist party in western Europe, and remained such for the rest of its existence. Their ability to attract members was largely due to their pragmatic stance, especially their rejection of extremism, and to their growing independence from Moscow . The Italian communist party was especially strong in areas like Emilia Romagna, where communists had been elected to stable government positions. This practical political experience may have contributed to their taking a more pragmatic approach to politics.

THE YEARS OF LEAD

On 12 December 1969 a roughly decade-long period of extremist left- and right-wing political terrorism, known as *the years of lead* (as in the metal of bullets, Italian: *anni di piombo*), began with the Piazza Fontana bombing in the center of Milan. Neo fascist Vincenzo Vinciguerra later declared the bombing to be an attempt to push the Italian state to declare a state of emergency, in order to lead to a more authoritative state. A bomb left in a bank killed about twenty, and was initially blamed on anarchist Giuseppe Pinelli. This accusation was hotly contested by left-wing circles, especially the Maoist Student Movement, which had support in those years from some students of Milan's universities, and who considered the bombing to have all the marks of a fascist operation. Their guess proved correct, but only after many years of difficult investigations.

The strategy of tension attempted to blame the left for bombings carried out by right-wing terrorists. Fascist "black terrorists," such as *Ordine Nuovo* and the *Avanguardia Nazionale*, were, in the 1980s-90s, found to be responsible for several terrorist attacks. On the other extreme of the political spectrum, the leftist Red Brigades carried out assassinations against specific persons, but weren't responsible for any blind bombings. The Red Brigades killed socialist journalist Walter Tobagi, and, in their most famous operation, kidnapped and assassinated Aldo Moro, president of the Christian Democracy, who was trying to involve the Communist Party in the government through the *compromesso storico* ("historic compromise"), to which the radical left, as well as Washington, were opposed. It is worth noting that the Red Brigades met fierce resistance from the Communist Party and the trade unions; some left-wing politicians, however, used the sympathetic expression "comrades who are mistaken" (Italian: *Compagni che sbagliano*) to refer to the Red Brigades. Some, including the prosecutor of Moro case Ferdinando Imposimato, have alleged that the 2nd Red Brigades (those led by Mario Moretti) were exploited - or anyway allowed to act freely - by Andreotti's government and possibly foreign forces (notably United States) to destabilize Italy, discredit the Communist Party and impede the historic compromise.

The last and largest of the bombings, known as the Bologna massacre, destroyed the city's railway station in 1980. This was found to be a neofascist bombing, in which Propaganda Due was involved.

On 24 October 1990 Prime minister Giulio Andreotti (DC) revealed to the Parliament the existence of Gladio, NATO's secret "stay-behind" networks which stocked weapons in order to facilitate an armed resistance in case of a communist coup. In 2000, a Parliament Commission report from the Olive Tree (centre-left) coalition concluded that the strategy of tension followed by Gladio had been supported by the United States to "stop the PCI and, to a certain degree, the PSI [Italian Socialist Party] from reaching executive power in the country."

THE EIGHTIES

With the end of the lead years, the communist party gradually increased their votes under the leadership of Enrico Berlinguer. TheItalian Socialist Party, led by Bettino Craxi, became more and more critical of the communists and of the Soviet Union; Craxi himself pushed in favor of Ronald Reagan's positioning of Pershing missiles in Italy, a move many communists strongly disapproved of.

As the socialist party moved to more moderate positions, it attracted many reformists, some of whom were irritated by the failure of the communists to modernize. Increasingly, many on the left began to see the communists as old and out of fashion, while Craxi and the socialists seemed to represent a new liberal-socialism. The Communist party surpassed the Christian Democrats only in the European elections of 1984, held barely two days after Berlinguer's death, a passing that likely drew sympathy from many voters. The election of 1984, however, was to be the only time the Christian Democrats did not emerge as the largest party in a nation-wide election in which they participated.

In 1987, one year after the Chernobyl disaster following a referendum in that year, a nuclear phase-out was commenced. Italy's four nuclear power plants were closed down, the last in 1990. A moratorium on the construction of new plants, originally in effect from 1987 until 1993, has since been extended indefinitely.

In these years, corruption began to be more extensive, a development that would be exposed in the early nineties and nicknamedTangentopoli. With the Mani Pulite investigation, starting just one year after the collapse of the Soviet Union, the whole power structure faltered, and seemingly indestructible parties, such as the Christian Democrats and the Socialist party, disbanded; the communist party changed its name to the Democratic Party of the Left and took the role of the socialist party as the main social democratic party in Italy. What was to follow was then called the transition to the *Second Republic*.

SECOND REPUBLIC

From 1992 to 1997, Italy faced significant challenges, as voters, disenchanted with past political paralysis, massive government debt, extensive corruption, and organized crime's considerable influence—collectively called Tangentopoli after being uncovered by Mani pulite—demanded political, economic, and ethical reforms.

In the Italian referendums of 1993, voters approved substantial changes, including moving from a proportional to an Additional Member System, which is largely dominated by a majoritarian electoral system and the abolition of some ministries, some of which, however, have been reintroduced with only partly modified names, such as the *Ministry of Agriculture* reincarnated as the *Ministry of Agricultural Resources*.

Major political parties, beset by scandal and loss of voter confidence, underwent far-reaching changes. New political forces and new alignments of power emerged in the March 1994 national elections. This election saw a major turnover in the new parliament, with 452 out of 630 deputies and 213 out of 315 senators elected for the first time.

The 1994 elections also swept media magnate Silvio Berlusconi (leader of "Pole of Freedoms" coalition) into office as Prime Minister. Berlusconi, however, was forced to step down in December 1994 when the Lega Nord withdrew support. The Berlusconi government was succeeded by a technical government headed by Prime Minister Lamberto Dini, which left office in early 1996.

A series of center-left coalitions dominated Italy's political landscape between 1996 and 2001. In April 1996, national elections led to the victory of a center-left coalition, Olive Tree, under the leadership of Romano Prodi. Prodi's government became the third-longest to stay in power before he narrowly lost a vote of confidence, by three votes, in October 1998.

In May 1999, the Parliament selected Carlo Azeglio Ciampi as the President of the Republic. Ciampi, a former Prime Minister and Minister of the Treasury and, before entering the government, the governor of the Bank of Italy, was elected on the first ballot by a comfortable margin over the required two-thirds of the votes.

A new government was formed by the Democrats of the Left leader and former communist Massimo D'Alema, but in April 2000, following poor performance by his coalition in regional elections, D'Alema resigned.

The succeeding center-left government, including most of the same parties, was headed by Giuliano Amato, a social-democrat, who had previously served as Prime Minister in 1992-93, and had at the time sworn never to return to active politics.

National elections held on 13 May 2001 returned Berlusconi to power at the head of the five-party center-right "Freedom House" coalition, comprising the prime minister's own party, Forza Italia, the National Alliance, the Northern League, the Christian Democratic Center, and the Democrats' Center Union.

Between 17 May 2006 and 21 February 2007 Romano Prodi served as Prime Minister of Italy following the narrow victory of his l'Unione coalition over the Casa delle Libertà led by Silvio Berlusconi in the April 2006 Italian elections. Following a government crisis, Prodi submitted his resignation on 21 February 2007. Three days later he was asked by the Italian President, Giorgio Napolitano to stay on as Prime Minister and he agreed to do so. On 28 February 2007 Prodi narrowly survived a senate no confidence vote.

Later, on 24 January 2008 the Prodi II Cabinet went through a new crisis, because the Minister of Justice, Clemente Mastella, retracted his support to the Cabinet. Consequently the Prodi Cabinet lost the vote of confidence and the President Giorgio Napolitano called a new general election.

The election set against two new parties, the Democratic Party (founded in October 2007 by the union of the Democrats of the Left and Democracy is Freedom – The Daisy) led by Walter Veltroni, and The People of Freedom (federation of Forza Italia, National Alliance and other parties) led by Silvio Berlusconi. The Democratic Party was in alliance with Italy of Values, while The People of Freedom forged an alliance with Lega Nord and the Movement for Autonomy. The coalition led by

Berlusconi won the election and the leader of the centre-right created the Berlusconi IV Cabinet.

ADMINISTRATIVE DIVISION

The Italian State has twenty regions and about a hundred provinces. The constitution of Italy provides for twenty regions with extended powers. Regions are further divided in provinces. Provinces also have their own local elections. For each of the provinces, a prefect is appointed by and responds to the central government, which he locally represents. While the number of regions is somewhat stable (the only modification to the original set is the separation of Molise from Abruzzo), there has been a tendency in later years to create new provinces, such as Crotone, Verbania, Lodi, Biella, Lecco and others.

Five regions (Aosta Valley, Friuli-Venezia Giulia, Sardinia, Sicily, Trentino-Alto Adige/Südtirol) have special charters granting them varying degrees of autonomy. The *raisons d'être* of these charters is in most cases the presence of significant linguistic and cultural minorities,but in the case of Sicily it was to calm down separatist movements. The other 15 regions were in practice established in 1970, even if their ideation had been a much earlier idea.

POLITICAL PROCESS

ELECTORAL SYSTEM

For almost half a century after World War II, Italy's electoral system was based on proportional representation, a system in which seats in an elected body are awarded to political parties according to the proportion of the total vote that they receive. Between 1993 and 1995, several changes were made by national legislation and popular referenda. Following these changes, on the national level the Chamber of Deputies and the Senate were elected by a combination of proportionality and plurality. Seventy-five percent of the seats in these two chambers were filled from single-member districts by individual candidates who won the largest number of votes in each district. The other 25 percent of the seats were awarded to candidates from party lists on a proportional basis. The number of votes obtained by the winner in single-member districts was fully (for senators) or partially (for deputies) subtracted before allocating proportional seats, thus introducing a further element of proportionality. A new electoral law passed in late 2005 overturned this system by restoring full proportional representation. However, the law also allocated a number of bonus seats in the Chamber of Deputies to the winning coalition—thus guaranteeing a majority for the victors.

In regional elections, voters cast two ballots. The first is cast in a contest for 80 percent of the seats in the regional council, which are awarded on a proportional basis. The second ballot is employed in a plurality vote; the regional coalition that wins a plurality is awarded all the remaining seats as well as the presidency of the regional government. Split voting is allowed.

In provincial elections, only one vote is cast. If a single provincial list wins more than 50 percent of the votes, seats are divided among all the lists according to their proportion of the vote, and the presidency goes to the head of the winning list. Otherwise, a runoff election must take place between the two most successful lists, with the winner taking 60 percent of the seats.

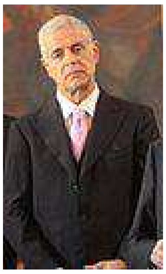
A similar system is employed in municipal elections in cities with more than 15,000 inhabitants. In this case, however, two ballots are cast, one for mayor and one for the council. Split voting is permitted. In smaller cities only one ballot is cast; the winning list is awarded two-thirds of the seats as well as the mayoralty.

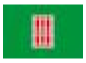
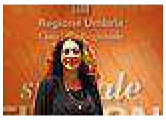
THE PARTICIPATION OF THE CITIZEN

All citizens 18 years and older may vote. The turnout for elections in Italy is high, often reaching well over 80 percent of the electorate for parliamentary elections. Citizens may also subscribe to national referenda or petitions designed to abrogate a law or an executive order; such a petition must be signed by 500,000 members of the electorate or sponsored by five regional councils. Abrogative referenda have been used extensively since the 1970s to make possible a wide range of institutional and civic reforms. Abrogative referenda are provided for with regard to all regional legislation, and some regions have a provision for holding ordinary referenda. The constitution also provides that 50,000 members of the electorate may jointly present a draft bill to parliament.

PARTIES

PDL PD LEGA NORD SEL MPA UV UPT

Region	Name	Portrait	Since	Term	Party	Election
 Aosta Valley	Augusto Rollandin	-	1 July 2008	2008-2013	Valdotanian Union	Valdotanian regional election, 2008
 Piedmont	Roberto Cota		30 March 2010	2010-2015	Lega Nord	Piedmontese regional election, 2010
 Lombardy	Roberto Formigoni		30 March 2010	2010-2015	People of Freedom	Lombard regional election, 2010
 Veneto	Luca Zaia	-	30 March 2010	2010-2015	Lega Nord	Venetian regional election, 2010
 Trentino-Alto Adige/Südtirol	Lorenzo Dellai		15 June 2011	2011-2014	Union for Trentino-UpT	-
 Friuli-Venezia Giulia	Renzo Tondo	-	15 April 2008	2008-2013	People of Freedom	Friuli-Venezia Giulia regional election, 2008

 Liguria	Claudio Burlando		30 March 2010	2010-2015		Democratic Party	Ligurian regional election, 2010
 Emilia-Romagna	Vasco Errani		30 March 2010	2010-2015		Democratic Party	Emilia-Romagna regional election, 2010
	Enrico Rossi		30 March 2010	2010-2015		Democratic Party	Tuscan regional election, 2010
 Umbria	Catiuscia Marini		30 March 2010	2010-2015		Democratic Party	Umbrian regional election, 2010
 Marche	Gian Mario Spacca		30 March 2010	2010-2015		Democratic Party	Marche regional election, 2010
 Lazio	Renata Polverini		30 March 2010	2010-2015		People of Freedom	Lazio regional election, 2010

Abruzzo	Gianni Chiodi	-	15 December 2008	2008-2013		People of Freedom	Abruzzo regional election, 2008
Molise	Angelo Michele Iorio	-	17 October 2011	2011-2016		People of Freedom	Molise regional election, 2011
Campania	Stefano Caldoro	-	30 March 2010	2010-2015		People of Freedom	Campania regional election, 2010
Apulia	Nichi Vendola		30 March 2010	2010-2015		Left Ecology Freedom	Apulian regional election, 2010
Basilicata	Vito De Filippo		30 March 2010	2010-2015		Democratic Party	Basilicata regional election, 2010
Calabria	Giuseppe Scopelliti		30 March 2010	2010-2015		People of Freedom	Calabrian regional election, 2010

 Sicily	Raffaele Lombardo		28 April 2008	2008-2013		Movement for Autonomies	Sicilian regional election, 2008
 Sardinia acci	Ugo Cappel	-	27 February 2009	2009-2014		People of Freedom	Sardinian regional election, 2009

ITALIAN FASCISM

Italian Fascism, also known simply as **Fascism** (Italian: ***Fascismo***), is the original capital-"F"fascist ideology in Italy and the world. Italian Fascism is based upon Italian nationalism and the restoration of "*Italia Irredenta*" (claimed unredeemed Italian territories) to Italy as well as territorial expansionism that Italian Fascists deemed necessary for a nation to assert its superiority and strength to avoid succumbing to decay. Italian Fascists claim that modern Italy is the heir to ancient Rome and its legacy, and support the creation of an Italian Empire to provide "vital space" for colonization by Italian settlers and establishing control over the Mediterranean Sea as Italy's *Mare Nostrum* ("Our Sea"), as it had been under the Roman Empire.

Italian Fascism promotes a corporatist economic system whereby employer and employee syndicates are linked together in corporative associations to collectively represent the nation's economic producers and work alongside the state to set national economic policy. Italian Fascism promoted such economics as a "Third Alternative" to capitalism and Marxism that Italian Fascism regarded as "obsolete doctrines". Italian Fascists claim that their economic system resolves and ends class conflict by creating class collaboration. However it publicly favoursproletarian culture due to its association with economic production and claims that proletarians as producers must have a dominant role in the nation.It claims that cultural nationalization of society is necessary to emancipate Italy's proletariat, and promotes the assimilation of all classes into a proletarian national culture. It identifies Italians as being a virile proletarian nation that has fighting for fought for its freedom from domination by decadent bourgeois nations, and declares its support for proletarian nations fighting against bourgeois nations. Italian Fascism adopted Enrico Corradini's theory of a producerist economy based upon the productive capacity and traits of proletarians, that it claims will solidify Italians in Italy together as a unified producerist proletarian nation. It supports criminalization of strikes by employees and lockouts by employers as illegal acts it deems these acts as prejudicial to the national community as a whole.

Italian Fascism opposes conventional democracy and says that the only acceptable and desirable form of democracy is an authoritarian democracy that is capable of representing the different interests of society that advise the state and the state acts in the interest of the nation. It is opposed to mainstream socialism because of mainstream socialism's typical opposition to nationalism. It opposes liberalism, but made clear that it was not seeking a reactionary restoration of the pre-French Revolutionary world that it considered to have been flawed, and that had been the cause of the rise of liberalism, but had a forward-looking direction. Italian Fascism was declared to be opposed to the reactionary conservatism developed by Joseph de Maistre.

DOCTRINE

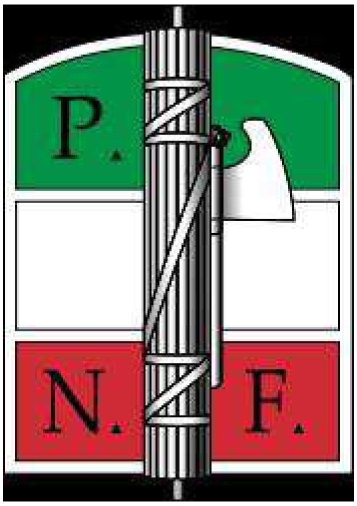
GIOVANNI GENTILE: PHILOSOPHICFATHER OF ITALIAN FASCISM.

The Doctrine of Fascism (*La dottrina del fascismo*, 1932), by the Actualist philosopher Giovanni Gentile, is the official formulation of **Italian Fascism**, published under Benito Mussolini’s name in 1933.Gentile was intellectually influenced by Hegel, Plato, Benedetto Croce, and Giambattista Vico, as such, his Actual Idealism philosophy was the basis for Fascism. Hence, the *Doctrine*’s *Weltanschauung* proposes the world as *action* in the realm of Humanity — *beyond* the quotidian constrictions of contemporary political trend, by rejecting “perpetual peace” as fantastical, and accepting Man as a species continually at war; those who meet the challenge, achieve nobility. To wit, Actual Idealism generally accepted that conquerors were the men of historical consequence, e.g., the Roman Julius Caesar, the Greek Alexander the Great, the German Charlemagne, and the French (Corsican) Napoleon; the philosopher–intellectual Gentile was especially inspired by theRoman Empire (27 BC – AD 476, 1453), from whence derives Fascism, thus:

> *The Fascist accepts and loves life; he rejects and despises suicide as cowardly. Life as he understands it means duty, elevation, conquest; life must be lofty and full, it must be lived for oneself but above all for others, both near bye and far off, present and future.*

—Benito Mussolini, *The Doctrine of Fascism*, 1933.

Therefore, in 1925, Benito Mussolini assumed the title *Duce* (Leader), derived from the Latin *dux* (leader), a Roman Republic military-command title. Moreover, although Fascist Italy (1922–43) is historically considered an authoritarian–totalitarian dictatorship, it retained the original "liberal democratic" government façade: the Grand Council of Fascism remained active as administrators; and King Victor Emmanuel III of Italy could — at his Crown's risk — discretionarily dismiss Mussolini as Italian Prime Minister, as, in the event, he did.



Emblem of the National Fascist Party.

La dottrina del fascismo proposed an Italy of greater living standards under a single-party Fascist system, than under the multi-party liberal democratic government of 1920. As the Leader of the National Fascist Party (PNF — *Partito Nazionale Fascista*), Benito Mussolini said that democracy is "beautiful in theory; in practice, it is a fallacy", and spoke of celebrating the burial of the "putrid corpse of liberty". In 1923, to give Deputy Mussolini control of the pluralist parliamentary government of the Kingdom of Italy (1861–1946), an economist, the Baron Giacomo Acerbo proposed — and the Italian Parliament approved — the Acerbo Law, changing the electoral system from proportional representation to majority representation. The party who received the most votes (provided they possessed at least 25 per cent of cast votes), won two-thirds of the parliament; the remaining third was proportionately shared among the other parties — thus the Fascist manipulation of liberal democratic law that rendered Italy a single-party State.

***Italia Irredenta*: Italian ethnic regions claimed by the Fascists in the 1930s: green: Nice, Ticino, and Dalmatia; red: Malta; violet: Corsica; Savoy and Corfu were later claimed**.

In 1924, the PNF won the election with 65 per cent of the votes; yet the United Socialist Party refused to accept such a defeat — especially Deputy Giacomo Matteotti who, on 30 May 1924, in Parliament formally accused the PNF of electoral fraud, and reiterated his denunciations of PNFBlackshirt political violence, and was publishing *The Fascisti Exposed: A Year of Fascist Domination*, a book substantiating his accusations. Consequently, on 24 June 1924, the Ceka(PNF secret police) assassinated the Parliament Deputy; of the five men arrested, Amerigo Dumini, aka *Il Sicario del Duce* (*The Leader's Assassin*), was sentenced to five years' imprisonment, yet served only eleven months, and was freed under amnesty from King Victor Emmanuel III. Moreover, when the King supported Prime Minister Mussolini, the socialists cried "Foul!", and unwisely quit Parliament in protest — leaving the Fascists to govern Italy. In that time, assassination was not yet the*modus operandi* norm; the Italian Fascist *Duce* usually disposed of opponents in the Imperial Roman way: political arrest punished with island banishment.

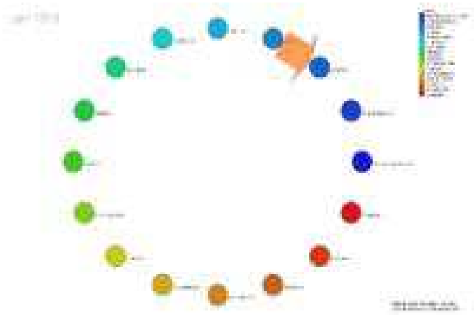
NATIONALIST DISCONTENT

After the First World War (1914–18), despite the Kingdom of Italy (1861–1946) being a full-partner Allied Power against the Central Powers, Italian nationalism claimed Italy was cheated in the Treaty of Saint-Germain-en-Laye (1919), thus the Allies had impeded Italy's progress to becoming a "Great Power". Thenceforth, the PNF successfully exploited that "slight" to Italian nationalism, in presenting Fascism as best-suited for governing the country, by successfully claiming that democracy, socialism, and liberalism were failed systems. The PNF assumed Italian government in 1922, consequent to the Fascist Leader Mussolini's oratory and Blackshirt paramilitary political violence.

In 1919, at the Paris Peace Conference, the Allies compelled the Kingdom of Italy to yield to Yugoslavia the Croatian seaport of Fiume (Rijeka), a mostly-Italian city of little nationalist significance, until early 1919. Moreover, elsewhere, Italy then was excluded from the wartime secret Treaty of London (1915) it had concorded with the Triple Entente; wherein Italy was to leave the Triple Alliance and join the enemy, by declaring war against the German Empire andAustria-Hungary, in exchange for territories, at war's end, upon which the Kingdom of Italy held claims. (see *Italia irredenta*)

In September 1919, the nationalist response of outraged war hero Gabriele d'Annunzio was declaring the establishment of the Italian Regency of Carnaro. To his independent Italian state, he installed himself as the Regent *Duce* (Leader), and promulgated the *Carta del Carnaro*(*Charter of Carnaro*, 8 September 1920 , a politically-syncretic constitutional amalgamation of right-wing and left-wing anarchist, proto-fascist, and democratic republican politics, which much influenced the politico-philosophic development of early Italian Fascism. Consequent to the Treaty of Rapallo (1920) the metropolitan Italian military deposed the Regency of *Duce* D'Annunzio on Christmas 1920. In the development of the fascist model of government, Gabriele d' Annunzio was a nationalist, not a fascist, whose legacy of political–praxis ("Politics as Theatre") was stylistic (ceremony, uniform, harangue, chanting), not substantive, which Italian Fascism artfully developed as a government model.

LABOR UNREST



A sociological study of violence in Italy (1919–1922)

Given Italian Fascism's pragmatic political amalgamations of left-wing and right-wing socio-economic policies, discontented workers and peasants proved an abundant source of popular political power, especially because of peasant opposition to socialist agricultural collectivism. Thus armed, the former socialist Benito Mussolini oratorically inspired and mobilized country and working-class people: "We declare war on socialism, not because it is socialist, but because it has opposed nationalism.... " Moreover, for campaign financing, in the 1920–21 period, the National Fascist Party also courted the industrialists and (historically-feudal) landowners, by appealing to their fears of left-wing socialist and Bolshevik labor politics and urban and rural strikes; the Fascists promised a good business climate of cost-effective labor, wage, and political stability; the Fascist Party was *en route* to power; the historian Charles F. Delzell reports:

"At first, the Fascists [PNF] were concentrated in Milan and a few other cities. They gained ground quite slowly, between 1919 and 1920; not until after the scare, brought about by the workers "occupation of the factories" in the late summer of 1920 did fascism become really widespread. The industrialists began to throw their financial support to it. Moreover, toward the end of 1920, fascism began to spread into the countryside, bidding for the support of large landowners, particularly in the area between Bologna and Ferrara, a traditional stronghold of the Left, and scene of frequent violence. Socialist and Catholic organizer of farm hands in that region, Venezia Giulia, Tuscany, and even distant Apulia, were soon attacked by [Black

Shirt] squads of Fascists, armed with castor oil, blackjacks, and more lethal weapons. The era of *Squadrismo*, and nightly expeditions to burn Socialist and Catholic labor headquarters had begun."

***Duce:* Prime Minister Benito Mussolini**.

FASCISM EMPOWERED

Italy's use of daredevil elite shock troops known as the *Arditi*, beginning in 1917, was an important influence on Fascism. The *Arditi* were soldiers who were specifically trained for a life of violence and wore unique blackshirt uniforms and fezzes.The *Arditi* formed a national organization in November 1918, the *Associazione fra gli Arditi d'Italia*, which by mid-1919 had about twenty thousand young men within it. Mussolini appealed to the *Arditi*, and the Fascists' *Squadristi*, developed after the war, were based upon the *Arditi*

The First World War (1914–18) inflated Italy's economy with great debts, unemployment (aggravated by thousands of demobilised soldiers), social discontent featuring strikes, organised crime, and anarchist, Socialist, and Communist insurrections.When the elected Italian Liberal Party Government could not control Italy, the Revolutionary Fascist Party (*Partito Fascista Rivoluzionario*, PFR) Leader Benito Mussolini took matters in hand, combating those societal ills with the Black shirts, paramilitary squads of First World War veterans and ex-socialists; Prime Ministers such as Giovanni Giolitti allowed the Fascists taking the law in hand.

The Liberal Government preferred Fascist class collaboration to the Communist Party of Italy's bloody class conflict, should they assume government, as had Vladimir Lenin's Bolsheviks in the recent Russian Revolution of 1917.

The Manifesto of the Fascist Struggle (June 1919) of the PFR presented the politico-philosophic tenets of Fascism; it included women's suffrage, a minimum wage, an eight-hour workday, and reorganisation of public transport Appeasing its initially strong feminist wing, the Fascist party actually bowed in November 1925, allowing the introduction of limited women's suffrage, much to the dismay of Fascist feminists.

THE MARCH ON ROME *COUP D' ÉTAT*: MUSSOLINI AND THE PNF PARAMILITARYBLACKSHIRTS, OCTOBER 1922.

By the early 1920s, popular support for the PFR's fight against Bolshevism numbered some 250,000 people. In 1921, the *Fascisti* (Fascists) metamorphosed into the PNF, and achieved political legitimacy when Benito Mussolini was elected to the Chamber of Deputies in 1922.Although the Liberal Party retained power, the governing prime ministries proved ephemeral, especially that of the fifth Prime Minister Luigi Facta, whose government proved vacillating.

To depose the weak parliamentary democracy, Deputy Mussolini (with military, business, and liberal right-wing support) launched the PNF March on Rome (27–29 October 1922) *coup d'État*, to oust Prime Minister Luigi Facta, and assume the government of Italy, to restore nationalistpride, re-start the economy, increase productivity with labor controls, remove economic business controls, and impose law and order. On 28 October, whilst the "March" occurred, King Victor Emmanuel III withdrew his support of Prime Minister Facta, and appointed PNF Leader Benito Mussolini as the sixth Prime Minister of Italy.

The March on Rome became a victory parade, the Fascists believed their success was revolutionary and traditionalist.

ECONOMY

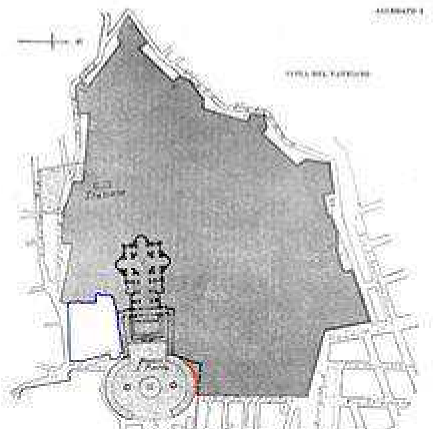
1939 Fiat advertisement.

Until 1925, when the liberal economist Alberto de Stefani ended his tenure as Minister of Economics (1922–25), after having re-started the economy and balanced the national budget, the Italian Fascist Government's economic policies were aligned with classical liberalism principles; inheritance, luxury, and foreign capital taxes were abolished; life insurance(1923),and the state communications monopolies were privatised, et cetera. Yet such pro-business enterprise policies apparently did not contradict the State's financing of banks and industry.

One of Prime Minister Mussolini's first acts was the 400-million-Lira financing of Gio. Ansaldo & C., one of the country's most important engineering companies. Subsequent to the 1926 deflation crisis, banks such as the *Banco di Roma* (Bank of Rome), the *Banco di Napoli* (Bank of Naples), and the *Banco di Sicilia* (Bank of Sicily) also were state-financed.In 1924, a private business enterprise established the *Unione Radiofonica Italiana* (URI — Italian Radiophonic Union), as part of the Marconi group, to which the Italian Fascist Government granted official radio-broadcast monopoly; after the Second World War, URI became the *Radio Audizioni Italiane* (RAI — Italian Radio Audience, 1944–54), then the *Radio televisione Italiana* (RAI — Italian Radio television).

In addition, given the overwhelmingly rural nature of Italian economy in the period, agriculture was vital to Fascist economic policies and propaganda. To strengthen the domestic Italian production of grain, in 1925, the Fascist Government established protectionist policies that ultimately failed (see: the Battle for Grain); historian Denis Mack Smith reports that: "Success in this battle was... another illusory propaganda victory, won at the expense of the Italian economy in general, and consumers in particular.... Those who gained were the owners of the Latifondia, and the propertied classes in general.... [Mussolini's] policy conferred a heavy subsidy on the Latifondisti."

After 1929, the Fascist regime countered the Great Depression with massive public works programs, such as the draining of the Pontine Marshes, hydroelectricity development, railway improvement, and rearmament. In 1933, the Istituto per la Ricostruzione Industriale (IRI — Institute for Industrial Reconstruction) was established to subsidize failing companies, and soon controlled important portions of the national economy via government-linked companies, among them Alfa Romeo. The Italian economy's Gross National Product increased 2 per cent; automobile production was increased, especially that of the Fiat motor company,and the aeronautical industry was developing. Especially after the 1936 Society of Nation's sanctions against Italian invasion of Ethiopia, Mussolini strongly advocated agrarianism and autarchy as part of his economic "battles" for Land, the Lira, and Grain. As Prime Minister, Benito Mussolini physically participated with the workers in doing the work; the "politics as theatre" legacy of Gabriele D' Anunzio yielded great propaganda images of *Duce* as "Man of the People".



The Roman Question resolved: Vatican City-State territory, 1929

Internal relations

In 1929, as Italian Head of Government, Benito Mussolini concluded the unresolved Church–State conflict of the Roman Question (*La Questione romana*, pending since the Risorgimento, 1815–71) with the Lateran Treaty (February 1929), between the Kingdom of Italy and the Holy See, establishing the Vatican City microstate in Rome. In exchange for diplomatic recognition of the Vatican City and compensated territorial losses, the Fascist Government established Roman Catholic religious education in every education level; the Vatican would diplomatically recognize the Italian Fascist State.

Moreover, to render the Italian people cosmopolitan, the Fascist Government applied every cultural artefact — from postage stamps to monumental architecture to sculpture — in making every social class conscious of Italy's cultural heritage, namely the Roman, Mediæval, Renaissance, and Baroque periods, and the modern age.

Mussolini's establishment of law and order to Italy and its society was praised by Winston Churchill, Sigmund Freud, George Bernard Shaw, and Thomas Edison, as the Fascist Government combated organised crime and the Mafia with violence and vendetta (honour).

THE FIRST VICTIMS OF FASCISM

Influenced by the Roman Empire, *Duce*, Prime Minister Benito Mussolini, perceived himself as a contemporary Roman Emperor, and set to establishing a new Italian Empire. With an expansionist and militarist agenda, Italian colonialism penetrated Africa in competition with the British and French empires. The first Italian Fascist colony was Eritrea, in East Africa; then Libya, Somalia, and Ethiopia. The Fascists ruled via authoritarian government, especially in combating insurgents and guerrillas attempting to expel the Italians from their colonized countries; Omar Mukhtar was a notable Libyan example.

International Fascism: The Italian Empire in 1939.

Moreover, Italian Fascism was (officially) neither atheist nor racist — provided the colonized folk agreed to Italianisation and swore fealty to *Duce*,). Just as Italian Jews were allowed membership in the National Fascist Party, in metropolitan Italy,in the Libyan colony, Muslims were Fascist Party members via the Muslim Association of the Lictor. In a unity ceremony, a Libyan chief awarded Prime Minister Mussolini an ancient Yemeni *Sword of Islam* artefact. East Africans were allowed to serve with Italians in the MVSN Colonial Militia.

To fulfil Italian unification, Fascist imperialism included the *Italia irredenta* (Irredentist Italy) demand of Italian ethnic integrity — recovering all lands previously annexed to the states incorporated to Italy. Said revanchism included the County of Nice, part of the Kingdom of Sardinia until 1860, the Duchy of Savoy, Corsica, part of the Republic of Genoa until 1768, Istria and Dalmatia which were until 1797 part of the Republic of Venice, and the island of Malta, part of the Kingdom of Sicily until 1530.

To prepare the Italians for military conquest, Mussolini's agenda became radical in the 1930s; seeking a physically fit and psychologically tough imperialist people to establish a modern Italian Empire, like the Roman Empire, he advocated discarding formalities of language, thought, and action; a coarse mind and hard body suited for aggressive war.

After Benito Mussolini came to power (1922), the forced Italianization of Slovene and Croatian populations in the 1920s and 1930s was under no international restraint in the areas that were given to Italy in exchange for joining Great Britain in the World War I.

In September 1920, Mussolini stated:

When dealing with such a race as Slavic - inferior and barbarian - we must not pursue the carrot, but the stick policy ... We should not be afraid of new victims ... The Italian border should run across the Brenner Pass, Monte Nevoso and the Dinaric Alps ... I would say we can easily sacrifice 500,000 barbaric Slavs for 50,000 Italians ...

—Benito Mussolini, speech held in Pula, 20 September 1920

Running the *ethnic cleansing* policy, Fascist Italy brought Italian teachers from South Italy to Italianize ethnic Slovene and Croatian children, while the Slovene and Croatian teachers, poets, writers, artists and clergy were exiled to Sardinia and elsewhere to South Italy. After complete destruction of all Slovene and Croatian cultural, financial and other organizations, resistance followed with anti-fascist TIGR movement, but it was followed by more Fascist repression. Acts of Fascist violence were not hampered by the authorities, such as the burning down of the Slovene *Narodni dom* (National House) in Trieste, carried out at night by Fascists with the connivance of the police on 13 July 1920.

In 1926, claiming that it was restoring surnames to their original Italian form, the Italian government announced the Italianization of German, Slovene and Croatian surnames, giving this program open legislative form, adding further pressure to these ethnic groups. There was no exception for first names. Some Slovenes and Croatians have under these circumstances "willingly" accepted Italianization in order to stop being a second-class citizens without upward social mobility.

The radical social change to Italian society signalled greater ideological affinity with Nazi Germany in international diplomacy, given Nazi approval of Italian Fascist imperial ambitions. Moreover, while in Germany, on 27 January 1938, an impressed Mussolini observed *Wehrmacht* soldiers march in goose-step. Upon returning to Italy, he adopted that marching style for his military, and also promulgated legal Anti-Semitism in the Manifesto of Race in July 1938, stripping Jews of Italian citizenship and with it any position in the government or previously held professions. The changes were partly unwelcome, because the Italians were not especially hateful of Jews, and thus were wary of such a cultural imposition, because of a strong German Nazi–Italian Fascist relations. Despite parallels between Nazi Germany’s racist domestic and foreign policies with those of Italy, *Il Duce* Mussolini was inconsistent about the application of racism in society. Despite, in the 1920s, having emphasized the importance of “race”, speaking in racialist terms about white–coloured relations, stating that the races are in continual competition:

"[When the] city dies, the nation — deprived of the young life, [the] blood of new generations — is now made up of people who are old and degenerate and cannot defend itself against a younger people which launches an attack on the now unguarded frontiers.... This will happen, and not just to cities and nations, but on an infinitely greater scale: the whole White race, the Western race can be submerged by other coloured races which are multiplying at a rate unknown in our race.|15px|15px|Benito Mussolini, 1928."

Yet in the 1933–34 period, when political tensions between Fascist Italy and Nazi Germany occurred over Austrian independence, PM Mussolini opportunistically contradicted his earlier claims about the importance of race, by dismissing it as insignificant:

"Race! It is a feeling, not a reality: ninety-five percent, at least, is a feeling. Nothing will ever make me believe that biologically pure races can be shown to exist today.... National pride has no need of the delirium of race.|15px|15px|Benito Mussolini, 1933."

SLOVENE ANTI-FASCIST RESISTANCE AND ITALIAN WAR CRIMES

On February 25, 1942, only two days after Italian Fascist regime established Gonars concentration camp that the first transport of 5,343 internees (1,643 of whom were children) arrived from - at the time already overpopulated - Rab concentration camp, from the Province of Ljubljana and from another camp in Monigo (near Treviso). In the occupied Slovenia with the emergence of the resistance, the Province of Ljubljana was subjected to brutal repression. Under the commander Mario Roatta's watch the violence against the Slovene civil population easily matched the German.
To suppress the mounting resistance led by the Slovene Partisans, Italian soldiers adopted "draconian measures to intimidate the Slovene populations into silence by means of summary executions, hostage-taking, reprisals, internments into Rab and Gonars concentration camps and the *burning of houses and villages*".
Mario Roatta's merciless suppression of partisan insurgency was not mitigated by his having saved the lives of Jews and Serbs (from the persecution of German Nazis and NDH). The "3C" pamphlet, tantamount to a declaration of war on civilians, involved him in war crimes.

EXTERNAL INFLUENCE

German stamp with Hitler and Mussolini. The text at the top says "Two peoples and one struggle."

The Italian Fascism government model was very influential beyond Italy; in the twenty-one-year intermarium of the First and Second world wars, many political scientists and philosophers sought ideological inspiration from Italy. Italian Fascism was copied by Adolf Hitler's Nazi Party, the Russian Fascist Organization, the Romanian National Fascist Movement (the National Romanian Fascia, National Italo-Romanian Cultural and Economic Movement), the Dutch fascists based upon the *Verbond van Actualisten* journal of H. A. Sinclair de Rochemont and Alfred Haighton.The Sammarinese Fascist Party established an early Fascist government in San Marino, their politico-philosophic basis essentially was Italian Fascism.

Switzerland — Pro-Nazi Colonel Arthur Fonjallaz of the National Front, became an ardent Mussolini admirer after visiting Italy in 1932. He advocated the Italian annexation of Switzerland, whilst receiving Fascist foreign aid. The country was host for two Italian politico-cultural activities: the International Centre for Fascist Studies (CINEF — *Centre International d' Études Fascistes*), and the 1934 congress of the Action Committee for the Universality of Rome (CAUR — *Comitato d' Azione della Università de Roma*).

Spain — The writer Ernesto Giménez Caballero, in *Genio de España* (*The Genius of Spain*, 1932) called for the Italian annexation of Spain, led by Mussolini presiding an international Latin Roman Catholic empire. He then progressed to close associated with Falangism, leading to discarding the Spanish annexation to Italy.

ITALIAN FASCIST INTELLECTUALS

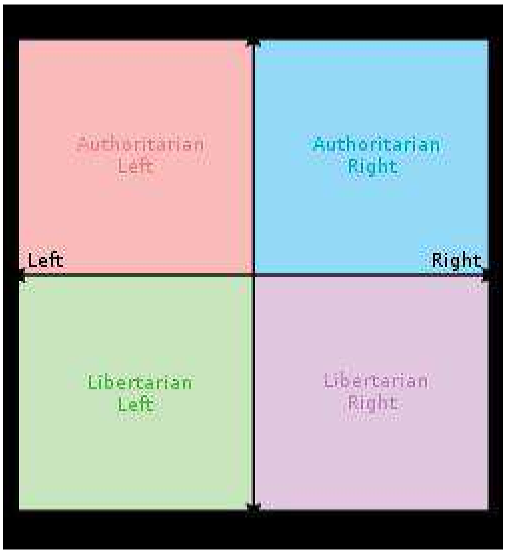
- Massimo Bontempelli
- Giuseppe Bottai
- Enrico Corradini
- Carlo Costamagna
- Enrico Ferri
- Giovanni Gentile
- Agostino Lanzillo
- Curzio Malaparte
- Filippo Tommaso Marinetti
- Robert Michels
- Angelo Oliviero Olivetti
- Sergio Panunzio
- Giovanni Papini
- Camillo Pellizi
- Luigi Pirandello
- Giuseppe Prezzolini
- Berto Ricci
- Alfredo Rocco
- Margherita Sarfatti
- Ardengo Soffici
- Ugo Spirito
- Giuseppe Ungaretti
- Gioacchino Vol

ITALIAN FASCIST MNEMONICS

Fascist slogan: "We dream of a Roman Italy".

- *Me ne frego* ("I don't give a damn!"): the Italian Fascist motto.
- *Libro e moschetto — fascista perfetto* **("Book and Musket — Perfect Fascist")**
- *Viva la Morte* ("Long live Death!"): sacrifice.
- *Tutto nello Stato, niente al di fuori dello Stato, nulla contro lo Stato* ("Everything in the State, nothing outside the State, nothing against the State").
- *Credere, Obbedire, Combattere* ("Believe, Obey, Fight")
- *Se avanzo, seguitemi. Se indietreggio, uccidetemi. Se muoio, vendicatemi* ("If I advance, follow me. If I retreat, kill me. If I die, avenge me") Borrowed from French Royalist Gen. Henri de la Rochejaquelein.
- *Viva Il Duce*("Long live the Leader")
- *La guerra è per l'uomo come La maternità è donna* (War is to Man as Motherhood is to Woman.)
- *Boia chi molla* ("who abandons the struggle is a hangman/executioner"), leaving the fight is seen as killing your own comrades. "Boia" was commonly used as an insult in Italy for centuries.
- *Molti nemici. Molto onore* ("Many enemies. Much Honor")
- *E' l'aratro che traccia il solco, ma è la spada che lo difende* ("The plough cuts the furrow, but the sword defends it")
- *Dux mea lux* ("The Leader is my light"), Latin phrase.
- *Duce a noi* ("Duce, to us")
- *Mussolini ha sempre ragione* ("Mussolini is always right")
- *Vincere e vinceremo* ("To win, and we shall win!")

POLITICAL SPECTRUM



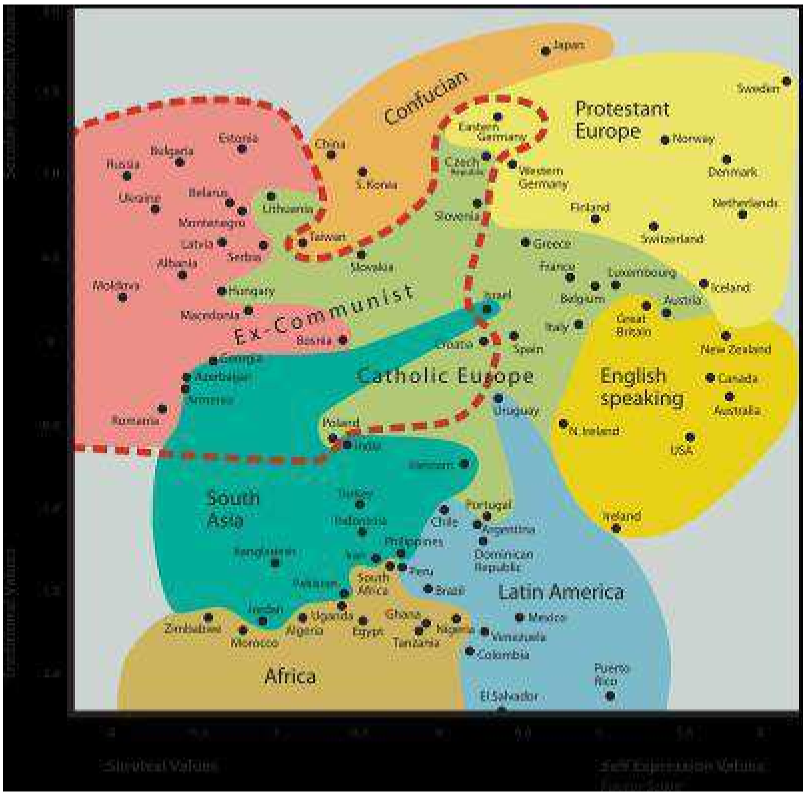
This chart proposed by the Political Compass Organization, which extends from -10 to +10 on each axis, is one of several competing models.

A **political spectrum** is a way of modeling different political positions by placing them upon one or more geometric axes symbolizing independent political dimensions.

Most long-standing spectra include a right wing and left wing, which originally referred to seating arrangements in the 18th century French parliament. According to the simplest left right axis, communism and socialism are usually regarded internationally as being on the left, opposite fascism and conservatism on the right. Liberalism can mean different things in different contexts, sometimes on the left, sometimes on the right. There is politics that rejects the conventional left-right spectrum, this is known assyncretic politics.

However, researchers have frequently noted that a single left-right axis is insufficient in describing the existing variation in political beliefs, and often include other axes. Though the descriptive words at polar opposites may vary, often in popular biaxial spectra the axes are split between cultural issues and economic issues, each scaling from some form of individualism (or government for the freedom of the individual) to some form of communitarianism (or government for the welfare of the community). In this context, the contemporary American left is often considered individualist (or libertarian) on social/cultural issues and communitarian (or populist) on economic issues, while the contemporary American right is often considered communitarian (or populist) on social/cultural issues and individualist (or libertarian) on economic issues.

Inglehart: traditionalist–secular, and self expressionist – survivalist



A recreation of the Inglehart–Welzel Cultural Map of the World based on the World Values Survey.

In its 4 January 2003 issue, *The Economist* discussed a chart, proposed by Dr. Ronald Inglehart and supported by the World Values Survey (associated with the University of Michigan), to plot cultural ideology onto two dimensions. On the y-axis it covered issues of tradition and religion, like patriotism, abortion, euthanasia and the importance of obeying the law and authority figures. At the bottom of the chart is the *traditionalist* position on issues like these (with loyalty to country and family and respect for life considered important), while at the top is the *secular* position. The x-axis deals with self-expression, issues like everyday conduct and dress, acceptance of diversity (including foreigners) and innovation, and attitudes towards people with specific controversial lifestyles such as vegetarianism, as well as willingness to partake in political activism. At the right of the chart is the open *self-expressionist* position, while at the left is its opposite position, which Dr. Inglehart calls *survivalist*. This chart not only has the power to map the values of individuals, but also to compare the values of people in different countries. Placed on this chart, EU countries in continental Europe come out on the top right, Anglophone countries on the middle right, Latin American countries on the bottom right, African, Middle Eastern and South Asian countries on the bottom left, and ex-Communist countries on the top left.

POLITICAL-SPECTRUM-BASED FORECASTS

As shown by Russian political scientist Stepan S. Sulakshin, political spectra can be used as a forecasting tool. Sulakshin offered mathematical evidence that stable development (positive dynamics of the vast number of statistic indices) depends on the width of the political spectrum: if it is too narrow or too wide, stagnation or political disasters will result. Sulakshin also showed that, in the short run, the political spectrum determines the statistic indices dynamic and not vice versa.

FASCISM IN TODAY’S POLITICAL SPECTRUM

Fascism is commonly placed on the far right of today’s political spectrum when it is described. Despite this, most scholars agree that influences by the left and right contributed to its development.

Italian Fascism was created with both right and left influences. The “Fascist right” was made of members of fascist paramilitary and some ex-members of the Italian Nationalist Association. The “Fascist left” included those who wanted to replace Italy’s liberal parliament with a national syndicalism and promote the interests of common people and workers. The Fascist paramilitary members desired a dictatorship. The members originating from the Italian Nationalist Association wanted the existing elites to remain while implementing an authoritarian corporatist state.

Fascist Italy also had small groups who tried to shift the movement towards their beliefs.

These included the "clerical Fascists" who promoted Catholic beliefs and the "monarchist Fascists" who pushed for an absolute monarchy.

Several movements of fascism were self-described as a "third force" and not in today's political spectrum. Benito Mussolini declined to specifically define his version of fascism in an attempt to gain support from as many people as possible. Benito Mussolini pictured that the economic system of his fascist Italy could be described as either state socialism or state capitalism.

Some political scientists have found that the left and right of the traditional political spectrum don't allow for the complexity of the fascist ideology. Some multi-dimensional models of the political spectrum have been devised to help explain this.

As fascism started to spread in Italy it gained popularity around the world. The results of World War II quickly dampened this popularity. Marcus Garvy, Winston Churchill, and Franklin D. Roosevelt were all initial supporters of fascist Italy.

Following World War II, fascism became quite unpopular around the world. Today, fascist is usually used to describe a preference for authoritarian rule. Fascism is used to attack both left and right wing stances and is often over-used and misrepresented.

IN THE BURQA BAN, ITALY'S LEFT AND RIGHT FIND SOMETHING TO AGREE ON.

An Italian parliamentary commission has approved a draft law banning women from wearing veils that cover their faces in public

The thing about Italy's proposed law to ban women from wearing veils that cover their faces is that it's not clear what difference it would make.

Just like in France or Belgium, which have introduced similar measures, Italy does not have a large population of women who wear the burqa or the niqab, which cover almost the entire body and face. "In my 20 years in Italy, I don't think I've seen ten women who wear the veil," says Izzeddin Elzir, head of the Union of Islamic Communities in Italy (UCOII), the country's largest Muslim organization. According to Elzir, most Muslims in Italy subscribe to a school of Islam that doesn't require women to keep their faces covered. "In summer, there are more, because there are lots of tourists [from Arabic countries]," he says. "But here in Italy, we see few cases.

The legislation, which was approved by a parliamentary commission on Tuesday, occupies a strange place in the Italian political spectrum, uniting the socially liberal left with the xenophobic right. (A similar measure was floated by the previous left-wing government.) If approved by parliament, it would close a religious exemption to previous legislation that prohibits anybody in Italy from donning garb that would make their identification impossible. The proposed law has the support of the Northern League, a populist political party that has built its electoral success by fanning fears in a country being changed rapidly by immigration.

And yet, the bill's main sponsor is a naturalized Moroccan immigrant, a Muslim woman who runs an association of Moroccan women and edits an Arabic-language newspaper. Souad Sbai is a member of Silvio Berlusconi's party and a former member of the National Alliance, a party with fascist roots that in Italy's topsy-turvy political system has become one of the country's main champions of immigrant rights. she is also championing a measure that would ease the path to citizenship for second-generation immigrants.

Sbai says she proposed the veil ban as a response to what she says is a rising wave of extremism in Italy's Islamic community: "I feel humiliated having to talk about burqas. I never saw burqas [as a child in Morocco]. Why do I see them here?" Her bill, she says, would help curb a growing trend that sees Italy's Muslim women being forced to cover their faces against their will. "It's not religious," says Sbai of the practice. "It's not Islamic. It's discrimination against women."

The effort to ban the burqa has the support of human-rights groups, like the EveryOne Group, which campaigns for the protection of minorities. "The reason [the burqa] is worn is to hide the woman, to limit her expression," says the activist group's president Roberto Malini. But he acknowledges that on this matter, the group finds itself in strange accordance with the Northern League, which has sponsored similar legislation on the local level, including one in the city of Bergamo, where kebab shops were recently banned from the historic city center. "Everything they do is to seed the fear of Islam," says Malini.

For Elzir of UCOII, to reject the bill is to stand for religious freedom — a devout woman should be free to cover herself if she wants. He adds that those women who are being forced to don a burqa by their husbands risk being confined to their homes if the proposal is made law. "We say we are for the liberty of all," says Elzir. "If there's a woman who is obliged to [wear the veil], let's work together to help get her out of this situation. Let's not make a law against her." He believes the bill is more about politics than policy, a distraction from the bigger issues. "Our parliament should focus on issues that impact all citizens, not just one or two people," he says. "The citizens of Italy need an answer to this economic crisis. And instead our parliament is studying whether our Islamic women should be covered or not."

KEY POLITICAL RISKS TO WATCH IN ITALY

Prime Minister Mario Monti is preparing reforms to boost Italy's economy after parliament approved a 33 billion euro austerity plan last month which aims to shore up the country's strained public finances but risks weighing on growth.The measures, which Monti will present at the end of January, are set to include **liberalisations, welfare and labour market reforms, but the government faces tough negotiations with unions, who have warned of social tension this year.** Italy, the euro zone's third largest economy, has been at the centre of the debt crisis since last summer, when its borrowing costs began to approach the levels which forced Ireland, Greece and Portugal to seek an international bailout. The situation in Italy is front and center , after S&P downgraded its outlook for the country , and its stocks and credit markets got slammed . The political situation in Italy is an utter shambles. Its president, caught up in a sex scandal, has spent more time defending his public image then working to deal with the country's debt crisis. Italy has not enacted the type of austerity measures its PIIGS siblings have, and hasn't put a pro-growth program in place either. Instead it enacted some education reforms, which have resulted in huge protests in the country.

And the country's debt outlook is ugly.Italy's Achilles heel is the combination of a high debt ratio (119% of GDP in 2010) coupled with a very low trend GDP growth rate, which in turn reflects very weak productivity dynamics (we estimate Italy's potential growth rate in the 0.6-0.9%yoy range, approximately one full percentage point below that of the euro area). For these reasons, looking ahead, we expect the Italian economy to grow by just 0.8%yoy on average between now and 2014, with real GDP not returning to pre-crisis levels until 2014-2015.For these reasons, in the absence of additional policy efforts, we expect the debt ratio to remain broadly stable around 120% of GDP in the coming years. Above all, policy measures should not be confined to spending cuts alone, and should focus at least as much on lifting Italy's weak growth potential.

Originally, Pillonca didn't expect Italy to take action on its debt until 2012-2013. Now, with the S&P outlook downgrade, it may not have that long to wait. But it may also not have a government capable of taking action, with Berlusconi wrapped up in his political scandals, and rapidly losing support, evidenced in recent local elections.

That leaves the question of who is exposed to things getting worse. Beyond Italy, where growth is already meek, it's the banks that hold the country's debt. And there's plenty of it to go around, with the country having a debt to GDP ratio of 119% in 2010.From the looks of it, it's Italian banks with most of the exposure to the country's debt. But those exposures are significant, and should explain the sharp selloff in their shares today. That in turn raised the prospect of an emergency which could tear the single currency apart. While a rescue of the smaller economies may be possible, a bailout of Italy would be too big for the euro zone's current defences to handle.Monti's technocrat government, appointed in November after former Prime Minister Silvio Berlusconi lost his parliamentary majority, is sticking to the aim of balancing the budget in 2013 by implementing his "Save Italy" austerity plan.

Monti said in December that the country had pulled itself back from the edge of a precipice.

But as Italy faces a recession that will make it even more difficult to rein in public debt, the government is drawing up additional "Grow Italy" measures aimed at making one of the euro zone's most chronically sluggish economies more competitive .In 2012, the Treasury aims to issue around 450 billion euros in new debt, a challenging target given the high yields investors are still demanding to buy Italian bonds, underlined by a disappointing auction at the end of last month .Much will also depend on how the wider euro zone crisis plays out and whether a sufficient Europe-wide response, including a possible backstop for Italy if extra support is needed, can be formed in case of a renewed emergency.

Here are some of the risks Monti will face:

MARKETS

Yields on 10 year bonds have come down from record highs of more than 7 percent in November following the approval of Monti's austerity measures .But they are still hovering just under 7 percent, which is seen as unsustainable given the amount that Italy needs to raise through debt issuance in 2012.With almost 160 billion euros of bonds needing to be refinanced by the end of April, there are concerns that market confidence may be hit by more shocks, wiping out the gains made in the aftermath of Monti's anno uncement.

Italy faces its first debt auction test of the year on Jan. 12 when it will offer short-term bills, followed by a separate auction a day later when it sells medium to long term debt. While Italy could theoretically continue paying yields of around 7 percent for several months more, the system would become increasingly vulnerable to a so-called "buyers' strike" where investors take fright and refuse to buy Italian bonds. Italian banks, which held just under 209 billion euros of Italian government bonds at the end of October, are also vulnerable to bond market turmoil which could spark a banking crisis. If Italy did need help, it would have to rely on an outside body such as the IMF, the euro zone bailout fund or the ECB, which has been propping up Italian bonds by buying them on the market since August.

Monti said last month that the euro zone bailout fund needed "significantly greater" resources. Any call for support would have to overcome objections from Germany, which is resolutely opposed to taxpayer bailouts for other euro zone countries or for pooling liability into commonly issued euro bonds as well as from the ECB, which is reluctant to step up bond purchases.

What to watch for:

-Results of upcoming bond auctions. Italy has so far managed to sell the bonds it has offered. Yields on 10-year paper have come down to under 7 percent from levels of around 7.56 percent in November. The failure of an auction to attract buyers could signal a potentially catastrophic loss of investor confidence.

POLITICAL SUPPORT

Monti has said he intends to remain in office until the next scheduled elections in 2013 but he will need to retain the support of parliament and prevent opposition from unions spilling over into mass street protests. Italy's three main unions attacked his austerity package for unfairly targeting workers and ordinary pensioners and held a series of strikes in December. After years of division the three unions appear to have united against Monti's reform plans, and analysts say he must move fast on additional reforms while his popularity is high and the sense of emergency over Italy's debt crisis is acute. A major battle is taking shape over the future of Italy's labour market, between Monti and union leaders including Susanna Camusso, head of the biggest union CGIL. They are due to meet for negotiations over labour reform in January. Opinion polls point to broad popular support for Monti but that could evaporate if, as expected, the economy slips into recession this year and more tax hikes, cuts or pension changes are needed to stick to budget targets.

Although unelected, Monti needs the backing of parliament to remain in office and there have been ample signs that Berlusconi's centre-right party in particular could withdraw support if it is not happy with the government. Berlusconi's former coalition partners in the regional Northern League party have gone into opposition and oppose many of the key elements of Monti's package. Their criticisms could start to weigh more heavily if the crisis worsens.

What to watch for:

-Signs that Berlusconi's PDL party or the unions are losing patience with Monti or if the austerity measures or potential labour market reforms prompt wide public opposition and major strikes.

THE ECONOMY

A chronically stagnant economy which is probably already in recession could torpedo efforts to cut the debt, trapping Italy in a spiral in which growth is choked off by repeated doses of austerity administered to control the budget. Italy's economy contracted by 0.2 percent in the third quarter from the second due to a slump in domestic demand, and analysts expect the downward trend to continue in subsequent quarters. The government forecasts economic contraction of 0.4 percent this year and zero growth in 2013 but believes that the measures it has introduced should allow it to hit its target of a balanced budget by 2013.If, as some private sector economists believe, the recession is more serious, yet more cuts could be needed, potentially undermining support for Monti's government.

SHARP INCREASE IN FUNDING COST:

Italy is more likely to experience a further **sharp increase in its funding costs or the loss of market access** than at the time of our rating action five months ago due to increasingly fragile market confidence, contagion risk emanating from Greece and Spain and signs of an eroding non-domestic investor base. The risk of a Greek exit from the euro has risen, the Spanish banking system will experience greater credit losses than anticipated, and Spain's own funding challenges are greater than previously recognized.

NEAR TERM ECONOMIC OUTLOOK DETERIORATED:

Italy's **near-term economic outlook has deteriorated**, as manifest in both weaker growth and higher unemployment, which creates risk of failure to meet fiscal consolidation targets. Failure to meet fiscal targets in turn could weaken market confidence further, raising the risk of a sudden stop in market funding.

At the same time, Moody's notes that the sovereign's current Baa2 rating is supported by significant credit strengths relative to other euro area peripheral economies, including

(1) Maintenance of a primary surplus,

(2) Large and diverse economy that can act as an important shock absorber in the current crisis, and

(3) Substantial progress on the structural reforms which, if sustained in the coming years, could improve the country's competitiveness and growth potential over the medium-term.

You may remember that back in January S&P downgraded much of Europe based on five major points.

In our view, these stresses include:

(1) Tightening credit conditions,

(2) An increase in risk premiums for a widening group of eurozone issuers,

(3) A simultaneous attempt to delever by governments and households,

(4) Weakening economic growth prospects, and

(5) An open and prolonged dispute among European policymakers over the proper approach to address challenges.

At the time I noted that although the CRAs were derelict in their duties in the lead-up to the GFC their recent assessments of Europe have been valid and worth taking note of. It is certainly difficult to argue with these points given the 6 months since the assessment and much of that now applies to Italy.

On the first point I noticed that the ECB's July monthly bulletin showed that YoY credit to the private sector finally went negative in May following on its long term downwards trend:

	Outstanding amounts as a percentage of M3[1]	Annual growth rates					
		2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Apr.	2012 May
Credit to euro area residents		3.1	2.4	1.4	1.4	1.4	1.5
Credit to general government		6.5	5.2	1.4	5.1	7.6	9.0
Loans to general government		10.7	7.0	-2.2	-4.7	-2.9	-0.9
Credit to the private sector		2.3	1.8	1.4	0.6	0.0	-0.2
Loans to the private sector		2.6	2.5	2.1	0.9	0.2	-0.1
Loans to the private sector adjusted for sales and securitisation[2]		2.9	2.7	2.3	1.3	0.8	0.4
Longer-term financial liabilities (excluding capital and reserves)		3.4	3.6	2.7	0.5	-1.8	-3.0

Italy's economic performance is mentioned in the second factor mentioned by Moody's and is something I have discussed previously:

The real problem in Italy is that its economy has been stagnate for nearly the entire decade. According to the IMF between in 2000-2010 among all countries of the world Italy only grew faster than Haiti and Zimbabwe. In 2010, Italian GDP was only 2.5% higher than in 2000. This problem is actually made worse by the fact that this is such a long term trend. Italy's per-capita GDP growth was 5.4% in the 1950s, 5.1% in the 1960s, 3.1% in the 1970s, 2.2% in the 1980s and 1.4% in the 1990s. Since the new millennium the country has hardly moved forward and if we extrapolate out that trend Italy will spend the next decade in contraction.

On top of stalling growth, Italy has a demographics issue. With a debt to GDP ratio at 120% along with a population with a median age of approximately 45 Italy really does look like the Japan of Europe. The only problem is Japan is competitive, runs a trade surplus and is sovereign in its own currency. Italy has none of these things.

Italy's latest round of business data suggests that the short-t0-medium term outlook of the economy isn't about to deliver a turnaround:

The latest Business Outlook survey conducted by Mark it shows that confidence among Italian businesses has dropped since the start of the year, and is only slightly higher than at the height of the global financial crisis. Respondents highlighted concerns over the impact of greater fiscal pressures and a lack of credit availability on prospects for growth in output and investment in the year ahead, and have signalled their intentions to reduce staffing levels further.

And the country's PMI tells the same story:

Overnight the Italian government added to its own woes with verification of previous economic estimates from the Bank of Italy: Italy's government will revise down its forecast for the economy this year to a contraction of less than 2 percent when it updates its economic targets in September, new economy minister Vittorio Grilli said in a newspaper interview published on Sunday. The government had previously forecast the economy would shrink 1.2 percent this year. Its new forecast is close to the Bank of Italy's estimate of a 2.0 percent contraction but more optimistic than the employers' lobby Confindustria's prediction of a contraction of more than 2.4 percent. However, although the economic story is a sorry tale, it may not be Italy's largest short-term risk. As noted by Moody's, Italy has the ability to use its large private sector wealth as a buffer and with a focussed and well managed transition towards greater production the country could potentially works its way out of its troubles while staying within the monetary union. That being the case, one of the most important assets Italy will require is a strong and stable leadership. This appears to be a bit of a problem :Prime Minister Mario Monti said Italy faced a "war" at home and abroad as his government pushes to revamp the euro-zone's third-biggest economy and extricate it from the region's debt crisis. The premiere's remarks at a banking conference in Rome came as allies of the premier's predecessor, Silvio Berlusconi, began clamoring for the controversial billionaire to run for office in the next election. That prospect is likely to unnerve investors and EU authorities who pushed for Mr. Berlusconi's ouster in November and adding to the political risk is the future of Mario MontiItaly's unelected Prime Minister Mario Monti said he won't serve in another government when his term ends next year."I have always excluded and I still exclude considering an experience of government that goes beyond the next election, which is naturally the end of the government that I have the honour of presiding over," he told reporters in Brussels today after a meeting of finance ministers.

Monti made the comments after speculation in the Italian press about the possibility that the premier would be asked to remain in office after elections due in April of next year. The nation's two main political parties, which suspended their rivalries and have jointly supported Monti's policies, may not be able to win a governing majority in parliament on their own, polls indicate .Given these reports it would appear that Italy is moving towards a period of political instability. This is certainly not an environment in which you would expect to see substantial progress on the structural reforms or maintenance of fiscal austerity. We are yet to see exactly what the Italian political landscape becomes if Mr Monti does take to the exits, but it is quite possible that Italy's politics once again become far more of a concern to the financial world than nation's economy.

FIAT: ITALIAN CHAMPION STRUGGLES TO COMPETE GLOBALLY

In the eyes of the world, Fiat is seen as a national champion of Italy, its legendary patriarchal founder, Gianni Agnelli, a more well-known leader than most of Italy's postwar prime ministers. While Fiat as a brand represents above all Fiat Auto, the motor manufacturers, in its 100-year history, the company grew into a vast conglomerate covering a multitude of businesses. At its height, the motor industry businesses include the Iveco truck manufacturer, the CNH farm and construction machinery company, Magnetti Marelli car component manufacturer, FiatAvio aero-engine company and Ferrari sports cars. More expansionist forays were into insurance, energy and publishing. It is Fiat Auto, however, that defines the company's image. Its mounting difficulties from the late 1990s onwards caused anguish, not just among those associated with Fiat, but within the Italian government and general public. The very thought that this Italian icon might collapse under a pile of debt, to be taken over by a foreign owner, was turning painfully into a probability. How did it get into this perilous position and how could it claw its way back? Key to finding answers to these questions is the cultural and political environment of Italy, coupled with the external pressures of the EU and the globalization facing the car industry worldwide.

FALLEN ICON

Like most Italian businesses, Fiat has been dominated by a family. The Agnelli family controls about 34 per cent of the ordinary shares, through two holding companies, Ifi and Ifil. Maintaining family control has been a priority, making it difficult for Fiat to enter alliances and joint ventures, common among its competitors. Fiat Auto has enjoyed a dominant share in the Italian market, helped in large measure by successive governments, which have protected its position. This is not to say that the company had been entirely cushioned from external pressures. It went through a difficult period in the 1970s, when its factories and managers became targets of extreme left-wing, Red Brigade terrorists, who caused widespread disruption, including the assassination of Aldo Moro, president of the Christian Democrat party, in 1978. The company was forced to restructure following the oil shocks of the 1970s. However, it was helped by government policies which held back the introduction of anti-pollution requirements, such as catalytic converters, which competitors elsewhere were compelled to install, giving the company a price advantage in the 1980s and early 1990s. The government also barred the import of Japanese cars into Italy until the mid-1990s, keeping at bay, in particular, the threat posed by Japanese small cars to Fiat's market share. Fiat had been slow to invest in quality improvements and other innovations, leaving it in a weak position in terms of quality guarantees when the market was finally opened to competition. A further aid for Fiat was the succession of currency devaluations which helped it to remain price-competitive. With the adoption of the euro in 1999, Italy could no longer devalue its currency, and by then global competitors were making inroads into the Italian market. Fiat's debts were rapidly accumulating. A deal was done with General Motors (GM) in 2000, by which GM would buy 20 per cent of the shares in the Auto division. In addition, Fiat had an option to sell the other 80 per cent of Fiat Auto to GM between 2004 and 2009.

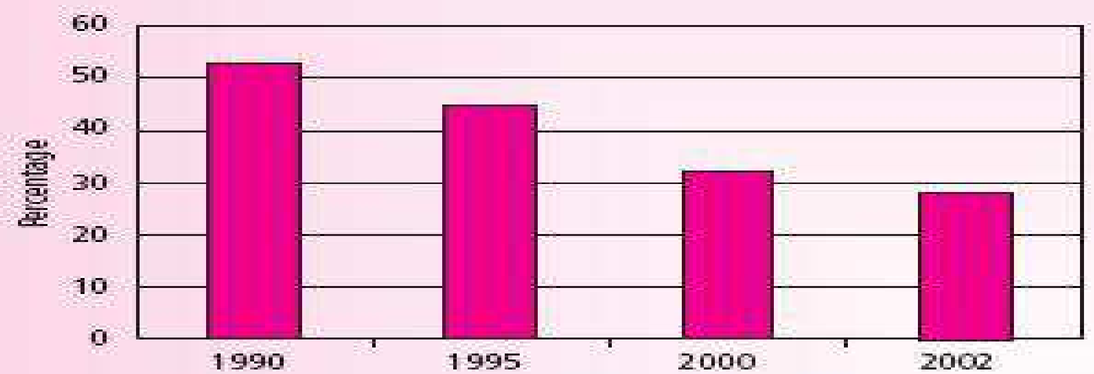


Figure 1 Fiat's market share in Italy

Source: Kapner, F., 'Trouble with Fiat', *Financial Times*, 4 March 2003.

Fiat's market share in Italy dropped from over half in 1990 to 28 per cent in 2002 (see Figure 1). With debts in the order of €6bn. and sales falling, Fiat was staring into the abyss, with operating losses of €1348m. in 2002 (see Figure 2). In the restructuring which followed, some 6000 jobs were lost and production was cut back at 18 plants. Some of the businesses were sold, including the insurance and aero-engines operations. In 2002, Fiat's car operations still employed 36,000 in Italy and a further 100,000 indirectly, and were estimated to account for about 1.5 per cent of the country's GDP. When Prime Minister Silvio Berlusconi was elected in 2001, he promised as much support as he could give to Fiat, while keeping within the EU's strict rules on state aid to industry. He described the crisis at Fiat as'national problem' (Betts, 2002

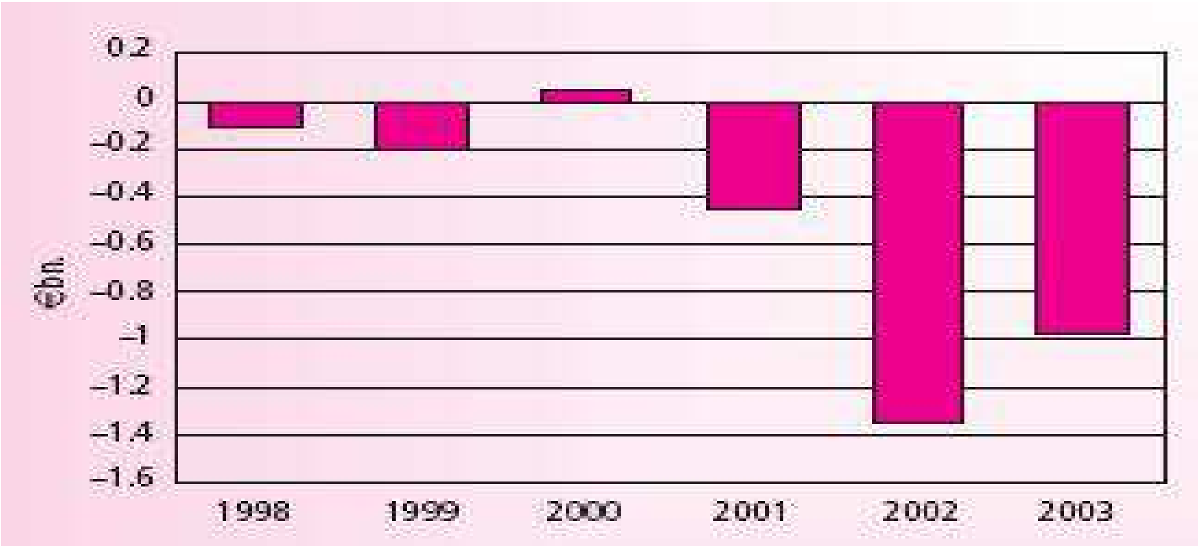


Figure 2 Fiat Auto's operating profit/losses
Source: Fiat S.p.A., Annual Report at 31 December 2003.

Mounting problems for the Italian government

Mr Berlusconi has been in office longer than any postwar Italian prime minister, navigating his centre-right coalition through a series of problems. He had promised a reinvigorated economy, tax cuts and structural reforms, but has had troubles keeping his four-party coalition together and met public resistance to unpalatable reforms. He introduced some reform of Italy's rigid labour laws, providing for greater flexibility in labour markets. Unemployment remains high, at 9 per cent, and rising inflation, persistently above the EU average, is a worry. Tax cuts are not universally applauded, causing disagreement within the coalition and objections from the EU Commission. The EU Commission has advised him to raise taxes, mindful that the national debt stands at 106 per cent of GDP, the highest in the EU. Italy has one of the highest rates of early retirement in Europe and about 14 per cent of GDP is spent on pensions. The government aims to reduce the pension bill by 0.7 per cent by requiring many workers to work until they are 60, rather than 57, to qualify for a full state pension (those who have paid 40 years of contributions into the system could still retire at 57 with the full pension). This would take effect from 2008 onwards. Many observers, particularly within the EU, see this measure as too weak, but the government faced stiff resistance, including surviving a vote of confidence, in getting even this modest reform passed into law in 2004.Berlusconi himself has been the subject of much criticism – criticisms which go to the heart of Italy's democracy. These criticisms focus, first, on his alleged criminal activities, which are still going through the courts. Judicial proceedings are pending against him for alleged crimes involving multiple business interests. Secondly, criticism focuses on his media empire, which constitutes a conflict of interest with his public office. As Italy's richest man, Berlusconi owns a media empire which includes the country's three main television channels, its largest publishing house and largest advertising agency. He is also accused of exerting pressure on RAI, the state-owned network. He has acknowledged that there is a possible conflict of interest between his media businesses and his public role and has proposed legislation on conflict of interests. However, critics argue that this measure is too weak, and, importantly, would not require him to divest any companies, but simply refrain from exploiting his privileged position. Why Italians would vote for a man who had been the target of a number of serious criminal investigations, and whose media domination would be considered intolerable in many democracies, is a question which exercises many inside and outside Italy (Lane, 2004). Lane argues that the concentration of media power makes it difficult for Italian voters to form informed judgments. The country has a history of power politics overlaying political institutions and close ties between business and politics which breed corruption. The collapse of the dairy empire, Parmalat, another family business, which hinged on large-scale false accounting, is indicative of weak corporate governance, facilitated by opaque ties between political and business players.

Fiat's recovery prospects

Parmalat's collapse sent a shiver through Italian businesses. They are facing the realities of global competition at a time when favours from the government are drying up. Generational changes have taken place at Fiat, with the deaths of both Gianni and Umberto Agnelli (in 2003 and 2004 respectively). The new chairman is Luca Cordero di Montezemolo, the chairman of Ferrari. Product development has been pushed up the agenda, along with quality improvements. Two new models have been introduced, and the management is focused on improving the brand image. Development of the new models of course added to the borrowings. The operations in developing markets are improving and good profits are being generated in Brazil. But restructuring and debt reduction are priorities. Improvement in shareholder value in 2004 indicated that the restructuring was producing results (see table).

Total shareholder return: comparisons of leading automakers, 2003–4

Company	Percentage change in total shareholder return, 2003–4
Fiat	23.4
DaimlerChrysler	41.0
Ford	46.8
Renault	49.4
Toyota	58.4
General Motors	35.6
Volkswagen	3.2

Source: Armstrong, J. (2004), 'Automakers' 2nd quarter is sound', *Automotive News*, 78(6103), p. 40.

Nonetheless, the prospect of takeover by GM still loomed on the horizon. For its part, GM was regretting its agreement to take over Fiat, as its market share at home was on the slide, and the takeover of the loss-making Italian car maker would constitute a further headache. By 2005, both companies were looking for a way out of the deal, and the parties agreed that GM would pay Fiat a1.55bn. to terminate the takeover agreement and other aspects of the relationship. Some of their successful joint ventures would continue, but Fiat is now free to devise more deals with other car companies. The much-needed cash can be used by Fiat for restructuring and, as part of the deal, it retains the benefits of being part of GM's worldwide purchasing operations. What of the future role of the family? Following the deaths of its two elder members, new appointments to the board were soon made. They included grandsons of Gianni and Umberto Agnelli, both 28 – an indication that the family intends to keep its grip on the tiller.

1.1DEMOGRAPHIC PROFILE OF THE COUNTRY

Proceedings at this round table session got underway with the participants observing that an aging population, immigration and the brain drain are issues that Italy needs to address by looking to the future as well as at the past. Indeed, the current state of affairs is the product of previous trends. In decades gone by, there was a surplus of births over deaths and a negative migration balance, but today that situation has been reversed. Thus, enquiring into how things were as well as how they are likely to be in the future is helpful for shaping policies to deal with demographic changes which, it was noted, have turned out to be very different from those forecast by the UN itself no less than ten years ago.

Migration flow management cannot, on its own, provide the key to reversing the processes underway. Immigration plays an extremely important role, including in terms of labor supply, but it would take 690 thousand new arrivals a year to reverse the current trends. That would be difficult to sustain, particularly considering the global fall in migration. However, what could make a real difference are measures aimed at increasing the fertility rate (which is stuck at 1.4 births per woman and is lower than that in other countries), at overhauling personal care and health policies, and at encouraging young people aged between 25 and 30 to stay in the country. Indeed, in respect of the latter, the participants pointed to statistics showing that the number of Italians in that age group moving abroad exceeds the number of young immigrants arriving in Italy.

It was stressed that in the absence of targeted policies, Italy will be confronted with three questions in the future. The first of these relates to birth and fertility rates. The country has been below the generational replacement level (that is, fewer than two births per woman) since 1977, and immigrants have not succeeded in making a significant contribution to reversing this trend, because their birth rate is increasingly approaching that of Italians, and because, as evidenced by massive remittance flows, they harbor a desire to return to their countries of origin. Today, there are around 80 thousand births a year amongst the immigrant population, but in four years, the fertility rate of non-native women has fallen to Italian levels. It was noted that in advanced economies, there is a positive correlation between female employment ratios and fertility rates.

The second issue relates to optimizing the country's stock of human capital. In this regard, the participants highlighted that young people in Italy are finding it difficult to leave the family home (which prevents them from assuming full adult responsibilities) or they are leaving the country. Finally, the third question concerns the aging of the population. The number of great-grandparents is overtaking the number of great-grandchildren, and in addition to an increase in the number of people over 65, Italy is also seeing a rise in over-80-year-olds. It is this gradual growth in the number of people within the elderly age brackets that is posing some of the more difficult challenges. Whilst the pension system is now sustainable thanks to recent reforms, there is still a need to better integrate the country's tax and social security systems.

Turning to the area of health and personal care services, the participants felt that this sector requires special attention, also taking into consideration the older population's propensity to save. The growth in the number of single-person households, particularly amongst the elderly, results in greater vulnerability and a loss of the family support network.

Over-65-year-olds may already have or develop several chronic conditions, for which hospitalization is not the best treatment option. It is with the aim of reducing hospitalization rates and encouraging treatment centered on the individual that the structure of healthcare provision is moving towards the large hospital model. Technology will also need to provide a means of ensuring that people in older age brackets are better able to contribute to productivity, a necessary prerequisite, along with savings, for the pursuit of constant economic growth. Finally, in order to reverse or at least reduce the erosion of savings associated with aging, the participants stressed the need for policies that encourage people to take out supplementary health and – in the case of young people – pension cover.

1.2 ECONOMIC OVERVIEW OF THE ITALY COUNTRY

Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less - developed, welfare-dependent, agricultural south, with high unemployment. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family owned. Italy also has a sizable underground economy, which by some estimates accounts for as much as 17% of GDP. These activities are most common within the agriculture, construction, and service sectors. Italy is the third -largest economy in the euro-zone, but exceptionally high public debt burdens and structural impediments to growth have rendered it vulnerable to scrutiny by financial markets. Public debt has increased steadily since 2007, reaching 120% of GDP in 2011, and borrowing costs on sovereign government debt have risen to record levels. During the second half of 2011 the government passed a series of three simplicity packages to balance its budget by 2013 and decrease its public debt burden. These measures included a hike in the value-added tax, pension reforms, and cuts to public administration. The government also faces pressure from investors and European partners to address Italy's long -standing structural impediments to growth, such as an inflexible labor market and widespread tax evasion. The international financial c risis worsened conditions in Italy''s labor market, with unemployment rising from 6.2% in 2007 to 8.4% in 2011, but in the longer-term Italy''s low fertility rate and quota-driven immigration policies will increasingly strain its economy. The euro-zone crisis along with Italian austerity measures have reduced exports and domestic demand, slowing Italy''s recovery. Italy''s GDP is still 5% below its 2007 pre-crisis level.

PARTICULARS	**DETAILS**

GDP (purchasing power parity)	$1.847 trillion (2011)
GDP (official exchange rate)	$2.164 trillion (2011)
GDP - real growth rate	0.4% (2011)
GDP - per capita (PPP)	$30,500 (2011)
GDP - composition by sector	agriculture: 2% industry: 24.7% services: 73.4% (2011)
Labor force	25.08 million (2011)
Labor force - by occupation	agriculture: 3.9% industry: 28.3% services: 67.8% (2011)
Unemployment rate	8.4% (2011)
Population below poverty line	NA%
Budget	revenues: $1.025 trillion expenditures: $1.111 trillion
Public debt	120.1% of GDP (2011)
Agriculture - products	fruits, vegetables, grapes, potatoes, sugar beets, soybeans, grain, olives; beef, dairy products; fish
Industries	tourism, machinery, iron and steel, chemicals, food processing, textiles, motor vehicles, clothing, footwear, ceramics
Industrial production growth rate	0.2% (2011)

Industrial production growth rateExports	$524.9 billion (2011)
Exports – commodities	Engineering products, textiles and clothing, production machinery, motor vehicles, transport equipment, chemicals; food, beverages and tobacco; minerals, and nonferrous metals
Exports - partners	Germany 13.3%, France 11.8%, US 5.9%, Spain 5.4%, Switzerland 5.4%, UK 4.7% (2011)
Imports	$549.6 billion (2011)
Imports - commodities	engineering products, chemicals, transport equipment, energy products, minerals and nonferrous metals, textiles and clothing; food, beverages, and tobacco

1.3 OVER VIEW OF INDUSTRY TRADE AND COMMERCE IN THE ITALY

Commerce is the whole system of an economy that constitutes an environment for business. The system includes legal, economic, political, social, cultural, and technological systems that are in operation in any country. Thus, commerce is a system or an environment that affects the business prospects of an economy or a nation-state. We can also define it as a second component of business which includes all activities, functions and institutions involved in transferring goods from producers to consumer.

More specifically, Italian economy is damaged by the lack of infrastructure development, market reforms and research investment, and also high public deficit.[49] In the Index of Economic Freedom 2011, the country ranked only 87th in the world, in particular due to the high rate of corruption, an excessive state interventionism, and a strong labor law. In addition, the most recent data show that Italy's spending in R&D in 2011 was equal to 1.1% of GDP (12th in the world by expenditures), below the European average of 1.7% and the Lisbon Strategy target of devoting 3% of GDP to research and development activities.

Italy has a smaller number of global multinational corporations than other economies of comparable size, but there is a large number of small and medium-sized enterprises, as in the Northern "industrial triangle" (Milan-Turin-Genoa), where there is an area of intense industrial and machinery production, notably in their several industrial districts, which are the backbone of the Italian industry. This has produced a manufacturing sector often focused on the export of niche market and luxury products, that if on one side is less capable to compete on the quantity, on the other side is more capable of facing the competition from emerging economies based on lower labour costs, with higher quality products.

The country was the world's 7th largest exporter in 2009.Italy's major exports and companies by sector are motor vehicles (Fiat,Aprila , Ducati, Piaggio, Iveco); tyre manufacturing (Pirelli); chemicals and petrochemicals (Eni); energy and electrical engineering (Enel, Edison); home appliances (Candy, Indesit); aerospace and defense technologies (Finmeccanica, Alenia Aeronautica, AgustaWestland, Oto

Melara); firearms (Beretta, Benelli); fashion (Armani, Valentino, Versace, Dolce & Gabbana, Roberto Cavalli, Benetton, Prada, Luxottica); food processing (Ferrero, Barilla Group, Martini & Rossi, Campari, Parmalat); sport and luxury vehicles (Ferrari, Maserati, Lamborghini, Pagani); yachts (Ferretti, Azimut). Italy's closest trade ties are with the other countries of the European Union, with whom it conducts about 59% of its total trade. Its largest EU trade partners, in order of market share, are Germany (12.9%), France (11.4%), and Spain (7.4%).

1.4 OVER VIEW OF DIFFERENT ECONOMIC SECTOR OF THE ITALY

- *Energy, wind power and Nuclear Sector*

Italy has few natural resources. There are no substantial deposits of iron, coal, or oil. Proven natural-gas reserves, mainly in the Po Valley and offshore Adriatic, have grown in recent years and constitute the country's most important mineral resource. Most raw materials needed for manufacturing and more than 80% of the country's energy sources are imported. Also in Italy, we can find that of more development of wind farm sector also.

However, in the last decade, Italy has became one of the world's largest producers of renewable energy, ranking as the world’s fifth largest solar energy producer in 2009 and the sixth largest producer of wind power in 2008.

Italy has managed for nuclear reactors until the 1980s, but in 1987, after the Chernobyl disaster, a large majority of Italians passed a referendum opting for phasing out nuclear power. The government responded by closing existing nuclear power plants and stopping work on projects underway, completely putting a halt to the national nuclear program. Currently, the majority of Italian electricity is produced gas, oil, coal, and hydro. Due to its reliance on expensive fossil fuels and imports, Italians pay approximately 45% more than the EU average for electricity.

- **Vegetable and Fruits**

The northern part of Italy produces primarily maize corn, rice, sugar beets, soybeans, meat, fruits and dairy products, while the South specializes in wheat and citrus fruits. Italy is the first or the second largest producer of wine in the world, and one of the leading in olive oil, fruits (apples, oranges, lemons, pears, apricots, peaches, cherries, strawberries, kiwi), flowers and vegetables.

- **Transportation**

In 2004 the transport sector in Italy generated a turnover of about 119.4 billion euros, employing 935,700 persons in 153,700 enterprises. Regarding to the national road network, in 2002 there were 668,721 km (415,612 mi) of serviceable roads in

Italy, including 6,487 km (4,031 mi) of motorways, state-owned but privately operated by Atlantia company. In 2005, about 34,667,000 passenger cars (equal to 590 cars per 1,000 people) and 4,015,000 road good vehicles circulated on the national road network.

The railway network in Italy totalled 16,862 kilometres (2008) of which 69% are electrified and on which 4,937 locomotives and railcars circulate. It is the 15th largest in the world, and is operated by Ferrovie dello Stato. High speed trains include ETR-class trains, with the ETR 500 reaching 300 km/h (190 mph). The rail tracks and infrastructure are managed by Rete Ferroviaria Italiana.

- **Banking**

Banking in Italy has, as of the 11th October 2008, an average assets/liabilities ratio of 12 - 1, while the banks' short-term liabilities are equal to 86% of the Italian GDP or 43% of the Italian national debt. This is a list of the top 10 Italian banks ranked by market capitaliazation.

1.5 OVER VIEW OF BUSI. AND TRADE AT INTERNATIONAL LEVEL

Italy had experienced a lower growth than the European average, and it was severely affected by the global crisis, its economy reduced to -5% in 2009. However, it benefited from the revival in global demand and the return of confidence. The exports and investments recovered in 2010, providing a growth rate evaluated at 1% of the GDP. According to the forecast, the growth rate should remain weak in 2011.

The government has launched different social measures in order to try to help those who are in the most unfavorable conditions, which had a direct consequence on increasing dramatically the public expenditures of a country that has one of the highest public debts in the world (more than 100% of the GDP). The government has, then, adopted a rigorous plan of EUR 24 billions in three years, it has frozen salaries and increased taxes with the purpose of attempting to bring the public deficit to 2.7% in 2012 and reducing its debt/GDP ratio. The priority is also given to the fight against tax avoidance in this country where the black economy is very significant.

The unemployment rate has risen to about 8.7%. Regional inequity is very pronounced, specially between the north, which is very industrialized and dynamic, and the rural and poor regions of Mezzogiorno in the south.

FDI in Figures

In relation to its European neighbors, Italy does not attract but a small amount of foreign direct investment (FDI). After their fall in 2008, under the effect of the global crisis, the FDI flows started to revive in 2009. The privatization program led by the country, the liberalization of the energy and the markets of telecommunications offer interesting opportunities to investors. However, a strict labor law, high taxes, inefficient public services, corruption and the activities linked to organized crime are some of the hindrances to investment.

FDI Government Measures

There is hardly any assistance in Italy for promoting foreign investment. This trend is reinforced by the European Union which wants Italy to harmonize its tax incentives with the Community regulations. Italy only promotes the development of its regions which are in difficulty, in order to facilitate SME activity and job creation.
The defense sector and other sectors likely to compromise public safety are not open to foreign investors.

The Italian Institute for Foreign Trade lists and makes available a guide to aids for setting up business in Italy. Italy is amongst the top 10 trade countries in the world and trade represents almost 60% of the GDP. Manufactured goods account for more than 90% of the country's exports. The country shows a deficit in trade and its balance got worse after the rise in oil prices in 2008 (the country imports 80% of its energy resources), and the appreciation of the euro. Despite its recent improvement, the trade balance should continue to deteriorate in the next coming years. The main trade partners of Italy are the European Union (Germany, France, Spain, Netherlands, United Kingdom), China, the United States, Switzerland and Russia.

1.6 PRESENT TRADE RELATION AND BUSINESS VOLUME OF DIFFERENT PRODUCTS WITH INDIA/GUJARAT

From last few decades Italy has done great relation ship of doing business with india. Following are of some good examples that define that now days also they are maintaining good relationship for trading with INDIA.

NOV 2012- Italian auto components maker Magneti Marelli has opened a new automobile exhaust systems manufacturing plant in Manesar, near Gurgaon, India.
The new production plant is built on a surface of 8,000mt² by SKH Magneti Marelli Exhaust Systems.

At the new plant, the company will produce about 400,000 Cold End components and 150,000 Hot End systems a year. According to the company, the new Indian plant will expand the product portfolio to include cold end systems and ensuring more room for production activities.

NOV 2012- Mahindra has launched the XUV500 crossover in Italy, the first European market to get the flagship crossover from the Indian car and utility vehicle major. The XUV500 that will be sold in Italy comes at an introductory price of 22,932 Euros, which translates to about 15.6 Lakh Indian Rupees. The XUV500 that is sold in Italy will be offered in two versions, a front wheel drive model and an all wheel drive model. The all wheel drive model of the XUV500 will be priced a tad higher, at Euro 24,983. In order to increase car buyer confidence in the XUV500, Mahindra is offering a 5 year-100,000 kilometer warranty on the Euro-spec XUV500.

NOV 2012- The foreign investment proposal by Italian jewellery brand Damiani to set up a 51:49 joint venture with Mehta's Pvt Ltd got the government's approval, sources said. The proposals were cleared by the Foreign Investment Promotion Board (FIPB) headed by Economic Affairs Secretary Arvind Mayaram. Sources said the footwear retailer plans set to invest Rs 100 crore. After the meeting, Mayaram said that the proposal of Pavers England has been cleared.

INTRODUCTION OF GARMENT INDUSTRY OF ITALY

The garment industry plays an important role in the manufacturing industry because it is the second most important sector, behind the mechanical sector. It has specific characteristics and is deeply settled in the Italian productivity sector. the Italian garment industry has been characterized by greater connections to the agri-food system and to the food chain. As the years go by, the agri-food sector has been characterized by the growth of a great number of industrial groups, mainly foreign. In addition, the emerging of agri-food districts put in evidence the specialization and the localization of the enterprises in some particular Italian areas. Italy's economic structure relies mainly on its manufacturing and service sectors. The Italian economic structure is well-developed; industrialized in the north, and agricultural based in the south.

INTRODUCTION OF DIESEL COMPANY

Diesel S.p.A. is an Italian manufacturer of garment and other jewellary products. It was founded by confectioner Renzo Rossoin 1978 in Italy. The company saw a period of tremendous growth and success under Renzo Rossoin

.

Diesel is an Italian company, which started in 1978 by Renzo Rosso and his former boss Adriano Goldschmied (of the AG Jeans company). The brand was founded on the concepts of “rejected the slavish trend following typical of the fashion industry.” AND “views the world as a single, border-less macro-culture.” The company rapidlly caught on,and in 1985, Rosso gained full control of the company. By 1991, the company began it’s international marketing campaign and in1996, the New York City flagship store opened.

In 1998, Wilbert Das joined as the creative director and the brand began to take off. Das served as the creative director for all of the brand’s divisions.

Diesel jeans are considered high-octane by some in the fashion-forward set. Despite noxiously high prices (jeans are priced at $300 and up), Diesel takes pride in producing unusual yet modish men's and women's casual wear. The company also makes sportswear and kids' clothes, and licenses its name to makers of jewelry, watches, leather goods (handbags, wallets), eyewear, fragrances (Only the Brave, Fuel for Life), furniture, and footwear. Diesel's products are sold in more than 80 countries through department stores and specialty retailers, as well as at about 400 company-owned Diesel stores globally. The company also markets its goods through catalogs. CEO and owner Renzo Rosso founded Diesel in 1978.

⌧ DIESEL CONCERN TO VARIOUS PRODUCTS OF MARKET

⌧ ***Accessories*.**

Structured and framed handbags reappeared in canteen and binocular shapes. But the soft, capacious shoulder bag that holds everything including a change of shoes and a brown-bag lunch was still an essential. Other options were carpetbags, tapestry carryalls, and clutch bags of embossed leather or jewel-toned suede. New hats tended to be dramatic, with sweeping brims or high, fez-shaped crowns. Feathers and silk tassels were new trims for gloves and hair accessories.

In jewelry, the big and bold look made a major point. Huge earrings, immense bangle bracelets, clanking necklaces, and impressive pins were important finishing touches. Byzantine and heraldic motifs proliferated. Following the sale at auction of her collection of gems, costume jewelry reproductions of the Duchess of Windsor's baubles were in demand. Along with the costly copies of her pieces, other jewelry ablaze with faux diamonds, emeralds, rubies, and sapphires was much in vogue.

⌦ *Men's Fashions.*

An easing of the boundaries between business clothes and sports attire was evolving. As one men's fashion authority put it, "Tailored clothes are loosening up and sport wear is dressing up." The more flexible attitude developed as one category of clothing influenced another. The idea of judiciously mixing items from different areas of the wardrobe took hold. The relaxed look achieved by adding a knit vest to a suit was an example.

Softer construction of tailored jackets was further evidence of the easier approach. Manufacturers followed the designer trend of using only a soft canvas backing for chest panels. Cuts were fuller, and the traditional shoulder measurement of 18 inches was extended by 1 to 2 inches. The most fashionable suits came in one-button single-breasted or two-button double-breasted versions.

Fabrics were softer, too, with resilient wool crepe and mixtures that included cashmere, vicuña, or lambswool among the new suitings. Gray, the leading color for spring, was replaced by mixes of black, brown, and gray for fall. Plain "Reagan brown" was passé. As to patterns, the houndstooth check—from oversized to miniature—was the odds-on favorite.

The long topcoats of 1987 became even longer, 48-inch models being lengthened to 50 or 52 inches. Town coats were pencil-slim. Sporty styles came with full swing backs.

In casual fashions, a blending of Italian, French, and English with American classics resulted in "Europrep," a sleek international interpretation of Ivy League dressing. As to accessories, ties were widened to 3¾ inches. Belts in crocodile finishes accented with silver buckles were versatile items for dressing up or dressing down. The braces worn by Michael Douglas in the movie Wall Street boosted the popularity of snappy suspenders.

-: COMPANY INFORMATION :-

Full name: **Diesel Style Lab labels** Incorporated: 1978 as Genius Group Employees: 2,200	**Legal Form:** Private Company **Operational Status :** Operational **Sales:** L 640 billion ($350 million) (2000 est.)
Legal Address Via dell' Industria 7 36060 Molvena, Vicenza Italy	**Tel:** (+39) 424-477-555 Fax: (+39) 424-411-955 http://www.diesel.com

STRUCTURE OF DIESEL COMPANY

Diesel Company has vast global manufacturing or unit in different countries. A business person, Renzo Rozzo is Founder of diesel company. The Diesel Company is based around a Functional Structure with their main Headquarters being in Italy. company will run exactly like each other in respect of what product they are producing, how the HR Function is run and where they get their produce. The only difference will come from the marketing team because each country has a different social network and need.

In that structure of employee, there are 55% workers, employee 30%, Executive & officers 10%, 5% are managers from 2200 employee world wide. In which 60% are male employee & 40% are female employee. Ferrero Company has vast market concern with structural base in the world wide.

FUNCTION AND BUSINESS :

When Renzo Rosso founded the brand, his idea was to address people across the world in one common language and product. He set out to establish an international platform in which he could distribute his product.

After Das joined the brand as creative director, he assisted in growing the company beyond both a custom denim brand and solely an Italian company.

Diesel has grown to truly be a lifestyle brand. Under the Diesel umbrella, the company has both men's and women's clothes, Diesel Kids, fragrance, eyewear, underwear, footwear, leatherwear, a luxury line, Diesel Gold, and 55 DSL, which is the sportswear division.

Diesel has also had many notable collaborations: In 2008, a special denim line with Adidas, Fuel for Life, a fragrance collaboration with L'Oreal, a watch and jewelry collaboration with Fossil. In 2008, the brand also created 500 limited edition Diesel cars with Fiat.

One of the most defining aspects of the brand, is selling the view that the world is a "single, boarder-less macro-culture." Starting in 1991, the brand engaged in an international marketing campaign that was innovative. The marketing strategy uses creative methods for selling their brand. Some strategies include marketing their products in video games. In 2008, Diesel sold their designs to Sony Computer Entertainment Europe, for use in Playstation home.

YEAR	BUSINESS ACTIVITIES
1978	COMPANY FOUNDATION
1985	HIRING FRESHER'S FROM COLLEGE
1991	ACT GLOBALLY
1996	OPENING OF DIESEL'S 1st store in NEW YORK
2007	LAUNCH OF INTIMATES & BEACHWEAR
2007	ANNOUNCEMENT OF **'BLACK GOLD'**

1975:RenzoRosso joins textile firm Moltex.

1978:Rosso helps found Genius Group.

1979:Diesel brand is launched.

1981:International sales begins.

1982:Factory outlet store is opened.

1984:Diesel Kids line is launched.

1985:Rosso acquires full control of Diesel.

1989:Diesel Female is launched.

1991:International advertising campaign begins.

1994:55-DSL brand is launched; license for Diesel eyewear is acquired.

1996:First retail store is opened.

1998:DieselStyleLab label is launched.

2000:Staff International is acquired.

2001:Company expands to Spain and Portugal.

No of stores of diesel brand stores in different countries

Country	number of stores
Italy	67
USA	50
UK	37
China	31
France	29
Israel - South Korea	22
Spain	21
Colombia	17
India	14
Germany	13
Turkey	12
Mexico – Greece	9
Netherlands - Saudi Arabia - Switzerland – Taiwan	8
Hong Kong - India - South Africa - Venezuela	8
Australia - Philippines – Portugal	6
Belgium - Brazil – Denmark	5
Austria - Canada - Croatia - Panama - Sweden – Thailand	4
Chile - Malta - Poland – Singapore	3
Argentina - Bahrein - Dominican Republic - Ecuador - Iran - Kuwait - Macau - Mauritius - Morocco - Norway - Russia – Serbia	2
Aruba - Azerbaijian - Costa Rica - Czech Republic - Finland - Guatemala - Lebanon - Egypt - Paraguay - Qatar – Romania	1

Comparative Position of DIESEL with India or Gujarat

COMPETITION AROUND DIESEL

COMPETITOR ANALYSIS

Diesel mainly operates in the apparel and Accessories sector, which is a highly competitive industry with respect to production, distribution and sales. There is a lot of diversity in competition ranging from local, national and global department stores, specialized retailers, independent retailers and manufacturing companies. In India, the major competitors of Diesel include Levi's,Spyker,Wrangler,PepeJeans,Denizen, Flying Machine,Numerouno etc. The company faces a lot of competition internationally as well from brands like Gap, H&M,Gucci etc. The competition in the industry has increased in the last few years, owing to the entry of foreign brands into the Indian market, and thus low cost production plays a key role. Apart from competition for sales, the companies also compete for significant store locations. The intensity of competition also puts a price pressure onto the operating companies in the industry or could lead to a loss in market share.

However, the company tries to gain competitive advantage over its rivals by focusing on factors such as quality and range of products, customer service, ambience of the store, value provided to the customers and its marketing strategies.

However, the company tries to gain competitive advantage over its rivals by focusing on factors such as quality and range of products, customer service, ambience of the store, value provided to the customers and its marketing strategies.

Garment Industry publishes an annual list of the top 100 global Jeans companies, ranking them by brand market value.

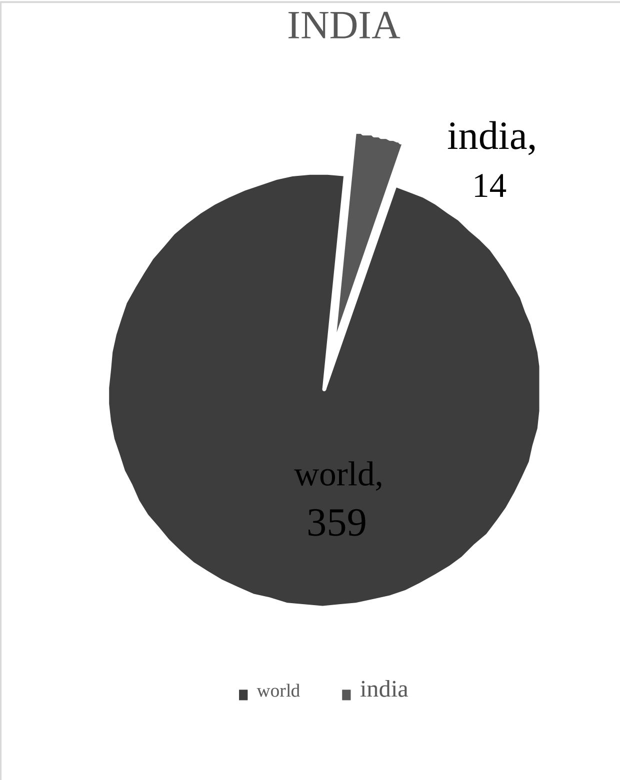
The table below is an extract from this list, giving the top ten popularlJeans companies that manufacture some form of garment, by Jeans sales value in 2012.

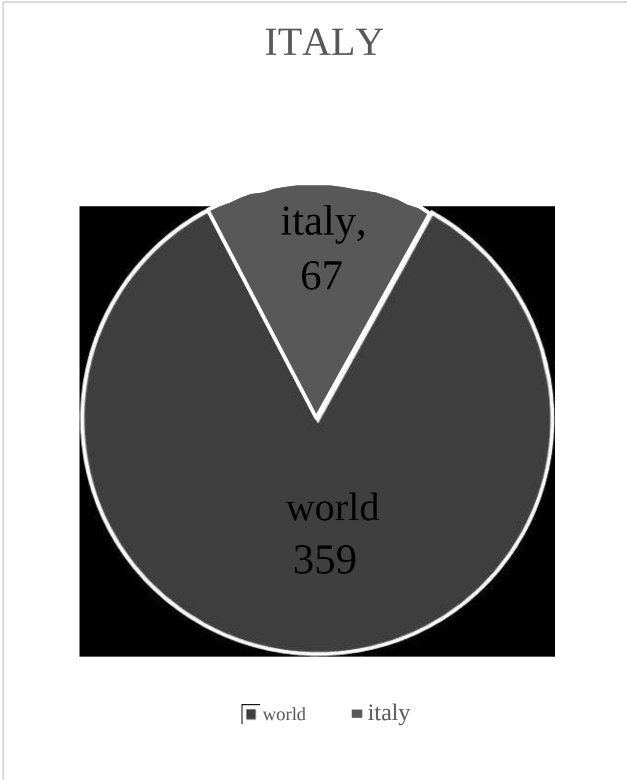
Report publish by: Online Survey, January 2013

Table of Jeans Market in India

Company	Popularity 2012 (By Voting)	In Percentage(%)
Levi's	**207**	**49.76**
Lee	**48**	**11.54**
Wrangler	**33**	**7.93**
Spyker	**33**	**7.93**
Pepe Jeans London	**32**	**7.69**
Flying Machine	**20**	**4.81**
Denizen	**18**	**4.33**
Diesel	**12**	**2.88**
Numero Uno	**9**	**2.16**
K lounge	**4**	**0.96**

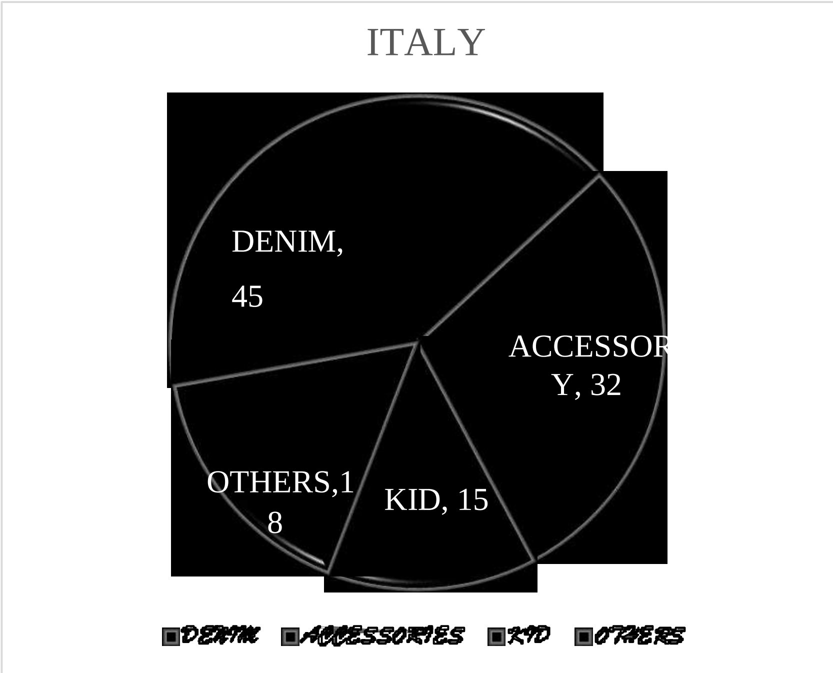
No. Of Stores Comparison

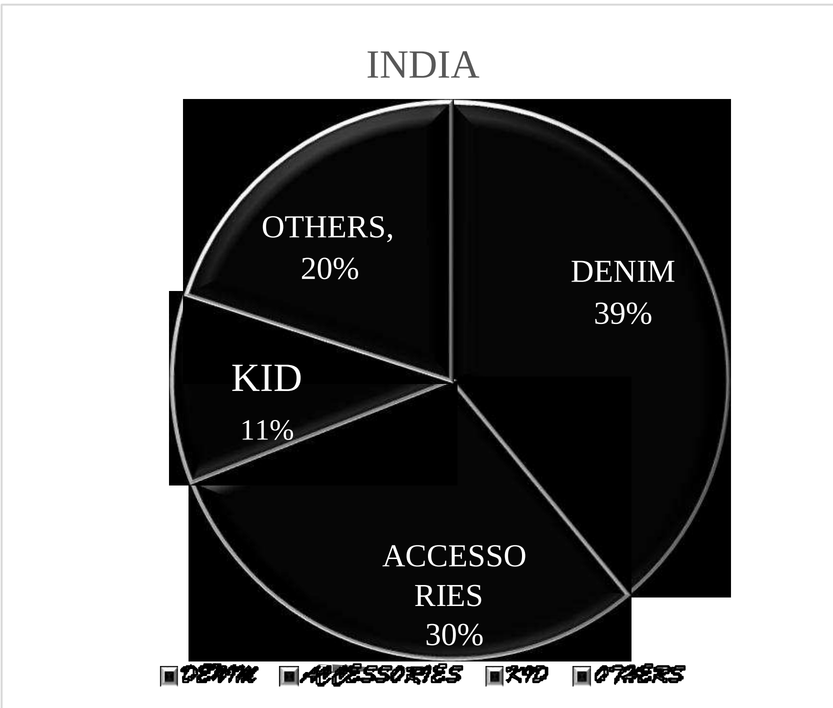




By the store comparison There are 14 stores in the Indian market out of 359 and in Italy 67 Diesel outlets.

Sales by category





-: Company Description :-

Diesel SpA

Industry	Fashion
Founded	Molvena, Italy (1978)
Founder(s)	RenzoRosso Adriano Goldschmied
Headquarters	Molvena
Key people	Renzo Rosso, president and founder
Products	Apparel and Accessories
Revenue	€1.3 bil ion (2009)
Employees	2200 (2009)
Designer	WilbertDas

Diesel S.p.A. is an Italian design company. It is best known for luxury, prêt-à-porter clothing aimed at the young adult market. The company is owned by its founder Renzo Rosso, and is based in the former Laverda building area in Breganze, northern Italy.

Rosso dropped out of the University of Venice in 1975 and began to work as a Production Manager at Moltex, a local clothing manufacturer that produced trousers for various Italian clothing labels. Moltex' parent company, the Genius Group, was run by Adriano Goldschmied who would eventually become Rosso's mentor and future business partner. During Rosso's first two years at Moltex the company grew rapidly. In 1978, after Rosso had managed to increase the company's production beyond what Goldschmied actually considered possible, Rosso wanted to leave the company in order to start a new business on his own. However, Goldschmied convinced Rosso to stay by offering him a 40% stake in Moltex and by agreeing to form a new company together, thus forming DieselFollowing the new partnership, Rosso also became shareholder of the Genius Group, which gathered brands such as Replay, King Jeans and Vivai. Created Goldie label which Katharine Hamnett designed a collection for, before launching DIESEL among others.

The brand name Diesel was chosen because 'diesel' was considered to be the '**alternative fuel**' in the current oil crisis, and Rosso and Golds chmied liked the idea of their brand being perceived as an alternative jeans brand in contrast to the prevalent casual wear brands. Furthermore, since the word was an international term pronounced equally all over the world, it appealed to Rosso's view and that the global fashion market was not segmented by national borders, but by people's lifestyle In 2004, after having followed those core values for nearly 20 years,accredited Diesel for being "the first brand to believe truly in the global village and to embrace it with open arms.

Diesel acquisition

In 1985 Rosso wanted to achieve creative freedom over the brand's direction and took complete control of the company, by trading his shares in the Genius Group, at the time Diesel's parent company, for Goldschmied's remaining shares in Diesel. Following the launch of Diesel Kids the year prior, at the time called Dieselitosales of the Diesel-branded clothing had by that point reached about $5 million annually. Wanting to focus on denim, Rosso began experimenting with different ways of treating the fabric with stones and washes. Then, after handpicking team of likeminded designers in the late 1980s, the company began a period of remarkable growth and expansion.

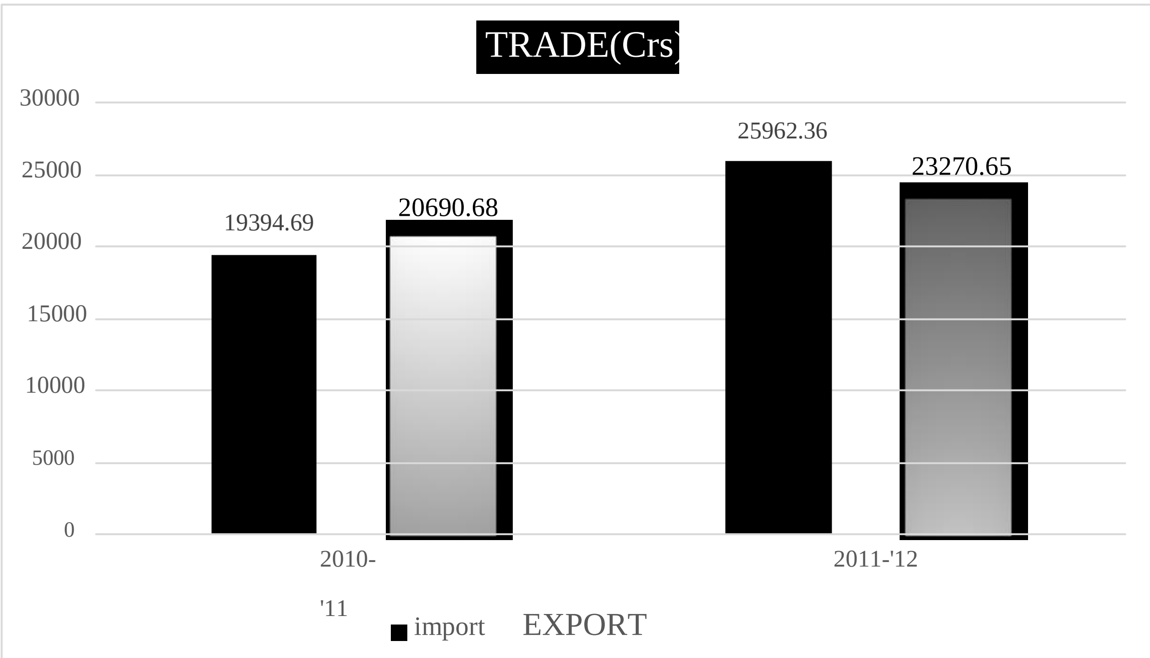
Present Position and Trend of Business of import with India during last 3 to 5 years.

The Indian Textile and Apparel IndustryThe Indian Textile and Apparel Industry is one of the largest and oldest sectors inthe country and among the most important in the economy in terms ofoutput, investment and employment. The sector employs nearly 35 million people andafter agriculture, is the second-highest employer in the country.

The Indian textile industry is valued at US$ 36 bn with exports totalling US$ 17 bnin 2009-2010. At the global level, India's textile exports account for just 4.72% ofglobal textile and clothing exports.

INDIA-ITALY Trade (Amount in Rs.)

Trade	IMPORT (Crs)		EXPORT (Crs)	
Year	2010-'11	2011-12	2010-'11	2011-'12
INDIA	19394.69	25962.36	20690.68	23270.65



Comparative position of Garment Industry

INTRODUCTION:

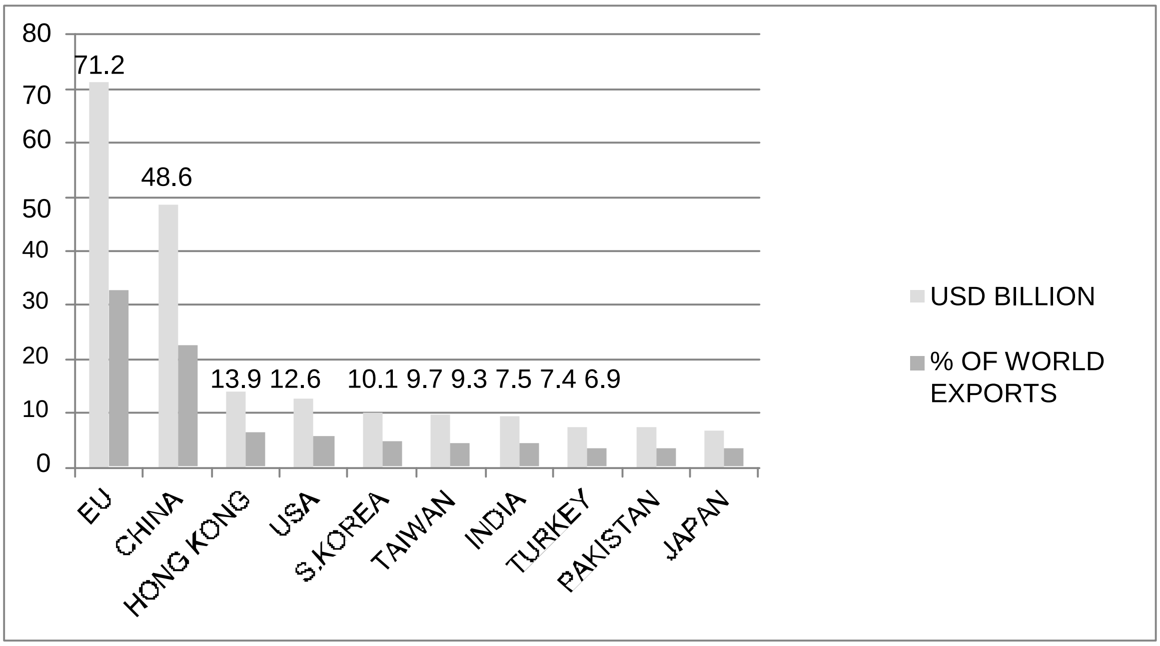
India’s prominent role in textile production stems from its wealth in natural resources. Silk, cotton and jute, all nature-base fibre resourcesare available in India. The textile and clothing industry occupies aunique place in the Indian manufacturing sector. Having a highly fragmented structure, the Indian textile and clothing value chain consists of four stages: Ginning and Spinning –Spinning is the process by which cotton or manmade fibres converted into yarn. In caseof cotton, before spinning,ginning is done where theimpurities are removed; Weaving and Knitting –Conversion of cotton or manmade yarns into woven orknitted fabrics; Processing – includesbleaching, dyeing, mercerizingand printing, which results infinished fabric to be used formanufacture of clothing; Clothing manufacturing – this isthe final stage where thedesigning, pattern making,cutting, embellishing, stitching,finishing and packaging is donefor distribution.Value of textile exports fromIndia, including clothing, was worthUS $ 17 billion in 2007-08. Textilesaccounted for 48% (US $ 8.3 billion)of exports and the rest 52% (US $8.7 billion) was accounted byclothing. As per the data collated by WTO, for the year 2006, Indiaaccounted for 4.3% of total worldexport of textile products, and in theclothing segment India’s share was3.3%. European Union and USA arethe major destinations for India’stextile and garment exports. Othermajor destinations include: UnitedArab Emirates (UAE), China,Bangladesh, Saudi Arabia andJapan.

MARKET ANALYSIS AND INDIA'S POSITION IN EU

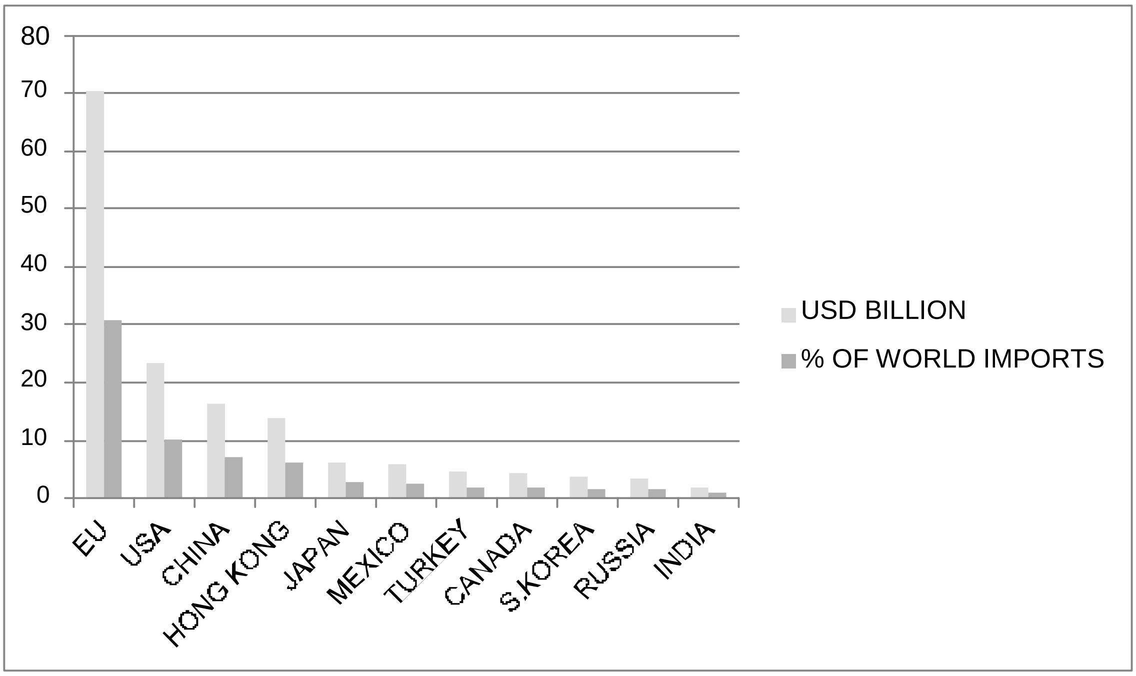
Following the elimination of quotas,there has been a marginal shift inthe trade pattern in the EU; theshare of extra-EU trade in totaltrade has been growing, as alsothe share of developing countriesof Asia. In the EU market, in 2007,growth in imports from China was14% as compared to the 3.7%growth in imports from India. Evenimports from other Asian countriessuch as Vietnam (11%), Sri Lankaand Pakistan (around 7% each)have also been impressive. In thefirst quarter of 2008 (JanuaryMarch), import growth in EU marketwas around 12%. However, the roleof developing economies from Asiain catering to this level of importgrowth has come down during thisperiod. Except the imports fromSri Lanka and Vietnam (which grewat 13% and 7% respectively), andBangladesh with a marginal growthof 0.6%, growth in imports from other countries, including that ofChina and India were negative(-0.7 and –1%, respectively). OtherAsian countries such as Pakistanand Indonesia witnessed greaterlevel of negative growth during thisperiod.In some product groups, Indiahas improved its market share in EUmarket, while in others it has lost itsmarket share to some othercompetitors. In men's and boys'garments segment, India hasimproved its market share under HScodes such as 6205 and 6105; inbabies garments segment, India hasimproved its market share under HScodes such as 6111 and 6209; inhome textiles segment, India hasimproved its market share under HScode 6305; in made-ups, India hasimproved its market share under HScode 6214. India's position andmarket share is unchanged inproduct sub groups such as men'sand boys' garments (falling under HScodes 6201, 6107, 6203), women'sand girls garments (falling under HScodes 6202, 6108, 6102), hometextiles (falling under HS codes 6302,6303), technical textiles (falling underHS codes 5911, 6116), and wovenfabrics (falling under HS codes 5208,5209, 5515). India's position hasbeen captured by China under HScodes 6206 (women's and girlsgarments), 6306 (technical textiles)by Bangladesh, and 6307 (madeups) by Turkey.

LEADING EXPORTERS AND IMPORTERS OF TEXTILES

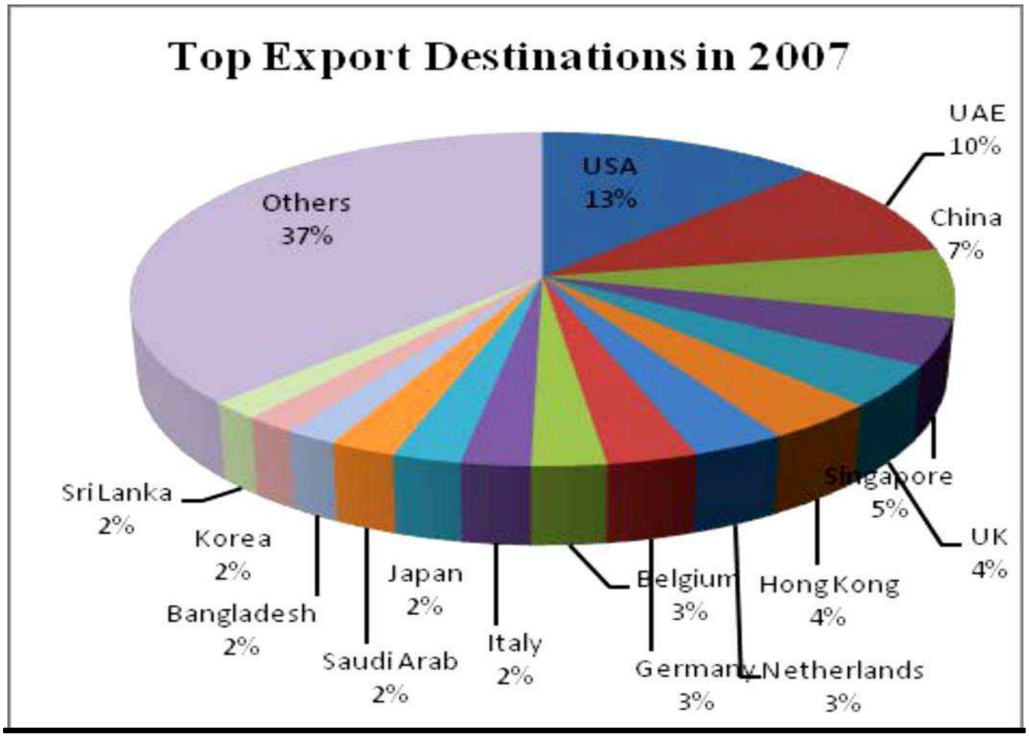
The world's largest exporter oftextiles (excluding clothing) as aregion was EU25, whereas in caseof individual countries, China wastopping the list with US $ 48.68billion, followed by Hong Kong (US$ 13.91 billion), USA (US $ 12.67billion) and South Korea (US $10.11 billion). India stood at the 6th position with US $ 9.33 billionexports of textiles in 2006.In case of imports of textiles too,EU25, as a bloc, was leading the listwith US $ 70.43 billion



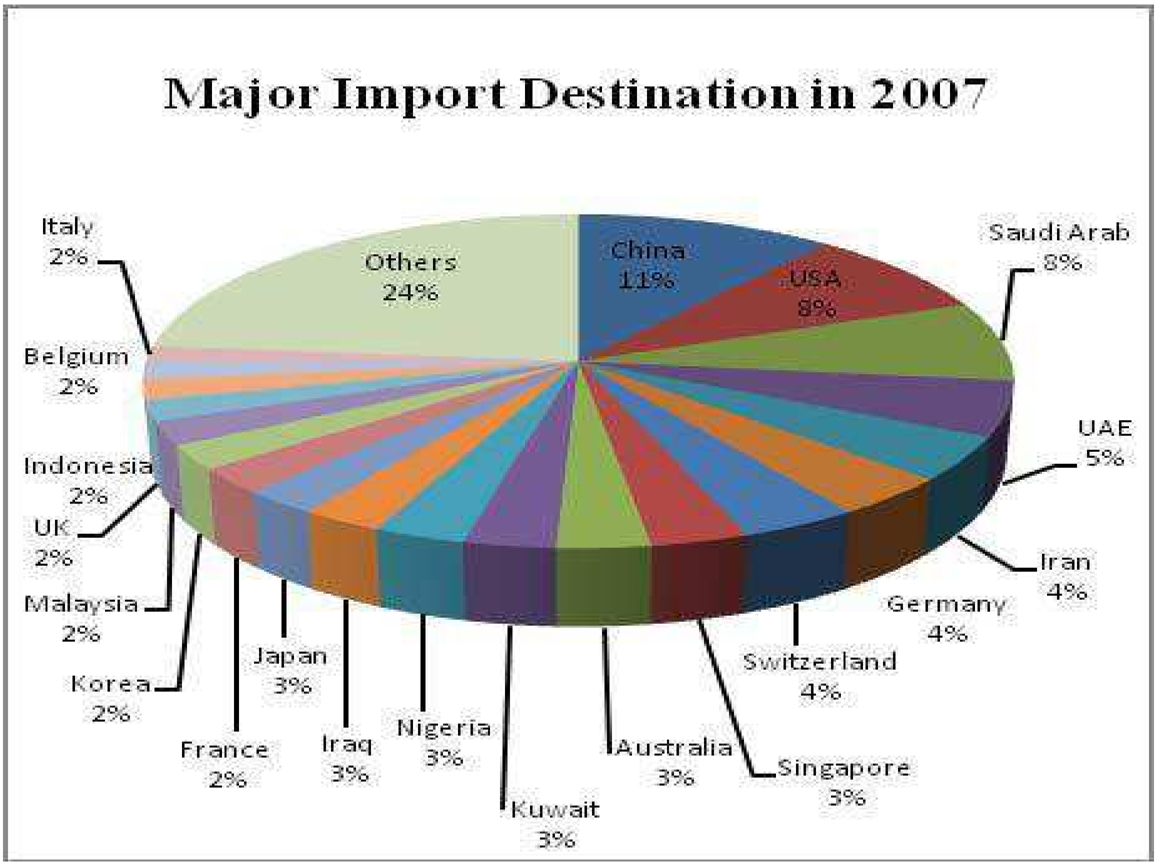
In case of imports of textiles too,EU25, as a bloc, was leading the listwith US $ 70.43 billion followed by USA (US $ 23.5 billion), China (US$ 16.36 billion), Hong Kong (US $13.98 billion), and Japan (US $ 6.18billion). USA was the largest importerin the case of individual countries.India stood at the 14th position withregard to import of textiles byindividual countries, with a mere US $ 2 billion.



MAJOR EXPORT & IMPORT DESTINATIONS OF INDIA



Major export destinations of India includes USA, UAE, Singapore, South Korea ,Italy, Belgium etc. Out of which the major export is done to USA followed by UAE and China on the third position



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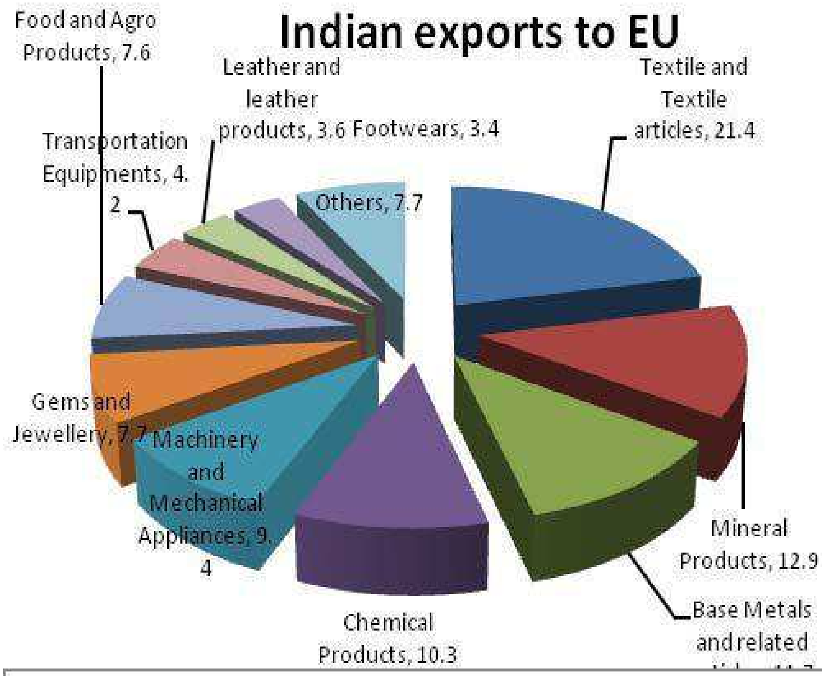
Major import destinations include China, UAE, Iran, Germany ,Switzerland, ,Italy etc. Here the major products are imported from China then ultimately followed by UAE.

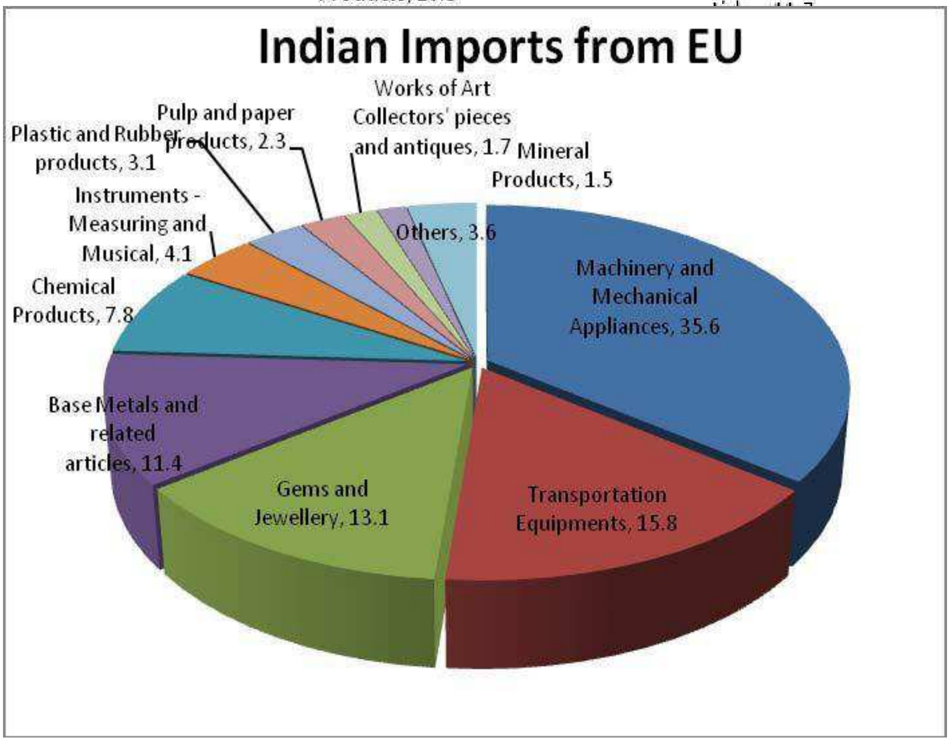
India’s Top Ten Exporting and Importing Destination

Rank	Country	Exports (in US $ Million)	Country	Imports (in US $ Million)
1	USA	6659.0	USA	6721.0
2	UK	2732.0	UK	2620.3
3	France	702.5	Germany	1403.0
4	Hong Kong	429.0	France	1272.0
5	Netherlands	417.7	Australia	1156.5
6	Japan	411.0	Japan	760.1
7	Denmark	408.9	Denmark	667.3
8	ITALY	373.8	Netherlands	644.8
9	Canada	355.3	Hong Kong	620.0
10	Australia	287.1	ITALY	466.7

INDIA IN TRADE WITH EUROPEAN UNION:

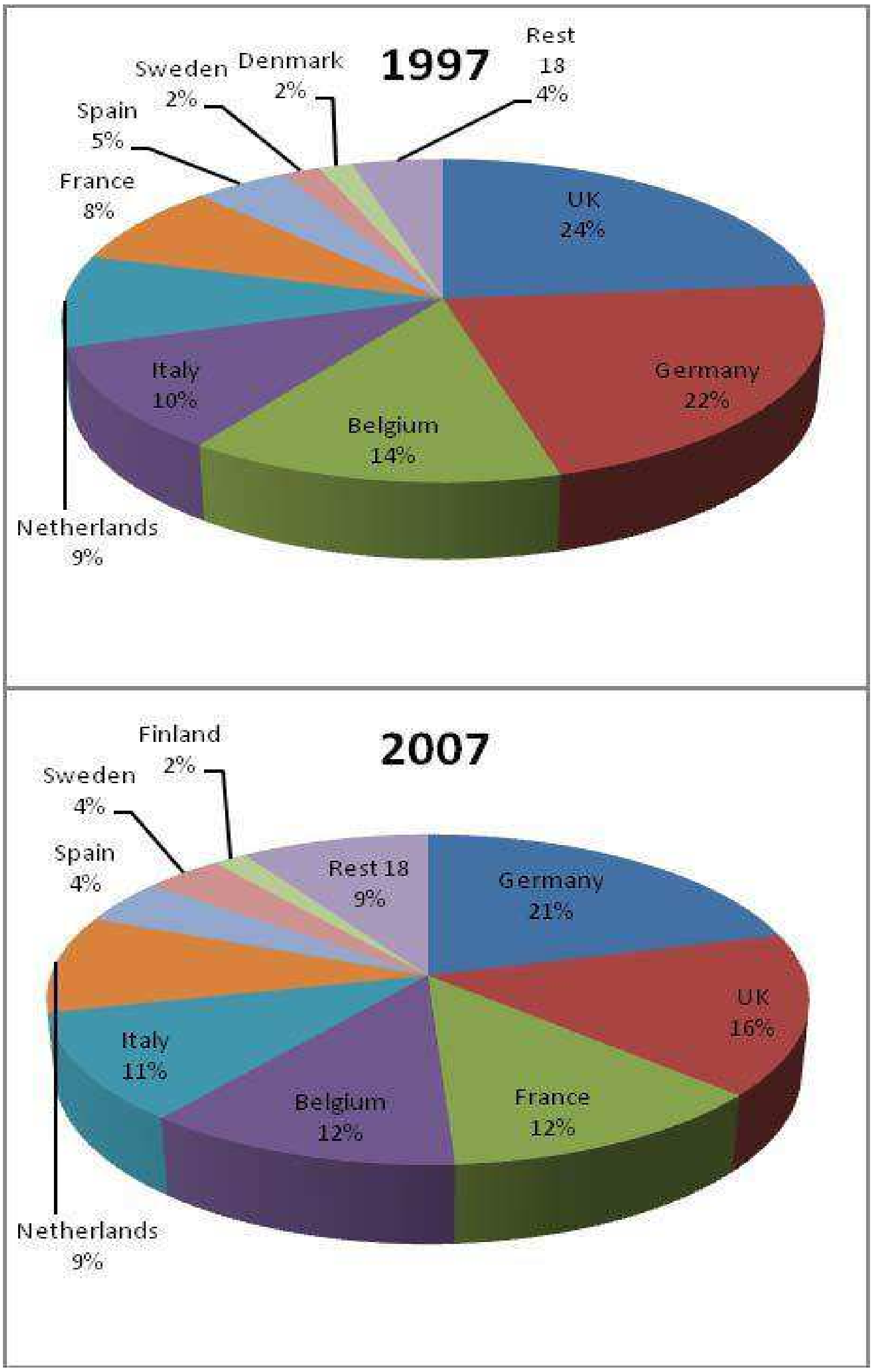
The EU is India’s largest trading partner in goods and second largest trading partner in services (after the US). It accounts for around one-fifth of India’s merchandise trade (17.6 per cent in 2007-08), whereas India contributes to only around 2.1 per cent of total EU trade and is its 9th largest trading partner.





India has a negative trade balance with the EU. Although in absolute terms, India's trade with the EU has increased, but in relative terms, the share of the EU in the India's trade is declining. In 2000, India-EU (15) trade constituted about 23.36 per cent of total Indian trade, but in 2007-08, it has declined to 17.6 per cent. On the other hand, the share of India in the EU's total trade is still increasing. In 2007-08, the share of India in the EU's total trade has increased to 2.24 per cent as compared to only 1.39 per cent in 2000-01.

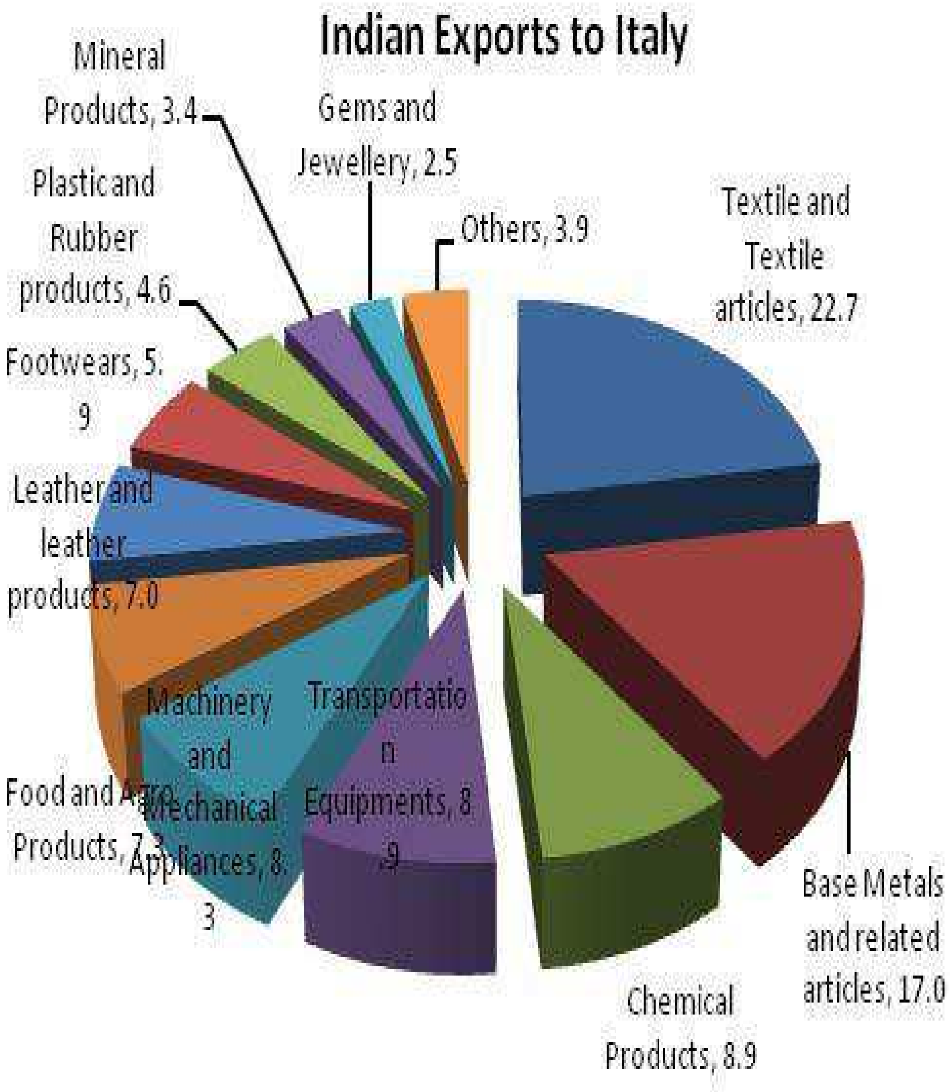
INDIA'S MAJOR TRADING PARTNERS IN THE EU

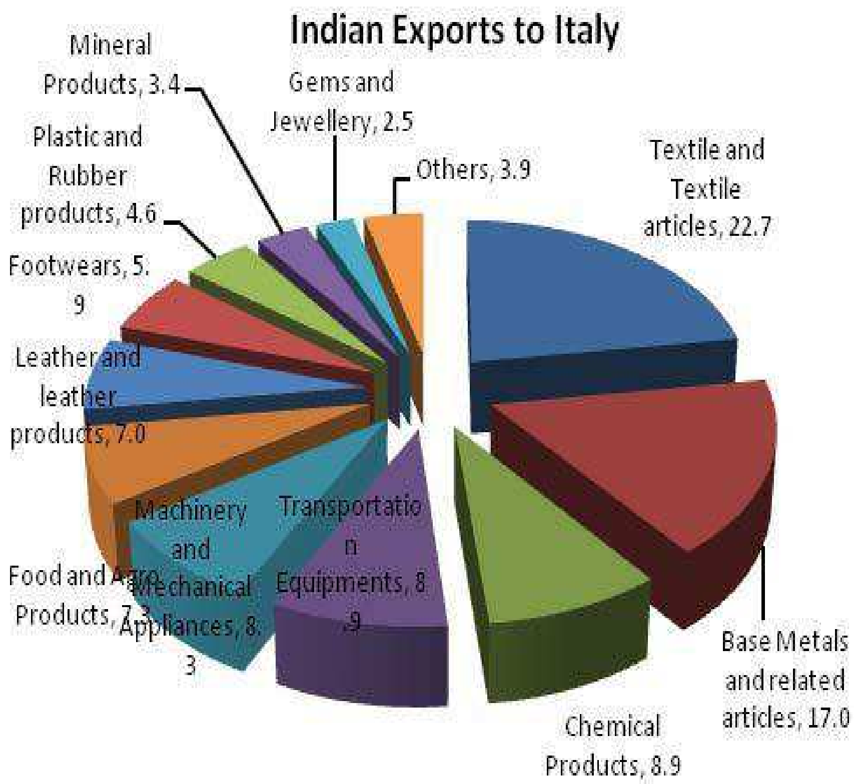


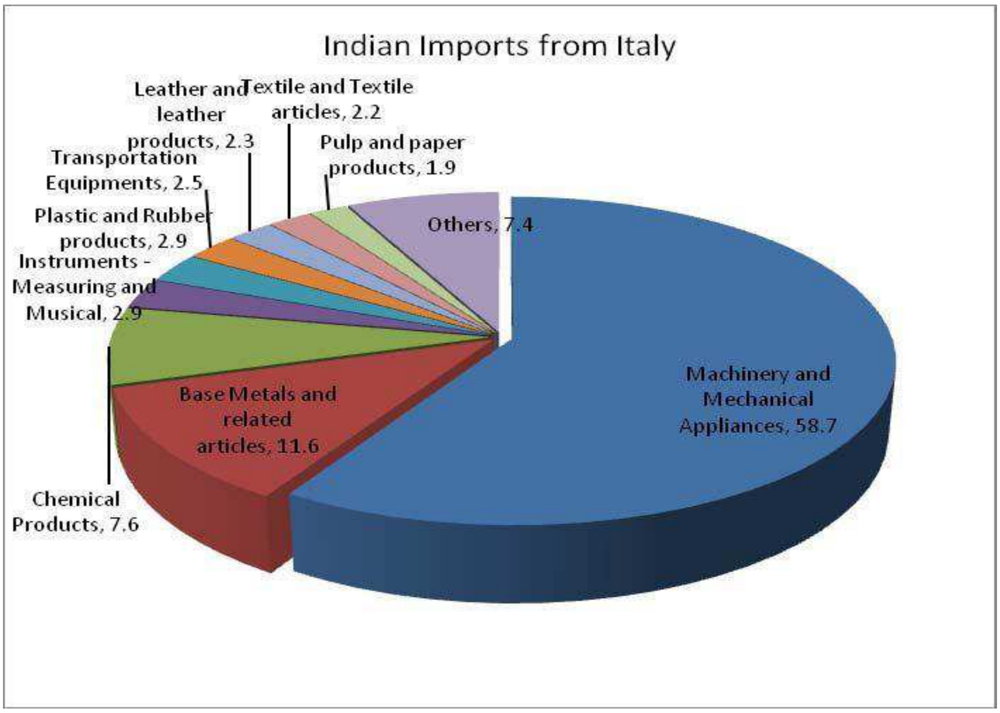
India's major trading partners in the EU are given in Figure 1.2.3. Although the share of some important countries like UK has declines the share of Italy remains more or less same. Within the EU, Italy was India's fifth largest trading partner in 2007. The volume of trade between India and Italy has increased as shown in Figure and commodity-wise exports and imports are shown .

❖ INDIA IN TRADE WITH ITALY:

India as an exporting country to Italy includes export of Textile and textile articles, Base metal and related articles, mineral products, gems and jewellery, transportation equipments ,leather and leather products and footwears. Out of the list of exported goods the major contribution is of textile industry and its products.







The products which India Imports from Italy includes Machinary and Mechanical Appliances, Base Metals, Plastic & rubber products, Textile and Textile related articles. Out of the total imports the major portion is covered by machinery & mechanical appliances and the least portion is covered by textile and paper products.

POLICIES & NORMS OF ITALY FOR FASHION INDUSTRY

INTRODUCTION

The EU forms a customs union and a large unified market having free trade among the member states. It levies a common tariff on imported products coming from non-EU countries such as the United States, Japan, and Canada.

As all members of the European Union, Italy adapts a common trade policy. The EU has a liberal import regime where import licensing is not common. Import licences are issued with due consideration for the provisions of relevant European Union trade agreements and the needs of the specific importing country.

In 2008, Europe accounted for 41% of global apparel retail sales of $1,026 billion (Datamonitor, 2009). In the EU-15, the apparel import penetration varies significantly among countries. In 2006, the estimated import shares for the main consuming countries were: the United Kingdom and Germany 95%, France 85%, Italy 65%, and Spain 55% (Clothe source, 2008).

The European Union (EU) allows for the free movement of goods between Italy and other member states: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden, and United Kingdom. The European Union has numerous bilateral and multilateral agreements, such as the Agreement on Textiles and Clothing (formerly the Multi-Fiber Agreement), PECO countries Agreement, Israel Agreement, Turkey Agreement, Baltic Sea countries Agreement. All these agreements are grouped under the umbrella of the World Trade Organization (WTO), which is the successor to the General Agreement on Tariff and Trade (GATT). The WTO oversees most global trade in goods and services as negotiated in the various agreements, it also provides arbitration in case of disputes. MFN or Most Favored Nation tariff treatment is accorded to all countries that have ratified the WTO, as well as, to other previous GATT members who have yet to ratify the accord. All agreements ratified by

European Union Executive Commission automatically apply to all EU member states. The exemption or reduced tariff is applicable only to qualified members under the agreement as originating goods.Under the General Preferential Tariff (GPT) duty-free entry is allowed for direct importation in all EU member states of eligible goods from the countries listed in the preliminary section of the Customs Tariff.

Convention on International Trade in Endangered Species (CITES) of wild fauna and flora provides for the seizure of shipments prohibited under this agreement and the assessment of fines.

Under the EU New Approach to Technical Harmonisation, certain products are required to meet specific quality standards. The directive applies to toy safety, machinery, electromagnetic compatibility (EMC), telecommunications terminal equipment, active implantable medical devices, medical devices, non-automatic weighing equipment, construction products, explosion proof electrical equipment, low voltage electrical equipment, simple pressure vessels, personal protection equipment and gas appliances. Qualified products must carry a CE mark to show its compatibility, fixed onto the product by a manufacturer or importer as self-declaration of compliance.

Traders must pay attention to the EU product liability law, which covers all liability regarding defects not ordinarily expected by a consumer. Both the seller and the manufacturer in the EU are liable under the law.

Import duties into EU countries are subject to import tariffs (normally applied on the import c.i.f. value) plus the value-added tax (VAT) which varies according to different importing countries. The standard rates for Italy are**21%.**

The EU announced developments in the EU's Eco-labels scheme to **219 products**, particularly footwear, textiles and personal computer. Exporters trading with the scheme member country will need to get their suppliers adhering to strict production methods in order to comply with the label award. Canadian exporters may have to ensure that the concerned production methods comply with the labeling criteria prior to the EU. For more information on the list of product groups involved in the Eco-labeling scheme.

Environment Protection, Directive on Packaging and Packaging waste, sets out common waste recovery and recycling standards. Manufacturers and exporters should minimize the packaging of their products exported to the EU.

Like the EU, Italy also imposed a ban on the sale of animal-tested cosmetics throughout the EU since 2009, and a ban to all cosmetics-related animals testing. However, cosmetics tested on animals outside the EU are still imported and sold. They are due to be banned in 2013.

1. CONFORMITY TO EUROPEAN STANDARDS AND "CE" MARKING

Products governed by these regulations must adhere to certain European standards at the point when they are imported. The "CE" sign of compliance must be on the product, either when the product is imported or when it is sold.

2. LABELING / PACKAGING REQUIREMENTS

The labeling requirements vary depending on the products, are complex and different from those in Canada. Some adaptation is nearly always necessary. The label should include information regarding origin, identity, quality, composition and conservation of the product. It must be in Italian, and/or English or French

Basic Labeling Requirements In Italy:

- name of products (physical condition or specific treatment)
- name/address of manufacturer, packer, seller or importer in the Italian language
- country and place of origin

- ingredients in descending order of weight
- metric weight and volume
- additives by category name
- special storage conditions
- minimum shelf life date
- expiry date
- lot number
- indication of allergens
- indication of maximum limits of fats for meat based products
- net quantity in volume for liquids and in mass units for all other products
- instructions for use, if necessary

3.TARIFFS

Italy applies customs duties to all imported products. Rates can vary considerably, depending on whether the imported product is bulk unprocessed or ready for consumption in retail packages.

VAT, must be added to the cost, insurance and freight (CIF) value of the import. The most common rate **is 20%,** but a reduced rate of **4%** applies to essential items.

1. **USE OF ITALIAN:**
   All retail products may come with English/French instructions as well.

2. **TEMPORARY IMPORTS :**

In order exhibit any products during trade shows, an ATA Carnet may be acquired to facilitate temporary imports into Italy. By presenting an ATA Carnet to Italian customs, products will pass import duty free and import tax free into Italy for up to one year. A Carnet will reduce costs to the exporter; eliminate value-added taxes (VAT), duties, and the posting of security normally required at the time of importation. It would also simplify customs procedures and allow a temporary exporter to use a single document for all customs transactions, make arrangements for entry to many countries in advance, and do so at a predetermined cost. Virtually all goods, personal and professional, including commercial samples and professional equipment, and goods intended for use at tradeshows and exhibitions are covered (e.g. industrial machinery and equipment are all acceptable merchandise).

➢ TEXTILES & CLOTHING

With exception of a small group of largely agricultural items, practically all goods originating in free-world countries can be imported without import licenses and free of quantitative restrictions. There are, however, monitoring measures applied to imports of certain sensitive products. The most important of these measures is the automatic import license for textiles. **This license is granted to Italian importers when they provide the necessary requisite forms.**

Various apparel and textile products and controlled items such as arms and munitions are the most frequently regulated items. Import licenses are generally rapidly granted and delays are usually from lack of proper documentation or information.

Licenses are not transferable. They may be used to cover several shipments within the total quantity authorized. In general, the goods involved are indicated on the license by the Harmonized System classification number and the corresponding wording of the tariff position.

4.CERTIFICATES OF ORIGIN

Certificates of Origin maybe required for the importation of textile products valued at or over **45 Euro**. Exceptions from this includes: textiles products falling under section XI of the Nomenclature, marked and mutilated samples; luggage made up of textile materials, canvas bags, bona-fide gifts and personal effects. The country of origin is required to be stated on the Commercial Invoice. If preferential duty is being claimed, supporting documents such as a Form-A is required.

7. QUOTAS

Quotas have been assigned by the European Union to specific countries for specific products, which allow for the controlled importation of specific products.

8. COMMERCIAL INVOICES –

Invoices are required for all dutiable shipments relating to commercial transactions between companies and companies; companies and individuals, regardless of the value. Commercial invoices should show freight, insurance and similar charges as separate items when applicable, regardless of the INCOTERM used on the transaction. It must be in Italian for export shipments or accompanied by a translation. It can be in any official language for import shipments and, if required by customs, must be accompanied by a translation. If requested by Customs an Italian translation must be furnished by a party who is knowledgeable of the transaction.

Specific invoice details are required for a number of commodities including the following:

Audio/video cassettes and tapes - the length and width of the tape, a brief synopsis of the content and the reason for exportation;

Textiles - the fabric breakdown, whether knit or woven and, for clothing articles, the gender;

Marked/mutilated samples - the words "mutilated samples" or " marked samples, not for resale" as applicable;

Software on CD's and floppy disks - The value of software must be shown separately from software support.

9. .IMPORT PERMITS :

Permits are required from MinisterodelCommercio Estero for the following:

- Milk and Dairy products
- Cheese
- Fish
- Wheat, Barley and Other grains
- Vegetables
- Steel
- Textiles and Clothing
- Livestock and animals and parts of
- Firearms, ammunitions and explosives
- Waste products
- Radioactive materials and nuclear reactors

10.CUSTOMS VALUATION:

All goods categorized, as non-document commercial goods shipped to Italy must have a proper value declared and proper description provided which should convey the shipper's intent related to the goods as well as any special processing requirements that exist for the goods shipped. Everything has a value, whether or not a transaction took place. Failure to properly document value of any goods will result in delays and or additional fees as deemed necessary in addition to warehouse fees.

11.IMPORT DUTIES

All merchandise coming into Italy must clear Customs and is subject to customs duty assessment unless the goods are duty or tax exempt by law. Customs duties are, generally, an ad valorem rate (a percentage), which is applied to the transaction value (EU Euro) of the imported goods based on the cost of the goods, insurance, and freight charges. Some articles, however, are dutiable at a specific rate of duty (so much per piece, liter, kilo etc.) and others at a compound rate (combination of both ad valorem and specific rates). The dutiable value of merchandise is determined by the EU Customs code. Several appraisal methods are used to arrive at this value. Generally, the transaction value of the merchandise serves as a basis of appraisal. Transaction value is the price the buyer actually pays the seller for the goods sold and being imported. The Harmonized Tariff Schedule of European Union (2002 Edition), issued by IstitutoPoligraficodelloStato, prescribes the rates of duty and classification of merchandise by the type of product; i.e. animal and vegetable products, textile fibers and textile products. The tariff schedule provides several rates of duty for each item.

Below is a summary of the new rules for EU deminimis value that enter into effect December 1, 2008:

- **A commercial shipment below 22 Euros: no duty and no VAT collected.**
- **A commercial shipment between 22 Euros and 150 Euros: no duty but VAT is collected.**
- **A commercial shipment over 150 Euros: duty and VAT are collected.**

It is recommended that before you send Delivered Duty Paid (DDP) shipments to Italy; verify the local customs/VAT requirements at the EU destination country.

12.IMPORT TAXES

VAT

VAT or value added tax is accessed at a rate of 21% on those shipments that are entered as normal consumption entries in addition to the normal rate of duty.

EXAMINATION FEES

Additional fees can be accessed on some commodities to cover the expense of performing the examinations and or testing required as a condition of the goods entry into the commerce of Italy. Commodities affected: cosmetics, drugs and medicines, artwork.

- ## Designer Samples (Textiles)

Apparel manufacturers importing samples of apparel for the manufacturing of similar goods in Italy may bring one sample of each style duty free into Italy. A shipment may contain several different samples, as long as there is only one sample of each kind.

In order to enforce this condition, Customs requires that the style number of each sample appear on the commercial documents. The commercial invoice must contain in the product description the intent of the shipper that the goods are intended as samples. Failing to provide this information clearly will result in normal consumption entry with duty and taxes accessed.

POLICIES & NORMS OF INDIA

As India steps into an increasingly liberalized global trade regime, the GOI has implementedseveral programs to help the textile and apparel industry adjust to the new trade environment. On November 2, 2000, the GOI unveiled its National Textile Policy (NTP) 2000, aimed at enhancing the competitiveness of the textile and apparel industry and expanding India's share of world textile and apparel exports to 10 percent by 2010 from the current 3-percent level.

POLICIES

The United States and India reached agreement on reciprocal market access commitments for textiles and apparel in connection with the negotiation of the WTO Agreement on Textiles and Clothing, which provides for the phase out of textile and apparel quotas by January 1, 2005. Under the United States-India Textile Agreement of January 1, 1995, India agreed to reduce tariffs on textiles and apparel and remove all import restrictions on these products. India agreed to bind tariffs at 20 percent ad valorem for yarns, fibers, industrial fabrics, and home furnishings, 35 percent for most apparel fabrics, and 40 percent for apparel goods by January 1, 2000 (see table 3-1 for current Indian tariffs on major textile items). Effective on April 1, 2000, the GOI reduced tariffs on manmade fibers and filament yarns from 35 percent to 20 percent ad valorem; cotton yarn, from 25 percent to 20 percent; and spun, blended, and woolen yarn, from 40 percent to 20 percent.

Apparel products are not subject to excise duties and most other miscellaneous taxes, but arecategorized as restricted imports.55 Several types of Indian tariffs and other taxes are shown:

Type of tariff and tax Applied on:	
Basic customs duty	Levied on assessed c.i.f. value of imports plus landing charges; generally does not exceed 1 percent of the c.i.f. value

Surcharge on customs duty	Selected textile imports. Discontinued as of April 1, 1999. Calculated on the assessed value plus the basic customs duty.
Basic excise duty	Countervailing duty on imports to offset levies on domestically produced like products. Varies by product, ranging from zero on natural fibers to 32 percent on polyester filament yarn. Grey fabrics and certain cotton yarns are exempt from excise duty. Levied on the sum of assessed value, basic customs duty, and surcharge
Surcharge on excise duty	Selected textile items (manmade fibers and yarns). Most fabrics are exempted. Surcharge is 15 percent on excise duty. For example, on an 8 percent basic excise duty, the surcharge would be 1.2 percent.
Cess tax	All textile items. This tax is 0.05 percent of the assessed import value plus custom duties including surcharge.
Special additional duty	Counterbalance to sales tax and other local taxes on like products. Assessed at 4 percent of the sum of assessed value, basic customs duty, surcharge, excise duty (including surcharge), and cess.

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1. **Import Licensing**

India has liberalized its import licensing regimefor textiles and apparel, but still limits market access for U.S. apparel. Currently, unrestricted importation applies to items such as yarns and fabrics intended forfurther processing. Apparel and made-up textile goods generally require a special import license (SIL)58 or are subject to import restrictions that apply to consumer goods.59 The GOI first took action to eliminate its market access barriers with the implementation of the United States-India Textile Agreement of January 1, 1995, by providing immediate market access for fibers, yarns, and industrial fabrics. On March 31, 1999, the GOI revised its Export-Import (EXIM) policy by eliminating import licensing requirements for 894 items of consumer goods, agriculture products, and textiles, compared to 600 items required under its WTO commitments.60 India also removed another 414items from the "restricted list", allowing these to be imported against a SIL. On December 28, 1999, the United States and India reached agreement on a timetable to lift quantitative restrictions on imports of agricultural, textile, and consumer products, including apparel. This agreement followed a WTO ruling that these restrictions were no longer justified under the BOP provisions of GATT Article XVIII:B. India removed restrictions on 715 tariff items as of April1, 2000, and agreed to remove restrictions on the remainder by April 1, 2001.61 Once the restrictions are lifted, India will allow, without restriction, imports of apparel and other made-up textile goods.

2. Customs Procedures

Trade sources in India claim that the country has cumbersome customs procedures that are regarded as highly bureaucratic and time-consuming. Documentation requirements are extensive and delays frequent. Reportedly, imports are often misclassified and improperly valued for assessment of duties and procedures are not consistent among different ports o entry. One problem cited is that imports of missing components of kits are often assessed duties twice, once when the kit is originally imported and again, when the missing component is separately imported (despite a "no charge" notation on the invoice).Similar difficulties and bureaucratic delays with the export and reimport of capital goods for repairs are also cited.

3. Marking, Labeling, and Packaging Requirements

Marking, labeling, and packaging requirements applicable to textile and apparel products are technically complex and difficult to fulfill. Textiles Regulation 1988, which is designed to protect consumers, imposes strict safety and marking guidelines on fabrics and other textile products that are sold in the home market. This regulation originally applied only to domestic products; however, on July 22, 1998, the GOI extended the regulation to cover imported textile products. The regulation requires al tops, yarns, and fabrics to have the statutory markings prescribed in the government notification and states that such markings should in no way mislead consumers. Cloth, for example, must be marked with the name and address of the manufacturer, a description of the cloth, sort number, length in meters and width in centimeters, and washing instructions. Manmade fiber cloth must also indicate whether the cloth was made from spun or filament yarn, the month and year of packing, and the exact composition of the cloth. The marking must appear on the face plait of each piece of cloth and on every alternate meter of the cloth at a height not exceeding 2.5 centimeters from the selvage. Word and letter markings must be made in Hindi, Devinagary script, and English (in capital letters) with international numerals. The height of characters must not be more than 0.5 centimeter for tops, yarn, and cloth; 0.25 centimeter for packed yarn, and 3 centimeters for bales or cases.

4.Export-Import

The GOI's EXIM policy provides for a variety of largely export-related assistance to firms engaged in the manufacture and trade of textile products. This policy includes fiscal and other trade and investment incentives contained in various programs, as discussed below.

- **Duty Entitlement Passbook Scheme(DEPS)**

DEPS is available to Indian export companies and traders on a pre- and post-export basis. The pre-export credit requires that the beneficiary firm has exported during the preceding 3-year period. The post-export credit is a transferable credit that exporters of finished goods can use to pay or offset customs duties on subsequent imports of any unrestricted products.

- **Export Promotion Capital Goods (EPCG) Scheme**

The EPCG scheme is available to export companies and traders who provide the GOI with information on the type and value of capital goods they are importing and the exports they expect to produce using those imports. Depending upon the level of the export commitment at the time of import of goods, the GOI provides exporters with a license allowing them to i preferential rates of duty. In an effort to enable producers to afford small-scale modernization, on April 1, 1999, the GOI lowered the threshold limit for its duty-free EPCG scheme from $4.6 million (Rs200 million) to $230,000 (Rs10 million) for the chemicals, plastics, and textile sectors.65 Whereas imports of second hand capital goods were previously allowed under the EPCG scheme, only imports of new capital goods are now permitted under the EPCG scheme. Textile firms importing machinery and equipment under the EPCG scheme must export at least six times the c.i.f. value of imported goods within 6 years. This scheme provides a benefit to Indian exporters of forgone cost of duty.

- **Pre- and Post-Shipment Financing**

The Reserve Bank of India (RBI) provides Indian exporters with pre-shipment financing through commercial banks that may be used to purchase raw materials and packing materials by presenting a confirmed order or letter of credit. RBI also provides post-shipment financing through commercial banks at preferential rates (including bank discounting of foreign customer receivables) to Indian exporters presenting export documents. These programs make a financial contribution to Indian firms to the extent of the difference between benchmark short-term interest rates and the preferential interest rates.

- **Export Processing and Special Economic Zones**

The EXIM policy provides for the establishment of export processing zones (EPZs) and special economic zones (SEZs). Units in the EPZs that export all of their output can import industrial inputs free of customs duty. A 5-year tax holiday is allowed to any industrial unit in a EPZ and all profits of 100-percent EOUs are exempted from income tax.66 Units that are not considered 100-percent EOUs receive tax Import capital goods duty-free or at exemptions only on their export earnings. To attract investment, the GOI allows 100-percent foreign ownership of units in the EPZs as well as the SEZs. The SEZs were created recently, with the conversion of four EPZs into SEZs. The GOI treats SEZs as foreign territory for trade and tariff purposes. Units in SEZs may engage in manufacturing, trading, and services; are exempt from routine examination of exports by customs; and can sell in the domestic market on payment of duty as applicable to imported goods.

PRESENT TRADE BARRIERS FOR IMPORT / EXPORT

❖ TARIFF BARRIERS

1. Tariff levels and Uruguay Round commitments

Many operators indicated tariffs as the most important obstacle for them (at least for direct trade). Tariffs for textiles and clothing products subject to the EU/Indiamarket access agreement are progressively reduced during a transition period. However,EU operators estimate that their level cannot be overcome (IT, BEL, FR, ES, IRL) for thetime being. Products that can be imported (which are not restricted as consumer goods) aresubject to high customs duties.

The tariff structure ***follows the Harmonized System.*** The Customs tariffs applicable in 1998 are contained in the Presidential Decree n° 38/1994. Current rates are as follows:

Type of product Basic duty

Yarns	0% to 40%
Fabrics	25% to 40%
Clothing products	40%

- Tariffs and other import duties are calculated ad valorem on the CIF value of products.
- The tariff is called **Basic duty** (tariff). It is levied on the assessable value (value of goods: CIF + landing charges). The assessable value is the value of the day of the bill of entry file (when the product arrives in customs). According to Customs, landing charges do not exceed 1%. Therefore, **assessable value represents about CIF + 1%.**

2. Tariffs predictability (bindings)

In the Uruguay Round, India has only accepted binding tariffs on some raw materials (fabricsand yarns) and a few fabrics. For fabrics and yarns, currently applied rates range from 25%to 40%. For fabrics, rates go up to 40%. For these products, India accepted to reduce thetariffs over a period of 10 years ending in 2004. However, there is no commitment for madeup goods and clothing.

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3. Duties and charges other than tariffs

In addition, Indian customs implement various import levies and taxes, which make transactions more difficult and increase the overall level of duties (e.g. about 100% for clothing products according some operators). Many of them consider this the most important barrier to EU exports. There are various additional import taxes. Their calculation method is extremely complex.

Indian Customs Authorities and the private sector confirmed the application of thefollowing additional taxes to the Basic duty:

- There is a **Special customs duty of 5%**. It is temporarily levied under clause 66 of the Finance Act of 1966. It will cease to have effect on 31 March 1999. It is also collected on assessable value and basic duty.
- The **Additional duty** also called **"Countervailing duty"** is levied under section 3 (1) of the Customs Tariff Act, 1975. It is not a compensatory duty. It is equivalent to a VAT. It is imposed on imported products and must represent the equivalent of duties applied on domestic products when they are manufactured. Its level varies according to the product considered (0%, 8%, 12%, 15% or 18% for the products under review). It is levied on the basis **of assessable value + Basic Duty + Special customs duty**. In addition, for some items, a 15% surcharge is added to this levy -under the Textiles and Textile articles Act, 1978-(e.g. for 51.07, the Additional duty is 8%, the effective rate is therefore 15% of 8%).
- **1% Cess** is also levied on some yarns, fabrics and clothing products under the TextileCommittee Act, 1973 (to help the domestic industry). If for example, the value of theproduct plus import duties is 145 Rs (assessable value + Basic duty + Special Customsduty + Additional duty), then it is levied on 145 Rs.

- The state does not levy sales tax on imported fabrics but applies a **Special Additionalduty** under section 3 of the Customs Act. It was previously 8% (in the 1998 budget) butwas decreased to 4%. It is levied on the value including all the duties (including 1% Cess).

Therefore, instead of being levied on the assessable value only, the Special Additional duty is applied on: assessable value + Basic duty + Special Customs duty + Additional duty +Cess. For some goods of special importance, there is no 4% Special Additional duty.

- The Import legislation also includes ***three other duties***:

1. Safeguard duty;
2. Antidumping duty;
3. Anti-subsidy duty.

- **The safeguard duty** is levied as a customs duty, on the basis of the following value :

Assessable value + Basic duty + Special Additional + Safeguard duty. No textiles andclothing products are subject to safeguard duties.

- The tariff calculation is made as follows: CIF value added to landing charges is theAssessable value. Basic duty and the 5% Special duty are levied on the assessable value.

The Additional duty is calculated on this basis: assessable value + Basic duty + Specialduty.

The rate of Additional duty depends on the product. For several textile products, a1% Cess is also charged on the following basis: assessable value + Basic duty + Specialduty + Additional duty.

The 4% Special Additional duty is calculated on the resulting value: Assessable value + Basic duty + Special duty + Additional duty + Cess.

- According to the **Tariff 1998**, the method used by Customs is:

(A) Basic duty value = Basic duty x value of goods

(B) Special duty value = Special duty x value of goods

(C) Additional duty value = Additional duty x (value of goods + Basicduty value + Special duty value)

(D) Special Additional duty (SADD) = SADD rate (A + B +C)

Total duty = (A) + (B) + (C) + (D) above.

- This formula does not take into account all variables (for example the 1% Cess for textile products or the 15% supplement to the Additional duty).
- The level of import duties remains prohibitive for consumer goods or for local consumption purposes.

· There are special schemes under which imports are permitted duty free or at concessionalrates (e.g. Duty exemption scheme) for export production. Consequently, the importanceof import duties for fabrics or yarns must be assessed with due consideration to theseimport schemes.

❖ NON-TARIFF BARRIERS

REGISTRATION, DOCUMENTATION AND CUSTOMS ROCEDURES

EU operators complained about excessive customs formalities. Required visas anddocumentation are complex. The clearance procedure is time consuming and troublesome.

Wrong classification of products was also reported. They had also complained regardingthe certificate of origin.

1. Visas, documents required for clearance

· According to Customs the following documents are required:

- Commercial invoice,
- Packing list

Commercial invoice

· The Commercial invoice must be presented in three originals in English. It must contain thefollowing indication: name of the exporter and the importer, time and place of shipment,number and date of the Import license, value and CIF cost, detailed description ofmerchandises with corresponding numbers of Indian Customs tariff.

· The importer can also be required to provide a Pro Forma invoice in order to obtain a letterof credit.

Certificate of origin

· The Certificate of origin is not required for EU products (only for products originating incountries benefiting from a preferential treatment). There are no specific requirementsattached to the certificate of origin to be presented to Customs authorities.

· The Packing list is not compulsory but may facilitate the clearance process.

2.CLEARANCE DELAYS

· Customs authorities gave the following information. Clearance duration is maximum 7 daysbut usually takes 2 to 3 days. Very often, longer delays in clearance are due to the importer(delayed payment of import duties).

3. CUSTOMS VALUATION

· German operators were faced with overvaluation of their products by Customs authorities,in particular for clothing accessories (buttons). Import procedures are generally complicatedand that this dissuades EU producers to export to India.

4. CLASSIFICATION

· According to importers and Member States, classification problems had occurred in the pastbut there have been only a few cases recently. Therefore, this does not seem to represent amajor problem.

❖ **IMPORT LICENSING**

Under the import policy, textiles products of chapters 50 to 63 are either (1) free, (2) subject to SIL or (3) restricted as consumer goods. Products that can be imported freely remain the minority of textiles products. These are for example raw materials (e.g. wool not carded and combed). Products subject to SIL must be imported with a special import license, which is easily transferable (e.g. woven fabrics of carded wool). For products restricted as consumer goods (e.g. woven fabrics of cotton 5208), the importer must request and obtain a non automatic import license from the competent authorities (DGFT).

There was a general complaint made by EU operators in the questionnaires concerning thelicensing systems and procedures in force. Difficulties were identified for getting either animport license (SIL or NAL) for finished products or an export license for raw materials.EC officials had indicated difficulties encountered by importers to get their licenses underthe NAL or the SIL system.

1. Difficulties of the non automatic licensing system (NAL)

Concerning the NAL system, it was reported by Commission services and EU operatorsthat this system was discriminatory. The licenses are to be requested from DGFT.

However, DGFT never issues licenses and does not state the grounds for not doing so. TheMember State Trade representatives confirmed the impossibility to obtain an import licensewhen the product is submitted to the NAL system.

2. Free availability of the SIL licenses

Export Commissioner confirmed that SIL certificates were issued on the basis of exportperformances of the previous year

A SIL is freely transferable. Importers of textile products subject to SIL can also easily purchase a SIL directly from either an exporter or a trader. The importer of textile products can buy a SIL from any exporter with SIL licenses: there are no specific conditions for textile products. This means that a textile importer can purchase a SIL belonging, for instance, to an exporter of chemical products. SILs are also sold by broker son the market. There are often SIL offers posted in newspapers.

Member states confirmed that no specific problem in purchasing a SIL was ever mentioned by EU companies to their Embassies.

There is no interest for textile exporters to sit on a SIL they received. They can earn asubstantial profit by selling it, even if it is true that this premium has decreased recently.

The SIL being valid for a period of 12 months only, exporters have to sell it quickly.

The premium gives a competitive advantage to the Indian producer. However, the value of this premium has decreased. In 1997, it decreased from 15% down to 11%. In 1998 it decreased from 11% down to 5% (or 2-3%). Various interlocutors stressed that they prefer the SIL to remain as it is ("a SIL is better than no SIL") because they fear that Indian Authorities will re-introduce stronger restrictions if the SIL is put into question (risk ofcoming back to the old system of negative list).

SIL have a decreasing importance. SILs are in a transitory stage. Items of the tariff code are first shifted from the restricted list to the SIL system, before being placed under OGL,in order to give the Indian economy time to adjust. India has committed to phasing out import restrictions over a period of six years, following the QRs agreement signed with its main trading partners. As the phasing out of the SIL progresses, its role would be reduced

❖ STANDARDS AND OTHER TECHNICAL EQUIREMENTS

1. **Quality and conformity controls**

· According to Indian authorities, quality controls are performed on both domestic andimported products.

2. **Marking, labeling, packaging requirements**.

· EU operators complained about the implementation of strict marking requirementsapplicable to textile and clothing products which are technically complex and difficult tofulfill. The UK Textile Association had for instance mentioned requirements concerningproducer identification and product composition, the color and the form of letters andsigns. Italian operators complained about the obligation to write these indications in Hindilanguage.

3. Antidumping, countervailing duties/actions and safeguard measures

· There is an ongoing case against the EU exports of acrylic fabrics from Portugal, Spain andItaly. It was initiated on 7 January 1998. **Provisional duties** have been imposed on 20thOctober 1998 on imports from all Member States investigated. The duties are defined as thedifference between a fixed price and the landed value on imports with an absolute minimumof

- 5.04 Rs/kg for Portugal,
- 11Rs/kg for Italy
- 13.5 Rs/kg for Spain

EXPORT RESTRICTIONS

EU operators complained about difficulties in purchasing raw cotton. They stated that a double price was applied for the export of raw cotton. The implementation of a minimum export price and the existence of quantitative export ceilings were also mentioned.

According to Authorities (Ministry of Commerce, Customs) and domestic industry, there are no export restrictions on raw cotton. They indicated that raw cotton is exported to third countries and to the EU, without special export price or export tax. Under the Export Policy 1997 – 2002, raw cotton is not included in the list of prohibited items or restricted items (items permitted under licenses). Only viscose staple fabricsis a restricted item, but no complaint was made.

Member States confirmed that there were no specific complaints regarding purchases of raw cotton. The quality of cotton is not considered to be sufficiently high to satisfy EU demand. Indian operators import raw cotton of superior quality from the Central Asian Republics, Egypt and Latin America.

According to the Customs Tariffs Act, 1975, some textiles products were subject to export duties : raw wool (25%), raw cotton (RS 2500/tonne) and cotton waste (40%). However, since 1989, these items are exempt from export duties (Notification 100, 1/3/89).

Under the Export Policy, there are specific conditions for the export of raw cotton:

- ✓ Certificate from the Textile Commissioner on the registration, allocation, quality andquantity of exports.
- ✓ Specific conditions for the export of cotton yarn are as follows:
- ✓ Quantitative ceilings can be notified by the Government from time to time.
- ✓ certificate from the Textile Export Promotion Council
- ✓ Fulfillment of the hank yarn obligation as determined by the Textile commissioner.

Italy Trade: Exports

The main exported commodities include:

- Engineering products
- Textiles and clothing
- Production machinery
- Motor vehicles
- Transport equipment
- Chemicals
- Food
- Beverages and tobacco
- Minerals and nonferrous metals

Italy’s main export partners are:

- Germany
- France
- Spain
- US
- UK

Italy Export Prohibitions

Export controls are imposed on Italian exporters by the government can take the form of prohibitions such as blockades, embargoes, boycotts, and sanctions or they can take the form of export licensing and permit requirements for controlled commodities. Export controls may be product specific, technology specific or country specific.The Customs Department holds the list of commodities and areas that are under control and/or require an export license. Contact the Customs Department or utilize their web site http://www.agenziadogane.it to determine if the goods being exported or the shipping destination is under control.

Examples of goods subject to export licensing controls:

- Agricultural products; (i.e. grains, cheeses)
- Dual Use goods; (i.e. software, computers, machines and machine parts)
- Biological reagents
- Artwork
- Antiques

The following items are prohibited from Italy:

- Atlantic red tuna fish (Thunnus) originating from Belize, Panama, and Honduras
- Toys and games containing copper sulfate
- Items having a flexible metal blade entirely contained in a plastic, paper, or fabric sheath
- Illicit Narcotics and Drugs
- All forms of asbestos fibers
- L-trytophane and any items having L-trytophane as an ingredient
- Rubber erasers that are similar in appearance to food products that are easily ingested
- Medical thermometers containing mercury intended for human consumption

Italy Customs, Currency & Airport Tax regulations details

1. Customs Rules

Import regulations:

Free import to passengers arriving with goods purchased within the EU which are for personal use only:

2. tobacco products:
   - 800 cigarettes;
   - 400 cigarillos;
   - 200 cigars;
   - 1kg of pipe or cigarette tobacco;
2. alcoholic beverages:
   - 10 litres of spirits over 22%;
   - 20 litres of alcoholic beverages less than 22%;
   - 90 litres of wine (though no more than 60 litres of sparkling wine);
   - 110 litres of beer.

Free import to passengers arriving from non-EU Member States (incl. Aland Island, Canary Islands, Channel Islands and other similar territories) :

1. tobacco products, for passengers aged 17 and older:
   - 200 cigarettes; or
   - 100 cigarillos (max. 3g each); or
   - 50 cigars; or
   - 250g of tobacco; or
   - proportional assortment;
2. alcoholic beverages, for passengers aged 17 and older:
   - 1 litre of spirits over 22% volume, or non-denatured ethyl alcohol with more than 80%
   volume; or

- 2 litres of spirits or aperitifs made of wine or similar beverages less than 22% volume,

or sparkling wines or liqueur wines; or

- a proportional mix of these products; and in addition
- 4 litres of wine; and
- 16 litres of beer;

3. medicinal products sufficient for personal needs;
4. other goods (for air travellers) up to a total value of EUR 430.- per traveller or EUR 150.- (per passenger aged under 15 years).

Products of animal origin, not originating from an EU Member State , Andorra, Liechtenstein, Norway, San Marino or Switzerland, are not permitted to be imported into an EU Member State, with the exception of limited amounts from Andorra, Croatia, the Faeroe Isl., Greenland, Iceland and small amounts of specific products from other countries.

Arms and Ammunition regulations:

Weapons and ammunition: when arriving in Italy, weapons and ammunition are subject to clearance at the first port of entry. If continuing journey on to another destination either within Italy or to an international connection, weapons are collected on arrival by airport security and delivered to the police office for inspection. Security staff will then take the weapon to the connecting flight.

Export regulations:

Free export

Additional Information:

1. Special permit from the competent export department of the Ministry of Culture is required for antiquities and art objects (including paintings, sculptures, ancient vases, furniture over 100 years old, etc.), or objects of historical or archaeological interest;

2. Only for residents leaving the EU:

a. cameras, video cameras, personal computers: an ownership declaration issued by Customs Authorities on departure is suggested to avoid any customs problem on return;

b. furs and skin-articles of protected animals: certificate of temporary export issued by the National Forest Department is required;

c. arms and weapons: certificate of temporary export issued by the local Police headquarters in place of residence is required.

Crew members customs regulations:

Allowed to import up to EUR 20.-.

Prohibited:

1. Import of aviary ornamental birds from all countries infected with Avian influenza;

2. Import of meat and poultry and derived products from Thailand;

3. Import of eggs and white meat from South East Asia;

4. Import of live birds of any species (incl. game birds and birds of prey), eggs, feathers, meat or meat products from Croatia, Romania and all Balkan countries.

Baggage Clearance regulations:

Baggage is cleared at the airport of final destination in Italy.

Baggage of crew is cleared in the arrival hall of the crew building (if available).

Currency Export regulations:

Local currency (Euro - EUR) and foreign currencies: no restrictions if arriving from or traveling to another EU Member State .
If arriving directly from or traveling to a country outside the EU: amounts exceeding EUR 10,000.- or more or the equivalent in another currency (incl. banker's draft and cheques of any kind) must be declared.

Understand legal issues for import & export

Importing doesn't have to be difficult. Buying from a company based within the European Union is usually relatively straightforward. After all, you are the customer: most of the burden of making sales, and delivering the goods, usually falls on the supplier.

But there are pitfalls. The key is not to take anything for granted. You cannot assume that the supplier will behave in the same way as a UK company would – or that it will be easy to sort out any problems. As with any supplier, delivery could be incomplete, or arrive late. Their product might not meet UK requirements. You might even be prohibited from importing that kind of product in the first place.

You can minimize the risk of any problems by taking a thorough approach. Make sure you agree exactly who takes care of what. Investigate exactly what your legal, customs and licensing obligations are. Where necessary, take advantage of advice from your trade association, your lawyer and business support organizations.

• Generally, importing legal goods from one EU member state to another are custom duty and tariff free. This is Article 30 of the Treaty Forming the EU.

• Import duties and VAT are to be paid in the country where the goods are received. If you are shipping to another EU country there will be no more duties or fees as per Article 30 above.

• You must pay the appropriate Duties and VAT on your imported goods. The rates vary for different goods.

• VAT must be paid in all EU member states.

• You need to declare every import to Customs and Excise. This is also true for exports unless they are within the EU.

• You need to obtain a CAP License from your EU member state Customs Office if you are importing Food or Drink.

• Each of the following are subject to strict licensing for import. Contact your Customs Office to get more information on importing or exporting:

o Plants
o Medicine
o Vehicles
o “Dangerous Goods”

These are the basic things you need to operate within. They will become second-nature as time goes on, but if you read up about importing and exporting now you can avoid complications in the future.

VAT on imports and exports

There are important VAT rules to consider if your business imports or exports goods or makes sales to other countries. Understanding the rules will help your business run smoothly and ensure you avoid fines and financial penalties. Complex rules and regulations govern imports and exports.

VAT on imports

In general terms, VAT is payable on all imports at the same rate that would apply to the product or service in the UK. You do not have to register for VAT to import goods, but obviously if you do not register you will not be able to claim back any VAT you pay. If you buy goods in the European Union you must declare output tax on them on your VAT return. However, you are allowed to reclaim input tax on the goods subject to the normal rules.

If you import goods from outside the EU you will have to pay import VAT and duty before the goods are released by HM Revenue & Customs. Remember that 'duty' is a separate and additional tax which is based on the value of imported goods. The amount of duty varies and depends on the country of origin and the type of product.

Unfortunately duty cannot be reclaimed by VAT registered businesses. There is no duty on goods which originate in an EU country or which have already been imported with charges already paid. Once in the EU there is no more duty to pay if the goods are transported from EU country to EU country.

If you import goods from outside the EU you can store them in approved HMRC warehouses if you wish and only pay VAT and import duty when the goods leave the warehouse. This facility can be particularly useful if you do not intend to sell goods immediately.

If you plan to re-export the goods after processing them you can apply for Inward Processing Relief. VAT and duty only become payable if you sell the goods in the UK or do not comply fully with the scheme's conditions. If you import regularly consider a deferment account, where you settle VAT and duty on a monthly basis. A deferment account is free and the advantage is you can put off payment for an average of 30 days and your goods will normally be cleared for release more quickly. You may need a bank guarantee, although the recently simplified rules (known as SIVA: Simplified Import VAT Accounting) means this is not always necessary. Terms and conditions apply, and not all businesses are eligible so check to see if you qualify.

To reclaim VAT on imports you should fill in your VAT return for the period during which the goods were imported - you will get a C79 certificate to show what import VAT you have paid - and you will need to keep it as evidence to support your claim for inspection by a VAT visiting officer.

VAT on exports

If you export goods outside of the EU you can zero rate their sale provided that you retain commercial and official evidence of their removal from the U.K. The same rules will apply to the sale of most goods to customers registered for VAT in the EU. Under these circumstances you will also need to obtain and record their VAT registration number on your invoice. If you sell goods in sufficient quantities to non registered customers in the EU you may be required to VAT register in other EU States.

If you do lots of trade with Europe you may have to submit more detailed information, known as the INTRASTAT Supplementary Declarations.

The rules relating to the export of services are exceptionally complex and you should seek professional advice.

India's Import Export

Top ten importers from India, by value of trade in US$m and share of total		
Country	**2012-2013 (Apr- Sep)**	**%Share (2012-2013 (Apr- Sep)**
USA	19704.05	13.87
UAE	18601.71	13.09
SINGAPORE	6652.77	4.68
CHINA	6417.32	4.52
HONG KONG	6137.9	4.32
SAUDI ARAB	4636.29	3.26
NETHERLANDS	4458.24	3.14
U K	4112.26	2.89
GERMANY	3491.77	2.46
BRAZIL	3042.64	2.14

Top ten exporters from India, by value of trade in US$m and share of total		
Country	**2012-2013 (Apr- Sep)**	**%Share (2012-2013 (Apr- Sep)**
CHINA	28025.57	11.92
UAE	19622.81	8.35
SAUDI ARABIA	16094.83	6.85
USA	12208.05	5.19
SWITZERLAND	10779.45	4.59
IRAQ	9803.79	4.17
QATAR	8144.45	3.47
KUWAIT	8134.73	3.46
GERMANY	7154.41	3.04
INDONESIA	6944.86	2.95

Potential of Indian market:

Today, the Diesel Group is present in 80 countries around the world. Its core business is clothing: a group with a strong Italian character whose style, design expertise and passion are clearly seen in the fashion-orientated Diesel and Black-Gold brands. Which are related with the kids wear and sportswear etc. The Group produces over 110 million garments every year, 90% of which is manufactured in Europe. Its retail network of 5,000 stores around the world is increasingly focused on large floor-space point of sale offering high quality customer services and now generates an annual turnover of 1.3 billion euro's, net of retail sales. The development of Diesel's commercial organization has been supported by a major programmed of investment in megastores, some of which are directly managed by the Group. These stores are characterized by their large dimensions, their prestigious locations in historic and commercial centers and by the high level of customer services they offer. The new Diesel megastores carry complete casual women swear, menswear, children wear and underwear collections, as well as a wide selection of accessories, offering a full range of Benetton style and quality. As in the case of the commercial network, a constant commitment to innovation, a crucial factor for development, has always characterized the Group's business organization, from communication to IT, from research into new materials to integrated logistics. Special attention is given to innovation in production, where all systems and equipment are totally renewed every five years. Diesel production system is coordinated by a high-tech facility at Castrate (Treviso), which is one of the most advanced clothing-manufacturing complexes in the world.

Diesel, one of the largest clothing manufacturersin Italy, has a global presence across 80 countriesand more than 5,000 retail stores.

Key success factors in India:-

Diesel has been growing at a hectic pace since it became a 100 per cent subsidiary of the Italian parent. The focus on India by the Group Chairman, Renzo Rosso himself, is providing the vision and support that will ensure that Diesel continues to set benchmarks in apparel retailing in India. Some of the factors responsible for its success so far are:

Continued importance given by the Parent company:-

Diesel views India as one of its growth engines and hence has continued to give importance to this market. The vision for growth and the resulting strategy of the Indian subsidiary is today in tune with Diesel's global vision. The company has always endeavored to give its Indian customers an international experience not only in its collection range, but also the ambience and fixtures of its retail outlets. The product range available in the Indian market is chosen from its international range, keeping in mind the Indian taste in clothing.

Diesels' India operations

That is why we tied up with a partner like Reliance. They have the size and they were creating a separate division for clothing. In India, we plan to start more stores quickly. We will have seven stores this year itself. In a short time, we have 35 stores in China and business is up 20 percent last year. However, we maintain exclusivity and not simply multiply. We will have different merchandise within stores in a city and get people talking. That will make them visit the next store — each of our stores will be different. We have the patience and love what we are doing. I think India will develop with more good taste because of its smiling people.

Business Opportunities In Future

- Diesel sees a huge potential in the Indian market and on the anvil are high street mega stores as well as outlets in malls across the country.

- The company would like to be present in metro cities and mini metro cities for expanding their business.

- The company is also contemplating the introduction of specialty stores dedicated to product categories like innerwear, men's wear etc.

- There is an increased emphasis on making India an outsourcing hub for Diesel globally.

- The company also plans to grow its Black Gold brand, which is expected to have high acceptability because of India's growing affluent class and exposure to the top fashion brands.

- Diesel does not have a lot of market shares in the India, so it can improve its position in that market.

- As DIESEL is diversifying, it allows the company to compete on several markets and it makes Diesel less sensitive in regards of the fluctuating economy.

Conclusion and Suggestions

Suggestions:

- Because of its controversial way to advertise, Diesel retailers may terminate their contract anytime because they don’t want to lose customers.
- In India, Diesel products are expensive which gives opportunities to many competitors who provide lower prices for the same quality.
- Diesel, as it’s spread all over the world, doesn’t have a new geographical market to get in, except the Semi urban area of Indian market.

Conclusion:

- Diesel Group is a world leader in the design, manufacture and marketing of distinctive casual apparel for men, women, and children.
- Diesel is well known around the world; it has a good image and a good reputation through the 80 countries they are selling in. The Group's commercial network of 5,000 retail outlets around the world is increasingly focused on large floor-space mega stores offering high quality customer services.
- Diesel is traditionally known for accessories and casual clothing in a wide array of colors, featuring fashionable Italian design and projecting a youthful image.
- Diesel clothes are high quality products usually made of wool.
- Diesel licenses its trademarks for products manufactured and sold by others, including fragrances, watches, sunglasses and other fashion accessories, which complement its product lines.

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Group-2

A

GLOBAL COUNTRY STUDY AND REPORT ON

"ITALY"

SUMITTED TO

N. R. Vekaria Institute of Business Management Studies, Junagadh

IN PARTIAL FULFILLMENT OF THE

REQUIREMENT OF THE AWARD FOR THE DEGREE OF

MASTER OF BUSINESS ASMINISTRATION IN

Gujarat Technological University

Under the guidance of

Prof. Bhargav Joshi

Prof. Bansi Shah

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MBA SEMESTER - IV

THROUGH

N. R. Vekaria Institute of Business Management Studies, Junagadh

MBA PROGRAMME

Affiliated to Gujarat Technological University
Ahmadabad

STUDENT DECLARTION

We enrolment no. student of MBA 3^{rd} Sem. 117360592008, 117360592009, 117360592010, 117360592011, 117360592012, 117360592013 hereby declare that the report for Global/ Country Study Report entitled “Italy” are a result of our own work and indebtedness to other work publications, references, if any, have been duly acknowledged.

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Date: ___________________

This is to certify that the Student of **M. B. A., Sem. - III** from N. R. Vekaria Intitute Of Business Management Studies, MBA college, Junagadh has carried out The Study Global Country Report On Itlay, under my supervision & guidance.

Date:

Place: Junagadh

AUTHORISED SIGNATORY:

Project Guide

Prof. Bhargav Joshi

Prof. Bansi Shah

Director

Dr. Rajesh Patel

Preface

India is a developing country. In this global world significance of business is on the top. Due to rapid industrialization and globalization there has aroused huge need of skilled and trained executives. Therefore, there are global training programmes included in the syllabus of M.B.A.

Management is not only limited to theory it also implies practical application of theoretical knowledge. Theoretical knowledge and conceptual ideas give a great impact and background for the career development and at the same time practical knowledge plays a big part for the business individual.

"Education begins where class from teaching ends."

The main purpose of this study was to gather awareness about industrial environment and business practices in order to develop our practical knowledge, So we have finally made an attempt to convert the information which we got made this global country report.

The MBA course provides exposure to the student to acquire analytical skills, problem solving & decision making capability to respond to ever changing global competitive environment. For this, students are trained in an industry so that they may acquire knowledge, skills, confidence to pursue a career. It also helps the student to improve managerial skills & marketing strategy.

Acknowledgement

We all students have a great pleasure in presenting this global country report on the Italy. Motivation and cooperation are the main two pillars on which the success of any project relies.

We express our sincere thanks to our project guide, **Prof. Bhargav Joshi and prof. Bansi Shah** for guiding me right form the inception till the successful completion of the project. we sincerely acknowledge her for extending their valuable guidance, critical reviews of project and the report and above all the moral support she had provided to us with all stages of this project.

During this whole training we got a lot of experience and came to know about the management practices in real that how it differs from those of theoretical knowledge and the practically in the real life.

Date :

Place : Junagadh. (Signature of Student)

Ruchi Patel

Dipti Bhaiya

Bhavisha Chavda

Vaishali Dattani

Mansi Bhatu

Jay Vora

Executive Summary

Italy essentially has a private-enterprise economy, although the government formerly held a controlling interest in a number of large commercial and manufacturing enterprises, such as the oil industry (through the Italian state petroleum company) and the principal transportation and telecommunication systems. In the mid-1990s Italy was transferring government interest in many enterprises to private ownership. An ongoing problem of the Italian economy has been the slow growth of industrialization in the south, which lags behind the north in most aspects of economic development.

The population of Italy almost doubled during the twentieth century, but the pattern of growth was extremely uneven due to large-scale internal migration from the rural South to the industrial cities of the North, a phenomenon which happened as a consequence of the Italian economic miracle of the 1950-60s. In addition, after centuries of net emigration, from the 1980s Italy has experienced large-scale immigration for the first time in modern history. According to the Italian government, there were 4,570,317 foreign residents in Italy as of January 2011.

Italy has no official religion. The 1984 Lateran Treaty revision abolished the Roman Catholic Church as the official state religion, while recognizing the role it plays in Italian society. 87.8% of the population define themselves as Catholic, 5.8% as non-believers or atheists, and 6.4% other religions, of which 2.6% Islam.

Several ethnic groups are legally recognized and a number of minority languages have co-official status alongside Italian in various parts of the country. French is co-official in the Valle d'Aosta—although in fact Franco-Provencal is more commonly spoken there. German has the same status in the province of South Tyrol as, in some parts of that province and in parts of the neighbouring Trentino, does Ladin. Slovene is officially recognised in the provinces of Trieste, Gorizia and Udine in Venezia Giulia.

Economy - overview

Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south, with high unemployment. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family owned. Italy also has a sizable underground economy, which by some estimates accounts for as much as 17% of GDP. These activities are most common within the agriculture, construction, and service sectors.

Italy is the third-largest economy in the euro-zone, but exceptionally high public debt burdens and structural impediments to growth have rendered it vulnerable to scrutiny by financial markets. Public debt has increased steadily since 2007, reaching 120% of GDP in 2011, and borrowing costs on sovereign government debt have risen to record levels. During the second half of 2011 the government passed a series of three austerity packages to balance its budget by 2013 and decrease its public debt burden. These measures included a hike in the value-added tax, pension reforms, and cuts to public administration. The government also faces pressure from investors and European partners to address Italy's long-standing structural impediments to growth, such as an inflexible labor market and widespread tax evasion. The international financial crisis worsened conditions in Italy's labor market, with unemployment rising from 6.2% in 2007 to 8.4% in 2011, but in the longer-term Italy"s low fertility rate and quota-driven immigration policies will increasingly strain its economy. The euro-zone crisis along with Italian austerity measures have reduced exports and domestic demand, slowing Italy"s recovery. Italy"s GDP is still 5% below its 2007 pre-crisis level.

In these regions official documents are bilingual (trilingual in Ladin communities), or available upon request in either Italian or the co-official language. Traffic signs are also multilingual, except in the Valle d'Aosta where—with the exception of Aosta itself which has retained its Latin form in Italian as in English—French toponyms are generally used, attempts to italianise them during the Fascist period having been abandoned. Education is possible in minority languages where such schools are operating.

Despite repeated reform attempts, Italy's moves toward institutionalizing greater economic freedom have been uneven and relatively ineffectual. Short-term fixes have not been effective. Worse, the foundations of economic freedom remain weak in the absence of an efficient judicial framework to provide effective and timely resolution of cases. Corruption, often involving government officials, is a growing concern, severely undercutting confidence in the government.

The GNI is made up of: the gross of private investment, the total personal consumption expenditures, the net income from all the assets abroad (i.e. net income receipts), government consumption expenditures and the gross exports of various products (i.e. goods and services), after subtracting the two components i.e. the indirect business taxes and the gross imports of goods and services; The GNI is exactly similar to the GNP i.e. gross national product, except that while measuring the GNP one does not subtract or deduce the indirect business taxes.

Monetary policy relies upon the relationship that exist in between the rates of interest in any economy (i.e. the price/value at which the money can be legally borrowed) and the total money supply. Monetary policy utilizes a variety of tools in order to regulate one or both of these; secondly to influence the outcomes like inflation, exchange rates with other currencies, unemployment and economic growth. Wherever the currency is under the monopoly of issuance, or wherever there is a controlled system of issuing the currency through the banks which are aligned to some central bank like RBI, the monetary authority finds the ability to alter and regulate the money supply in country and so influence the prevailing interest rates (in order to achieve the policy goals). The concept of monetary policy was originated in late 19th century, but then it was used mainly to maintain the gold.

Government frames economic policies. Economic Policies affects the different business units in different ways. It may or may not have favourable effect on a business unit. The Government may grant subsidies to one business or decrease the rates of excise or custom duty or the government may increase the rates of custom duty and excise duty, tax rates for another business. All the business enterprises frame their policies keeping in view the prevailing economic policies. Important economic policies of a country are important.

Despite these important achievements, the country's economy today suffers from many and relevant problems. After a strong GDP growth in 1945-1990, the last two decades’ average annual growth rates lagged well below the EU average; moreover, Italy was hit particularly hard by the late-2000s recession. The stagnation in economic growth, and the political efforts to revive it with massive government spending from the 1980s onwards, eventually produced a severe rise in public debt. In addition, Italian living standards have a considerable north-south divide: the average GDP per capita in Northern and Central Italy exceeds by far the EU average, whilst some regions and provinces in Southern Italy are dramatically below. Between 2000 and 2006, Italy received €27.4 billion from the European Development Fund for investments in depressed areas of the South.

Italy has a smaller number of global multinational corporations than other economies of comparable size, but there is a large number of **small and medium-sized enterprises,** as in the Northern "industrial triangle" (Milan-Turin-Genoa), where there is an area of intense industrial and machinery production, notably in their several industrial districts, which are the backbone of the Italian industry. This has produced a manufacturing sector often focused on the export of niche market and luxury products, that if on one side is less capable to compete on the quantity, on the other side is more capable of facing the competition from emerging economies based on lower labour costs, with higher quality products.

According to the WEF, Italy’s institutional weaknesses include high levels of corruption, organized crime and a perceived lack of independence in the judicial system, all of which increase business costs and undermine investor confidence. There are also structural weaknesses in the labor market, which hinder both job creation and efficiency. Italy’s low levels of mobility make it one of the most rigid labor markets in the European Union. In the WEF Global Competitiveness Index for 2010-11, Italy ranked 118th for labor efficiency.

In order to support the private and industrial sector development, the Italian Government is funding a project called Program Aid. The project, which began in 1995, was devised to promote the privatization of public enterprises, competitiveness of manufactured products, and the sector as the driving force for economic growth. With a grant of 16 million Euros, Program Aid supports two key industries, Leather and Textile.

Despite repeated reform attempts, Italy’s moves toward institutionalizing greater economic freedom have been uneven and relatively ineffectual. Short-term fixes have not been effective. Worse, the foundations of economic freedom remain weak in the absence of an efficient judicial framework to provide effective and timely resolution of cases.

Corruption, often involving government officials, is a growing concern, severely undercutting confidence in the government.

The presence of the state in the economy is still predominant. Most public enterprises are in manufacturing industries such as tanneries, food and beverages, textiles and garments, pharmaceuticals, chemicals and vehicles. In this sector the state accounts for about 60% of total output, and most of the employment (38,000). Although the state decreased its weight in the sector from 86% in 1996 to 53% in 2002, it has remained at this level for few years and has even increased up to 57% in 2004.

Italy faces stiff competition from many of its European neighbours for attracting corporate headquarters operations. Some of the downsides often cited include political instability, complexities of the legal and regulatory systems, a relatively high tax burden and inadequate infrastructure. In the recent World Economic Forum (WEF) Global Competitiveness Index for 2010-11, Italy ranked 48th, which is lower than any other G7 member country.

Table Of Content

PART - 1

DEMOGRAPHIC PROFILE OF ITALY

Introduction of Italy

Italy (Italian *Italia*), republic in southern Europe, bounded on the north by Switzerland and Austria; on the east by Slovenia and the Adriatic Sea; on the south by the Ionian Sea and the Mediterranean Sea; on the west by the Tyrrhenian Sea, the Ligurian Sea, and the Mediterranean Sea; and on the northwest by France. It comprises, in addition to the Italian mainland, the Mediterranean islands of Elba, Sardinia, and Sicily, and many lesser islands. Enclaves within mainland Italy are the independent countries of San Marino and Vatican City; the latter is a papal state mostly enclosed by Rome, the capital and largest city of Italy. The area of Italy is 301,323 sq km (116,341 sq mi).

Italy has made a number of improvements in policy affecting business but it faces stiff competition as a location for corporate headquarters from neighbouring economies. With a population of almost 60 million, Italy is one of the largest and most affluent markets in the European Union. Given its size, there are significant opportunities for economies of scale. Its business environment is also extremely sophisticated, producing goods high on the value chain.

In recent years, the strengthening of domestic legislation has led to improvements in Italian policy toward private companies, while the implementation of EU directives has helped to open up markets in retail trade, energy and transport. The World Bank reports that Italy has made some advances in streamlining its processes by enhancing its online registration system. Opening a business in Italy is estimated to take only six days.

But while it boasts one of the largest and most affluent markets in Europe, Italy faces stiff competition from many of its European neighbours for attracting corporate headquarters operations. Some of the downsides often cited include political instability, complexities of the legal and regulatory systems, a relatively high tax burden and inadequate infrastructure. In the recent World Economic Forum (WEF) Global Competitiveness Index for 2010-11, Italy ranked 48th, which is lower than any other G7 member country.

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Population: **61,261,254 (July 2011 est.)**

Age structure:

- **0-14 years:** 13.8% (male 4,315,292/female 4,124,624)
- **15-64 years:** 65.9% (male 19,888,901/female 20,330,495)
- **65 years and over:** 20.3% (male 5,248,418/female 7,109,074) (2011 est.)

Median age:

- **total:** 43.5 years
- **male:** 42.4 years
- **female:** 44.7 years (2011 est.)

Population growth rate: 0.38% (2011 est.)

Birth rate: 9.06 births/1,000 population (2011 est.)

Death rate: 9.93 deaths/1,000 population (July 2011 est.)

Major cities – population:

ROME (capital) 3.357 million; Milan 2.962 million; Naples 2.27 million; Turin 1.662 million; Palermo 872,000 (2009)

Infant mortality rate:

- **total:** 3.36 deaths/1,000 live births
- **male:** 3.56 deaths/1,000 live births
- **female:** 3.14 deaths/1,000 live births (2011 est.)

Religions:

Christian 80% (overwhelming Roman Catholic with very small groups of Jehova Witnesses and Protestants), Muslims NEGL (about 700,000 but growing), Atheists and Agnostics 20%

Religion	Percent
Christianity	91.6%
None	5.8%
Islam	1.9%
Buddhism	0.3%
Hinduism	0.2%
Sikhism	0.1%
Judaism	0.1%

Languages:

Italian (official), German (parts of Trentino-Alto Adige region are predominantly German speaking), French (small French-speaking minority in Valle d'Aosta region), Slovene (Slovene-speaking minority in the Trieste-Gorizia area)

Literacy:

- **definition:** age 15 and over can read and write
- **total population:** 98.4%
- **male:** 98.8%

Total fertility rate

1.41 children born/woman (2010)

Life expectancy at birth

total population: 81.8 years (2010)

male: 79.2 years (2010)

female: 84.4 years (2010)

ECONOMIC

OVERVIEW OF ITALY

Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south, with high unemployment. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family owned. Italy also has a sizable underground economy, which by some estimates accounts for as much as 17% of GDP. These activities are most common within the agriculture, construction, and service sectors. Italy is the third-largest economy in the euro-zone, but exceptionally high public debt burdens and structural impediments to growth have rendered it vulnerable to scrutiny by financial markets. Public debt has increased steadily since 2007, reaching 120% of GDP in 2011, and borrowing costs on sovereign government debt have risen to record levels. During the second half of 2011 the government passed a series of three austerity packages to balance its budget by 2013 and decrease its public debt burden. These measures included a hike in the value-added tax, pension reforms, and cuts to public administration. The government also faces pressure from investors and European partners to address Italy's long-standing structural impediments to growth, such as an inflexible labor market and widespread tax evasion. The international financial crisis worsened conditions in Italy''s labor market, with unemployment rising from 6.2% in 2007 to 8.4% in 2011, but in the longer-term Italy''s low fertility rate and quota-driven immigration policies will increasingly strain its economy. The euro-zone crisis along with Italian austerity measures have reduced exports and domestic demand, slowing Italy''s recovery. Italy''s GDP is still 5% below its 2007 pre-crisis level.

Definition: This entry briefly describes the type of economy, including the degree of market orientation, the level of economic development, the most important natural resources, and the unique areas of specialization. It also characterizes major economic events and policy changes in the most recent 12 months and may include a statement about one or two key future macroeconomic trends

OVERVIEW OF INDUSTRIES TRADE AND COMMERCE

Industries are important for every country. The Italian industries of the sector dispose of advanced equipment and technologies, and the excellent quality of their productions of machines and/or parts, are the reason why they export these products all over the world.

Industry in Italy is very developed, making one of the most industrialized countries in the world. Industries of Italy is developed with good facility, it contributes dominant role in the industries market of world.

There are some good industrial sectors in Italy:

Automobile industry of Italy

Some of the main industries of the automobile industry belong to Italy, industries which have a good piece of the international market, probably because Italian cars have that touch in the design and craftsmanship loved by foreign countries.

Main industry in the automobile sector is surely FIAT, located in Turin, employing thousands of workers and many more people of other satellite businesses which produce auto parts and spare parts. Among the other important businesses in this sector, surely the most famous is represented by the Ferrari of Maranello, automobile company which makes us proud in the world.

Ferrari creates unique and unrepeatable models as far as technologic innovations and design are concerned, making us dream during the Formula 1 GP, where we often win.

Engineering industry of Italy

Very important sector of is the engineering industry, which represents 41% of the entire manufacturing industry and manages all those metallurgic and mechanical processes used for the production of complex machines or parts of them, semi manufactured and metallic carpentry, printing, cutting, painting, laminating, foundry etc., all realized with manufacturing and transformation processes technologies in which Italy is a leader in the world.

Tourism industry of Italy

Italy has great tourism system with it’s contribute good revenue from these wide sector. Italy is extraordinarily rich in history, classical art and architecture, ancient cities and villages, glorious landscapes, and a coastline well served by beaches. The vast western historical and artistic heritage draws large numbers of visitors to Rome, Venice, and Florence, while the smaller cities such as Siena, Pisa, Naples, the Isle of Capri, and Taormina in Sicily are increasingly popular.

Italy competes with the United States, France, and Spain as one of the most popular destinations for international tourists, who flock to it in huge numbers.

Textile industry of Italy

Another very important sub-sector in the manufacturing industry is textiles and clothing, which boasts some of the world's best known fashion designer labels, such as Valentino, Armani, Versace, Gianfranco Ferré, and Krizia. However, the more casual clothing market accounts for the financial success of this sector. The design, quality, and relatively inexpensive prices of its products have made textile manufacturing Italy's third largest business after engineering and construction. Almost 1 million workers are employed by the textile industry, which is a leading exporter of clothes and shoes. There are very few large enterprises in this industry; most producers have small or medium-sized factories.

Retail industry of Italy

Italy has a highly developed retail system. Mass outlets in the form of supermarkets, malls, and multiple stores are becoming increasingly popular, and distribution is very well organized, particularly in the northern regions. The main chains are Standa, COOP, Esselunga, Sigma, and SPAR. Nevertheless, the retail sector is largely made up small, family-owned shops.

Retail commerce in Italy is divided into two main realities, small shopkeepers or retail commerce in Italy, who work in little shops and large distribution that, disposing of many resources, sell tons of products for competitive prices, therefore competing without mercy with the small businesses.

In Italy there are very large shopping centers near all the big cities, equipped with big parking lots and all services, internal restaurants, bank and post offices, to make every sale more comfortable and safe.

Agricultural industry in Italy

Agricultural industry in italy is very wide scoped view. There are no. of crops had grown. There is large no. of land to produce crop in large way. There are agro based industries that use the raw material & make good products in Italy. Agricultural products from the south of Italy must cross long distances, up to 1000km. or more, to be distributed throughout the national territory.

The development of the agro food processing industry in Italy has been similar to that of textiles. While its contribution to the GDP is far less substantial, it is nevertheless a significant economic sector.

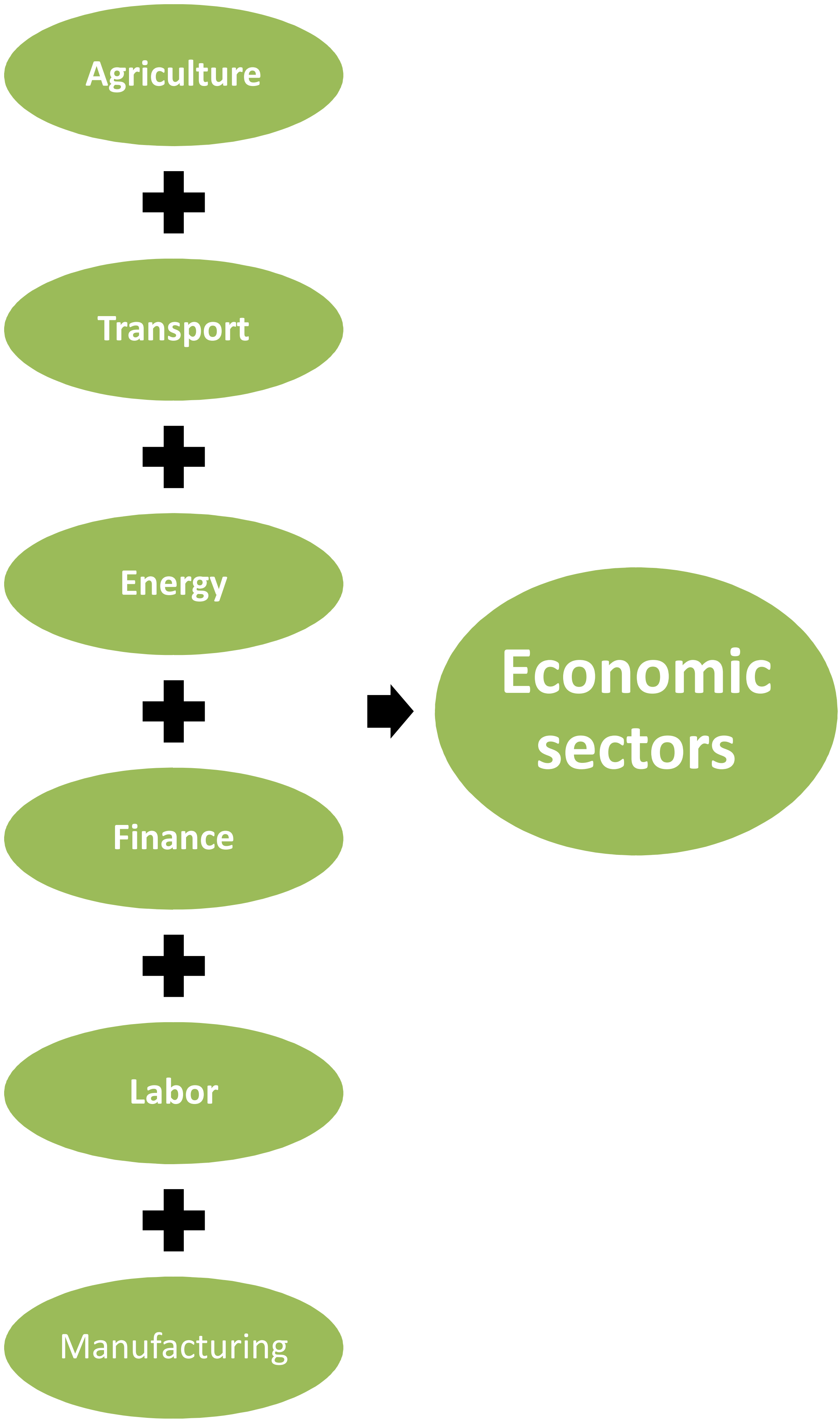
OVERVIEW DIFFERENT ECONOMIC SECTORS OF ITALY

Economy

A largely agricultural country before World War II (1939-1945), Italy has developed a diversified industrial base in the north, which contributes significantly to the economy. In 2002 the gross domestic product (GDP) was estimated at $1.18 trillion, or about $20,530 per capita; industry contributed 29 percent to the value of domestic output, services 69 percent, and agriculture (including forestry and fishing) 3 percent. Italy essentially has a private-enterprise economy, although the government formerly held a controlling interest in a number of large commercial and manufacturing enterprises, such as the oil industry (through the Italian state petroleum company) and the principal transportation and telecommunication systems.

In the mid-1990s Italy was transferring government interest in many enterprises to private ownership. An ongoing problem of the Italian economy has been the slow growth of industrialization in the south, which lags behind the north in most aspects of economic development. Government efforts to foster industrialization in the south have met with mixed results, as problems with the workforce and the overriding influence of the criminal groups known collectively as the Mafia have discouraged many large corporations from opening operations there. Many southerners have migrated to northern Italy in search of employment. Unemployment remains a problem throughout the country, however; the unemployment rate remains at about 9 percent of the working-age population.

The large national debt has also plagued Italy’s economy: The national budget of Italy in 1999 included revenue of $488 billion and expenditure of $495 billion. In keeping with provisions of the Maastricht Treaty, which created the European Union (EU), Italy is attempting to reduce its budget deficit. Progress was evident by 1996, with the debt reduced to 7 percent of GDP, although still far from the goal of 3 percent.


Agriculture
Transport
Energy
Finance
Labor
Manufacturing
Economic sectors

OVERVIEWS OF BUSINESS AND TRADE AT INTERNATIONAL LEVEL

This section is an excerpt from the book “Negotiating International Business - The Negotiator’s Reference Guide to 50 Countries around the World” by Luther Katz. It has been updated with inputs from readers and others, most recently in March 2008.Italian businesspeople, especially those among younger generations, are oft en experienced in interacting and doing business with visitors from other cultures. However, that does not always mean that they are open-minded. When negotiating business here, realize that people may expect things to be done ‘their way. ‘Though the country’s culture is relatively homogeneous, business cultures are considerably different between the North and the South. People in the North tend to be business-focused, serious, and somewhat reserved. South of Bologna, and much more so south of Rome, business and negotiation styles get much more relaxed and people are oft en more personable. These variances affect many aspects of negotiations in Italy

International Trade

Increased trade between Italy and the other member countries of the European Union characterized the 1970s and 1980s. The dependence of Italy on imported coal, petroleum, and other essential raw materials usually yields an unfavorable balance of trade. This imbalance is partly offset by the tourism industry, remittances from Italian nationals in foreign lands, and shipping revenues. In 2002 Italian exports earned $251 billion per year and imports cost $242.7 billion. Exports include machinery, motor vehicles, clothing, textile yarn and fabrics, footwear, iron and steel, fruit and vegetables, and wine. Imports include machinery and transportation equipment, petroleum, metals, chemicals, textile yarn and fabrics, and meat.

Exports increased in the early 1990s when the lira was devalued against other European currencies, making Italian manufactures less expensive to foreign buyers. Rising exports helped pull Italy from a recession, which in the early 1990s produced the sharpest economic fall in the post war era. Nearly three-fifths of Italian trade is with members of the European Union. Principal markets for Italy’s products are Germany, France, the United States, the United Kingdom, Spain, and

Switzerland. Chief sources for imports are Germany, France, United Kingdom, The Netherlands, Belgium, Spain, and the United States.

International relations

Italy is a founding member of the European Community, now the European Union (EU), and of the North Atlantic Treaty Organization (NATO). Italy was admitted to the United Nations in 1955, and it is a member and strong supporter of a wide number of international organizations, such as the Organization for Economic Co-operation and Development (OECD), the General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO), the Organization for Security and Co-operation in Europe (OSCE), the Council of Europe, and the Central European Initiative.

PRESENT TRADE RELATIONS AND BUSINESS VOLUME OF DIFFERENT PRODUCTS WITH INDIA

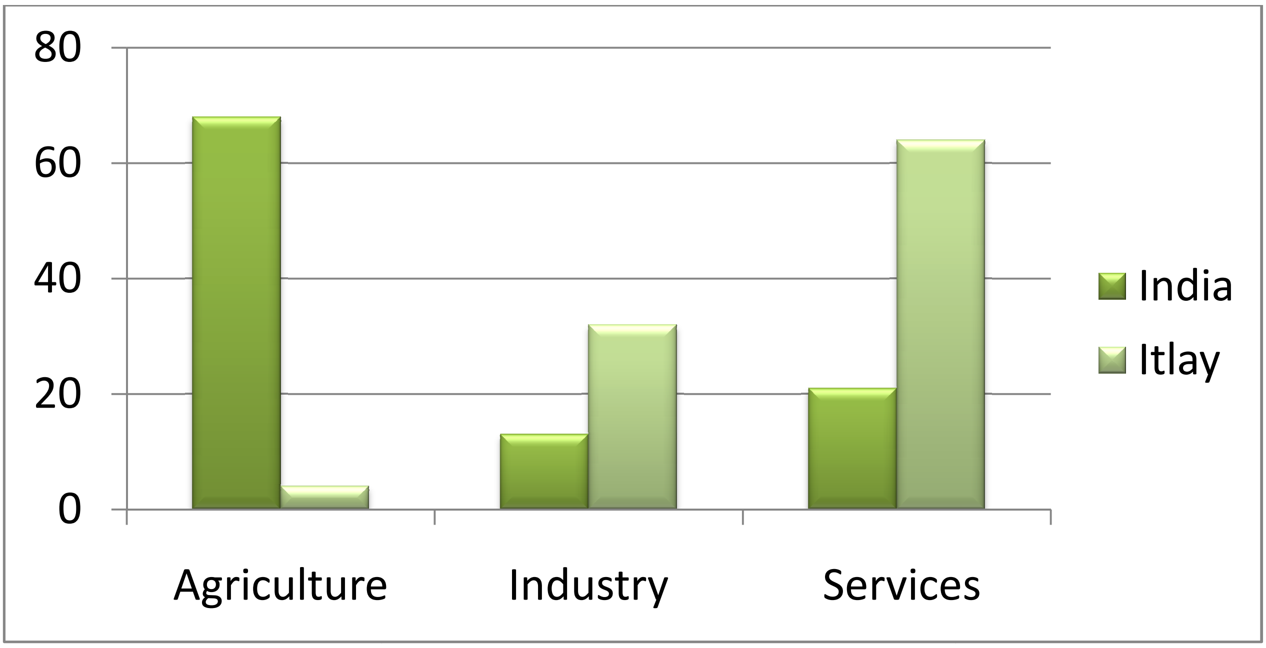
India and Italy have enjoyed overall pleasurable and strong relations throughout history. Italy and India are also close economic partners and is home to a large population of Indian immigrants. The chief of India's leading political party, the Indian National Congress, Sonia Gandhi, is of Italian descent.

Unfortunately at diplomatic level the relations seem not to be always good. An example is the visa situation between the two countries for the past few years, visas of any kind (tourist, business, employment and others) are issued for very short term and after a lot of hurdles for both Indian and Italian nationals. This situation has reduced noticeably the possibility of tourism and business development between the two countries. It is not officially known the reason for the current diplomatic situation.

India has an embassy in Rome, a general consulate in Milan. Italy has an embassy in New Delhi, two general consulates (in Mumbai and Calcutta).

There are around 150,000 people of Indian Origin living in Italy. Around 1,000 Italian citizens reside in India, mostly working on behalf of Italian industrial groups.

By May 18, 2012, Italy called back its ambassador to India for "consultations" after a charge sheet for murder was filed against two Italian naval guards in the killing of two Indian fishermen off the Kerala coast three months back.



DETAIL ANALYSIS

Land and Resources

More than half of Italy consists of the Italian Peninsula, a long projection of the continental mainland. Shaped much like a boot, the Italian Peninsula extends generally southeast into the Mediterranean Sea. From northwest to southeast, the country is about 1,145 km (about 710 mi) long; with the addition of the southern peninsular extremity, which extends north to south, it is about 1,360 km (about 845 mi) long. The maximum width of the mainland portion of Italy is about 610 km (about 380 mi) in the north; the maximum width of the peninsula is about 240 km (about 150 mi). On the northern frontiers are the Alps, which extend in a wide arc from Ventimiglia on the west to Gorizia on the east, and include high peaks such as Monte Cervino (4,478 m/14,692 ft) and Monte Rosa, which rises to its highest point (4,634 m/15,203 ft) in Switzerland just west of the border. The highest point in Italy is near the summit of Mont Blanc (Monte Bianco), on the border of Italy, France, and Switzerland; the peak, located in France, is 4,810 m (15,782 ft).

Between the Alps and the Apennines, which form the backbone of the Italian Peninsula, spreads the broad Plain of Lombardy, comprising the valley of the Po River. The northern Apennines project from the Maritime Alps along the Gulf of Genoa to the sources of the Tiber River. Monte Cimone (2,163 m/7,097 ft) is the highest summit of the northern Apennines. The central Apennines, beginning at the source of the Tiber, consist of several chains. In the eastern portion of this rugged mountain district is Mo nte Corno (2,912 m/9,554 ft), the highest Apennine peak. The southern Apennines stretch southeast from the valley of the Sangro River to the coast of the Gulf of Taranto, where they assume a more southerly direction. High peaks of the Apennine ranges of the Calabrian Peninsula, as the southern extremity of the Italian Peninsula is known, include Botte Donato (1,929 m/6,329 ft) and Montalto (1,957 m/6,422 ft). The Apennines form the watershed of the Italian Peninsula. The

main uplifts are bordered by less elevated districts, known collectively as the sub-Apennine region.

The western coast of Italy is broken up by bays, gulfs, and other indentations, which provide a number of natural anchorages. In the northwest is the Gulf of Genoa, the harbor of the important commercial city of Genoa. Naples, another leading western coast port, is situated on the beautiful Bay of Naples, dominated by the volcano Mount Vesuvius. A little farther south is the Gulf of Salerno, at the head of which stands the port of Salerno. The southeastern end of the peninsula is deeply indented by the Gulf of Taranto, which divides the so-called heel of Italy (ancient Calabria) from the toe (modern Calabria). The Apennine range continues beneath the narrow Strait of Messina and traverses the island of Sicily, where the volcano Mount Etna, 3,323 m (10,902 ft) high, is located. Another active volcano rises on Stromboli, one of the Lipari Islands (Isole Eolie), northwest of the Strait of Messina. In addition to volcanic activity, Italy is also plagued by frequent minor earthquakes, especially in the southern regions.

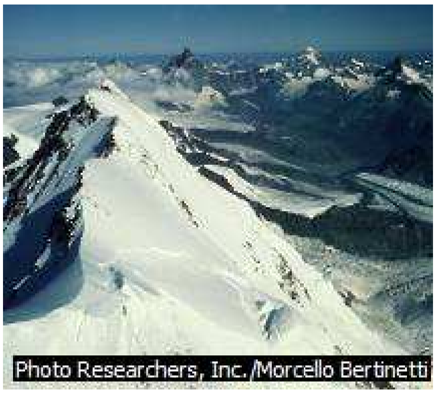


Photo Researchers, Inc./Morcello Bertinetti

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Encarta Interactive World Atlas, Photo Researchers, Inc./Lionel F. Stevenson

Rivers and Lakes

Italy has many rivers, of which the Po and the Adige are the most important. The Po, 652 km (405 mi) long, is navigable for about 480 km (about 300 mi), and with its tributaries affords about 970 km (about 600 mi) of inland waterways. The Adige, 410 km (255 mi) long, enters Italy from the Austrian province of Tirol (Tyrol), flows east, and, like the Po, empties into the Adriatic. The beds of these rivers are slowly being elevated by alluvial deposits from the mountains.


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The rivers of the Italian Peninsula are shallow, often dry during the summer season, and consequently of little importance for navigation or industry. The chief peninsular rivers are the Arno and the Tiber. From its sources in the Apennines, the Arno flows west for about 240 km (about 150 mi), through a well-cultivated valley and the cities of Florence and Pisa. The Tiber rises not far from the sources of the Arno and runs through the city of Rome. Both the northern and peninsular regions of Italy have numerous lakes. The principal lakes of northern Italy are Garda, Maggiore, Como, and Lugano; the peninsular lakes, which are considerably smaller, include Trasimeno, Bolsena, and Bracciano.

Climate

The climate of Italy is highly diversified, with extremes [illegible] [illegible] higher elevations of the Alps and Apennines, to semi[illegible]

Encarta Encyclopedia, National Geographic Society/Dave Cupp coast of the Ligurian Sea and the western coast of the lower peninsula. The average annual temperature, however, ranges from about 11° to 19°C (about 52° to 66°F); it is about 13°C (about 55°F) in the Po Valley, about 18°C (about 64°F) in Sicily, and about 14.5°C (about 58°F) in the coastal lowlands. Climatic conditions on the peninsula are characterized by regional variations, resulting chiefly from the configurations of the Apennines, and are influenced by tempering winds from the adjacent seas.

In the lowlands regions and lower slopes of the Apennines bordering the western coast from northern Tuscany (Toscana) to the vicinity of Rome, winters are mild and sunny, and extreme temperatures are modified by cooling Mediterranean breezes. Temperatures in the same latitudes on the east of the peninsula are much lower, chiefly because of the prevailing northeastern winds. Along the upper eastern slopes of the Apennines, climatic conditions are particularly bleak. The climate of the peninsular lowlands below the latitude of Rome closely resembles that of southern Spain. In contrast to the semitropical conditions prevalent in southern Italy and along the Gulf of Genoa, the climate of the Plain of Lombardy is continental. Warm summers and severe winters, with temperatures as low as -15°C (5°F), prevail in this region, which is shielded from sea breezes by the Apennines.

Heaviest precipitation occurs in Italy during the fall and winter months, when westerly winds prevail. The lowest mean annual rainfall, about 460 mm (about 18 in), occurs in the Apulian province of Foggia in the south and in southern Sicily; the highest, about 1,520 mm (about 60 in), occurs in the province of Udine in the northeast

Natural Resources

Italy is poor in natural resources, much of the land being unsuitable for agriculture due to mountainous terrain or unfavourable climate. Italy, moreover, is seriously deficient in basic natural resources such as coal. The most important mineral resources are natural gas, petroleum, lignite, sulphur, and pyrites. Other mineral deposits include lead, manganese, zinc, mercury, and bauxite. Many of these deposits are on the islands of Sicily and Sardinia. However, they had been heavily depleted by the early 1990s. Italy is rich in various types of building stone, notably marble. The coastal waters of Italy teem with fishes, of which sardine, tuna, and anchovy have the greatest commercial importance. Freshwater fishes include eels and trout.

Plants and Animals

The flora of the central and southern lowlands of Italy is typically Mediterranean. Among the characteristic vegetation of these regions are trees such as the olive, orange, lemon, palm, and citron. Other common types, especially in the extreme south, are fig, date, pomegranate, and almond trees, and sugarcane and cotton. The vegetation of the Apennines closely resembles that of central Europe. Dense growths of chestnut, cypress, and oak trees occupy the lower slopes, and at higher elevations, there are extensive stands of pine and fir.

Italy has fewer varieties of animals than are found generally in comparable areas of Europe. Small numbers of marmot, chamois, and ibex live in the Alps. The bear, numerous in ancient times, is now virtually extinct, but the wolf and wild boar still flourish in the mountain regions. Another fairly common quadruped is the fox. Among the predatory species of bird are the eagle hawk, vulture, buzzard, falcon, and kite, confined for the most part to the mountains. The quail, woodcock, partridge, and various migratory species abound in many parts of Italy. Reptiles include several species of lizards and snakes and three species of the poisonous viper family. Scorpions are also found.

Environmental Issues

Industrial and urban pollution is a major concern in Italy. Sulphur dioxide emissions that have been linked with health problems and damage to buildings have decreased since 1970, but progress in cleaning the air has been slower than in other European countries. Nitrogen oxide emissions are still on the rise, however, linked with continued growth of the transportation sector. Electric cars are becoming a popular solution to air-quality problems in urban areas. Up to 10 percent of Italy's forests have been damaged by air pollution. Levels of water pollution from farm chemicals and human waste are high in some rivers and in the Adriatic Sea. Extreme levels in 1988 and 1989 caused widespread eutrophication (oxygen depletion) of the marine environment in this region, and the government declared an emergency.

Nature conservation has been practiced in Italy since Roman times. There are currently five national parks, each independently administered. In addition, there are many other types of smaller protected areas. The lack of a national system of protected areas with centralized administration has impeded efforts to create new preserves and to legally protect existing ones. A nationwide forest inventory was completed in 1988. The government provides incentives for forest preservation and tree planting. About 22.1 percent (1995) of the country is forested, of which 42 percent is managed for tree harvest and only one-quarter is mature forest. A significant proportion of forests is under private management. Forest biomass has increased in recent years due to a decline in human encroachment on mountain habitats. Since the early 1980s Italy has had fairly comprehensive laws and guidelines protecting the sea and coastlines, although enforcement and implementation has been irregular.

Italy has ratified numerous international environmental agreements, including the World Heritage Convention and agreements concerning air pollution, biodiversity, climate change, endangered species, hazardous wastes, marine dumping, the nuclear test ban, the ozone layer, ship pollution, tropical timber, wetlands, and whaling. Regionally, Italy is party to the European Wild Birds Directive.

Political Divisions

Administratively, Italy is divided into 20 regions, each of which is subdivided into provinces and communes.

Political Divisions

		Area			
Region	Capital	km²	mi²	Persons per km²	Persons per mi²
Abruzzi	L'Aquila	10,795	4,168	118	306
Apulia	Bari	19,363	7,476	208	539
Basilicata	Potenza	9,992	3,858	60	155
Calabria	Catanzaro	15,080	5,822	133	344
Campania	Naples	13,595	5,249	421	1,090
Emilia-Romagna	Bologna	22,123	8,542	182	471
Friuli-Venezia Giulia	Trieste	7,844	3,029	152	394
Lazio	Rome	17,207	6,644	299	774
Liguria	Genoa	5,421	2,093	290	751
Lombardy	Milan	23,861	9,213	398	1,031
Marche	Ancona	9,694	3,743	153	396
Molise	Campobasso	4,438	1,714	72	186
Piedmont	Turin	25,399	9,807	167	433

Sardegna	Cagliari	24,090	9,301	68	176
Sicily	Palermo	25,707	9,926	193	500
Tuscany	Florence	22,993	8,878	153	396
Trentino-Alto Adige	Trento	13,607	5,254	70	181
Umbria	Perugia	8,456	3,265	10	26
Valle d'Aosta	Aosta	3,264	1,260	37	96

Principal Cities

The capital and largest city of Italy is Rome (population, 2001 estimate, 2,655,970), which is a famous cultural and tourist center. Other cities with large populations include Milan (1,301,551), an important manufacturing, financial, and commercial city; Naples (1,000,470), one of the busiest ports in Italy; Turin (900,987), a transportation junction and major industrial city; Palermo (679,290), the capital and chief seaport of Sicily; Genoa (632,366), the leading port in Italy and a major trade and commercial center; Bologna (379,964), a major transportation center and agricultural market; Florence (374,501), a cultural, commercial, transportation, and industrial center; Bari (332,143), a major commercial center; Catania (336,222), a manufacturing and commercial city of Sicily; and Venice (275,368), a leading seaport and a cultural and manufacturing center.

Religion

The dominant religion of Italy is Roman Catholicism, the faith of about 98 percent of the people. However, the Catholic church's role in Italy is declining; only about 25 percent of Italians attend mass regularly, and a law ratified in 1985 abolished Roman Catholicism as the official state religion and ended mandatory religious instruction in public schools. The constitution guarantees freedom of worship to the religious minorities, which are primarily Protestant, Muslim, and Jewish.

Education

The Italian impact on European education dates back to the ancient Roman educators and scholars, outstanding among whom were Cicero, Quintilian, and Seneca. Later, during the Middle Ages, Italian universities became the model for those of other countries. During the Renaissance, Italy was the teacher of the liberal arts to virtually all Europe, especially for Greek language and literature. The educational influence of Italy continued through the 17th century, when its universities and academies were Continental centres of teaching and research in the sciences. After a decline during the 18th and 19th centuries, Italian education regained international notice in the 20th century, partly as a result of the method for teaching young children developed by Maria Montessori.

The modern educational system of Italy dates from 1859, when a law was enacted providing for a complete school system that extended from the elementary through the university levels. Improvements were introduced later in the 19th century. In 1923 the philosopher Giovanni Gentile, minister of public instruction under Benito Mussolini, promoted complete governmental control of education, and the control was reinforced by the School Charter of 1939. With the collapse of fascism in 1944, however, Italy undertook to organize the school system along democratic lines. The constitution of 1947 and later laws raised the general educational level and encouraged experimentation, such as televised adult education *(telescuola).*

Traditionally, the goal of the Italian educational system has been to establish a well-trained minority rather than a widely educated majority. Children aged 3 to 5 may attend kindergarten. Education is free and compulsory for all children aged 6 through 14. The compulsory term includes five years of elementary and three years of secondary education. This period may be followed by study in a higher secondary school to gain specialized training or to prepare for university entrance. Higher secondary studies leading to university entrance may be taken in classical, scientific, teacher-training, technical, or business schools. A student may also enter an art institute or conservatory of music. Areas of specialized training include industry and agriculture.

Culture

From antiquity to modern times, Italy has played a central role in world culture. Italians have contributed some of the world’s most admired sculpture, architecture, painting, literature, and music, particularly opera. Although the nation was politically unified less than 150 years ago, the Italians do not consider themselves to be a “new” people, but see themselves instead as the descendants of the ancient Romans. Moreover, regional differences persist because of natural geographical boundaries and the disparate cultural heritage that has come down from the Greeks, Etruscans, Arabs, Normans, and Lombards. Regional particularism is evident in persistent local dialects, holidays, festivals, songs, and regional cuisine. Central to all Italian life is the tradition of the family as a guiding force and focus of loyalty.

Many of the great Italian painters, such as Giotto, Fra Angelico, Michelangelo, Leonardo da Vinci, Raphael, Titian, and Amedeo Modigliani, are covered in separate articles in the encyclopedia, as are famous Italian composers such as Antonio Vivaldi, Gaetano Donizetti, Giacomo Puccini, Gioacchino Rossini, and Giuseppe Verdi. See also Architecture; Italian Literature; Motion Pictures, History of; Music, Western; Opera; Painting; Sculpture.

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Agriculture

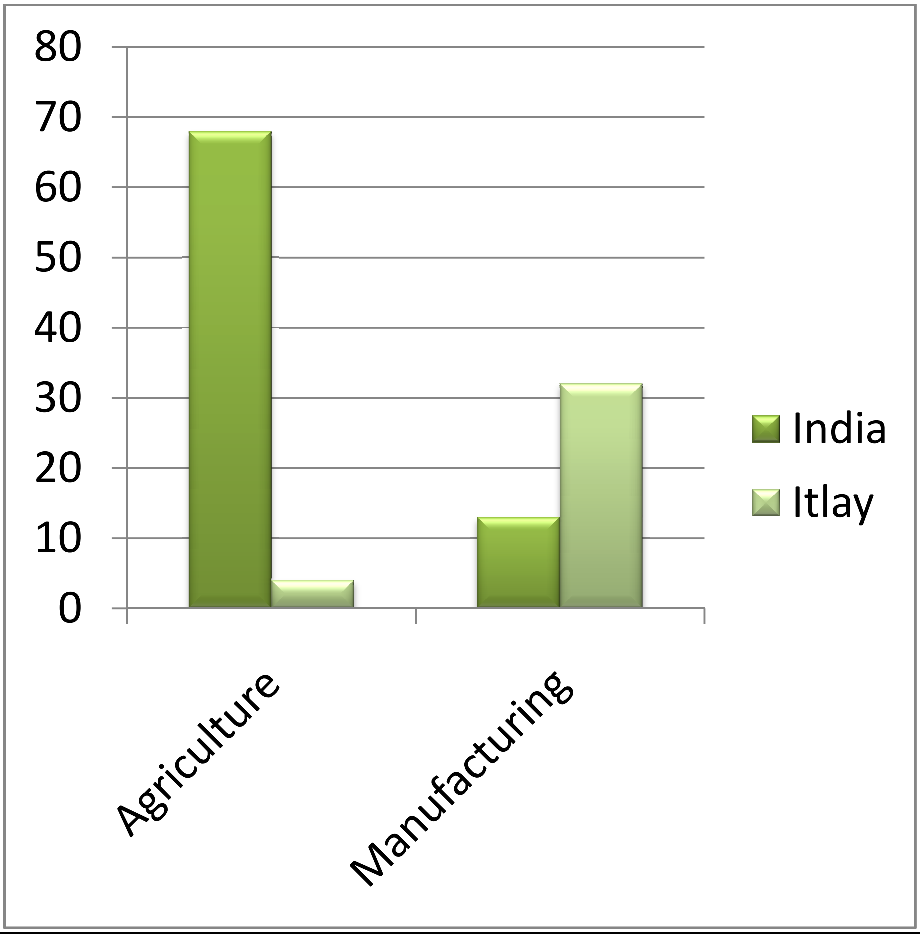
Some 37 percent of the land area of Italy is cultivated or used for orchards; agriculture, with fishing and forestry, engages 5 percent of the labour force. Variations of climate, soil, and elevation allow the cultivation of many types of crops. Italy is one of the leading nations in the production of grapes and ranks among the world's foremost wine producers. Italian wine production totalled about 5 million metric tons at the beginning of the 21st century. Italy also is one of the world's leading producers of olives and olive oil.

Encarta Encyclopedia, Woodfin Camp and Associates, Inc./Paul Solomon

The output of olives was about 2.4 million metric tons annually in the early 1990s, and production of olive oil was about 435,000 metric tons. Chief field crops, with 2003 production in metric tons, included vegetables such as tomatoes (15.5 million), maize (9.8 million), wheat (6.3 million), sugar beets (8.3 million), potatoes (1.8 million), rice (1.4 million), and soybeans (565,730). Other field crops are barley, rye, artichokes, chilli peppers, and watermelons. Orchard crops, prominent in the Italian economy, include apples, peaches, pears, oranges, figs, dates, and nuts. Dairy farming is a major industry. About 50 kinds of cheese are produced, including Gorgonzola, pecorino, and Parmesan. The livestock population in 2003 numbered 6.7 million cattle, 10.9 million sheep, 9.2 million hogs, 1.3 million goats, 290,000 horses, and 125 million poultry.

Manufacturing

Since World War II, Italian industry has expanded rapidly, and Italian products have gained worldwide popularity. In the early 1990s the annual production of the textile industry, one of the largest and most important, included 245,100 metric tons of cotton yarn. Annual production of the chemical industry, which is also important to the national economy, included sulfuric acid (2.8 million metric tons), ammonia (1.4 million), and caustic soda (964,800). Among other major industries are the manufacture of motor vehicles, iron and steel, rubber, heavy machinery, electrical ware (particularly household electronic products), and foodstuffs, particularly pasta. Annual production of passenger cars totaled 1.5 million in the early 1990s. Shipbuilding, the processing of hemp and tobacco, and sugar refining are also important. Leading manufacturing centers include Genoa, Milan, Rome, and Turin.



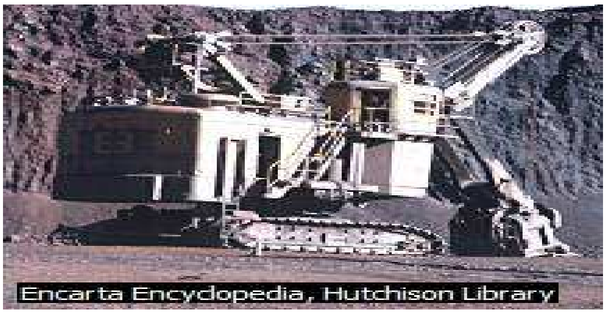
Forestry and Fishing

The forestry industry is limited in Italy, and much wood must be imported. Most of the old-growth forests were harvested, first by the Romans in antiquity and then in the 19th century. The resulting soil erosion has also hampered industry. However, some advances have been made in recent years, and the timber harvest in 2002 was 7.8 million cubic meters (275 million cubic feet). The catch of the country's substantial fishing industry in 2001 was 528,666 metric tons. Among the species harvested are mussels, shrimp, prawns, sardines, trout, striped venus,

hake, anchovies, and octopus.

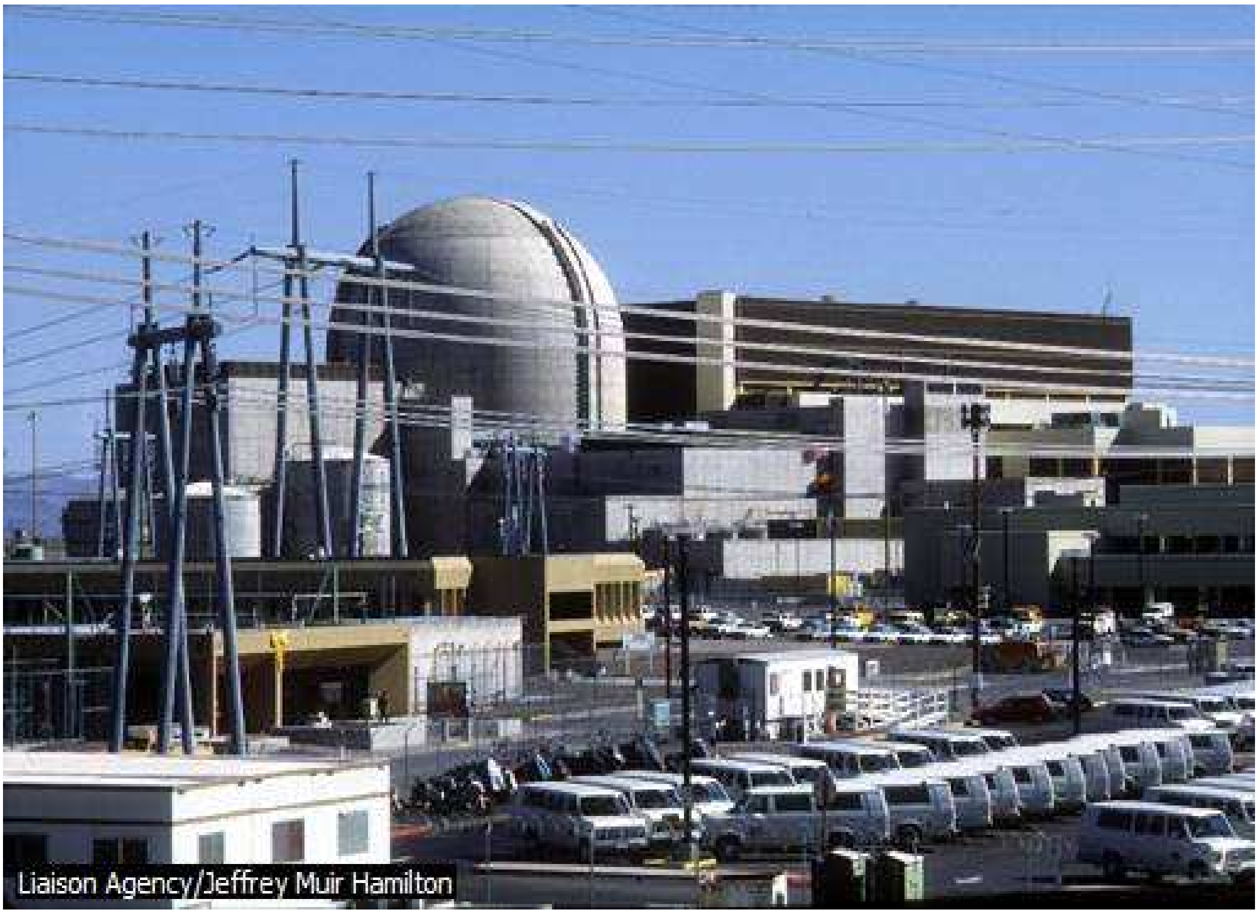
Mining

Mining contributes only a small portion of the annual national product, but production of some minerals is sizable. Lead production, for example, totalled 6,000 metric tons in 1999. Production of fossil fuels in 2001 included 51.3 million barrels of crude petroleum and 15.5 billion cubic meters (547 billion cubic feet) of natural gas. Other mineral resources include barites, lignite, pyrites, fluorspar, sulfur, and mercury.



Energy

Italy generates only about a quarter of the energy it consumes, relying mostly on imported fossil fuels. Some 78.57 percent of Italy's yearly output of electricity is generated in thermal plants burning petroleum products, natural gas, coal, or lignite, and most of the remainder is produced in hydroelectric facilities. The country's nuclear energy program was abandoned because of public opposition following the 1986 accident at Chernobyl' in Ukraine. In 2001 Italy's annual output of electricity was 259 billion kilowatt-hours.


Liaison Agency/Jeffrey Muir Hamilton

Currency and Banking

The monetary unit of Italy is the single currency of the European Union (EU), the euro (1.07 Euros equal U.S. $1; 1999 average). Italy is among 12 EU member states to adopt the euro. The euro was introduced on January 1, 1999, for electronic transfers and accounting purposes only, and Italy's national currency, the lire, was used for other purposes. On January 1, 2002, euro-denominated coins and bills went into circulation, and the lire ceased to be legal tender.

The Bank of Italy is the Italian national bank. A public institution, the Bank of Italy has branches in each provincial capital. In addition, Italy has many private banks. The 1990 Banking Act introduced a number of changes in the country's banking system, reducing public ownership of banks and loosening regulations on external and foreign capital, as part of the move by the European Community (now the EU) toward free capital movement within Europe and currency union. Milan and Rome are major financial centers.

As a participant in the single currency, Italy must follow economic policies established by the European Central Bank (ECB). The ECB is located in Frankfurt, Germany, and is responsible for all EU monetary policies, which include setting interest rates and regulating the money supply. On January 1, 1999, control over Italian monetary policy was transferred from the Bank of Italy to the ECB. The Bank of Italy joined the other EU countries that adopted the euro as part of the European System of Central Banks (ESCB)

Transportation

With 1,504 vessels in 2002, Italy has one of the world's largest merchant fleets; its total displacement was 6.6 million gross registered tons. The country's chief seaports include Genoa, Trieste, Taranto, and Venice. Italy is served by 16,499 km (10,252 mi) of operated railroad track, much of which is electrified. The government operates most of the rail lines. The country has about 479,688 km (about 298,064 mi) of roads, including some 7,000 km (some 4,300 mi) of limited-access highways (autostrada). One of the longest automobile tunnels in the world, the Mont Blanc Tunnel linking Italy and France, was opened in 1965. The two countries also are linked via the Mount Frejus vehicular tunnel, opened in 1980. Alitalia, the state airline, provides both domestic and international service. The country's busiest airport is near Rome; the largest international airport is Malpensa Airport near Milan.

Railways:

- **total:** 20,255 km
- **standard gauge:** 18,611 km 1.435-m gauge (12,662 km electrified)
- **narrow gauge:** 123 km 1.000-m gauge (123 km electrified); 1,290 km 0.950-m gauge (151 km electrified); 231 km 0.850-m gauge (2008)

Roadways: **total:** 487,700 km

Waterways:

2,400 km (used for commercial traffic; of limited overall value compared to road and rail) (2012)

Ports and terminals:

Augusta, Cagliari, Genoa, Livorno, Taranto, Trieste, Venice
oil terminals: Melilli (Santa Panagia) oil terminal, Sarroch oil terminal

Pipelines: gas 18,348 km; oil 1,241 km (2010)

Airports: 130 (2012)

Encarta Encyclopedia, Archive Photos/Harold Lambert

Airports - with paved runways

- **total:** 99
- **over 3,047 m:** 9
- **2,438 to 3,047 m:** 31
- **1,524 to 2,437 m:** 18
- **914 to 1,523 m:** 29
- **under 914 m:** 12 (2012)

Airports - with unpaved runways

- **total:** 31
- **1,524 to 2,437 m:** 1
- **914 to 1,523 m:** 11
- **under 914 m:** 19 (2012)

Heliports: 5 (2012)

Encarta Encyclopedia, Check Six/Chad Slattery

Telecommunications

Since the abolition in 1976 of the Italian government's monopoly on broadcasting, the number of stations in the country has increased to more than 160 radio and 80 television broadcasters. While the number of daily newspapers remains small relative to Italy's population, total circulation was 6 million in 1996, or 104 copies for every 1,000 residents. Readership in the north and central portion of the country accounts for four-fifths of the sales. Local and regional publications, including those produced by political parties and by the Roman Catholic church, are an important part of Italy's communications network. Influential dailies include Corriere della Sera and Il Giorno, in Milan; La Repubblica, in Rome; and La Stampa, in Turin. In 1997 Italy had 880 radios and 499 televisions for every 1,000 people.

Telephones - main lines in use: 21.6 million (2009)

Telephones - mobile cellular: 82 million (2009)

Telephone system:

- **general assessment:** modern, well developed, fast; fully automated telephone, telex, and data services
- **domestic:** high-capacity cable and microwave radio relay trunks.
- **international:** country code - 39; a series of submarine cables provide links to Asia, Middle East, Europe, North Africa, and US; satellite earth stations - 3 Intelsat (with a total of 5 antennas - 3 for Atlantic Ocean and 2 for Indian Ocean), 1 Inmarsat (Atlantic Ocean region), and NA Eutelsat

Broadcast media:

two Italian media giants dominate - the publicly-owned Radiotelevisione Italiana (RAI) with 3 national terrestrial stations and privately-owned Media set with 3 national terrestrial stations; a large number of private stations and Sky Italia - a satellite TV network; RAI operates 3 AM/FM nationwide radio stations; some 1,300

Labour

Italy’s labour force in 2002 was 26 million; some 39 percent were women. In the early 1990s, approximately 9.9 million workers belonged to three major trade union federations: the Confederazione Generale Italiana del Lavoro, or CGIL (some 4.6 million members), associated with the Socialist Party and the Democratic Party of the Left; the centrist Confederazione Italiana Sindacati Lavoratori, or CISL (about 3.8 million); and the Unione Italiana del Lavoro, or UIL (1.5 million). Labor union contracts set wages and salaries in every major field.

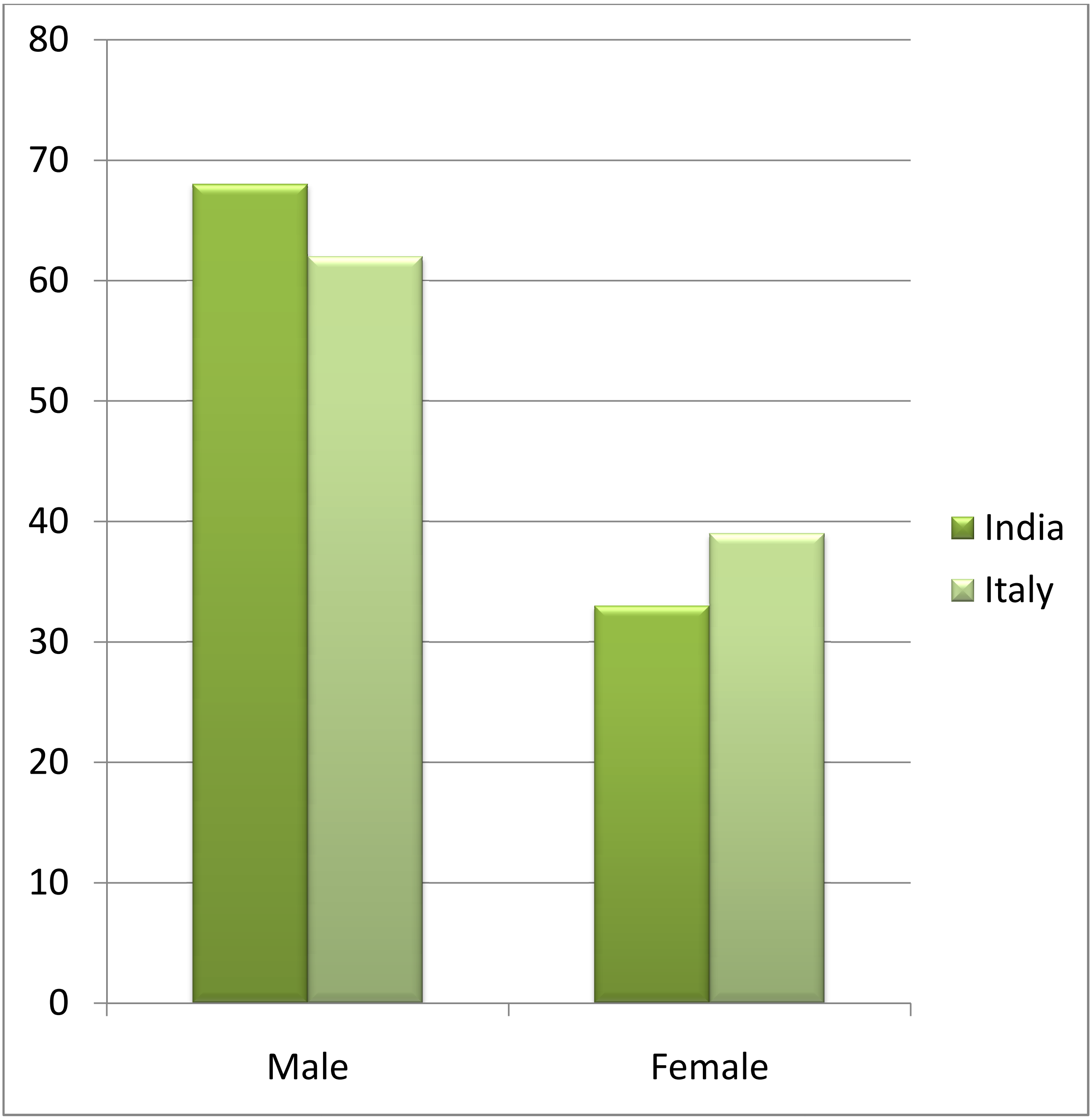
The Mafia

A loosely affiliated network of criminal groups that first developed in Sicily during the late Middle Ages, the Mafia has historically been one of the most powerful economic and social forces in Italy. By the late 19th century, the Mafia, known for its familial structure, ruthless violence, and strong code of silence (omertà), controlled the Sicilian countryside, infiltrating or manipulating local authorities, extorting money, and terrorizing citizens. During the 20th century, except for a period of repression by Benito Mussolini from the 1920s until the end of World War II in 1945, the Mafia continued to expand its influence over both legal and illegal operations in Italy, especially in the south. The Mafia’s influence was exported to other countries by emigrants, and by the 1970s the Mafia controlled a large part of the world’s heroin trade. Renewed government prosecution of Mafia figures and activities beginning in the mid-1980s, and a series of political scandals linking many Italian politicians with the Mafia, gave rise to hopes that Mafia influence in Italy would eventually decline.

Women in Business :-

While Italian society is making progress towards gender equality and some women hold important positions, most of them are still struggling to attain positions of similar income and authority amen. As a visiting businesswoman, emphasize your company’s importance and your role in it. A personal introduction or a letter of support from a senior executive within your company may alsohelp.Female business travellers should graciously accept any chivalric gestures they receive. Complimenting women on their appearance is common and viewed as perfectly acceptable. Should someone making such a compliment go too far, it is best simply to ignore the person. Generally, displaying confidence and assertiveness can be effective, but it is important not to appear overly bold and aggressive.

Labour Force Share male & Female(Percent of total labor force)



BUSINESS

ENVIRONMENT

IN

ITALY

Business environment in Italy

Italy has made a number of improvements in policy affecting business but it faces stiff competition as a location for corporate headquarters from neighbouring economies.

With a population of almost 60 million, Italy is one of the largest and most affluent markets in the European Union. Given its size, there are significant opportunities for economies of scale. Its business environment is also extremely sophisticated, producing goods high on the value chain.

In recent years, the strengthening of domestic legislation has led to improvements in Italian policy toward private companies, while the implementation of EU directives has helped to open up markets in retail trade, energy and transport. The World Bank reports that Italy has made some advances in streamlining its processes by enhancing its online registration system. Opening a business in Italy is estimated to take only six days.


Encarta Interactive World Atlas, The Image Bank/Guido Rossi

But while it boasts one of the largest and most affluent markets in Europe, Italy faces stiff competition from many of its European neighbours for attracting corporate headquarters operations. Some of the downsides often cited include political instability, complexities of the legal and regulatory systems, a relatively high tax burden and inadequate infrastructure. In the recent World

Economic Forum (WEF) Global Competitiveness Index for 2010-11, Italy ranked 48th, which is lower than any other G7 member country.

According to the WEF, Italy's institutional weaknesses include high levels of corruption, organized crime and a perceived lack of independence in the judicial system, all of which increase business costs and undermine investor confidence. There are also structural weaknesses in the labor market, which hinder both job creation and efficiency. Italy's low levels of mobility make it one of the most rigid labor markets in the European Union. In the WEF Global Competitiveness Index for 2010-11, Italy ranked 118th for labor efficiency.

The taxation system also impacts Italy's attractiveness. According to the 2011 World Bank Doing Business report, the total corporate tax rate is 68.6% and requires 285 hours of preparation time. Nor is their much scope for any tax cuts, given the current high levels of public debt, at 118.1% of GDP.

The strength of Italy's infrastructure is more mixed, and varies from region to region. In the more developed northern and central regions, it is generally good, whereas in the underdeveloped south, it is often less effective. This inequality is further exacerbated by budget constraints, which will continue to limit pubic investment over the coming years.

ECONOMIC

ENVIRONMENT

IN

ITALY

What Is Economic Environment?

Introduction:-

Various environmental factors such as economic environment, socio-cultural environment, political, technological, demographic and international, affect the business and its working. Out of these factors economic environment is the most important factor.

Meaning of Economic Environment:-

Those Economic factors which have their affect on the working of the business is known as economic environment. It includes system, policies and nature of an economy, trade cycles, economic resources, level of income, distribution of income and wealth etc. Economic environment is very dynamic and complex in nature. It does not remain the same. It keeps on changing from time to time with the changes in an economy like change in Govt. policies, political situations.

Elements of Economic Environment:-

1. Economic Conditions

2. Economic System

3. Economic Policies

4. International Economic Environment

Economic environment in Italy

Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south, with high unemployment. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, , many of them family owned. Italy also has a sizable underground economy, which by some estimates accounts for as much as 15% of GDP. These activities are most common within the agriculture, construction, and service sectors.

Italy has moved slowly on implementing needed structural reforms, such as reducing graft, overhauling costly entitlement programs, and increasing employment opportunities for young workers, particularly women. These conditions will be exacerbated in the near-term by the global economic downturn, but in the longer-term Italy's low fertility rate and quota-driven immigration policies will increasingly strain its economy. The Italian government has struggled to limit government spending, but Italy's exceedingly high public debt remains above 115% of GDP, and its fiscal deficit - just 1.5% of GDP in 2007 - exceeded 5% in 2009 as the costs of servicing the country's debt rose. A tax amnesty program implemented in late 2009 to repatriate untaxed assets held abroad has netted the federal government more than $135 billion.

The Economy in Italy is multifarious in nature with almost the same total and per capita yield as Great Britain or France. The northern part of the country concentrates with capitalistic economy, where the private sector companies account for the total productivity and profitability. Economy in Italy in the southern regions is little less developed compared to the industrial north, owing to the extensive agricultural activities carried out by a section of the country's population. This is an area which is responsible for unemployment of more than 20 %.

In years, the Economy in Italy has prospered to the extent that it is capable of importing maximum raw materials as well as 75 percent of the energy requisites of the country. It works extensively to encourage employment, support labor flexibility, restructure their costly pension systems, thereby handling well, the economy of Italy on an unofficial level.

Salient features of the Economy in Italy :

- The Gross Domestic Product or GDP of the country reaching 1.273 trillion US dollars has made the Economy in Italy , the sixth richest in the world.

- The Economy in Italy , in terms of the per capita income, holds the 18th place in the world The industrial pace in Italy is very fast that accounts for the prosperity and development of the Economy in Italy.

- Both the public and the private sectors in Italy derive foreign financial aids from United States that helps in the betterment of the Economy in Italy Merging itself with the western economic markets, the Economy in Italy gained considerable profitability.

- The firm export-related industries of Italy had boosted up the Economy in Italy to a large extent.

- The escalation of exports in Italy established a strong domestic demand for goods and services. Most of the small and medium enterprises and companies in Italy flourished and prospered as a result of the increased economic activities in Italy.

- Italian Economy is developing very fast. Today the condition is such that it is self-sufficient enough to cope up with the global race of economic and financial developments.

➢ **Currency of Italy:**

Italy has a diversified industrial economy with roughly the same total and per capita output as France and the UK. The economy is split between the developed industrial belt in the north and a less-developed, agricultural region in the south. According to nominal GDP calculations, Italy was ranked as the seventh largest economy in the world in 2006, behind the United States, Japan, Germany, China, UK, and France, and the fourth largest in Europe.

Italy's major exports are precision machinery, motor vehicles, chemicals and electric goods, but the country's more famous exports are food, clothing, and luxury vehicles. With over 37 million tourists a year, Italy is also ranked as the fourth major tourist destination in the world.

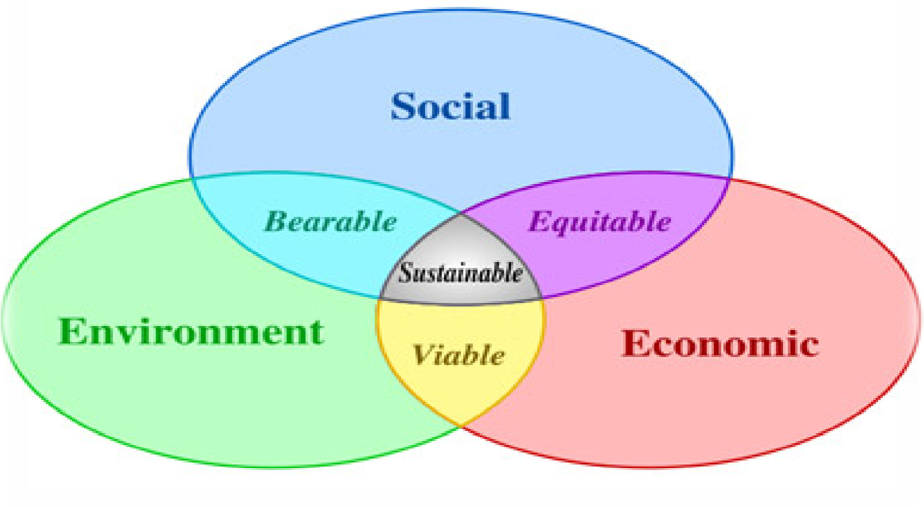
Most raw materials needed by industry and more than 75% of energy requirements are imported. Despite some short-term reforms aimed at improving competitiveness and long-term growth, the economy experienced low growth in 2006, and unemployment remained at a high level.

The currency of Italy is the Euro.

Italy’s economic freedom score is 58.8, making its economy the 92nd freest in the 2012 Index. Its overall score is 1.5 points lower than last year, with significant declines in freedom from corruption and the control of government spending. Italy is ranked 36th out of 43 countries in the Europe region, and its score is slightly below the world average.

Despite repeated reform attempts, Italy's moves toward institutionalizing greater economic freedom have been uneven and relatively ineffectual. Short-term fixes have not been effective. Worse, the foundations of economic freedom remain weak in the absence of an efficient judicial framework to provide effective and timely resolution of cases. Corruption, often involving government officials, is a growing concern, severely undercutting confidence in the government.

The ongoing European sovereign debt crisis has taken a considerable toll on macroeconomic stability. Sharp increases in the debt burden, aggravated by structural weaknesses, are undermining long-term competitiveness. With public debt around 120 percent of GDP and growing, policy options are increasingly constrained. Due to the complexity of the regulatory environment and the high cost of conducting business, considerable economic activity remains in the informal sector.



Italy's economy has passed the deep recession triggered by the global crisis and seems set for a gradual recovery. The strength of this recovery is uncertain: it would be wise to plan for no more than the rather sluggish growth seen in the decade prior to the crisis. Hence, the priority remains structural reforms to increase growth potential, while maintaining a stable fiscal framework oriented towards consolidation, as appropriately pursued during the crisis. Such a policy can sustain confidence in Italian public finances in the face of the large stock of government debt, in turn helping to support the financial system whose health is crucial for the recovery.

Economic Conditions

Economic Policies of a business unit are largely affected by the economic conditions of an economy. Any improvement in the economic conditions such as standard of living, purchasing power of public, demand and supply, distribution of income etc. largely affects the size of the market. Business cycle is another economic condition that is very important for a business unit. Business Cycle has 5 different stages viz. (i) Prosperity, (ii) Boom, (iii) Decline, (iv) Depression, (v) Recovery.

Following are mainly included in Economic Conditions of a country:-

I. Stages of Business Cycle

II. National Income, Per Capita Income and Distribution of Income

III. Rate of Capital Formation

IV. Demand and Supply Trends

V. Inflation Rate in the Economy

VI. Industrial Growth Rate, Exports Growth Rate

VII. Interest Rate prevailing in the Economy

VIII. Trends in Industrial Sickness

IX. Efficiency of Public and Private Sectors

ECONOMIC

SYSTEM

Economic System

An Economic System of a nation or a country may be defined as a framework of rules, goals and incentives that controls economic relations among people in a society. It also helps in providing framework for answering the basic economic questions. Different countries of a world have different economic systems and the prevailing economic system in a country affect the business units to a large extent. Economic conditions of a nation can be of any one of the following type. These types are given as under….

- ⇒ **Capitalism**
- ⇒ **Socialism**
- ⇒ **Mixed Economy**

Now this all types are explain in detail as under.

1. **Capitalism:-**

The economic system in which business units or factors of production are privately owned and governed is called Capitalism. The profit earning is the sole aim of the business units. Government of that country does not interfere in the economic activities of the country. It is also known as free market economy. All the decisions relating to the economic activities are privately taken. Examples of Capitalistic Economy:- England, Japan, America etc.

2. **Socialism:-**

Under socialism economic system, all the economic activities of the country are controlled and regulated by the Government in the interest of the public. The first country to adopt this concept was Soviet Russia. The two main forms of Socialism are: -

(a) Democratic Socialism:-

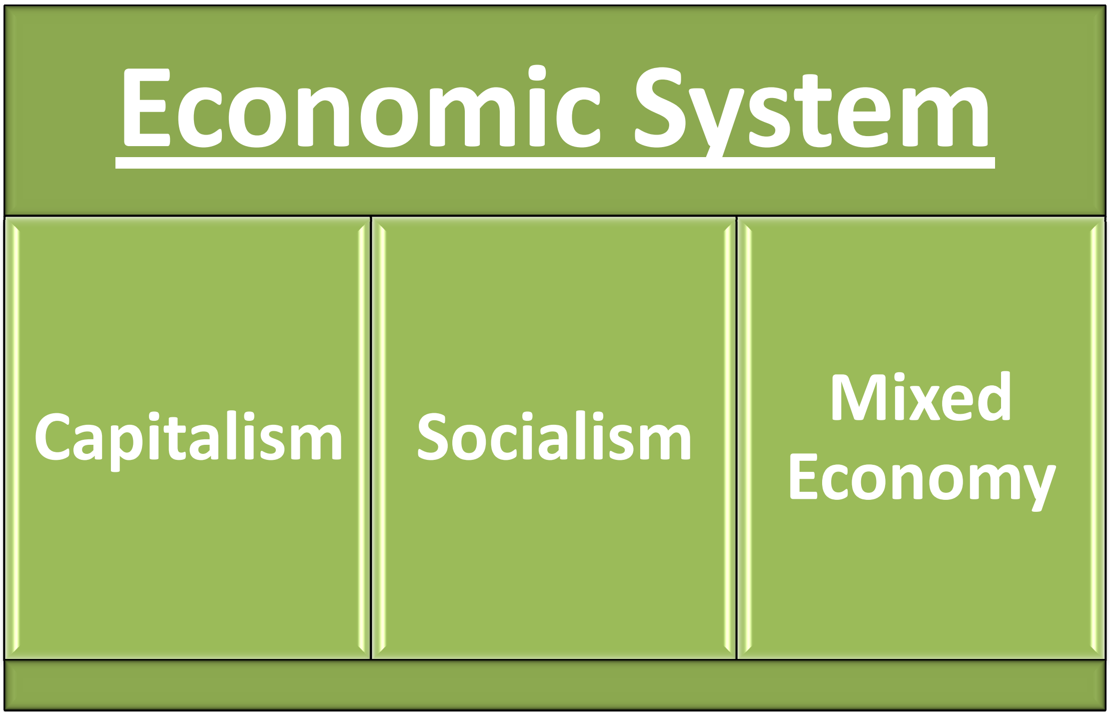
All the economic activities are controlled and regulated by the government but the people have the freedom of choice of occupation and consumption.

(b) Totalitarian Socialism:-

This form is also known as Communism. Under this, people are obliged to work under the directions of Government.

3. **Mixed Economy:-**

The economic system in which both public and private sectors co-exist is known as Mixed Economy. Some factors of production are privately owned and some are owned by Government. There exists freedom of choice of occupation and consumption. Both private and public sectors play key roles in the development of the country.

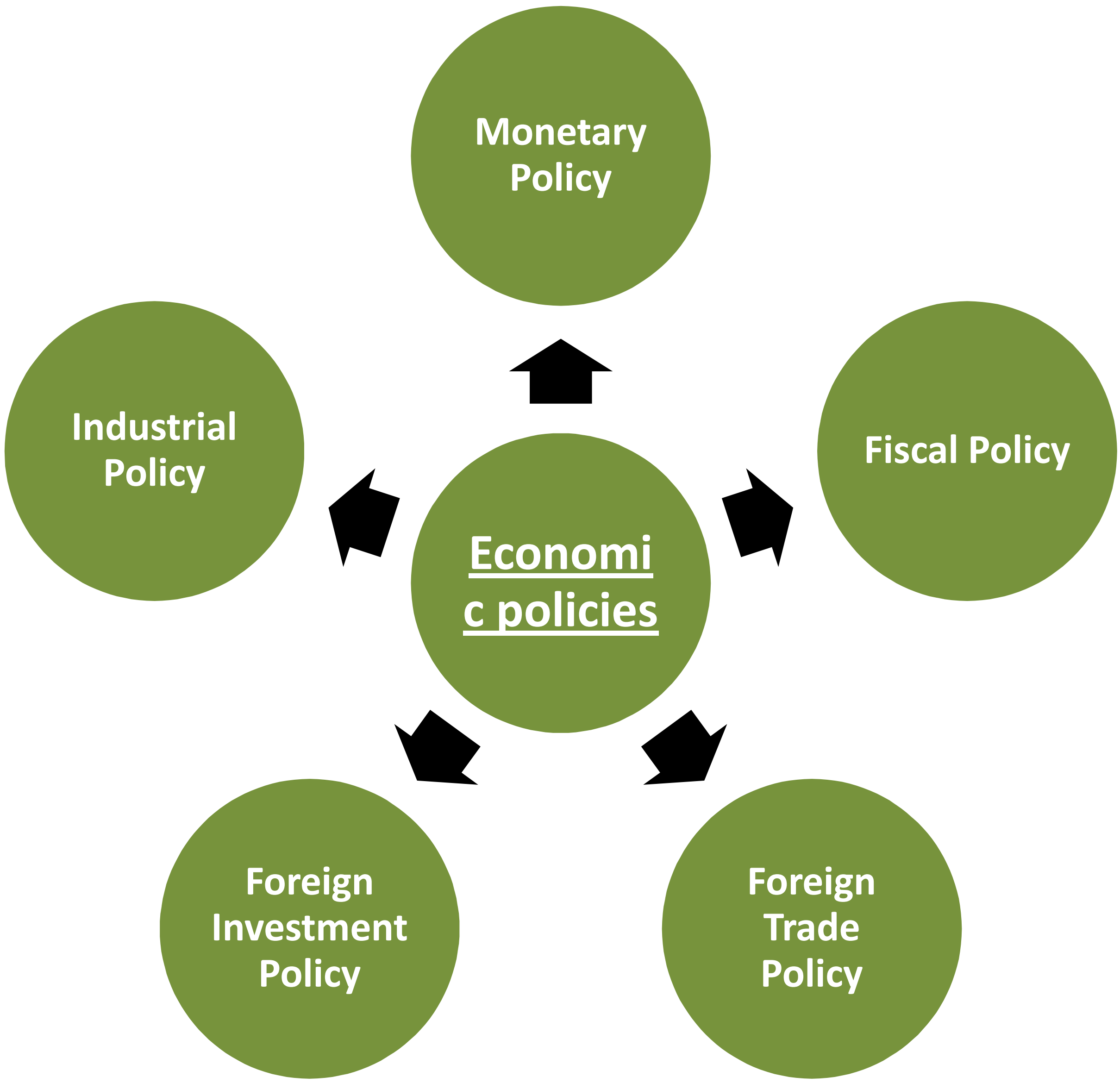


ECONOMIC

POLICIES

Economic policies

Government frames economic policies. Economic Policies affects the different business units in different ways. It may or may not have favourable effect on a business unit. The Government may grant subsidies to one business or decrease the rates of excise or custom duty or the government may increase the rates of custom duty and excise duty, tax rates for another business. All the business enterprises frame their policies keeping in view the prevailing economic policies. Important economic policies of a country are as follows:-



1. **Monetary Policy:-**

The policy formulated by the central bank of a country to control the supply and the cost of money (rate of interest), in order to attain some specified objectives is known as Monetary Policy.

2. **Fiscal Policy:-**

It may be termed as budgetary policy. It is related with the income and expenditure of a country. Fiscal Policy works as an instrument in economic and social growth of a country. It is framed by the government of a country and it deals with taxation, government expenditure, borrowings, deficit financing and management of public debts in an economy.

3. **Foreign Trade Policy:-**

It also affects the different business units differently. E.g. if restrictive import policy has been adopted by the government then it will prevent the domestic business units from foreign competition and if the liberal import policy has been adopted by the government then it will affect the domestic products in other way.

4. **Foreign Investment Policy:-**

The policy related to the investment by the foreigners in a country is known as Foreign Investment Policy. If the government has adopted liberal investment policy then it will lead to more inflow of foreign capital in the country which ultimately results in more industrialization and growth in the country.

5. **Industrial Policy:-**

Industrial policy of a country promotes and regulates the industrialization in the country. It is framed by government. The government from time to time issues principals and guidelines under the industrial policy of the country.

Monetary policy

Monetary policy is basically a process through which the monetary authority of any country regulates the supply of money in economy, often targeting certain rate of interest, specifically with an aim of promoting the economic stability and growth. The official objectives of monetary policy generally include – low unemployment and stable prices. Monetary theory provides basis for crafting an optimal monetary policy.

Monetary policy is known to be either as contractionary or expansionary. An expansionary policy aims at increasing the total supply of money into the economy at a rapid pace. On the other hand contractionary policy aims at expanding the money supply slowly than usual or sometimes it even tries to shrink it. The expansionary policy is conventionally used to combat the unemployment in a recession period by simply lowering the interest rates, with a hope that easy credit will encourage businesses for expanding. On the opposite edge, Contractionary policy aims at slowing the inflation with a hope of avoiding the resultant deterioration and distortions of asset values. Monetary policy is different from fiscal policy, which in fact refers to the government spending, associated borrowing and taxation.

The concept:

Monetary policy relies upon the relationship that exist in between the rates of interest in any economy (i.e. the price/value at which the money can be legally borrowed) and the total money supply. Monetary policy utilizes a variety of tools in order to regulate one or both of these; secondly to influence the outcomes like inflation, exchange rates with other currencies, unemployment and economic growth. Wherever the currency is under the monopoly of issuance, or wherever there is a controlled system of issuing the currency through the banks which are aligned to some central bank like RBI, the monetary authority finds the ability to alter and regulate the money supply in country and so influence the prevailing interest rates (in order to achieve the policy goals). The concept of monetary policy was originated in late 19th century, but then it was used mainly to maintain the gold standard.

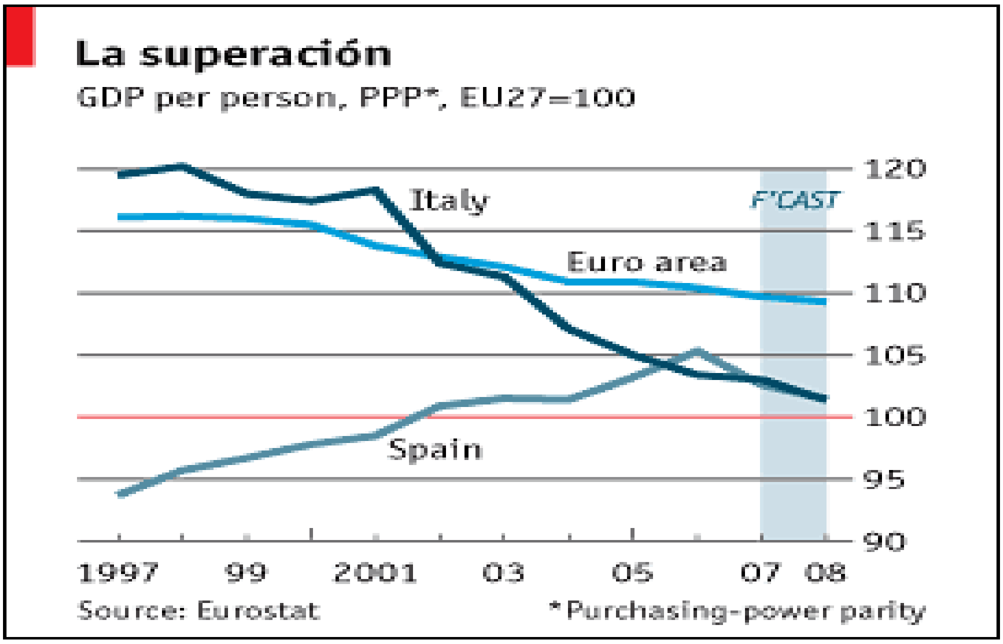
Different countries frame out their Monterey policy by keeping an economic concept as prime target, for example- RBI utilize the Monterey policy in India to target the inflation in prevailing system.

Fiscal policy

THE Italian language has no word for hangover. Yet the Italian people began 2008 with a worse one than most. Just before Christmas they learnt that in 2006 they were officially overtaken by Spain in GDP per head (see chart), which though not unexpected still came as a shock. And there is near-universal conviction among ordinary Italians that they personally are poorer than they were 12 months ago.

Tax bonanza

Slow growth, rising taxes: an unhappy combination for Italians



Yet the statisticians say otherwise, insisting that Italy's GDP grew by 1.8% in 2007, even if it is now slowing again (officials also dispute the Spanish *superación* (surmounting), but that is another matter). One explanation can be found in a spacious office in Rome. Vincenzo Visco, deputy finance minister in Romano Prodi's centre-left government in charge of collecting taxes, had a splendid 2007. Government revenues soared by some €25 billion ($35 billion), after a jump of €36 billion in 2006. Part of the rise was due to GDP growth; part to measures taken by the previous government of Silvio Berlusconi. But an official report to parliament last October attributes almost two-fifths of the revenue rise to improved tax collection.

Italians' ability to cling to their earnings and profits is legendary. The untaxed (black) economy was reckoned in 2004 to account for a sixth of GDP, some 60% above the OECD average. To judge by their returns in the same year, Italian lawyers and dentists earned on average less than €50,000; restaurant owners barely €20,000; taxi drivers a pitiful €11,500. In 2005 only half of Italy's limited companies admitted to making any profits at all. Under- and non-invoicing to avoid value-added tax (VAT) are common.

The silver-haired Mr Visco has unleashed a determined campaign to get his compatriots to mend their ways. He has stepped up the inspection of shops, bars and restaurants; obliged middle-class professionals to accept payment by cheque; and curbed the use by firms of offshore fiscal havens. He grabbed public attention with an investigation into the tax affairs of one of the country's best-known sporting figures, Valentino Rossi, a motorcyclist. Most important, he has pushed through legislation to allow the finance police and civilian inspectors to cross-reference data from different sources, including bank accounts. “People now know we know,” he says ominously. Last year, it was reckoned, more than half the improved tax compliance was “voluntary”.

The effects of Mr Visco's clampdown are evident, even if the cause is rarely acknowledged. The cost of eating out has leapt as restaurants pass on the full cost of VAT. Lawyers report business deals unwinding as people make greater provision for tax. Centre-left politicians fret over what the new stringency might do to areas such as Naples, where huge swathes of the economy are black. More self-interestedly, they worry that much of the opposition's substantial lead in the opinion polls may be due to Mr Visco's exactions.

Well over half of Italy's 40m taxpayers are wage earners and pensioners who have their taxes deducted at source. They ought to back the new clampdown. Yet many are as hostile as the self-employed and employers. This is because, even as it tackles tax evasion, the government has increased the overall tax burden. Companies won some relief last year with a reduction in corporation tax, but many individuals (especially the single and those not owning a home) are worse off. Proposals for selective cuts in tax rates have won support even from the trade unions.

Nicola Rossi, a rare liberal in the ruling majority, argues that taxpayers are being saddled “to an absolutely unreasonable extent” with extra bureaucracy. He wants to see money clawed back from tax dodgers spent on cutting tax rates for those who have no option but to pay. As it happens, in this he is supported by Mr Visco himself.

One reason the government finds this hard is made clear in a recent study by two economists, Tito Boeri and Pietro Garibaldi. They have found that over two-thirds of the extra tax revenues are going towards more spending, much of it beyond the control of central government and a lot of it used by politicians to dispense patronage and appease vested interests. “Until they cut spending, I don't think they'll be able to cut taxes,” concludes Mr Boeri. Spending has recently been rising, “like a train” in Mr Boeri's words, by a steady 2% a year in real terms. For the good of the economy, and of the centre-left, somebody needs to find the brake soon.

Industrial Policy

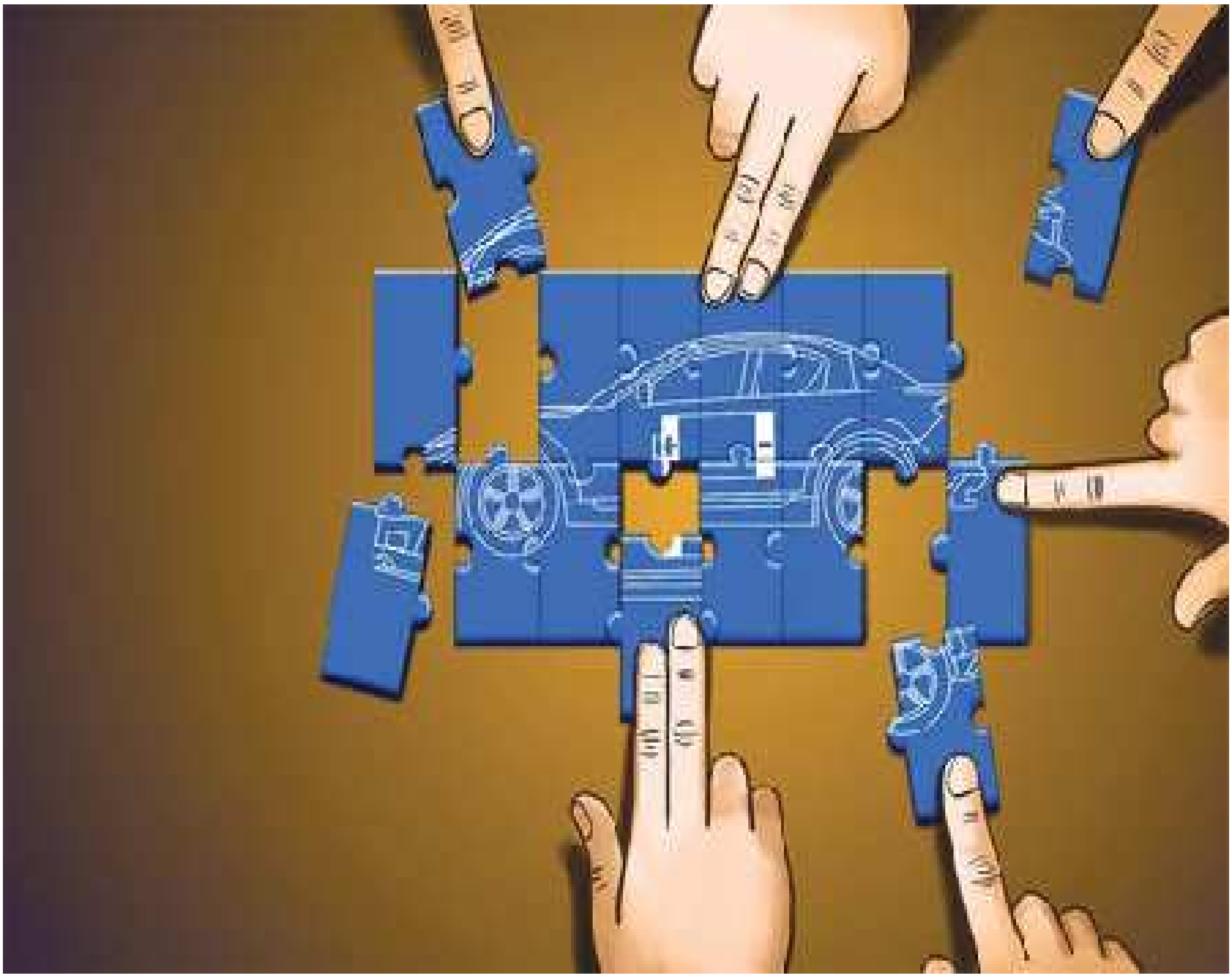
Late in the 19th century, the INDUSTRIALIZATION reached Italy. As a country almost devoid of coal and iron ores. Italy hardly had seen the first industrial revolution; the second industrial revolution, which was based on hydroelectric rather than on combined coal amnd steam power, mountainous Italy could make use of it's abundant resources. It was mainly the northern region where industrialization took place.

Italy is relatively poor in natural resources such as coal and its agricultural land is not very productive. The war destroyed its transportation and housing. On top of the unavoidable problems the Banca d'Italia added inflation through extensive issue of paper money. Some inflation was unavoidable when the wage and price controls of the Fascist regime were removed. The amount of currency in circulation had increased 18 fold between 1938 and 1945 but the price controls had prevented this from being manifested in higher prices.

The Italian Government inherited from the Fascist regime extensive holdings in industry. It owned 80 percent of the shipbuilding industry, 60 percent of the pig iron industry and 40 percent of the industry for building railway rolling stock. An agency L'Instituto per la Ricostruzione (IRI) functioned as a holding company for these state enterprises. It had been initially set up to protect the interest of depositors in failing banks, but in the late 1940's it focused on communications, electricity, shipping, shipbuilding, steel and engineering. IRI began to function as a means of keeping failing businesses from laying off workers

Italian industrial economists have always been concerned by real and practical questions arising in the economy. They have been able to develop models in order to make more robust reasoning and predictions but their first and foremost attention has been to the observation and analysis of the economy and industry out there in the real world. In fact, it is difficult to find in Italy an industrial economist who does not have a deep understanding and awareness of the history, evolution and current issues facing industry.

Analysed the characteristics of Italian industry and discussed industrial policy implications. Regarding industrial policy, three phases can be identified in this review. The first 10 years (in the 1980s) discussed the « dirigiste » or « interventionist » type of industrial policy, whereby governments directly intervened



in markets by command-and-control and by buying also producers. The second decade, that of the 1990s, saw the adoption of a new approach to industrial policy, whereby governments no longer directly intervene in markets but rather induce behaviour by appropriate incentives and, in terms of structural policy, provide the conditions for competitiveness. These phases correspond to the phases of industrial policy implemented in Italy and the EU. The 21st century starts with a new phase of industrial policy.

Italian industry expanded rapidly in the postwar period. Industrial production almost tripled between 1955 and 1968 and has generally showed continued growth, although the global recession that began in 2001 slowed industrial production and the economy as a whole. The lack of domestic raw materials and fuels represents a serious drag on industrial expansion. Industry accounted for 30% of GDP in 2001, and employed 32% of the labor force.

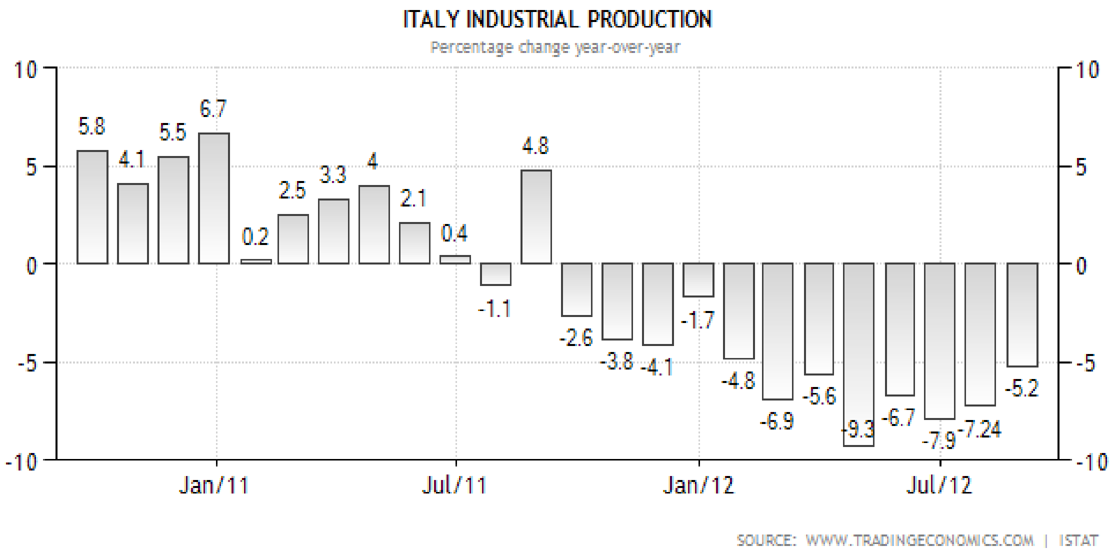
Three state-holding companies have played a large role in industry: ENI (National Hydrocarbon Agency), IRI (Industrial Reconstruction Institute), and EFIM (Agency for Participation and Financing of Manufacturing Industry). IRI was the 16th-largest industrial company in the world in 1993, with sales of $50.5 billion; it had shareholdings in over 100 companies (including banks, electronics, engineering, and shipbuilding) and 333,600 employees in 1992. EFIM controls armaments and metallurgy industries. Debt-ridden EFIM was in the process of being dissolved in 1993. IRI became dismantled through sell-offs, and as of 2001, there were offerings of stakes in ENI. Major private companies are the Fiat automobile company; the Olivetti company (office computers and telecommunications); the Montedison chemical firm; and the Pirelli rubber company. The bulk of heavy industry is concentrated in the northwest, in the Milan-Turin-Genoa industrial triangle. The government has made concerted efforts to attract industry to the underdeveloped southeast.

With the drive toward greater European integration in full gear, Italy, along with its fellow EU member-states, is liberalizing its economic and commercial legislation. These promise a marked change in the Italian business scene as mergers and foreign investment increase. In early 1999, Olivetti mounted a successful hostile takeover for Telecom Italia.

Italy has become known for niche products, including fashion eye-wear, specialized machine tools, packaging, stylish furniture, and other products featuring high design. Traditional industries are iron and steel, machinery, chemicals, food processing (including olive oil, wine, and cheese), textiles, clothing, footwear, motor vehicles, and ceramics. Italy produced 1,579,656 automobiles in 2001, a 9% drop from 2000. It also manufactured 42,618 heavy trucks in 2000. The construction industry stands to gain in importance in the early 2000s, as Italy's less-developed regions are slated for infrastructure development.

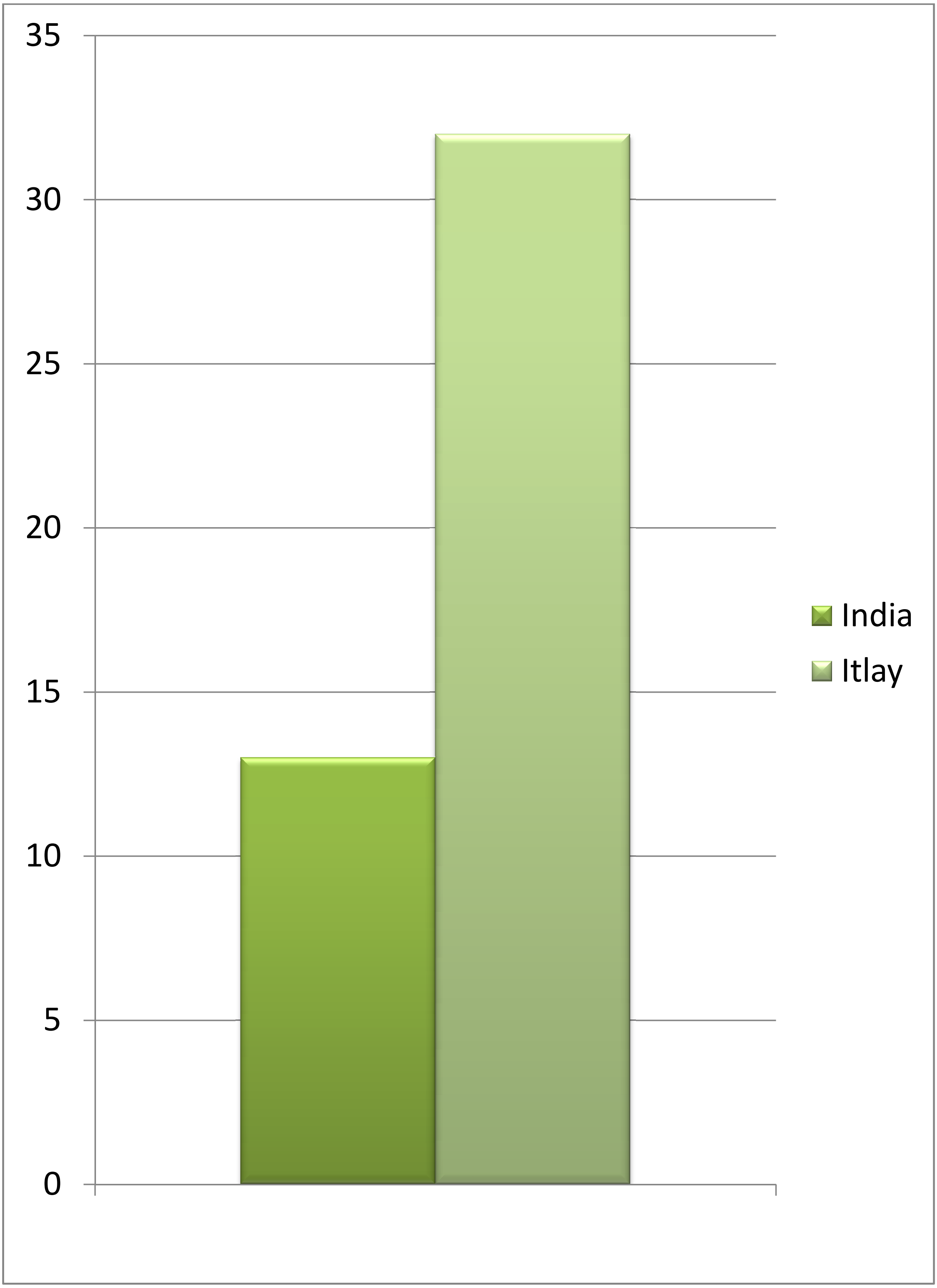
Industrial Production in Italy:

For year 2011-12 the industrial production in Italy was as following .



Industrial Production in Italy decreased 5.2 percent in August of 2012. Historically, from 1991 until 2012, Italy Industrial Production averaged -0.1 Percent reaching an all time high of 17.4 Percent in August of 1994 and a record low of -25.9 Percent in March of 2009. Industrial production measures changes in output for the industrial sector of the economy which includes manufacturing, mining, and utilities. Industrial Production is an important indicator for economic forecasting and is often used to measure inflation pressures as high levels of industrial production can lead to sudden changes in prices. This page includes a chart with historical data for Italy Industrial Production.

Labour Force in Industry (Percent of total labor force between India & Itlay)



International trade

International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history (see Silk Road, Amber Road), its economic, social, and political importance has been on the rise in recent centuries.

Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders.

International trade is, in principle, not different from domestic trade as the motivation and the behaviour of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture.

Another difference between domestic and international trade is that factors of production such as capital and labor are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labor or other factors of production. Trade in goods and services can serve as a substitute for trade in factors of production.

Instead of importing a factor of production, a country can import goods that make intensive use of that factor of production and thus embody it. An example is the import of labor-intensive goods by the United States from China. Instead of importing Chinese labor, the United States imports goods that were produced with Chinese labor. One report in 2010 suggested that international trade was increased when a country hosted a network of immigrants, but the trade effect was weakened when the immigrants became assimilated into their new country.

International trade is also a branch of economics, which, together with international finance, forms the larger branch of international economics.

Largest countries by total international trade :

Rank	Country	Total International Trade (Billions of USD)	Date of information
-	World	27,567.0	2010 est.
-	European Union (Extra-EU27)	4,475.0	2011 est.[28]
1	United States	3,825.0	2011 est.
2	China	3,561.0	2011 est.
3	Germany	2,882.0	2011 est.
4	Japan	1,595.5	2011 est.
5	France	1,263.0	2011 est.
6	United Kingdom	1,150.3	2011 est.
7	Netherlands	1,091.0	2011 est.
8	South Korea	1,084.0	2011 est.
9	Italy	1,050.1	2011 est.
-	Hong Kong	944.8	2011 est.
10	Canada	910.2	2011 est.
11	Russia	843.4	2011 est.
12	Singapore	818.8	2011 est.
13	India	792.3	2011 est.
14	Spain	715.2	2011 est.
15	Mexico	678.2	2011 est.
16	Belgium	664.4	2011 est.
17	Taiwan	623.7	2011 est.
18	Switzerland	607.9	2011 est.
19	Australia	502.3	2011 est.
20	Brazil	470.4	2011 est.

Top traded commodities (exports) :

Rank	Commodity	Value in US$('000)	Date of information
1	Mineral fuels, oils, distillation products, etc.	$2,183,079,941	2010
2	Electrical, electronic equipment	$1,833,534,414	2010
3	Machinery, nuclear reactors, boilers, etc.	$1,763,371,813	2010
4	Vehicles other than railway, tramway	$1,076,830,856	2010
5	Plastics and articles thereof	$470,226,676	2010
6	Optical, photo, technical, medical, etc. apparatus	$465,101,524	2010
7	Pharmaceutical products	$443,596,577	2010
8	Iron and steel	$379,113,147	2010
9	Organic chemicals	$377,462,088	2010
10	Pearls, precious stones, metals, coins, etc.	$348,155,369	2010

India has formal diplomatic relations with most nations; it is the world's second most populous country, the world's most-populous democracy and one of the fastest growing major economies in the world. With the world's seventh largest military expenditure, ninth largest economy by nominal rates and third largest by purchasing power parity, India is a regional power and a potential superpower. India's growing international influence gives it a prominent voice in global affairs. It has moved beyond its traditional interest in South Asia to a greater involvement in East Asia.

India is a newly industrialized country, it has a long history of collaboration with several countries and is considered a leader of the developing world. India was one of the founding members of several international organizations, most notably the United Nations, the Asian Development Bank, G20 industrial nations and the founder of the Non-aligned movement. India has also played an important and influential role in other international organizations like East Asia Summit, World Trade Organization, International Monetary Fund (IMF), G8+5 and IBSA Dialogue Forum. Regionally, India is a part of SAARC and BIMSTEC. India has taken part in several UN peacekeeping missions and in 2007, it was the second-largest troop contributor to the United Nations.

In the post-liberalisation period India’s trade has increased almost 9 folds. India’s trade to GDP ratio more than doubled from 13.1 per cent in 1990-91 to 34.7 per cent in 2007-08.1 Although India’s share in the global trade is still small it has improved over the years as shown in Table 1. In 2007, India’s merchandise global trade has increased to €293 billion from €135 billion in 1997.2 During the same period India’s services trade increased from €38 billion to €118 billion.3 In fact, the growth of services trade has been phenomenal. Before 1995, India was a small player in the global trade in services. Post-liberalization, India’s trade in services as a percentage of total trade increased from 20 per cent in 1995 to 30 per cent in 2007. Services exports as percentage of total exports have more than doubled since 1995.

NATIONAL

INCOME

National income

The Gross national income or GNI covers the value of all services and products that are produced/generated within the country in one particular year (Which means its GDP, Gross domestic product), along with all its net income that is received from foreign countries (notably\dividends and interest).

The GNI is made up of: the gross of private investment, the total personal consumption expenditures, the net income from all the assets abroad (i.e. net income receipts), government consumption expenditures and the gross exports of various products (i.e. goods and services), after subtracting the two components i.e. the indirect business taxes and the gross imports of goods and services; The GNI is exactly similar to the GNP i.e. gross national product, except that while measuring the GNP one does not subtract or deduce the indirect business taxes.

To calculate the national income, three methods are available to us:

- Income method.
- Production method.
- Expenditure method

1. Income method:

In this method we obtain the national income by adding the rewards that are given to various factors of production like wages to the labor, rent to land, profit to organizations and interest to capital. In this method also, we take an account of income that is received from the abroad.

GNI= Wages + Interest + Rent + Income from abroad + Profit
Through this method simply obtain the contribution made by various agents (of production) like laborers, capitalist, organizers and land lords.

2. Production method:

It is simply based upon the overall production of any economy during a particular year. In this conventional method, first of all we need to classify the production units into three sectors.

I. Primary sector.
II. Secondary sector.
III. Tertiary sector

Primary Sector	Secondary Sector	Tertiary Sector
Forest	**Non registered industries**	**Banking**
Agriculture	**Registered industries**	**Communication**
Mining	**Trade**	**Health**
Fishing	**Electricity**	**Public administration**
	Manufacturing	**Education**
		Various Other services

After this major work, various units that come under these distinctive categories are identified. The sum total of all the products of these particular sectors is actually the total output of any country. After finding out the total output, next step to this is calculating the total value of these products in strict monetary terms. Here we tend to calculate all the income that is received through various sources, so the total money sent by a citizen who is working in some foreign country is also added to it.

The sum obtained is the GNI i.e. gross national income of that particular country. .

So, GNI = Monetary value of total commodities + total income coming from the abroad.

Through this method we can find out the contribution of various sectors of a particular nation.

3. Expenditure method:

In this method, we can obtain the national income by simply adding all the individual expenditure incurring in a country during a particular year.

GNI= Government expenditure + Individual expenditure

Through this method we can simply identify all the expenditure incurred by various agents.

Few limitations in calculating national income are given below:

• Accurate record of the consumptions is not kept by the individuals.

• Less availability of the reliable data.

• There is no fixed and certain criterion to measure the actual value of services.

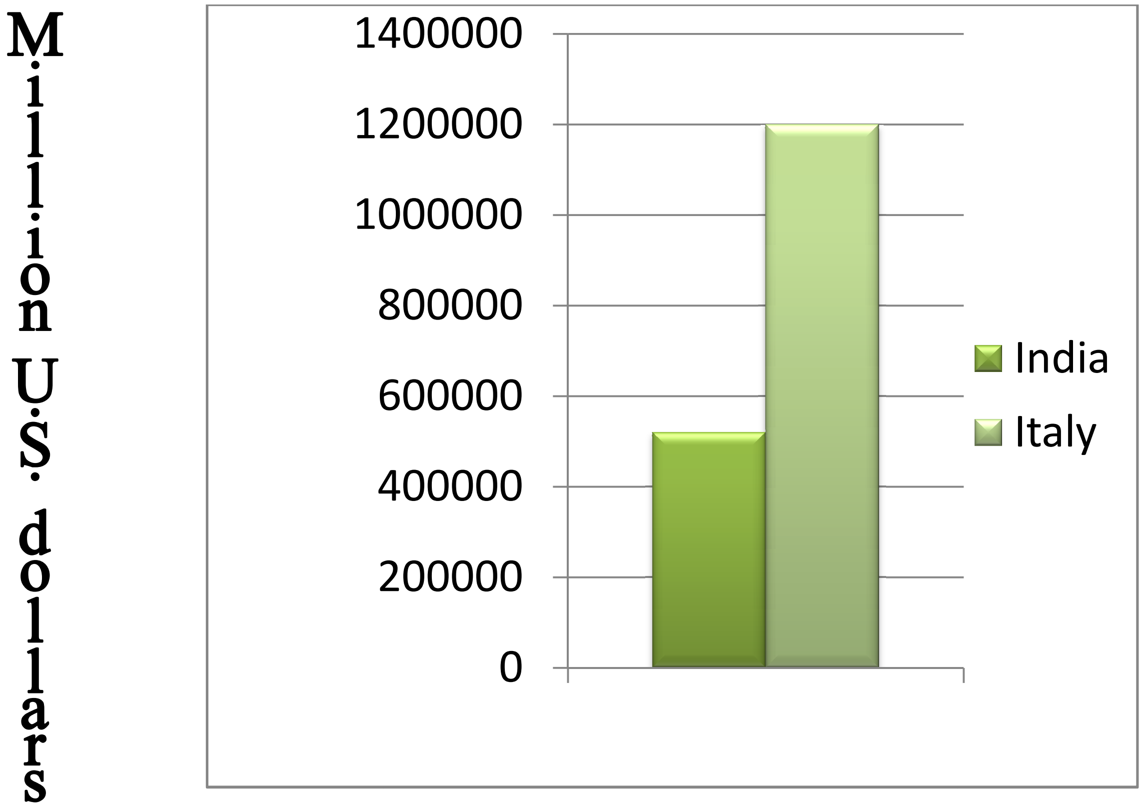
GDP per capita big four Western Europe

In the post-war period, Italy was transformed from an agricultural based economy which had been severely affected by the consequences of World War II, into one of the world's most industrialized nations, and a leading country in world trade and exports. According to the Human Development Index, the country enjoys a very high standard of living, and, according to *The Economist*, has the world's 8th highest quality of life.

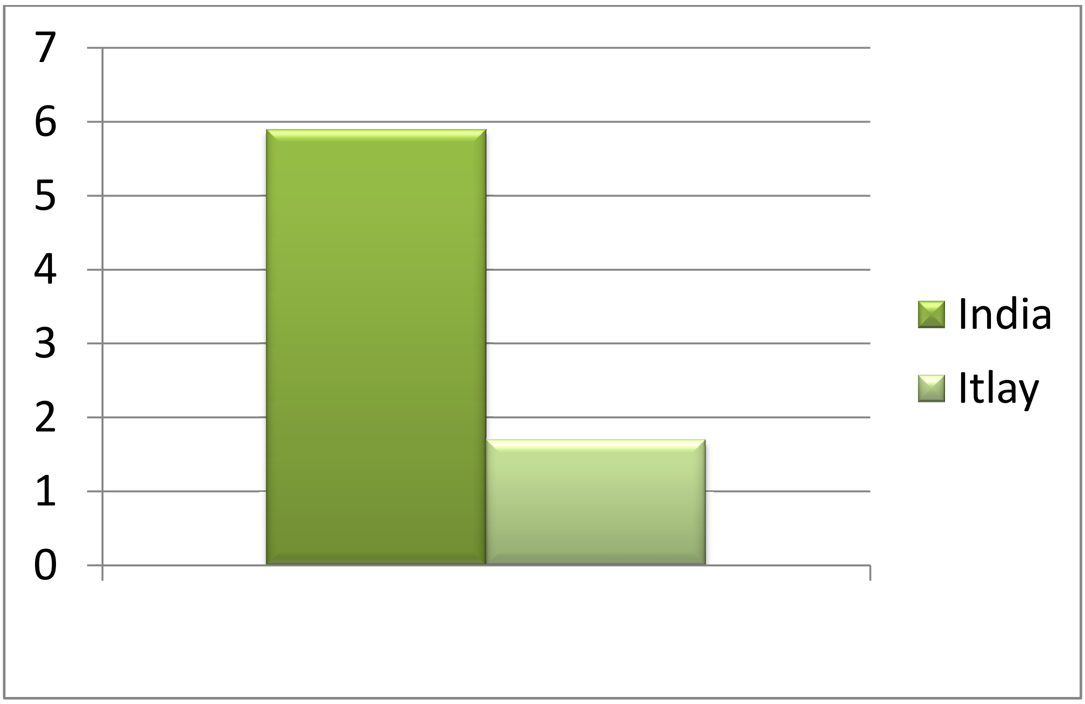
From the last Euro stat data, Italian per capita GDP at purchasing power parity remains approximately equal to the EU average, while the unemployment rate (8.5%) stands as one of the EU's lowest. Italy owns the world's 3rd largest gold reserve. The country is also well known for its influential and innovative business economic sector, an industrious and competitive agricultural sector (Italy is the world's largest wine producer), and for its creative and high-quality automobile, industrial, appliance and fashion design.

Despite these important achievements, the country's economy today suffers from many and relevant problems. After a strong GDP growth in 1945-1990, the last two decades's average annual growth rates lagged well below the EU average; moreover, Italy was hit particularly hard by the late-2000s recession. The stagnation in economic growth, and the political efforts to revive it with massive government spending from the 1980s onwards, eventually produced a severe rise in public debt. In addition, Italian living standards have a considerable north-south divide: the average GDP per capita in Northern and Central Italy exceeds by far the EU average, whilst some regions and provinces in Southern Italy are dramatically below. Between 2000 and 2006, Italy received €27.4 billion from the European Development Fund for investments in depressed areas of the South.

Gross Domestic Product



Gross Domestic Product Growth Rate



A graph which shows the current account balance of Italy (% of GDP), from 1980 to 2010 and IMF forecasts until 2016.

More specifically, Italian economy is weakened by the lack of infrastructure development, market reforms and research investment, and also high public deficit. In the Index of Economic Freedom 2011, the country ranked only 87th in the world, in particular due to the high rate of corruption, an excessive state interventionism, and a strong **labor law**. In addition, the most recent data show that Italy's spending in **R&D** in 2011 was equal to 1.1% of GDP (12th in the world by expenditures), below the European average of 1.7% and the Lisbon Strategy target of devoting 3% of GDP to research and development activities.

Italy has a smaller number of global multinational corporations than other economies of comparable size, but there is a large number of **small and medium-sized enterprises,** as in the Northern "industrial triangle" (Milan-Turin-Genoa), where there is an area of intense industrial and machinery production, notably in their several industrial districts, which are the backbone of the Italian industry. This has produced a manufacturing sector often focused on the export of niche market and luxury products, that if on one side is less capable to compete on the quantity, on the other side is more capable of facing the competition from emerging economies based on lower labor costs, with higher quality products.

The country was the world's 7th largest exporter in 2009. Italy's major exports and companies by sector are motor vehicles (Fiat, Aprilia, Ducati, Piaggio, Iveco); tyre manufacturing (Pirelli); chemicals and petrochemicals (Eni); energy and electrical engineering (Enel, Edison); home appliances (Candy, Indesit); aerospace and defense technologies (Finmeccanica, Alenia Aeronautica, AgustaWestland, Oto Melara); firearms (Beretta, Benelli); fashion (Armani, Valentino, Versace, Dolce & Gabbana, Roberto Cavalli, Benetton, Prada, Luxottica); food processing (Ferrero, Barilla Group, Martini & Rossi, Campari, Parmalat); sport and luxury vehicles (Ferrari, Maserati, Lamborghini, Pagani); yachts (Ferretti, Azimut). Italy's closest trade ties are with the other countries of the European Union, with whom it conducts about 59% of its total trade. Its largest EU trade partners, in order of market share, are Germany (12.9%), France (11.4%), and Spain (7.4%).

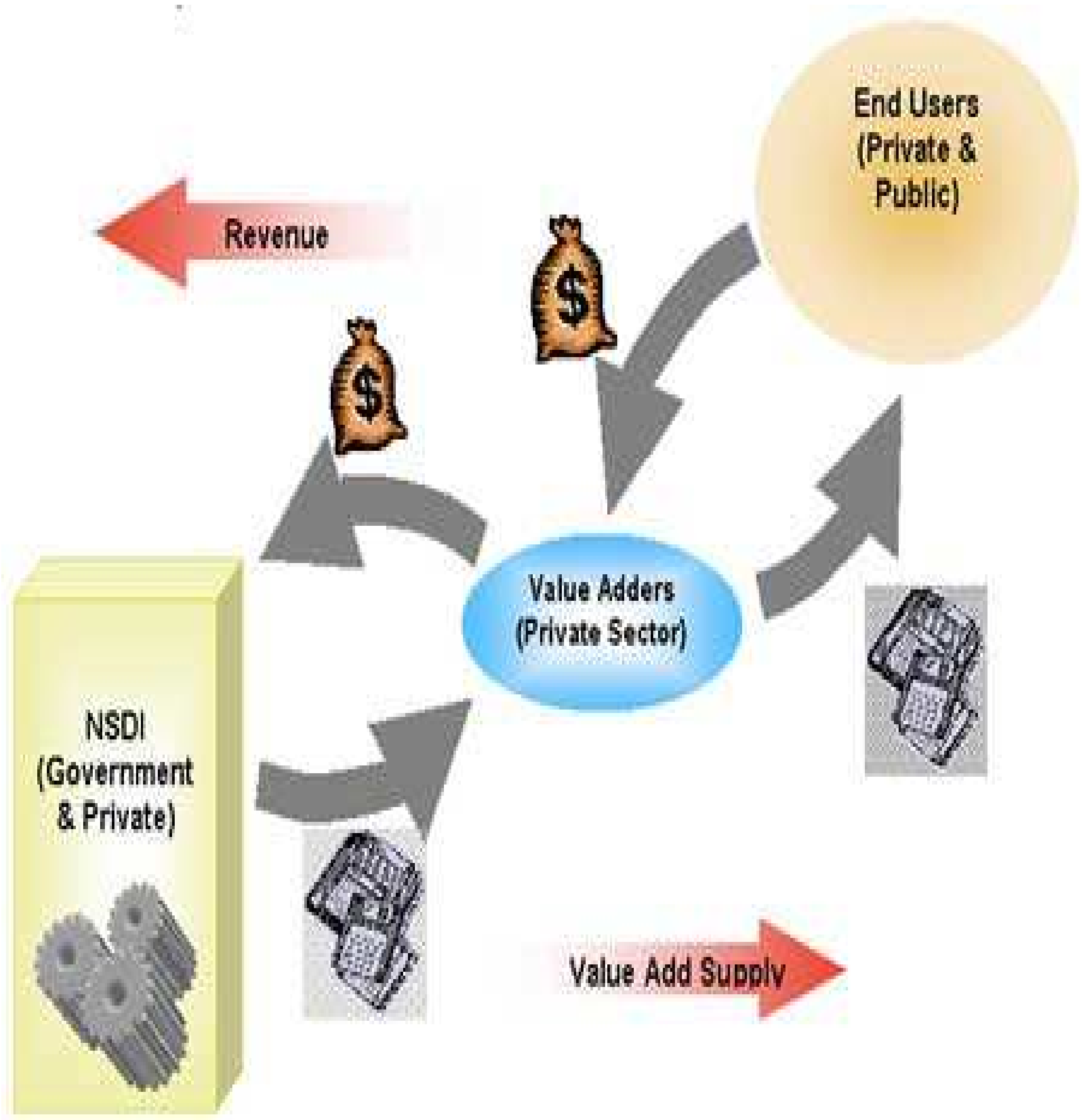
Private sector

The domestic private sector in Ethiopia is still in an early stage of growth. Although some larger private companies are now run by professional managers and boards of directors, most private businesses are family owned.

The presence of the state in the economy is still predominant. Most public enterprises are in manufacturing industries such as tanneries, food and beverages, textiles and garments, pharmaceuticals, chemicals and vehicles. In this sector the state accounts for about 60% of total output, and most of the employment (38,000). Although the state decreased its weight in the sector from 86% in 1996 to 53% in 2002, it has remained at this level for few years and has even increased up to 57% in 2004.

Over the last decade, a number of businesses including banks, insurance companies, hotels, travel agencies, factories, and commercial farms have been set up by private investors. Major export-oriented companies dealing in coffee, hides and skins, tea, floriculture and leather are now privately owned. Nearly all coffee exports are in the hands of private exporters.

However, in spite of some encouraging improvements, the share of the value added at factor cost of the three export earning sectors, leather and footwear, textiles, and beverages, registered a decline. This indicates the need to address the factors that are affecting these sectors' performances and their market positions.



In order to support the private and industrial sector development, the Italian Government is funding a project called Program Aid. The project, which began in 1995, was devised to promote the privatization of public enterprises, competitiveness of manufactured products, and the sector as the driving force for economic growth. With a grant of 16 million euros, Program Aid supports two key industries, Leather and Textile.

Budget

Italian Prime Minister Mario Monti's 2012 budget, which more than doubles the government's economic-contraction forecast, is "in line" with European Commission estimate.

Monti's revised three-year economic plan, presented ,which forecasts the economy will shrink 1.2 percent , up from 0.5 percent projected in December. The prime minister also pushed back his balanced-budget goal amid a deepening recession, six weeks after Spain helped reignite Europe's debt crisis by abandoning its own deficit target.

"The revised government projection for the Italian economy for 2012 is in line with commission interim forecast published last February. "The commission foresaw a contraction of 1.3 percent. We believe that the two analyses are on the same line."

The Italian government now expects a deficit equivalent to 0.5 percent of gross domestic product in 2013, up from the previous forecast of 0.1 percent.

"The new budgetary targets presented by the Italian government appear consistent with the revised economic background," Bailly said.

"The full and consistent implementation of the fiscal measures already adopted in Italy will allow this country to attain a sizeable primary surplus in 2013, which is the political objective that Mr. Monti set for his own country.

Looking beyond 2013, Bailly said it will be "essential" for Italy to main "sound public finances." The government must also address long-standing structural weaknesses and boost economic growth.

"The next crucial step for Italy is the adoption by the parliament of the long-awaited reform of the labor market, which is key to increase both employment and competitiveness,".

Italy's government announced its budget as pledged in 2013, instead running a deficit of 0.5% of gross domestic product.

Italy is not following Spain in loosening its fiscal targets so as not to over-penalize economic growth.

Italy is tightening its fiscal policy, a subtle point noted by Deputy Economy Minister Vittorio Grilli. Once “adjusted for the cycle,” Italy will run a structural budget surplus of 0.6% of GDP next year, he said.

The European Union’s new fiscal rules refer to such underlying budget measures, so Italy can argue it is complying with the new fiscal compact. , the International Monetary Fund came to a similar conclusion, saying Italy wouldn’t balance its budget until 2017 but that it would achieve a structural balance already next year.

But for those who argue that austerity is choking growth — and their numbers are proliferating in Italy — the fact that Italy’s fiscal consolidation may actually be on track is part of the problem.

Rome’s “structural” budget gap will, according to the Italian Treasury’s own calculations of the adverse cyclical headwinds, be €55 billion narrower than the headline numbers suggest from 2010 through 2013. That’s enough to slash growth by almost a full percentage point for each of those four years.

Italy may not have much more fiscal room, as overall fiscal pressure is slated to rise to a record 45.1% of GDP this year, and even higher next year. That figure doesn’t take into account the country’s huge underground economy, so tax pressure is even higher on employees and companies who abide by the law.

Another measure of Italy’s basic rigor is its target of a primary budget surplus — net of interest costs on the public debt — of 5.7% of GDP by 2015. That’s an impressive number. But then, Italy has run a primary surplus almost every year since the mid-1990s, generally thanks to hiking taxes, yet its public debt is still a growth-choking 120% of GDP. Prime Minister Mario Monti, drafted to run the euro zone’s third-largest economy last last year when sovereign bond yields were spiking, is the first to acknowledge his work is far from done.

Literature Review

1. Destination Italy
   Lonely planet publications offers travel information, a gallery of color photography, and other resources.
   http://www.lonelyplanet.com/destinations/europe/italy/

2. Dolcevita
   This online magazine covers Italian travel, fashion, cuisine, events and design.
   http://usa.dolcevita.com/

3. Economist,com country Briefings: Italy
   Economist.com country Briefings provide fact sheets and economic and political profiles for countries of the world, as well as articles from the…
   http://www.economist.com/countries/Italy/

4. Il corriere della sera on line.
   This site contains the online edition of the Italian newspapers Il corriere della sera: available in Italian only.
   http://www.corrier.it/

5. In Italy online
   This commercially hosted site presents information and advice from American about Italian religions, monuments, museums and events.
   http://www.initaly.com/

6. Italian government Tourist Board
   This official site offers trip planning advice ,travel trips , and useful information about Italian regions, monuments, museums and events.
   http://www.italiantourism.com/

7. Welcome to Italy
   The embassy of Italy presents this page, which contains a list of Italian organizations in the united states and information on government , culture , business , and travel.
   http;//www.italyemb.org/

PART - 2

Introduction to Sector

Accessories.

Structured and framed handbags reappeared in canteen and binocular shapes. But the soft, capacious shoulder bag that holds everything including a change of shoes and a brown-bag lunch was still an essential. Other options were carpetbags, tapestry carryalls, and clutch bags of embossed leather or jewel-toned suede. New hats tended to be dramatic, with sweeping brims or high, fez-shaped crowns. Feathers and silk tassels were new trims for gloves and hair accessories.

In jewelry, the big and bold look made a major point. Huge earrings, immense bangle bracelets, clanking necklaces, and impressive pins were important finishing touches. Byzantine and heraldic motifs proliferated. Following the sale at auction of her collection of gems, costume jewelry reproductions of the Duchess of Windsor's baubles were in demand. Along with the costly copies of her pieces, other jewelry ablaze with faux diamonds, emeralds, rubies, and sapphires was much in vogue.

Men's Fashions.

An easing of the boundaries between business clothes and sports attire was evolving. As one men's fashion authority put it, "Tailored clothes are loosening up and sport wear is dressing up." The more flexible attitude developed as one category of clothing influenced another. The idea of judiciously mixing items from different areas of the wardrobe took hold. The relaxed look achieved by adding a knit vest to a suit was an example.

Softer construction of tailored jackets was further evidence of the easier approach. Manufacturers followed the designer trend of using only a soft canvas backing for chest panels. Cuts were fuller, and the traditional shoulder measurement of 18 inches was extended by 1 to 2 inches. The most fashionable suits came in one-button single-breasted or two-button double-breasted versions.

Fabrics were softer, too, with resilient wool crepe and mixtures that included cashmere, vicuña, or lambswool among the new suitings. Gray, the leading color for spring, was replaced by mixes of black, brown, and gray for fall. Plain "Reagan brown" was passé. As to patterns, the houndstooth check—from oversized to miniature—was the odds-on favorite.

The long topcoats of 1987 became even longer, 48-inch models being lengthened to 50 or 52 inches. Town coats were pencil-slim. Sporty styles came with full swing backs.

In casual fashions, a blending of Italian, French, and English with American classics resulted in "Europrep," a sleek international interpretation of Ivy League dressing. As to accessories, ties were widened to 3¾ inches. Belts in crocodile finishes accented with silver buckles were versatile items for dressing up or dressing down. The braces worn by Michael Douglas in the movie Wall Street boosted the popularity of snappy suspenders.

Benetton Group

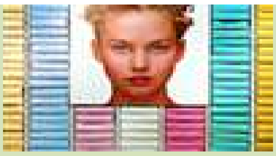
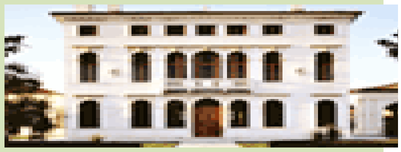
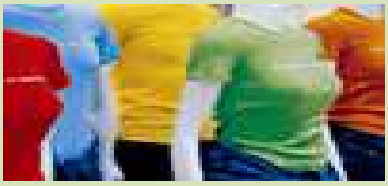
Benetton Group S.p.A. is a global fashion brand, based in Treviso, Itlay. The name comes from the Benetton family who founded the company in 1965. Benetton Group is listed in Milan. Benetton has a network of over 6,500 stores in 120 countries. The stores are managed by independent partners and generate a total turnover of over 2 billion euro.

Early years

n 1965, Luciano Benetton, the oldest of four children, was a 30-year-old salesman in Treviso. He saw a market for colourful clothes, and sold a younger brother's bicycle in order to buy his first second-hand knitting machine. His initial small collection of sweaters received a positive response in local stores in the Veneto region, and soon after he asked his sister and two younger brothers, Gilberto and Carlo, to join him. In 1965, the entity known as the "Benetton Group" was formed.

In 1966, the Benettons opened their first store in Belluno and three years after in Paris, with Luciano as chairman, his brother Gilberto in charge of administration, their younger brother Carlo running production, and Giuliana as a chief designer.

HISTORY OF BENETTON

1960s	The idea of color.	  
1965	The Benetton Group is established.	  
1970s	A business model making the difference: unique, flexible and innovative.	 
1980s	Benetton communication campaigns: known all over the world.	  
1990s	A global company present in 120 countries.	 
2000s	Benetton grows with the market: around 150 million garments sold annually in 5,000 contemporary stores.	  

Benetton Group

Board of Directors:

Chairman	Alessandro Benetton
Deputy Chairman	Carlo Benetton
Executive Director	Biagio Chiarolanza
Executive Director	Franco Furno
Directors	Gilberto Benetton
	Giuliana Benetton
	Luciano Benetton
	Luigi Arturo Bianchi
	Giorgio Brunetti
	Alfredo Malguzzi
	Gianni Mion
	Stefani Orlando
Secretary to the Board	Andrea Pezzangora
Board of Statutory Auditors	
Chairman	Angelo Caso
Auditors	Antonio Cortellazzo
	Filippo Duodo
Alternate Auditors	Piermauro Carabellese
	Marco Leotta
Independent Auditors	Pricewaterhouse Coopers S.P.A

Benetton Group

Industry	Clothing
Products	Complete list of Benetton brands
Revenue	€1,8 billion (2005)
Employees	7,987 (2005)
Website	**www.benettongroup.com**

Brands:

The company's core business remains their clothing lines:

- **United Colors of Benetton**

The **United Colors of Benetton** clothing collections for women, men and children each season offer a total look suited to everyday life, from work to free time, in the city and outdoors. The brand is present in numerous other areas, from elegant accessories to eyewear, and from fragrances to luggage.

- **Undercolors of Benetton**

Undercolors of Benetton proposes collections of underwear, beachwear, nightwear and accessories for women, men and children. A wide selection in basic colours is enhanced every season with the latest trends.

- **Sisley**

The **Sisley** product is "fashion reinterpreted for everyone". A style composed of character, substance and determination, presented in a simple but refined way.

With this concept, Sisley is ever closer to the consumer, enabling everyone to express their personality, free from external constraints.

- **Playlife**

  Playlife proposes collections of “easy to wear” clothing that is authentic and original: *Playlife*, between the atmosphere of the campus and city sophistication; *Playlife Outdoor*, the metropolitan version of the big chill; *Jean’s West*, the “back to the future” of the western frontier; *Killer Loop*, between extreme sport and urban chic; *Anthology of Cotton*, feminine homewear and a wide choice of light-hearted sexy accessories.

Their products include

- womenswear,
- menswear,
- childrenswear
- underwear

and they have expanded into

- perfumes,
- stationery,
- eyewear and
- travel bags.

The Group has a network of over 6,500 stores around the world.

Production

As well as having over 9,500 employees, Benetton has developed a network of small suppliers who do contracting in the Northern Italian region around Treviso. Bangladesh is one of the most potential production areas for Benetton products due to the high quality and on time production.

Marketing

The company is known for sponsorship of a number of sports, and for the provocative and original “United Colors " publicity campaign. The latter originated when photographer Oliviero Toscani was given carte blanche by the Benetton management. Under Toscani's direction, ads were created that contained striking images unrelated to any actual products being sold by the company.

These graphic, billboard-sized ads included depictions of a variety of shocking subjects, one of which featured a deathbed scene of a man dying from AIDS. Others included a bloodied, unwashed newborn baby with umbilical cord still attached, which was highly controversial. This 1991 advert prompted more than 800 complaints to the British Advertising Standards Authority during 1991 and was featured in the reference book Guinness 2000 as 'Most Controversial Campaign'. Others included a black stallion covering a white mare, close-up pictures of tattoos reading "HIV Positive" on the bodies of men and women, a cemetery of many cross-like tombstones, a collage consisting of genitals of persons of various races, a priest and nun about to engage in a romantic kiss, pictures of inmates on death row, an electric chair, an advert showing a boy with hair shaped into the devil's horns, three different hearts with "black", "white" and "yellow" written onto them , and a picture of a bloodied t-shirt and pants riddled with bullet holes from a soldier killed in the Bosnian War . Most of the advertisements, although not all, had a plain white background, and in most the company's logo served as the only text accompanying the image.

Sport and Sponsorship

Benetton Group entered Formula One as a sponsor of Tyrrell in 1983, then Alfa Romeo in 1984; this arrangement was extended to both Alfa and Toleman in 1985. Benetton Formula Ltd. was formed at the end of 1985 when the Toleman and Spirit teams were sold to the Benetton family. The team saw its greatest success under Flavio Briatore, who managed the team from 1990 to 1997.

Michael Schumacher won his first Drivers' Championships with the team in 1994 and 1995, and the team won their only Constructors' title in 1995. From 1996, the team raced under an Italian licence although it continued to be based, like Toleman, In Oxfordshire in England. The team was bought by Renault for US$120m in 2000 and was rebranded Renault F1 in 2002.

In 1979, Benetton first sponsored their (then amateur) local rugby team, A.S. Rugby Treviso. Benetton Rugby has since become a major force in Italian rugby, with 11 league titles and supplying many players to the national team. Benetton Group has also sponsored the Treviso basketball and volleyball teams for many years.

COMPANY VISION

Benetton Group looks ahead with the young eyes of the future. Its story is built on innovation and seeing where others fail to see. Always at the cutting edge - with colour, with its sales outlet revolution, with an absolutely unique production and commercial network and with a universal form of communication, creating both a phenomenon and cultural debate - Benetton was global before globalisation, but in its own way.

From the start, Benetton saw fashion as a global village where young people of every race live. It travels at the world's speed, overcoming geographical, political and ideological boundaries.

Benetton is a responsible Group, receptive to the present time and attentive to the environment, to human dignity and to the transformation of society. It creates value and aims at growth, not as an end in itself, but as a means for contributing to progress.

THE BENETTON GROUP

The world collecting ideas and putting them together in order to create a collection that is acceptable to all the markets. The collection is a result of inputs on fabrics and styles from different designers, which results in one main collection. Significant care is taken to look into individual markets and introduce styles that will suit the requirements of these markets, but a large percentage of the collection is core and uniform across most markets. Once the final collection is ready, Benetton franchisees from across the

World assemble in Italy and pick up the products for their countries. They place their purchase orders with the parent company, which then ships the manufactured lines to the respective countries as per their orders.

Today, the Benetton Group is present in 120 countries around the world. Its core business is clothing: a group with a strong Italian character whose style, design expertise and passion are clearly seen in the fashion-orientated United Colors of Benetton and Sisley brands; in The Hip Site, the brand for teenagers; and in sportswear brands Playlife and Killer Loop. The Group produces over 110 million garments every year, 90% of which is manufactured in Europe. Its retail network of 5,000 stores around the world is increasingly focused on large floor-space point of sale offering high quality customer services and now generates an annual turnover of 2.1 billion euro’s, net of retail sales. The development of Benetton’s commercial organization has been supported by a major programmed of investment in megastores, some of which are directly managed by the Group. These stores are characterized by their large dimensions, their prestigious locations in historic and commercial centres and by the high level of customer services they offer. The new Benetton megastores carry complete casual women swear, menswear, children wear and underwear collections, as well as a wide selection of accessories, offering a full range of Benetton style and quality. As in the case of the commercial network, a constant commitment to innovation, a crucial factor for development, has always characterized the Group's business organization, from communication to IT, from research into new materials to integrated logistics. Special attention is given to innovation in production, where all systems and equipment are totally renewed every five years. Benetton production system is coordinated by a high-tech facility at Castrette (Treviso), which is one of the most advanced clothing-manufacturing complexes in the world.

Despite its global spread, the Benetton Group has maintained close relations with its local origins, especially through cultural activities of the Fondazione Benetton Studi e Ricerche and through programmers about sport. From its involvement in rugby, volleyball and basketball, to its legendary victories in Formula One, Benetton's interpretation of sport has focused, besides athletic excellence, above all on its social aspects such as meeting, sharing and physical wellbeing; all these aspects result in introducing thousands of young people every year to the world of sport. The Group's ability to engage with society is also evident in Fabrica, Benetton's communication research centre. Fabrica's challenge is both an innovative and international one. It is a way of marrying culture and industry, using communications which no longer rely only on the usual forms of advertising, but transmit "industrial culture" and the company's "intelligence" through other means: design, music, cinema, photography, publishing, Internet. Fabrica has chosen to cultivate the hidden creativity of young artists/researchers from all over the world. Following careful selection, they are invited to develop concrete communication projects, under the direction of some of the main players in these areas.

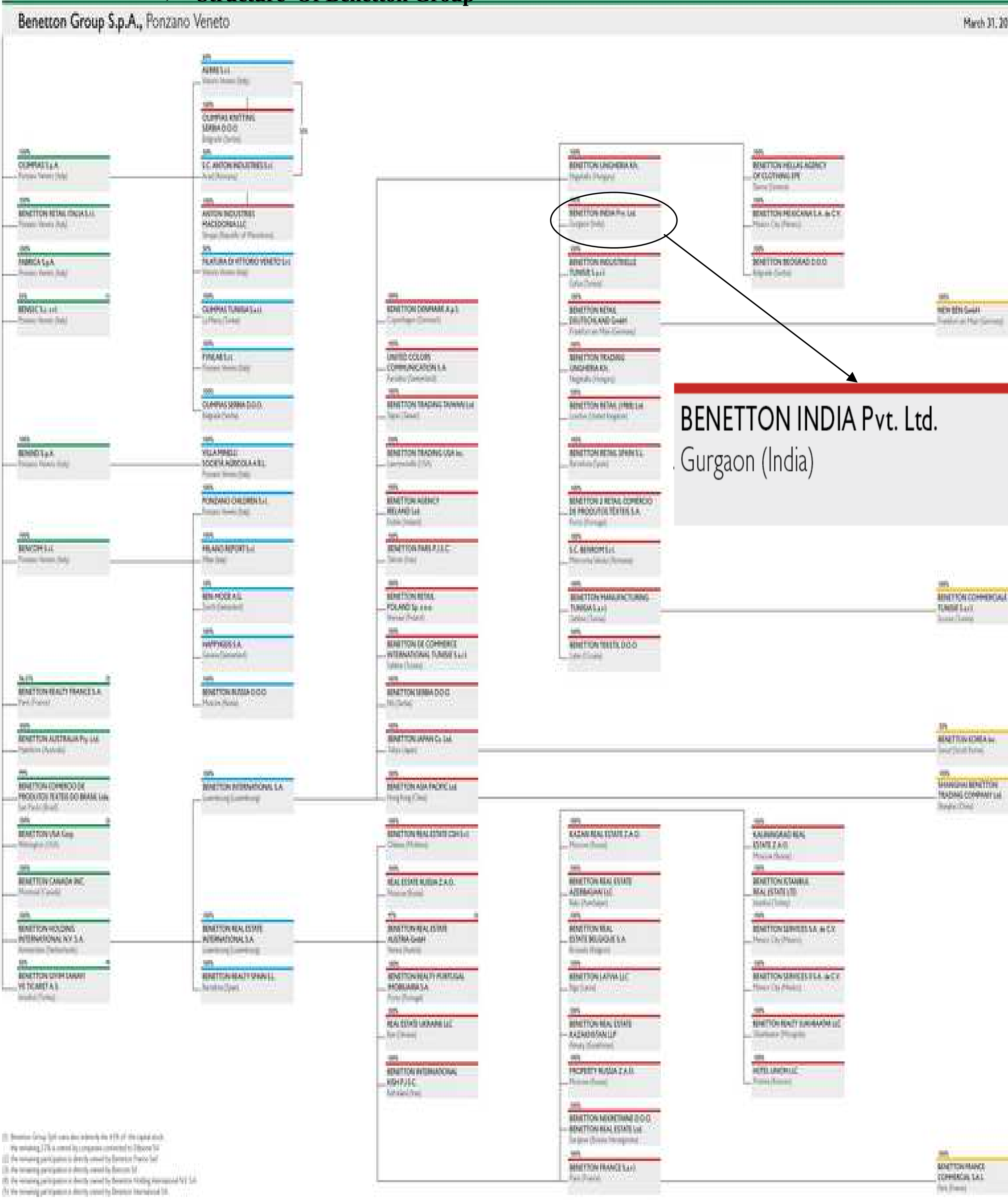
Benetton, one of the largest clothing manufacturers in Italy, has a global presence across 120 countries and more than 5,000 stores.

GLOBAL OVERVIEW OF BENETTON

The Benetton Group, established in 1965 by the Benetton family in Ponzano Veneto, in north-east Italy, is today one of the largest clothing maker in Italy. While its initial few years of operations witnessed expansion within Italy, the company ventured outside Italy for the first time in 1969 when it opened its store in Paris. Later it expanded to the US in 1980 and then to Japan in 1982. On its 40th anniversary in 2005, Benetton was present in 120 countries, with more than 5,000 stores. Europe continues to be the largest market and constitutes nearly 85 per cent of global sales. The Asian and Australian markets come next, with a contribution of roughly 10 per cent to sales, followed by the Americas at 4.2 per cent, with the rest of the world having the remaining share. Benetton’s clothing, primarily casual knitwear and sportswear for men, women, and children, are retailed through franchised stores, department stores and mega stores. Other products include sunglasses, watches and shoes. Though the development of its stylish collection is done in Europe, the company's designers travel around the world.

Structure, Function and Business Activities of Benetton in India

➢ Structure Of Benetton Group



MUMBAI: Italian fashion group Benetton's annual retail sales topped Rs 1,000 crore in India, becoming the first international fashion brand to cross that mark locally. With this, India has also emerged as the largest market for Benetton outside Europe.

"Our India retail sale was more than $200 million (over Rs 1,000 crore) in 2012, giving us a meaningful size. We have been growing strongly after starting a wholly-owned subsidiary here in 2004," Benetton chairman Alessandro Benetton told TOI in a phone interview last week. Benetton had sales of $8 million nine years ago when it snapped a local joint venture with DCM.

"We are selling 7.5 million clothes in India, with more than 600 doors across 120 cities and towns," added Benetton, whose $2.5-billion fashion empire is battling an economic crisis and newer fast fashion rivals in the established European markets.

Benetton has stayed ahead of other mid-market rivals like Levi's (Rs 800 crore) and Marks & Spencer (Rs 550 crore) in India's fashion retailing. India accounts for about 8% of Benetton's global sales at the moment. Benetton and Levi's are among the few global brands which locally produce most of the clothing sold in India. About 96% of the Benetton clothes sold here are sourced within the country, helping it with sharp pricing and quick response to local consumer tastes. .

"Benetton has an early mover advantage in India. We are now moving into tier-III and -IV towns (like Dimapur, Bhavnagar and Kota) to connect with the young consumers there. Our strength lies in combining a global fashion point of view with local sensibilities," said the 49-year-old Benetton, who started his career with Goldman Sachs in London, before leading Benetton Formula-1 team in the '90s. .

Benetton family consists of three brothers who cofounded the fashion business 50 years ago, but now has diversified interests with ownership of Italian motorways and highway restaurants chains. The brand Benetton has had bruising marketplace battles with aggressive fast fashion giants like Zara and H&M in the last decade, and is poised to face the same in India as well. .

"We consider our size and local partnerships as definite positives in a vast market where business dynamics varies with the geographies ," said Benetton, alluding to his group's decision to sell fully-owned stores to franchisees. This happened at a time when India relaxed FDI norms allowing single-brand retailers to own 100% of the store operations, attracting the interest of several global rivals. Benetton, like Dubai-based Landmark, had a special dispensation to operate stores even though rules did not permit FDI until this year. .

Benetton owns only 10% of its 500-odd exclusive stores in the country. The Italian fashion house, known for its bold marketing campaigns drawing upon social and political issues , returned to the elements with UnHate commercial in 2011. It showed leaders across the divide kissing on billboards across global fashion high-streets evoking sharp reactions. Retail consultancy firm Technopak president Saloni Nangia said, "The competition was set to intensify with the entry of more global brands to India. Some of the early movers need to revisit their plans and positioning to remain relevant." .

Business in full throttle

About 8% of the $2.5bn Italian fashion group's global sales is accounted by India Benetton chairman Alessandro Benetton says group's strength lies in combining global fashion with local sensibilities Group controls prices by sourcing 96% of sales locally, and has left behind rivals like Levi's (Rs 800cr) and Marks & Spencer (Rs 550cr)

COMPANY INFORMATION

Full name . Benetton India Pvt. Ltd.	**Status:** Non-Listed **Legal Form:** Limited Liability Company **Operational Status :** Operational **Financial** **Auditors:** PricewaterhouseCoopers (2011)
Legal Address . Plot No.25, Block B, Infocity, Sector 34, ; Gurgaon; Haryana; 122001	**Tel:** 91124-4323333

FUNCTION AND BUSINESS :

Benetton & Trent Ltd. form a strategic partnership for Sisley's expansion in India

The Group will boost its presence in the sub-continent, where it has operated for over 15 years and already counts around 140 United Colors of Benetton shops.

Mumbai, 18 September 2007. Benetton Group and Trent Ltd., a Tata Group Company, have joined forces in a strategic partnership for the Sisley brand's commercial expansion in India. The agreement was signed today by Alessandro Benetton, executive deputy chairman of Benetton Group, and Noel Tata, managing director of Trent Ltd.

Under this agreement, Trent will open and manage a number of Sisley stores in India's major cities. The first shops will open over the next few months, starting with the top shopping streets in two of India's most dynamic cities: Hyderabad and Bangalore.

The new partnership will enable the Benetton Group to boost its presence in India, a key market for the entire continent, where it has been operating for over 15 years and already counts around 140 United Colors of Benetton shops.

Trent Ltd. has over a decade of experience in the Indian retail industry with an existing portfolio of 39 stores across 3 formats targeting the value/mid-market segment. Trent today operates the **Westside** departmental stores; **Landmark**, the largest books & music retail chain in India and **Star India Bazaar**, its chain of hypermarkets.

"Working with such a prestigious partner", Alessandro Benetton commented, "will allow us to accelerate Sisley's development and success in India. We immediately found ourselves in solid accord with Tata, based on our common goal to launch Sisley, a high-end brand with strong growth potential. Together, we can guarantee the quality of both the product and its distribution and consolidate the brand's distinctive identity."

Adds Noel Tata, "Our existing operations, across three diverse retail formats, have given us key insights into the business and the Indian consumer. The partnership with the Benetton Group gives us the opportunity to tap the burgeoning premium segment of consumers. We believe that Sisley has a high potential for growth and we will leverage our experience to optimize the tremendous opportunity."

The agreement comes only a few months after the launch of Sisley's first three pilot stores in Delhi which were an immediate and significant success with Indian customers. These three shops will be directly managed by Trent.

Sisley has more than 900 stores around the world. Its collections, distinguished by their strong fashion content, reflect the latest trends of the season. Sisley offers a wide choice of clothes for men and women, and this winter launches a new range that is even richer and more sophisticated: *Sisley Limited Edition*.

Benetton Group has joined forces with Trent, a Tata Group company, in a strategic partnership to expand the Sisley fashion brand in India. Their agreement comes a few months after the launch of Sisleyas first three pilot stores in Delhi, which will be directly managed by Trent. Under the deal, Trent will open and manage a number of Sisley stores in India's major cities. The next Sisley shops will open over the next few months, starting with the top shopping streets in Hyderabad and Bangalore. Rumours that the Italian company was looking to form a distribution partnership for the Sisley brand first emerged.

Trent Ltd has announced that the Benetton Group and Trent Ltd., a Tata Group Company, have joined forces in a strategic partnership for the Sisley brand's commercial expansion in India. The agreement was signed on September 18, 2007 by Alessandro Benetton, deputy chairman of Benetton Group, and Noel Tata, Managing Director of Trent Ltd.

Under this agreement, the Company will open and manage a number of Sisley stores in India's major cities. The first shops will open over the next few months, starting with the top shopping streets in two of India's most dynamic cities: Hyderabad and Bangalore.

The new partnership will enable the Group to boost its presence in India, a key market for the entire continent, where it has been operating for over 15 years and already counts more than 141 United Colors of Benetton shops. .

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The Company has over a decade of experience in the Indian retail industry with an existing portfolio of 39 stores across 3 formats targeting the value / mid - market segment. The Company today operates the Westside departmental stores; Landmark, the largest books & music retail chain in India and Star Bazaar, its chain of hypermarkets. .

Adds Noel Tata, "Our existing operations, across three diverse retail formats, have given us key insights into the business and the Indian consumer. The partnership with the Benetton Group gives us the opportunity to tap the burgeoning premium segment of consumers. We believe that Sisley has a high potential for growth and we will leverage our experience to optimise the tremendous opportunity." .

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Comparative Position of Benetton with India or Gujarat :

COMPETITION AROUND BENETTON

COMPETITOR ANALYSIS

Benetton mainly operates in the apparel sector, which is a highly competitive industry with respect to production, distribution and sales. There is a lot of diversity in competition ranging from local, national and global department stores, specialized retailers, independent retailers and manufacturing companies. In India, the major competitors of Benetton include Mango, FCUK, Guess, Promod, Westside, etc. The company faces a lot of competition internationally as well from brands like Gap, H&M etc. The competition in the industry has increased in the last few years, owing to the entry of foreign brands into the Indian market, and thus low cost production plays a key role. Apart from competition for sales, the companies also compete for significant store locations. The intensity of competition also puts a price pressure onto the operating companies in the industry or could lead to a loss in market share.

However, the company tries to gain competitive advantage over its rivals by focusing on factors such as quality and range of products, customer service, ambience of the store, value provided to the customers and its marketing strategies.

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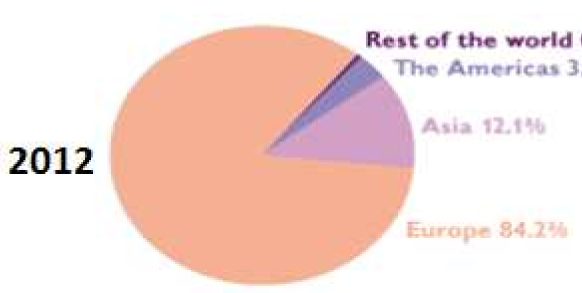
Financial Highlights

Year	2012[a]	2011[a]	2010[a]	2009[b]	2008[b]
Revenues (million euro)	1,911	1,765	1,704	1,859	1,992
Net Income (million euro)	125	112	109	108	[10]

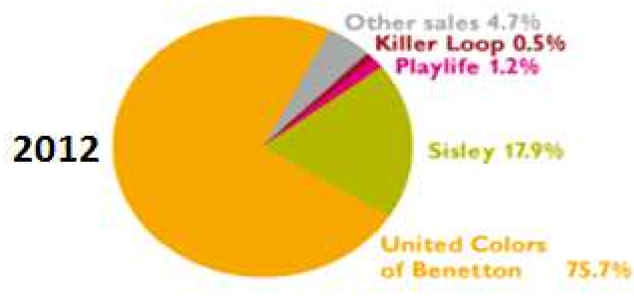
a) These figures are IAS/IFRS compliant and not comparable with the previous years

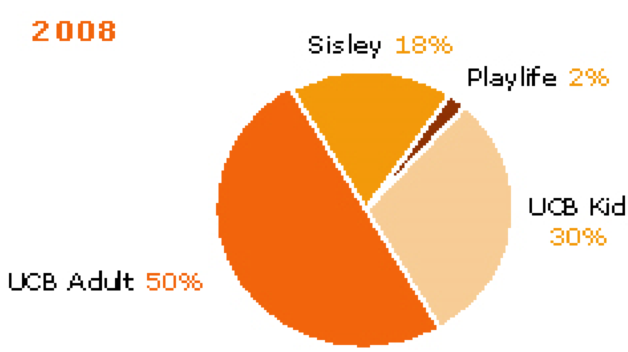
b) These figures are compliant with Italian accounting procedures

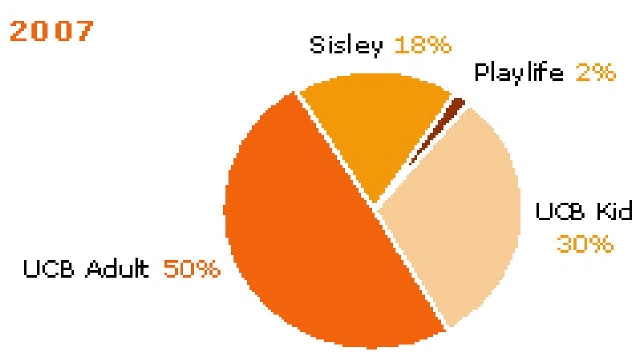
Sales by Region



Sales by Brand







COMPANY DESCRIPTION

Benetton India Private Limited manufactures clothing under the United Colors of Benetton brand. The company also includes brands such as Sisley for fashion wear, Playlife for leisurewear and Killerloop for street wear. Benetton India Private Limited is based in Gurgaon, India. The company operates as a subsidiary of Benetton Group SpA.

COMPANY ANALYSIS

According to the Individual - Audited financial statement for the Year of 2010, total net operating revenues increased with 20.06%, from INR 305.65 tens of millions to INR 366.97 tens of millions. Operating result decreased from INR -13.88 tens of millions to INR -16.26 tens of millions which means -17.15% change. The results of the period decreased -8.82% reaching INR -40.22 tens of millions at the end of the period against INR -36.96 tens of millions last year. Return on equity (Net income/Total equity) went from -25.48% to -27.77%, the Return On Asset (Net income / Total Asset) went from -16.46% to -21.01% and the Net Profit Margin (Net Income/Net Sales) went from -12.09% to -10.96% when compared to the same period of last year. The Debt to Equity Ratio (Total Liabilities/Equity) was 132.19% compared to 154.82% of last year. Finally, the Current Ratio (Current Assets/Current Liabilities) went from 2.02 to 1.92 when compared to the previous year.

KEY EXECUTIVES

Rohit Kapoor	Company Secretary

Benetton India revenue likely to touch $250 m in 4 yrs

Sanjeey Mohanty, MD, Benetton…

Italian clothing major Benetton expects its business from India to contribute a significant chunk of its overall revenues in five years. The Benetton Group, with brands such as casual wear United Colors of Benetton, the glamour-oriented Sisley and the leisurewear brand

Playlife, has a presence in 120 countries. Its network of around 6,000 stores around the world generates a total turnover of over euro 2 billion. Weaving design into brand, Benetton India is now confident of becoming a $250-million company in three years. In an Interview with ET, Benetton India MD, Sanjeev Mohanty outlined the company's DNA and its expansion plans. Excerpts:

What is the co-relation between design and brand Benetton?

Design is essential for brand differentiation. Especially for an apparel industry, where trends change every other day, unique designs of not only the clothes but of the store is crucial to make a brand different from others. For Benetton, we convey what we are through the design and brand is just about giving a name to that uniqueness.

How do you arrive at the right kind of look and feel for products?

We, as a brand, ensure that we are in touch with current trends. That plays a major role in deciding the look and feel of our product. Also, we take up a lot of below-the-line activities, which allow us to be in touch with our real consumers. We have presence on social networking sites like Facebook. We listen to our users and pick up trends from there. We incorporate that in our merchandise planning.

It is a kind of real time research. Moreover, we have consciously positioned ourselves as a colourful brand; therefore, colour is the basic factor when we decide the look and feel of our product. Also, when it comes to window dressing, the same strategy applies. We make sure that the ambiance in our stores, the window merchandising is in line with our product.

Is it a challenge to cater to the global needs with the same offerings? How do you take care of regional variations in demand?

We do not change our product line geographically. Our products are same in all our markets we are present in. We do not believe in tweaking our line for a particular market. Customisation is an excuse for brands, which do not do well.

Global brands work everywhere. Moreover, the effort that goes into reaching to four or five additional customers is not worth it. Consumers currently are very global and they are accepting products that have a global appeal. Consumers no more want products tweaked specially for them. We do not need to tweak our strategy for India. In fact, we have positioned ourselves as a colourful brand since the beginning and it has worked wonders for the Indian market.

Where does India fit into the group's global scheme of things?

India is an important market for the group. The share of India in overall revenues is not much currently, but, it is a core market and we see it becoming majority contributor in next 10 years. In India, we crossed the $100 million turnover mark last year. In next 4-5 years, we expect to touch $250 million. So, the Indian operations are going to be big in few years. The growth opportunities will come from smaller cities also, where we are expanding. These areas are already contributing about 20% to our growth. We see it increasing further since these areas are recording better growth than even the metros and 'A' class cities. Contrary to popular perception, the consumers in these cities are not too conscious about prices.

Traditionally, Benetton has not been too high on advertising. What is your strategy going forward?

That is true; we are not very high on advertising. We spend more on consumer experience like store ambience and window merchandising. Almost 40% of our budget is spent on that. However, we are now looking at in-film placements as our next branding strategy. In fact, we have already tied up with an upcoming John Abraham movie 1-800-Love. We will do more tie-ups in that area for sure. We would also look forward to being clothing partners of programmes or events, which are true to our product.

Present Position and Trend of Benetton in India :

Benetton in India

Benetton entered the Indian market in 1991-92, as a 50:50 joint venture with the DCM Group in Delhi, and launched its flagship label UCB. Effective22nd December 2004, Benetton became a wholly owned subsidiary of the Benetton Group, Italy. UCB is today a leading brand in India with more Than 106 stores across 45 cities in India. The retail network is a mix of owned and franchised stores.

Many of these are mega stores, with size more than 4,500 square feet and an increased focus on apparel for men, women and kids. The company is also looking at expanding the brand in the Asia Pacific region and has recently opened stores in Male, Karachi and Kathmandu. With the Indian market increasing in strategic importance for the Benetton Group at the global level, its fashion label Sisley was launched in India in 2006.The first outlet, nearly 3,500 square feet in size, was opened in Delhi and features a collection for men and women. Benetton's key brands are United Colors of Benetton (UCB) for casual wear and Sisley for fashion wear. Two other brands, Play life and Killer Loop, are positioned as leisure wear and street wear brands respectively. UCB is the largest contributor to Benetton's sales, having a share of roughly 74 per cent of total sales, followed by

Sisley at 19 per cent. Playlife and Killer Loop are comparatively low in terms of contribution, and constitute approximately 2 per cent of sales, with the rest 5 per cent coming from others. The company's promoters, the Benetton family, continue to have the largest stake in Benetton (about 67 per cent) through Edizione Holding, its investment holding company. Benetton's Chairman, Luciano Benetton and Deputy

Chairman, Alessandro Benetton, both belong to the promoter family. As on December 2005, Benetton had sales of Euro 1.90 billion and a net profit of Euro 96.6 million. It has almost 8,000 employees globally. It is listed on the stock exchanges in Milan, Frankfurt and New York.

Benetton's outlets in India

• Agra	• Bangalore	• Chandigarh	• Darjeeling
• Ahmadabad	• Bhuvneshwar	• Chennai	• Dehradun
• Aizwal		• Cochin	• Delhi
• Amritsar			
• Gangtok	• Hyderabad	• Imphal	• Jaipur
• Ghaziabad		• Indore	• Jammu
• Goa		• Itanagar	• Jamshedpur
• Gurgaon			• Jullundhur
• Guwahati			
• Kohima	• Lucknow	• Mohali	• Nagpur
• Kolhapur	• Ludhiana	• Mumbai	• Noida
• Kolkata			
• Panchkula	• Ranchi	• Shillong	• Trimulghery
• Patiala		• Siliguri	
• Pune		• Simla	
		• Srinagar	• Yamunanagar
		• Surat	

In its initial few years of operations as a joint Venture, the company faced a few hiccups related to the quality of its products and uncoordinated merchandising. It was also facing an identity crisis of sorts as it was viewed largely as a T-shirt brand. But today it has put its past behind itself and has established itself as a fashionable wardrobe brand. For this it first focused on creating a strong retail identity and an identifiable model of retail servicing. Going by the adage “Big is beautiful”, Benetton's new positioning is that of a mega store retail chain, with the décor of its stores totally in sync with the global identity.

Flexible and adaptable

Merchandising strategy

The company has also established a flexible and Adaptable merchandising strategy. Its merchandise mix varies from location to location, to connect directly with the local tastes and preferences. Its focus on women's wear and kids' wear has helped to yield better performance. At some of the flagship outlets, men's wear occupies the smallest space, since mainly women's wear and kids' wear drive sales at these locations. Similarly, in one of the leading malls in Delhi, Benetton had an outlet only for adults. But with kids' wear becoming a large market in India, the company opened a flagship store only for kids to tap into this potential. This store is one of the best performers in Benetton's network. Benetton India has a manufacturing unit in Gurgaon (Haryana) where almost 50 per cent of the garments required for Indian stores are manufactured. The remaining sourcing for the Indian market happens through contract manufacturing from Ludhiana (Punjab), Delhi, Bangalore (Karnataka), Chennai (Tamil Nadu), Nepal and Benetton International. The designs are selected from the global collection created by the product design and development team based in Italy. India is also used as a market for Benetton Group's global sourcing especially for kids' apparel. In India, the company employs more than 300 people directly while indirect employment is in excess of 5,000 people.

Policies And Norms Of Italy For The Company For Import Export, Licensing, Permission, And Taxation:

❖ Licensing & taxation policy

- ✓ Italy has been part of the European Union (EU) since 1958, the World Trade Organization (WTO), the Organization for Economic Co-operation and Development (OECD), the Organization for Security and Co-operation in Europe (OSCE) and the North Atlantic Treaty Organization (NATO), and applies the international agreements signed by these bodies.
- ✓ The EU forms a customs union and a large unified market having free trade among the member states. It levies a common tariff on imported products coming from non-EU countries such as the United States, Japan, and Canada.
- ✓ As all members of the European Union, Italy adapts a common trade policy. The EU has a liberal import regime where import licensing is not common. Import licences are issued with due consideration for the provisions of relevant European Union trade agreements and the needs of the specific importing country.
- ✓ Under the EU New Approach to Technical Harmonization, certain products are required to meet specific quality standards. The directive applies to toy safety, machinery, electromagnetic compatibility (EMC), telecommunications terminal equipment, active implantable medical devices, medical devices, non-automatic weighing equipment, construction products, explosion proof electrical equipment, low voltage electrical equipment, simple pressure vessels, personal protection equipment and gas appliances. Qualified products must carry a CE mark to show its compatibility, fixed onto the product by a manufacturer or importer as self-declaration of compliance.
- ✓ Traders must pay attention to the EU product liability law, which covers all liability regarding defects not ordinarily expected by a consumer. Both the seller and the manufacturer in the EU are liable under the law.
- ✓ **Import duties into EU countries are subject to import tariffs (normally applied on the import c.i.f. value) plus the value-added tax (VAT) which varies according to different importing countries. The standard rates for Italy is 21%**

- ✓ The EU announced developments in the EU's Eco-labels scheme to 219 products, particularly footwear, textiles and personal computer. Exporters trading with the scheme member country will need to get their suppliers adhering to strict production methods in order to comply with the label award. Canadian exporters may have to ensure that the concerned production methods comply with the labelling criteria prior to the EU. For more information on the list of product groups involved in the Eco-labelling scheme.
- ✓ Environment Protection, Directive on Packaging and Packaging waste, sets out common waste recovery and recycling standards. Manufacturers and exporters should minimize the packaging of their products exported to the EU.

❖ *General Overview*

Conformity to European standards and "CE" marking

- ✓ Products governed by these regulations must adhere to certain European standards at the point when they are imported. The "CE" sign of compliance must be on the product, either when the product is imported or when it is sold.

Since the list of products is growing, the following is merely indicative:

- toys
- agricultural machinery, industrial machinery
- tractors
- gasoline-powered materials and equipment
- sports and recreational personal protection equipment
- construction products
- pleasure craft
- medical apparatus
- electrical and electronic equipment
- equipment pertaining to the telephone network
- Garment and accessories

Basic labelling requirements in Italy:

- name of products (physical condition or specific treatment)
- name/address of manufacturer, packer, seller or importer in the Italian language

- country and place of origin
- ingredients in descending order of weight
- metric weight and volume
- additives by category name
- special storage conditions
- minimum shelf life date
- expiry date
- lot number
- indication of allergens
- indication of maximum limits of fats for meat based products
- net quantity in volume for liquids and in mass units for all other products
- instructions for use, if necessary

❖ ***Tariffs***

✓ Italy applies customs duties to all imported products. Rates can vary considerably, depending on whether the imported product is bulk unprocessed or ready for consumption in retail packages.

✓ VAT, must be added to the cost, insurance and freight (CIF) value of the import. The most common rate is 20%, but a reduced rate of 4% applies to essential items.

✓ Specific information on tariffs applied by the EU can be found on the official EU site on TARIC codes.

✓ The EU TARIC CODE Database Online (Source EU Portal)

✓ This Database is one of the EU'S online tools for international exporters. The Commission develops and operates several databases in conjunction with Member States' Customs and Taxation Services. The databases are parts of the information systems of Taxation and Customs Union.

Policies and Norms of India for import Export , licensing , permission , and taxation for Italy

Each country has its own sets of policies and regulations on the modes of entry which need to be complied with before accessing the market. In India too, foreign companies need to adopt one of the following methods to participate in its burgeoning

- ***Mergers & Acquisitions- most common.***

  This may result in foreign majors looking to make strategic investment in existing Indian companies to leverage their presence in India and simultaneously by combining the local company's expertise with greater understanding of Indian sensibilities.
- ***Distribution***

  Foreign brands entering in India through distribution channel wherein the foreign company sets up local distribution office and supplies products to Indian retailers. Swarovski, Hugo Boss etc. have chosen to enter the Indian market through distribution channels. Some Indian companies that are in the process of entering into distribution agreement with foreign brands include Thanks, Vama, Escape, Murjani Group etc.
- ***Franchising***

  Another mode which is also widely used by several global brands to enter Indian market is by engaging franchisees. This model provides benefits of owning a business without any significant risk.
- ***Joint Ventures***

  Since the partial relaxation of the policy allowing FDI up to 51 per cent in single brand retail, several luxury brands such as Louis Vuitton Moet Hennessey (LVMH), Christian Dior and Hermes have converted their franchise agreements into joint ventures. This is big news for fashion lovers in India, where business from out of the country has been restricted for so long market.

Sectors of interest investment

Section 2 – India – Italian economic and commercial relations

Italian companies in India by sector

Includes

Transport, consultancy

And financial services

Services	20%
Automotive	16%
Textile and garments	14%
Machinery	12%
Construction & Building	7%
Food	7%
Engineering	6%
Power	4%
Chemical & Fertilizers	4%
Furniture	3%
Others	7%

Select leading Italian industrial and business groups Already established and operating in India

Fiat (including New Holland and Magnetic Marelli)

- Ferrero
- Perfetti Van Melle
- Piaggio3
- **BENETTON GROUP**
- Prysmian
- Maire Tecnimont
- Techint
- Luxottica
- Assicurazioni Generali
- Pirelli
- Artsana/Chicco
- Oerlikon Graziano
- Brembo
- OBS (Coin/Oviesse)
- Bauli (cakes),
- Finmeccanica
- StMicroelectronis
- Snamprogetti
- Ansaldo Caldaie
- Armani
- Lavazza

Present Trade Barriers for Import /Export

Barriers to exporting continue to exist despite the lowering of import tariffs in recent years. In the current business environment these include non-tariff barriers in the foreign and home country which have the potential to impact on exporting activity of firms.

Here we see barriers faced by Benetton group in exporting. We assess policy implications of the results on Indian firms' perceptions to export barriers to shed light on issues that need addressing in the light of ongoing negotiations for a Free Trade Agreement (FTA) between the EU and India. As it is a member of the European Union, Italy applies the Community regulations which are valid throughout the Union.

If the EU has quite a liberal foreign trade policy, there are a certain number of restrictions, especially at the level of agricultural products, ensuing from the implementation of the CAP (Common Agricultural Policy): applying compensations when importing and exporting agricultural products to favour the development of agriculture within the EU implies a certain number of systems to control and regulate goods entering EU territory. Moreover, for sanitary reasons, with regards to Genetically Modified Organisms, if they are allowed in Europe, their presence must, for example, be systematically specified on packaging. Importing beef fed on hormones is also prohibited. The principle of precaution is now more widely favored: in case of doubt, import is prohibited until the non- noxiousness of the goods is proved.

As part of the "SAFE" standards advocated by the World Customs Organization (WCO), the European Union has set up a new system of import controls, the "Import Control System" (ICS), which aims to secure the flow of goods at the time of their entry into the customs territory of the EU. This control system, part of the Community Programme Customer, has been in effect from January 1, 2011.

Trade barriers between India and Italy:

India and Italy have agreed to improve bilateral trade flows as a common goal for mutual benefit and mutual reinforcement of political links. This is indicated in the agreed minutes of the 16th Session of the India-Italy Joint Commission for Economic Cooperation.

In another significant move in the context of the phase-out of the multi-fiber arrangement (MFA), India and Italy have agreed to explore enhanced cooperation in textile clusters and in the field of textile design through the National institute of Fashion Technology (NIFT). Both sides expressed the hope that the transition from quota to the non-quota regime in textiles "will be smooth and would not cause disruptions so as to affect current flows, without any negative repercussions especially on developing and the least developed countries". Both sides will also explore possibilities for cooperation in leather, gems & jewellery, food processing industry, tourism, energy, financial services and information technology and scientific research.

Present Trade barriers for import /Export of accessories

- Despite many decades of tariff reduction under the aegis of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), trade barriers remain high.

- Most trade barriers work on the same principle: the imposition of some sort of cost on trade that raises the price of the traded products. If two or more nations repeatedly use trade barriers against each other, then a trade war results.

- Economists generally agree that import export barriers are detrimental and decrease overall economic efficiency, this can be explained by the theory of comparative advantage. In theory, free trade involves the removal of all such barriers, except perhaps those considered necessary for health or national security. In practice, however, even those countries promoting free trade heavily subsidize certain industries, such as agriculture and steel.

- Barriers are often criticized for the effect they have on the developing world. Because rich-country players call most of the shots and set trade policies, goods such as crops that developing countries are best at producing still face high barriers.

- Barriers are such as taxes on food imports or subsidies for farmers in developed economies lead to overproduction and dumping on world markets, thus lowering prices and hurting poor-country farmers.

- Tariffs also tend to be anti-poor, with low rates for raw commodities and high rates for labor-intensive processed goods. The Commitment to Development Index measures the effect that rich country trade policies actually have on the developing world.

- .There are some Internal barriers such as procedural, distribution and documentation problems are associated with the exporting firm’s organizational resources.

- Although world average import tariffs have fallen from over 20 percent in the 1980s to less than 10 percent in 2009 (Ng, 2010). On trade costs note that the average tariff equivalent of trade costs for industrialized countries is 170 percent. This value is higher for developing countries, and there are large variations across industries as well. The reason for the high value of measured trade costs is that they include much more than just tariffs and non-tariff barriers; they include "… all costs incurred in getting a good to a final user other than the marginal cost of producing the good itself".

- On export barriers identified the lack of knowledge of foreign markets as a dominant impediment to international activity commitment. There are barriers into internal and external barriers which impact on the activity of exporting firms

- Another negative aspect of trade barriers is that it would cause a limited choice of products and would therefore force customers to pay higher prices and accept inferior quality.

- The exporters' sensitivity to barriers in the foreign market is determined by managerial perceptions which are in turn influenced by contextual factors associated with firm size, resources and capability, export involvement and international experience. In more general terms, changes in consumers' preferences, the presence of middlemen and agent representatives, import tariffs, problems finding a trustworthy distributor in the country, exchange rate fluctuations, risk of losing money in the foreign market, and quality and safety standards are other potential export barriers to firms. ,

- Export barriers are concentrated mainly in the textile and clothing sector and most barriers are attributed to technical regulations and labelling rules.

- Exporters' perceptions are an increasing incidence of non tariff measures on India's exports. India's textiles and clothing sector, on-preferential rules of origin and discriminatory unilateral changes to technical rules are important barriers.

- Others barriers we can consider like labelling requirements, technical standards, anti-dumping measures and child labour laws as main barriers to Indian exports of textiles and clothing in the EU.

- Export barriers also include general absence of information, lack of transparency on procedures and regulations regarding technical specifications, inadequate information about sampling, inspection, and testing as well as changes in packaging requirements.

- The customs procedures and valuation rules are also identified as NTBs which have the potential to adversely impact on exporting activity or we can say barriers for export activities.

Potential in Indian market:

Today, the Benetton Group is present in 120 countries around the world. Its core business is clothing: a group with a strong Italian character whose style, design expertise and passion are clearly seen in the fashion-orientated United Colours of Benetton and Sisley brands; in The Hip Site, the brand for teenagers; and in sportswear brands Playlife and Killer Loop. The Group produces over 110 million garments every year, 90% of which is manufactured in Europe. Its retail network of 5,000 stores around the world is increasingly focused on large floor-space point of sale offering high quality customer services and now generates an annual turnover of 2.1 billion euro's, net of retail sales. The development of Benetton's commercial organization has been supported by a major programmed of investment in megastores, some of which are directly managed by the Group. These stores are characterized by their large dimensions, their prestigious locations in historic and commercial centres and by the high level of customer services they offer. The new Benetton megastores carry complete casual women swear, menswear, children wear and underwear collections, as well as a wide selection of accessories, offering a full range of Benetton style and quality. As in the case of the commercial network, a constant commitment to innovation, a crucial factor for development, has always characterized the Group's business organization, from communication to IT, from research into new materials to integrated logistics. Special attention is given to innovation in production, where all systems and equipment are totally renewed every five years. Benetton production system is coordinated by a high-tech facility at Castrate (Treviso), which is one of the most advanced clothing-manufacturing complexes in the world.

Despite its global spread, the Benetton Group has maintained close relations with its local origins, especially through cultural activities of the Fondazione Benetton Studi e Ricerche and through programmers about sport. From its involvement in rugby, volleyball and basketball, to its legendary victories in Formula One, Benetton's interpretation of sport has focused, besides athletic excellence, above all on its social aspects such as meeting, sharing and physical wellbeing; all these aspects result in introducing thousands of young people every year to the world of sport. The Group's ability to engage with society is also evident in Fabrica, Benetton's communication research centre. Fabric's challenge is both an innovative and international one. It is a way of marrying culture and industry, using communications which no longer rely only on the usual forms of advertising, but transmit "industrial culture" and the company's "intelligence" through other means: design, music, cinema, photography, publishing, Internet. Fabrica has chosen to cultivate the hidden creativity of young artists/researchers from all over the world. Following careful selection, they are invited to develop concrete communication projects, under the direction of some of the main players in these areas.

Benetton, one of the largest clothing manufacturers in Italy, has a global presence across 120 countries and more than 5,000 stores.

Key success factors in India

Benetton has been growing at a hectic pace since it became a 100 per cent subsidiary of the Italian parent. The focus on India by the Group Chairman, Luciano Benetton himself, is providing the vision and support that will ensure that Benetton continues to set benchmarks in apparel retailing in India. Some of the factors responsible for its success so far are:

Continued importance given by the

Parent company

Benetton views India as one of its growth engines and hence has continued to give importance to this market. The vision for growth and the resulting strategy of the Indian subsidiary is today in tune with Benetton's global vision. The company has always endeavoured to give its Indian customers an international experience not only in its collection range, but also the ambience and fixtures of its retail outlets. The product range available in the Indian market is chosen from its international range, keeping in mind the Indian taste in clothing.

Strong contribution of franchisee partners

Partnerships with professional retailers and investors with a passion for retail and expertise in this area are critical to Benetton's success in India. For instance, its franchisee partner in the north has been an important ingredient in its success in India and was the catalyst for Benetton's shift into large format flagship retailing with the Benetton flagship in South Extension (New Delhi). His association with Benetton for the last fifteen years has ensured that he understands Benetton's growth model as much as the company does

Benetton's India operations

• Entered India in 1991-92 as a joint venture With DCM Group, now a 100 per cent subsidiary.

• Brand United Colors of Benetton present across 106 stores in 45 cities.

• Brand Sisley also launched in India in 2006.

• Manufacturing unit in Gurgaon, sourcing also done through contract manufacturing to vendors.

• India used as a manufacturing hub for sourcing apparel for other countries.

Business Opportunities In Future:

- Benetton sees a huge potential in the Indian market and on the anvil are high street mega stores as well as outlets in malls across the country.
- The company would like to be present wherever the market exists, whether it is large cities or small towns.
- The company is also contemplating the introduction of specialty stores dedicated to product categories like innerwear, men's wear etc.
- There is an increased emphasis on making India an outsourcing hub for Benetton globally, along with China.
- Production plans for India are in excess of 6 million units by 2007.
- The company also plans to grow its Sisley brand, which is expected to have high acceptability because of India's growing affluent class and exposure to the top fashion brands.
- Sisley outlets are expected to come up in Delhi as well as other major cities.
- Benetton does not have a lot of market shares in the United States, so it can improve its position in that market.
- As Benetton is diversifying, it allows the company to compete on several markets and it makes Benetton less sensitive in regards of the fluctuating economy.

Conclusion and Suggestions

Suggestions:

- Because of its controversial way to advertise, Benetton retailers may terminate their contract anytime because they don't want to lose customers.
- In the United States, Benetton is only retailed by Sears who is not very well know for the quality of its products, so people associate Benetton with low quality products.
- In Europe, Benetton products are expensive which gives opportunities to many competitors who provide lower prices for the same quality.
- Benetton, as it's spread all over the world, doesn't have a new geographical market to get in, except the United States**.**

Conclusion:

- Benetton Group is a world leader in the design, manufacture and marketing of distinctive casual apparel for men, women, and children.
- Benetton is well known around the world; it has a good image and a good reputation through the 120 countries they are selling in. The Group's commercial network of 7,000 retail outlets around the world is increasingly focused on large floor-space mega stores offering high quality customer services.
- Benetton is traditionally known for knitwear and casual clothing in a wide array of colors, featuring fashionable Italian design and projecting a youthful image.
- Benetton clothes are high quality products usually made of wool.
- Benetton is active in the sportswear and sports equipment sector with brands such as Prince, Rollerblade, Nordica, Kästle, Killer Loop and Ektelon.
- Benetton licenses its trademarks for products manufactured and sold by others, including fragrances and cosmetics, watches, sunglasses and other fashion accessories, which complement its product lines.
- After competing for more than 10 years in the Formula One championship, Benetton decided to pull out in March of a sport now dominated by the large car manufacturers. Benetton had entered the costly Formula One sport to promote its clothes in the world market. But it felt the costs of competing in Formula One were no longer justified in terms of the marketing value for the group. Benetton made a net gain of $82.4 million that represents a 147 percent rise in first-half net profits.

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Principles of Economics - **N.G. Mankiw**

Group-3

GLOBAL COUNTRY STUDY REPORT

ON

"FOOD INDUSTRY OF ITALY

WITH REFERENCE TO FERRERO S.P.A."

Submitted to

Gujarat Technological University

Guided By

PROF. B.B.JOSHI

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MBA SEM - IV

BATCH: 2011 - 2013

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STUDENT DECLARATION

We enrollment no. student of MBA 4th sem. Khokhar Govind, Alwani Jitendra, Gulwani Hitesh, Jani Dhaval, Vachhani Shraddha, Thakor Parashereby declare that the report for Global/ Country Study Report entitled "Italy" are a result of our own work and our indebtedness to other work publications, references, if any, have been duly acknowledged.

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Date:

Place: Junagadh

(Project Guide) **(Director)**

Dr..B.B.Joshi **Dr. Rajesh Patel**

Prof. Bansi Shah

PREFACE

Here in MBA we study the management and administration of business and its various operations. But that is only a theoretical knowledge. When we are asked to put it in actual practice, most of us have realized that it is not the same infect theory is just the base to go into the practical field. Thus to have an exhaustive knowledge of anything there should be an ideal integration of theory and practice. It is said that theory without practice has no fruits and practice without theory has no root.

Here is given the global country report on ITALY country we have tried our best efforts to present proper information about country. Global country report is a work by which we can knowing about the situations & information of the other country.

ACKNOWLEDGEMENT

An acknowledgment is something which is so often over looked by people who read a project but to us this is something very important, an integral part of this project as this expresses our hearts feel gratitude towards all those people who helped us during the course of this project. Hence, our Global Country Report bears the imprints of many people.

My acknowledgement remains incomplete without great thanking to respective member Dr. Rajesh A. Patel (Director). I am thankful to my internal guides Prof. DR. B.B.Joshi and Prof. Bansi Shah; they have guided and helped us throughout our project report work as well as documentation.

INDEX

PART-1

ECONOMIC OVERVIEW OF ITALY (MAJOR INDUSTRIES & MAJOR TRADE PARTNERS OF ITALY)

PART-2

SPECIFIC STUDY OF FERRERO CHOCOLATE IN FOOD INDUSTRY

1.1 DEMOGRAPHIC PROFILE OF ITALY

Italy, officially the Italian Republic is a unitary parliamentary republic in South-Central Europe. The territory of Italy covers some 301,338 km^2 (116,347 sq mi) and is influenced by a temperate seasonal climate. With 60.8 million inhabitants, it is the fifth most populous country in Europe, and the 23rd most populations in the world.

Rome, the capital of Italy, has for centuries been a political and religious centre of Western civilisation as the capital of the Roman Empire and site of the Holy See.

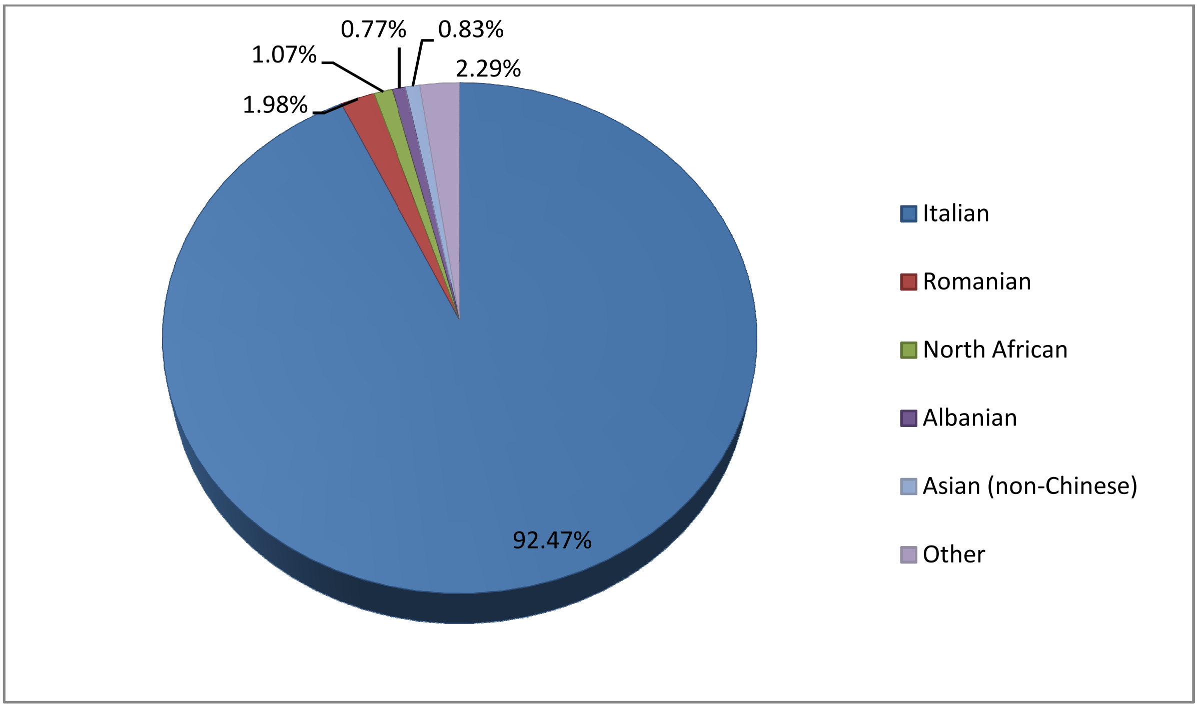
Modern Italy is a democratic republic. It has been ranked as the world's 24th most-developed country and its Quality-of-life Index has been ranked in the world's top ten in 2005. Italy enjoys a very high standard of living, and has a high GDP per capita. It is a founding member of what is now the European Union and part of the Euro zone. Italy is also a member of the NATO. It has the world's third-largest gold reserves, eighth-largest nominal GDP, tenth highest GDP and the sixth highest government budget in the world. It is also a member state of the Organisation for Economic Co-operation and Development, the World Trade Organization, the Council of Europe, the Western European Union and the United Nations. Italy has the world's ninth-largest defense budget and shares NATO's nuclear weapons.

Italy plays a prominent role in European and global military, cultural and diplomatic affairs. The country's European political, social and economic influences make it a major regional power. The country has a high public education level and is a highly globalised nation.

Population

Population growth rate: 0.38% (2011 est.)

Origin of the population of Italy as of 1 January 2010



The population of Italy almost doubled during the 20th century, but the pattern of growth was extremely uneven due to large-scale internal migration from the rural South to the industrial cities of the North, a phenomenon which happened as a consequence of the Italian economic miracle of the 1950–1960s. In addition, after centuries of net emigration, from the 1980s Italy has experienced large-scale immigration for the first time in modern history. According to the Italian government, there were 4,570,317 foreign residents in Italy as of January 2011.

Median age:

- **total:** 43.5 years
- **male:** 42.4 years
- **female:** 44.7 years (2011 est.)

Birth rate: 9.06 births/1,000 population (2011 est.)

Death rate: 9.93 deaths/1,000 population (July 2011 est.)

Infant mortality rate:

- **total:** 3.36 deaths/1,000 live births
- **male:** 3.56 deaths/1,000 live births
- **female:** 3.14 deaths/1,000 live births (2011 est.)

Languages

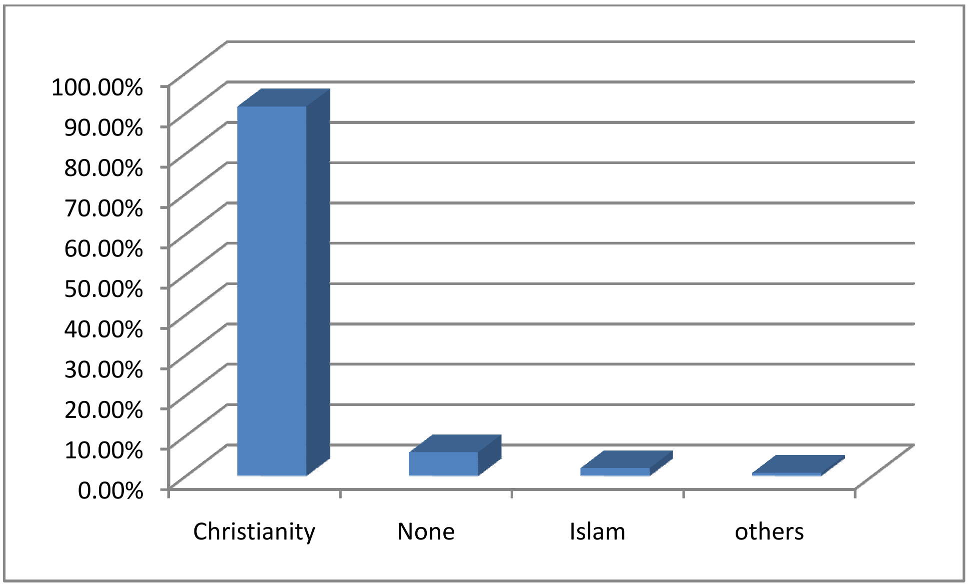
Italy's official language is Italian. There are about 55 million speakers of the language in Italy and a further 6.7 million outside of the country. However, between 120 and 150 million people use Italian as a second or cultural language, worldwide. Italy has numerous dialects spoken all over the country and some Italians cannot speak Italian at all. However, the establishment of a national education system has led to decrease in variation in the languages spoken across the country.

Literacy:

- **definition:** age 15 and over can read and write
- **total population:** 98.4%
- **male:** 98.8%

Religion

There are different religion in Italy . here is the analysed data of the people belong from which religion.



Health

(Italian public health insurance card.)

Italy has had a public healthcare system since 1978. Healthcare spending in Italy accounted for more than 9.0% of the national GDP. However, Italy ranks as having the world's 2nd best healthcare system, and the world's 3rd best healthcare performance. Italy had the 12th highest worldwide life expectancy in 2010

Life expectancy at birth

total population: 81.8 years (2010)

male: 79.2 years (2010)

female: 84.4 years (2010)

1.2 ECONOMIC OVERVIEW OF ITALY

Economy

Italy is the world's 7th largest exporter of goods. Italy has a free market economy characterized by high per capita GDP and low unemployment rates. In 2010, it was the eighth-largest economy in the world and the fourth-largest in Europe in terms of nominal GDP. It is a founding member of the G8, the Euro zone and the OECD.

It is a developed country, with the world's 8th highest quality of life in 2005 and the 24th Human Development Index. In spite of the recent global economic crisis, Italian per capita GDP at purchasing power parity remains approximately equal, while the unemployment rate (8.5%) stands as one of the EU's lowest. The country is well known for its influential and innovative business economic sector, an industrious and competitive agricultural sector .Italy is the world's largest wine producer, and for its creative and high-quality automobile, industrial, appliance and fashion design.

Italy is part of a monetary union, the Euro zone (dark blue), and of the EU single market.

Italy has a smaller number of global multinational corporations than other economies of comparable size, but there is a large number of small and medium-sized enterprises, notoriously clustered in several industrial districts, which are the back bone of the Italian industry. This has produced a manufacturing sector often focused on the export of niche market and luxury products, that if on one side is less capable to compete on the quantity, on the other side is more capable of facing the competition from China and other emerging Asian economies based on lower labor costs, with higher quality products.

More specifically, Italy suffers from structural weaknesses due to its geographical conformation and the lack of raw materials and energy resources says: in 2006 the country imported more than 86% of its total energy consumption. The Italian economy is weakened by the lack of infrastructure development, market reforms and research investment, and also high public deficit. In the Index of Economic Freedom 2008, the country ranked 64th in the world and 29th in Europe, the lowest rating in the Euro zone.

This entry briefly describes the type of economy, including the degree of market orientation, the level of economic development, the most important natural resources, and the unique areas of specialization. It also characterizes major economic events and policy changes in the most recent 12 months and may include a statement about one or two key future macroeconomic trends.

1.3 OVERVIEW OF INDUSTRIES TRADE AND COMMERCE

Industries are important for every country. The Italian industries of the sector dispose of advanced equipment and technologies, and the excellent quality of their productions of machines and/or parts, are the reason why they export these products all over the world.

Industry in Italy is very developed, making one of the most industrialized countries in the world. Industries of Italy is developed with good facility, it contributes dominant role in the industries market of world.

There are some good industrial sectors in Italy:

Automobile industry of Italy

Some of the main industries of the automobile industry belong to Italy, industries which have a good piece of the international market, probably because Italian cars have that touch in the design and craftsmanship loved by foreign countries.

Main industry in the automobile sector is surely FIAT, located in Turin, employing thousands of workers and many more people of other satellite businesses which produce auto parts and spare parts. Among the other important businesses in this sector, surely the most famous is represented by the Ferrari of Maranello, automobile company which makes us proud in the world.

Ferrari creates unique and unrepeatable models as far as technologic innovations and design are concerned, making us dream during the Formula 1 GP, where we often win.

Engineering industry of Italy

Very important sector of is the engineering industry, which represents 41% of the entire manufacturing industry and manages all those metallurgic and mechanical processes used for the production of complex machines or parts of them, semi manufactured and metallic carpentry, printing, cutting, painting, laminating, foundry etc., all realized with manufacturing and transformation processes technologies in which Italy is a leader in the world.

Tourism industry of Italy

Italy has great tourism system with it's contribute good revenue from these wide sector. Italy is extraordinarily rich in history, classical art and architecture, ancient cities and villages, glorious landscapes, and a coastline well served by beaches. The vast western historical and artistic heritage draws large numbers of visitors to Rome, Venice, and Florence, while the smaller cities such as Siena, Pisa, Naples, the Isle of Capri, and Taormina in Sicily are increasingly popular.

Italy competes with the United States, France, and Spain as one of the most popular destinations for international tourists, who flock to it in huge numbers.

Textile industry of Italy

Another very important sub-sector in the manufacturing industry is textiles and clothing, which boasts some of the world's best known fashion designer labels, such as Valentino, Armani, Versace, Gianfranco Ferré, and Krizia. However, the more casual clothing market accounts for the financial success of this sector. The design, quality, and relatively inexpensive prices of its products have made textile manufacturing Italy's third largest business after engineering and construction. Almost 1 million workers are employed by the textile industry, which is a leading exporter of clothes and shoes. There are very few large enterprises in this industry; most producers have small or medium-sized factories.

Retail industry of Italy

Italy has a highly developed retail system. Mass outlets in the form of supermarkets, malls, and multiple stores are becoming increasingly popular, and distribution is very well organized, particularly in the northern regions. The main chains are Standa, COOP, Esselunga, Sigma, and SPAR. Nevertheless, the retail sector is largely made up small, family-owned shops.

Retail commerce in Italy is divided into two main realities, small shopkeepers or retail commerce in Italy, who work in little shops and large distribution that, disposing of many resources, sell tons of products for competitive prices, therefore competing without mercy with the small businesses.

In Italy there are very large shopping centers near all the big cities, equipped with big parking lots and all services, internal restaurants, bank and post offices, to make every sale more comfortable and safe.

Agricultural industry in Italy

Agricultural industry in italy is very wide scoped view. There are no. of crops had grown. There is large no. of land to produce crop in large way. There are agro based industries that use the raw material & make good products in Italy. Agricultural products from the south of Italy must cross long distances, up to 1000km. or more, to be distributed throughout the national territory.

The development of the agro food processing industry in Italy has been similar to that of textiles. While its contribution to the GDP is far less substantial, it is nevertheless a significant economic sector.

1.4 OVERVIEW OF DIFFERENT ECONOMIC SECTORS OF ITALY

There are the main four economic sectors in Italy are as under:

Energy and natural resources

In the last decade, Italy has became one of the world's largest producers of renewable energy, ranking as the world's fifth largest solar energy producer in 2009 and the sixth largest producer of wind power in 2008.

Italy has few natural resources. There are no substantial deposits of iron, coal, or oil. Most raw materials needed for manufacturing and more than 80% of the country's energy sources are imported. The energy sector is highly dependent on imports from abroad: in 2006 the country imported more than 86% of its total energy consumption (99.7% of the solid fuels demand, 92.5% of oil, 91.2% of natural gas and 15% of electricity).

Italy has managed a large majority of Italians passed a referendum opting for phasing out nuclear power. The government responded by closing existing nuclear power plants and stopping work on projects underway, completely putting a halt to the national nuclear program. Currently, the majority of Italian electricity is produced gas, oil, coal, and hydro.

Agriculture

Italy is the world's top wine producer (22% of global market). Italy produces primarily maize corn, rice, sugar beets, soybeans, meat, fruits and dairy products, while the South specializes in wheat and citrus fruits. Italy is the first or the second largest producer of wine in the world, and one of the leading in olive oil, fruits (apples, oranges, lemons, pears, apricots, peaches, cherries, strawberries, kiwi), flowers and vegetables.

The most famous Italian wines are probably the Tuscan Chianti and Pinot Grigio. Quality goods in which Italy specialy are often DOC or 'of controlled origin'. This DOC certificate, which is attributed by the European Union, ensures that the origins and work that goes into a product are recognised. This certification is considered important by producers and consumers alike, in order to avoid confusion with low-quality mass-produced ersatz products.

Transport

Rome-Fiumicino Airport in 2008 was the sixth bigest airport in Europe. Regarding to the national road network, in 2002 there were 668,721 km of serviceable roads in Italy, including 6,487 km of motorways, state-owned but privately operated by Atlantia company. About 34,667,000 passenger cars and 4,015,000 road good vehicles circulated on the national road network.

The railway network in Italy totalled 16,862 kilometres of which 69% are electrified and on which 4,937 locomotives and railcars circulate. It is the 15th largest in the world, and is operated by Ferrovie dello Stato. High speed trains include ETR-class trains, with the ETR 500 reaching 300 km/h. The rail tracks and infrastructure are managed by Rete Ferroviaria Italiana

Finance

Banking in Italy's Headquarters in EUR, Rome. Banking in Italy has, as of the 11th October 2008, an average assets/liabilities ratio of 12 - 1, while the banks's short-term liabilities are equal to 86% of the Italian GDP or 43% of the Italian national debt. This is a list of the top 10 Italian banks ranked by market capitalization.

Rank	Company	Headquarter	Capitalization (€)
1	UniCredit	Rome	54.7 billion
2	Intesa Sanpaolo	Turin	47.7 billion
3	Monte dei Paschi di Siena	Siena	36.6 billion
4	UBI Banca	Bergamo	9.8 billion
5	Banco Popolare	Verona	9.4 billion
6	Banca Nazionale del Lavoro	Rome	7.5 billion
7	Mediobanca	Milan	7.0 billion
8	Banca Popolare dell'Emilia Romagna	Modena	4.6 billion
9	Cariparma	Parma	4.2 billion
10	Banca Popolare di Milano	Milan	4.0 billion

1.5 OVERVIEWS OF BUSINESS AND TRADE AT INTERNATIONAL LEVEL

Foreign Trade Overview

International trade is Increased between Italy and the other member countries of the European Union characterized the 1970s and 1980s. The dependence of Italy on imported coal, petroleum, and other essential raw materials usually yields an unfavorable balance of trade. This imbalance is partly offset by the tourism industry, remittances from Italian nationals in foreign lands, and shipping revenues. Exports include machinery, motor vehicles, clothing, textile yarn and fabrics, footwear, iron and steel, fruit and vegetables, and wine. Imports include machinery and transportation equipment, petroleum, metals, chemicals, textile yarn and fabrics, and meat.

Italy is amongst the top 10 trade countries in the world and trade represents almost 60% of the GDP. Manufactured goods account for more than 90% of the country's exports. The country shows a deficit in trade and its balance got worse after the rise in oil prices in 2008 (the country imports 80% of its energy resources), and the appreciation of the euro. Despite its recent improvement, the trade balance should continue to deteriorate in the next coming years. The main trade partners of Italy are the European Union (Germany, France, Spain, Netherlands, United Kingdom), China, the United States, Switzerland and Russia

Foreign relations

Italy is a founding member of the European Community, now the European Union (EU), and of the North Atlantic Treaty Organization (NATO). Italy was admitted to the United Nations in 1955, and it is a member and strong supporter of a wide number of international organizations, such as the Organization for Economic Co-operation and Development (OECD), the General Agreement on Tariffs and Trade/World Trade Organization

(GATT/WTO), the Organization for Security and Co-operation in Europe (OSCE), the Council of Europe, and the Central European Initiative.

Italian International Trade Barriers – Strengths & Weaknesses

Strengths

- Because Italy is part of the European Union, they are benefited by the EU's free market, which prohibits any trade barriers or tariffs between its members.
- Due to this, close to 60% of Italy's exports go to other members of the EU, and much of their imports as well.
- Low barriers against textiles (5.4% of the value of imports).
- Italy partners with the World Trade Organization (WTO), North Atlantic Treaty Organization (NATO), Organization for Economic Cooperation and Development (OECD), and others, which helps subdue many of the typical trade restrictions other countries would encounter.

Weaknesses

- High tariffs on agricultural products (38.7% of the value of imports).
- Restrictive pharmaceutical & biotechnology regulations.
- Italian mafia has a huge effect on "invisible" or "non-government" tariffs
- One of Italy's main trade barriers, a regulation set forth by the EU, is the Broadcast Directive & Motion Picture Quotas. This regulation states that with the exception of news, sports, game shows, advertising, teletext, & teleshopping, a majority of TV broadcast time has to be set forth for feature films produced in the EU.
- The quota set forth for motion pictures requires that multiplexes allocate 15-20% of the seats, in at least three the aters per multiplex, to EU content on a daily basis. This deeply affects US film-production companies.

1.6 PRESENT TRADE RELATIONS AND BUSINESS VOLUME OF DIFFERENT PRODUCTS WITH INDIA

Italy and India are also close economic partners and is home to a large population of Indian immigrants. The chief of India's leading political party, the Indian National Congress, Sonia Gandhi, is of Italian descent. Indian and Italy Trade Relations have shown an overall growth over the years. The figures of export and imports in between both the countries showed a positive trend till 2008, which declined to certain extent in 2009. Then after the government try to increase the relation for trade and business between India and Italy.

Trade between India- Italy

- Balance of trade between the two nations remained 337.9 Euro million till 2008 which showed a decline in 2009 and was recorded as 156.7 Euro million.
- Total Italian exports till 2009 has accounted to Euro 290,112 million of which India has a share of 0.95%.

Trade Fairs in Italy and India

The ICCI organises several trade fairs both in India and Italy like, For expansion of trade globally, India Trade Promotion Organization (ITPO) was initiated by the Government of India almost three decades ago. Earlier it was known as Trade Fair Authority of India and Trade Development Authority. Its main objective is to promote trade between India and other nations all across the world by organizing different events, fairs, in India and abroad, Buyer-Seller Meets, Contact Promotion Programs, Product Promotion Programs, Promotion through Overseas Department Stores, Market Surveys and Information Dissemination. India Trade Promotion Organisation (ITPO) will be organising AF-L Artigiano in Fiera, in Milan (Italy) from December. 4, 2011 which will showcase Indian handicraft products.

The groups organizing Indian event in Italy are:

- Chemtech Foundation
- ICCI

- India Label Show
- Indina International Garment Fair
- Tafcon Group

ICCI offers various kinds of support services to the companies of Italy and India who want to take international trade to a higher level and eventually result in the development of the world's economy. The services are given at a reasonable cost to the companies who participate in the fairs and other events and meetings. The services include guiding the companies in organizing meetings, seminars, presentations, organizing business trips and other activities.

Export and Import of Products between India and Italy Basic Chemical Products

- Wearing apparel
- Motor Vehicle
- Basic iron and steel
- Footwear
- Textile Products
- Refined Petroleum Products
- General purpose machinery
- Leather and leather products
- Parts and accessories for motor vehicles and their engines
- Fish products
- Metal products
- Jewellery and related articles
- Basic Pharmaceutical Products
- Cutlery, tools and general hardware
- Plastic products
- Pulp, paper and paperboard
- Aircraft and spacecraft
- Medical Product

1.7 DETAIL ANALYSIS

1.7.1 MAJOR PLAYERS/ COMPANIES OF ITALY

Companies & businesses plays dominant role to make growth of economy. The progress of an Italy's is to a great extent is measured by its industrial development. There are large companies in Italy, also part of economy export & import system is important for trade.

There are some famous or good players of Italy, which are trade within world wide with its large management. Technology. Labor & supply chain management which are as below.

❖ **PIAGGIO**

Founded by Rinaldo Piaggio in 1884, Piaggio initially produced locomotives and railway carriages. During World War I the company focused on producing aircraft.

During World War II the company produced bomber aircraft, but Piaggio emerged from the conflict with its Pontedera plant completely demolished by Allied bombing. Italy's crippled economy and the disastrous state of the roads did not assist in the redevelopment of the automobile markets. Enrico Piaggio, the son of Piaggio's founder Rinaldo Piaggio, decided to leave the aeronautical field in order to address Italy's urgent need for a modern and affordable mode of transportation. The idea was to design an inexpensive vehicle for the masses.

Piaggio based in Pontedera, Italy encompasses seven brands of scooters, motorcycles and compact commercial vehicles. As the fourth largest producer of scooters and motorcycles in the world, Piaggio produces more than 600,000 vehicles annually, with five research and development centers, more than 6,700 employees and operations in over 50 countries.

The vehicle had to be easy to drive for both men and women, be able to carry a passenger, and not get its driver's clothes dirty. In 1946 Piaggio launched the legendary Vespa scooter (Italian for "wasp") and within ten years over a million units had been produced. The Italian language gained a new word, "vespare", meaning to go somewhere on a Vespa.

Products:

- ✓ Scooters
- ✓ Motor cycles
- ✓ Compact vehicles

❖ **A2A GROUP**

A2A is an Italian utility company born out of the merger of two independent Italian companies, AEM of Milan and ASM Brescia at the end of 2007. It is the first Italian operator in the private urban waste sector to work 24 hours for an energy production. It is the third largest company in Italy in the production and distribution of electricity. As well as Italy, the firm operates in Spain, France, England and Montenegro.

Areas of activity:

- ✓ The A2A Spa Group is mainly active in the following sectors:
- ✓ The production, sale and distribution of electrical energy
- ✓ The sale and distribution of gas
- ✓ The production, sale and distribution of heat by means of district networks
- ✓ The handling of waste
- ✓ The handling of the integrated water cycle
- ✓ The sale of ads offers in the electrical network

❖ **LUXOTTICA**

Luxottica Group is the world's largest eyewear company. Its best known brands include Ray-Ban, Persol and Oakley, Inc.. It also makes sunglasses and prescription frames for a multitude of designer brands such as Chanel and Prada, whose designs and trademarks are used under license. Luxottica also makes sunglasses branded Burberry, Polo Ralph Lauren, Stella McCartney, Tiffany, Versace, Vogue.

In addition to making sunglasses, Luxottica also sells them at retail chains it owns, like Sunglass Hut, Oliver Peoples and Pearle Vision Center. In the United States, it also owns Eye Med Vision Care, putting it on the buyers' side of the market as well. Since it rarely uses its own name for any consumer products, and owns such a wide variety of brands, it has been accused of using its power as a price maker to raise the cost of eyewear and keep it high.

Brands

Luxottica's two main product offerings are sunglasses and prescription frames. The company operates in two sectors: manufacturing & wholesale distribution, and retail distribution.

The house brands include:

- ✓ Eye Safety Systems
- ✓ Luxottica
- ✓ Oliver Peoples
- ✓ Ray-Ban
- ✓ Vogue

This company trade world wide with its Italian design eyewear or sunglasses in all over world. In different countries like London, Mexico, china, Australia or India. In India ray ban is famous brand for eyewear of this company. It is best emerging company provide world market products in different brand & quality. Vogue brand is also famous in this segment for company to work, make world class market.

❖ **EDISON**

Edison is an energy company in the field of electricity and natural gas headquartered in Milan, Italy. The company was established in 1884. Edison employs about 4,000 people in Europe, Africa and Middle East. Chairman of the board is Renato Ravanelli and chief executive officer is Bruno Lescoeur.

Edison's primary activities are production and distribution of electricity and natural gas. Edison and its subsidiaries operate across Europe (Italy, Greece, UK, Norway, Croatia, Bulgaria, Romania, Hungary, Belgium, and Turkey), Africa (Ivory Coast, Algeria), Middle East (Egypt).

Edison is the second largest power producer in Italy and in Greece. It operates in Greece through subsidiary Elpedison. It is a joint venture between Edison, Hellenic Petroleum. Together with DEPA, it develops the Greece–Italy pipeline project. Hydrocarbon operations include exploration, production and distribution of natural gas and crude oil.

❖ **FIAT MOTORS**

Fiat (Fabbrica Italiana Automobile Torino) is an Italian automobile manufacturer based in Turin. Fiat has manufactured railway engines and carriages, military vehicles, and aircraft. As of 2009, the Fiat group was the world's ninth largest carmaker and the largest in Italy.

Fiat-based cars are built around the world. Outside Italy, the largest country of production is Brazil, where the Fiat brand is the market leader. The group also has factories in Argentina and Poland and a long history of licensing production of its products in other countries. It also has numerous alliances and joint ventures around the world, the main ones being located in Italy, France, Turkey, Serbia, India and China.

Products

- ✓ Vehicle Components
- ✓ Motors
- ✓ Light weight engineering products

1.7.2 MAJOR TRADE PARTNERS OF ITALY

For most countries in the world, their leading export and import trading partner in terms of value is either the European Union, or to a lesser degree, the United States. Individually for each European Union member or Italy trade with all other European Union members collectively is greater than any other trading partner. The European Union and the United States are each other's largest export market. However both the European Union and the United States have China as their largest origin of imports. In other parts of the world the European Union (italia) or the United States is the largest trading partner, however other leading trading countries may be the most prominent in certain countries. Brazil, Russia and South Africa are becoming increasingly dominant in their respective regional areas.

Germany

Italy's top trading partner is Germany; Italy trades 12.6% in exports and also trades 16.68% in Imports. Germany is their top partner because of a long political history that they have together. They were both axis powers during World War II which has something to do with the reason why they are still so strongly connected. Another reason they are their biggest partner is because where they are geographically located since they boarder Italy. They both also are European Union Members which use Euro currency.

France

France is Italy's second largest trading partner, trading about 11.57% in exports and 8.82% in imports. As well as Germany, France is very geographically close to Italy which makes it easy to be trade partners. Both Italy and France have a very financially industrialized county which both economies are very similar which makes them both beneficial trade partners. They also are a member of the European Union and they also use Euro currency.

China

China is good trade partners of Italy. For trade & the business relation with part to Italy. Italian exports to China totalled 1.405 billion Euros in the first quarter of 2007, nearly 15% higher than during the same period in 2006. The trade balance during the first quarter in 2007 reflected a longer-term trend, with Italy's imports from China rising faster than its exports.

Netherland

The Netherlands trade is the main support system for the economy. Netherlands' location also means that the nation is closest to the European regions that have the maximum population density.The Netherlands trades with a positive trade balance. As the nation enjoys a massive contribution through trade, it is an ardent supporter of open trade, along with the world market.

India

Italy has good trade relation & contribution with India. Economic and commercial relations between India and Italy have been growing steadily. Italy is India's 5th largest trading partner in the EU (21st globally) and the 12th largest investor in India.

⇒ **Major items of Italy exports to India**

Machinery and capital goods, non-electrical equipment, precision and other machine tools, metallurgical products, iron and steel laminates, chemical and pharmaceutical products, engineering items, medium oil and gas oil.

⇒ **Major items of Italy imports from India**

There are many items import from Italy like. textiles, yarns, ready-made garments, motor vehicles, chemicals, iron and steel, footwear, machinery, automotive components, dyes, pharmaceuticals, agricultural and engineering items, granite, gems & jewelry, carpets, iron ore and coffee.

1.7.3 IMPORTANCE OF INDUSTRIES IN ITALY

Industry in Italy is very developed, making one of the most industrialized countries in the world. Different industries are there, which are concern with growth level of country GDP. The progress of a Italy's is to a great extent is measured by its industrial development. To be a strong power in the world, a country needs to be industrially advanced too. Although agriculture has its own importance and provides the basic necessities of life.

We can mention some of the most active ones: the automobile industry, here we have great traditional businesses which make Italy proud throughout the world, the engineering industry, which is very developed and active, the textile, mining, chemical, food, electronic and aeronautic sectors in which our country distinguishes itself for innovation and high quality productions.

Also, Italy remains a versatile country and business men have all the right characteristics to go back to being competitive and winning in the peak sectors of our industry. Although in the last years this primate has been lost, and our country has lost a few positions in this classification. The reasons of this partial decline are in particular the passage to the single European currency (Euro) which hasn't been painless, especially when added to the competition of the Asiatic countries, which manufacture low cost products helped by the lower prices of man- labour.

Important sector of Italy

- Mining

There are no. of resources by which they make coal, power or mine resources to Italy, also country export raw material from Australia & Thailand to make the production. In this mining is important sector for natural resources.

- Chemical

In italy there are many surface base & chemical base industries which are export or producing the goods.

❖ Aeronautics

The Italian aircraft industry is largely concentrated in the industrial areas of the country. Over the years large aircraft constructors, like Caproni, Agusta, Aermacchi and Siai Marchetti brought fame to the Varese territory. Aeronautics parts industries are also a useful & make world class products in Italy.

❖ Food processing

The development of the food processing industry in Italy is good, while its contribution to the GDP is far less substantial; it is nevertheless a significant economic sector.

❖ Textile

Another very important sub-sector in the manufacturing industry is textiles and clothing, which boasts some of the worlds best known fashion designer labels, such as Valentino, Armani, Versace, and many…

The real strength of the sector lies in the efficiency of its distribution networks, and in the fame they enjoy, particularly in newer markets like the United States and Asia where the top labels are status symbols.

Importance of industries

- For providing jobs
- For the development the country
- For maintaining economic and Regional balance
- For the development of society
- For the development of urban areas
- For the welfare of society
- For the improving of living standard of society
- For better working condition

How important are the following industries for providing jobs for italyain to the future?

Industries	Very important	Quite important	Somewhat important	Not very important	Don’t know
Mining	64%	24%	7%	2%	3%
Construction	58%	30%	9%	0%	2%
Manufacturing	55%	29%	12%	2%	2%
Tourism	53%	33%	11%	1%	2%
Retail	47%	35%	13%	2%	2%
Hospitality	46%	38%	12%	1%	3%
Finance	39%	38%	18%	3%	3%
Telecommunications	39%	37%	18%	3%	3%

Respondents regard the mining (64%), construction (58%) and manufacturing (55%) industries to be the most important for providing jobs for Italian in the future.

This was followed closely by the tourism (53%), retail (47%) and hospitality (46%) industries. The finance (39%) and telecommunications (39%) industries are the most likely to be seen as only ‘somewhat important’ (18%) for providing jobs.

1.7.4 NATURE & DIMENSIONS OF BUSINESS IN ITALY

A country of remarkable beauty and varying regional characteristics, Italy is unmistakably a place of cultural achievement and historical pride. Italian culture permeates every aspect of life and as a result, for those wishing to integrate effectively into Italian society or perhaps hoping to successfully break the Italian business market, an understanding of this culture is a vital tool.

Italian Nature – key concepts and values

Individualism

Italian culture has been described as highly individualistic, signifying a society that emphasises individual responsibility and close family ties. This means that Italians will tend to take care of themselves and their immediate family first. Across Italy you will find many Italian businesses owned by individuals and families. In a business context, individualism influences an Italian's preference to do business with people they are already familiar with.

Bella Figura

The term Bella Figura is often used to describe the ability to present oneself well and behave with an air of demure and formality and is a key element in Italian business culture. In some areas of Italy, particularly the south, maintaining Bella Figura is believed to enhance beauty and peace in the world. In Italian culture, appearances and other's opinions are considered extremely important. It is vital therefore, when doing business in Italy, to ensure that all presentations and business materials are aesthetically pleasing to your Italian counterparts.

Affective Communication

An important aspect of Italian culture is the openly expressed thoughts and feelings common to most Italians. Emotions tend to flow easily in this culture with large hand gestures and close personal contact frequently found during Italian conversations. As a result, Italians are often guided by their feelings and in business situations this is important to remember, as establishing solid relationships based on trust are a vital for successful business negotiations.

Italy: A sophisticated business environment

An environment matters there to Italy has made a number of improvements in policy affecting business but it faces stiff competition as a location for corporate headquarters from neighboring economies.

With a population of almost 60 million, Italy is one of the largest and most affluent markets in the European Union. Given its size, there are significant opportunities for economies of scale. Its business environment is also extremely sophisticated, producing goods high on the value chain.

In recent years, the strengthening of domestic legislation has led to improvements in Italian policy toward private companies, while the implementation of EU directives has helped to open up markets in retail trade, energy and transport. The World Bank reports that Italy has made some advances in streamlining its processes by enhancing its online registration system. Opening a business in Italy is estimated to take only six days.

Business Italia

More than just art, culture, style, gastronomy, climate and nature: following recent reforms Italy offers new opportunities for business investments, production and profits.

Italy is already well known for its important lively economy, ranked seventh in the world according to production value. It is a member state of the European Union and part of the Euro zone. Within this framework, three fundamental components of economic legislation have been revolutionized: the tax system, company law and labor legislation. These changes seek to establish regulations in line with those of other advanced economies, in order to make the Italian System more attractive to economic operators and more competitive internationally.

Business Opportunities in Italy

Auto Components

Many of the opportunities in this sector relate directly to Italy's major car manufacturer, Fiat Group, across the whole range of components as the company begins to recognize Thai capability. Apart from Fiat, the best prospects for overseas suppliers include components and accessories for 4WD vehicles and pick-ups, sport utility vehicles, alternative fuels (especially gas or organic) and fuel additives.

Cosmetics and Toiletries

Opportunities exist in the areas of hair care products, pre- and after-shave products, perfumes, eau de perfume, eau de toilette, and eau de cologne, lip care products, moisturizers and cleansers as well as personal hygiene (soaps, deodorants, etc)

Since Italy imports virtually all its raw materials, it is possible to supply Italian manufacturers with ingredients such as aloe vera, lavender, and essential oils. There are also good prospects for products that distinguish themselves from what is already available on the Italian market, e.g. tea-tree and eucalyptus-based products. However, the packaging must be of good quality and stylish design.

Flowers and Plants

The main opportunities in Italy's flower and plant industry include cut flowers and foliage for arrangement, indoor and outdoor plants, shrubs and trees.

Food and Beverages

Fruit and vegetables exporters have excellent opportunities for supplying Italy in the off-season. The best opportunities for suppliers are in seafood, alternative meat varieties, exotic fruit, herbs and vegetables and organic and natural foods e.g. rice and cane sugar.

Information and Communications Technology

Currently, the best prospects for IT in Italy are E-government, E-security, E-learning and E-commerce (B2B and B2C).Another area offering good prospects for out source companies is multimedia products and services. However, CD-ROMs need to be translated into Italian and adapted to specific local needs. Italy has a shortfall of specialist ICT consultants, which means that there could be opportunities for other companies.

Good opportunities exist for exporters and service providers in the telecommunications sector include value-added services for mobile telephony, services for broadband technology and services for wireless fidelity (WiFi) technology

Italian Trade Fair

There are more than one thousand venues taking place in Italy: 195 international events, 422 national and 113 at a regional level: all information about these venues can be found on AEFI's web site. Economic categories represented are 27 besides the trade fairs. These figures highlight the importance of the national trade fairs system. It is a system based upon the industrial structure of our country, which looks at the sector specialization and to the peculiarity of district as a starting point for its development and for its international grandeur. In recent years the Italian trade fairs system has been involved in many changes: growth plans, juridical transformation of the trade fairs Bodies in Spa, decentralization of the competences regarding trade fairs and exhibitions at a regional level. Gathering articles, researches, studies, gatherings specifically carried out give organizers and users of the Italian trade fairs system the chance to be constantly updated on the developments.

Invest In Italy

New Business Environment

Foreign companies looking to invest in Italy have the same kinds of choices and guarantees for setting up business that other leading developed countries offer. Following a thorough reform of Italian business law in early 2003, the legal framework for companies can now be considered one of the most modern and dynamic in Europe. The reform amended and supplemented portions of the Italian Civil Code (ICC) and modified Italy's Unified Rules on financial intermediation (Law 58/1998, known as the 'TUF') which now include specific provisions for listed companies.

The TUF has been significantly amended by means of law no. 262 dated December 28, 2005 which provides rules aimed to safeguard savings.

Overall the 2003 reform successfully introduced:

- ❖ Changes to the structure of commercial companies (Joint Stock Company, Limited Liability company) which simplify and speed up the procedures for establishing a business
- ❖ New financial instruments for companies to create special categories of shares
- ❖ New rules providing greater flexibility and choice in corporate governance
- ❖ Corporate responsibility for groups clarifying issues related to liability, transparency and publicity.

Everything for Establishing and Maintaining a Business Available On Line

In Italy, all businesses must be registered in a specific list (the “Registro delle Imprese”, Commercial Register) held by the local Chamber of Commerce. It is sufficient to sign an agreement with the Chamber of Commerce in order to absolve on line all the administrative fulfillments through the “Telemaco” IT System. Registered users have access to software which allows rapid and simple preparation of requests for registration and modifications to the existing registrations with the Commercial Register. Telemaco also allows access to much of the information managed by the

Chamber of Commerce. The site of the Ministry for Productive Activity (www.mindustria.it) offers research, documentation, statistical data and other information (for example, on localization contracts).

The national agency for business development and the attraction of investments, which is also responsible for promoting new investments in Italy, with particular reference to the South and to under-used areas of Central and Northern Italy with strong development potential. The agency acts as a single voice for the management and coordination of every stage of the process of establishment: from the identification of localization opportunities to the support for the implementation of the project, from assistance in relations with public administration and Governmental institutions to the direct granting of concessions, up to and including after care services.

A Single Office for Productive Activity ("Sportello Unico per le Attivita' Produttive"-SUAP) has been activated in 69% of Italian municipalities, where those entrepreneurs who plan to start up a new business can request information and fulfill the necessary obligations, without having to contact separately all the government offices involved. The Single Office simplifies procedures and reduces the time and costs involved in business start up. More information can be obtained from the websites of individual municipalities (a list of which can be found at on www.formez.it . subsidiaries or controlled companies may withdraw from the company under specific circumstances.

1.7.5 TYPES OF BUSINESSES IN ITALY

Businesses are vey emerges to every country with its growth & revenue. There are many business forms in Italy. Italy is a location preferred by foreign investors from all over the world, as the government offers investment incentives in certain areas. Those who wish to **establish a company in Italy** can choose from the following business entities in accordance to their requirements.

Forming the Italian Companies

- **Forming a General Partnership (Snc - Societa in nome collettivo) in Italy**

The general partnership is designated for businesses from small to medium and can be established by two ore more members. It does not require a minimum capital and all members are jointly and severally liable for the debts and obligations of the company. Each partner can be actively involved in the management of company. Thus, a partnership taking part with Italian regards.

- **Forming a Limited Partnership (Sas - Societa in accomandita semplice) in Italy**

This kind of partnership resembles with the general partnership, being set up by at least two members who are not obliged to provide a minimum capital. The main difference consists in the different types of partners. At least one member is a general partner, having the right to make management decisions, instead bearing full liability for he company's debts and obligations, and at least one partner is limited, having limited liability to the extent of his or her contribution to the company' assets. A limited partnership business.

- **Forming a Partnership Limited by Shares**

This partnership is also established by two or more members with at least one member bearing full liability, and at least one holding limited liability. There is no need for a minimum capital, and the main difference is that members of this partnership type have shares, instead of quotas.

- **Forming a public limited corporation**

A corporation is designed for business at a large scale. There is public entity concern with its corporation. This company has legal personality and can be established by at least two members who provide a minimum capital of EUR 120.000. Each partner's contribution is represented by shares. In a corporation they can be quoted on the stock exchange. The partner's liability is limited to the extent of their contribution to the company's assets.

- **Limited Liability Company**

Quotas represent the extent of member participation. The SRL is accountable with its own assets for the obligations it undertakes. The minimum capital required is 10,000 Euro.

Incorporation The SRL can have unlimited duration. Contributions include money and, depending on the articles of association, any items of economic value including services supplied by quota holders, if adequately guaranteed. Upon formation, each quota holder shall pay in one fourth of his/her money contribution and the full premium. The articles of association and the bylaws shall be in the form of notarial deeds.

Types of company

General partnerships

In Italy general partnership can be formed with such market businesses. All members of the SNC are jointly and severally liable for the obligations assumed by the company. Nonetheless, creditors of the SNC cannot claim payments from the members until after all remedies against the SNC have been exhausted. The SNC, although it is not a legal person (it is not incorporated), can to certain extents be regarded as an autonomous entity distinguished from its members.

Limited partnerships

The partners have unlimited liability for the company. General members are jointly and severally liable without limits for the obligations of the partnership whilst silent partners are only liable to the extent of their contributions. The business name must consist of at least the name of a general partner, and a mention of the limited partnership status. The rules governing the general partnership are applicable to the limited partnership insofar as they are compatible with this model. The article of association must include the names of the general members as well as those of the silent partners.

Partnership limited by shares (società in accomandita per azioni)

There are two categories of members: general partners, who are liable jointly and severally liable without limitation for the partnership obligations, and special partners who are liable within the limit of subscribed capital. Creditors of the Partnership limited by shares cannot claim payments from the general partners until after all remedies against the company have been exhausted. Participations are represented by shares. General partners are directors by operation of law and are subject to the same duties as the directors of a Partnership limited by shares Rules concerning the Shareholder Meeting and the Board of Statutory Auditors of the Partnership limited by shares are also applicable, to the extent compatible, to the Partnership limited by shares.

1.7.6 BALANCE OF PAYMENT OF ITALY

Italy did not have serious balance of payments problems since the mid-1970s. Exports soared since 1992, turning Italy's balance of payments positive. The growth in exports has been extremely strong in the northeast, where small and medium-sized companies produce high quality and low cost products ranging from industrial machinery to ski boots for French, German, Japanese, and Indian customers.

Italy had current account surpluses from 1993 to 1999, but in 2000 the country registered a $5.6 billion deficit, after an $8.2 billion surplus in 1999. The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Italy's exports was $259.2 billion while imports totaled $238.2 billion resulting in a trade surplus of $21 billion.

The International Monetary Fund (IMF) reports that in 2007 Italy had exports of goods totaling $242.4 billion and imports totaling $226.6 billion. The services credit totaled $57.5 billion and debit $57.4 billion. Also reports stated that at the 2015,italy has power of $500 billion trading work.

The following table summarizes Italy's balance of payments as reported by the IMF for 2001 in millions of US dollars.

Current Account	**-163**
Balance on goods	15,862
Balance on services	203
Balance on income	-10,280
Current transfers	-5,949
Capital Account	**846**
Financial Account	**-3,211**
Direct investment abroad	-21,758
Direct investment in Italy	14,874
Portfolio investment assets	-36,167
Portfolio investment liabilities	29,329
Other investment assets	717

Other investment liabilities	10,233
Net Errors and Omissions	**1,940**
Reserves and Related Items	**588**

Data source(s) used

The balance of payments is compiled monthly by the Bank of Italy and the UIC (Ufficio Italiano dei Cambi).The main data sources are the foreign exchange reports collected from banks, monetary authorities, enterprises and households.

Direct source

Bank of Italy

Source Periodicity

Data are compiled monthly on a transactions basis

Source matters

Description can be found in country pages of European Union Balance of Payments/ International Investment Position Statistical Methods published by the European Central Bank (http://www.ecb.int)).

Unit of measure used

Data are disseminated in millions of euro.

Seasonal adjustment

The seasonally adjusted current balance series presented in US dollars is obtained by converting the seasonally adjusted monthly and quarterly figures expressed in national currency using respectively the monthly and quarterly average exchange rates. The annual figures are obtained by converting annual raw figures in national currency using the annual average exchange rate. It should be noted that the sum of the monthly (quarterly) figures does not necessarily equal the corresponding quarterly (annual) figure due to fluctuations in the exchange rate.

Other manipulations

Data prior to entry into EMU (prior to 1999) have been converted from the former national currency using the appropriate irrevocable conversion rate. The presentation facilitates comparisons within a country over time and ensures the historical evolution (i.e. growth rates) is preserved. However, pre-EMU euros are a notional unit and are not normally suitable to form area aggregates or to carry out cross-country comparisons.

Quality comments

Prior to 1988, data corresponds to those sent to Euro stat for the computation of the Euro zone data. Monthly data prior to 1999 are provisional.

Balance of Payment of Year ending at June 2012

	June 2011			12 months ending at June 2011			12 months ending at June 2012		
	Credits	Debits	Balance	Credits	Debits	Balance	Credits	Debits	Balance
CURRENT ACCOUNT	**46,687**	**49,364**	**-2,677**	**512,766**	**572,612**	**-59,846**	**536,163**	**566,223**	**-30,060**
Goods	32,657	33,653	-996	363,200	388,438	-25,238	384,062	381,216	2,846
Services	7,120	7,125	-5	75,019	84,080	-9,061	77,062	82,410	-5,348
Income	5,420	5,936	-517	56,117	65,803	-9,686	55,870	66,332	-10,463
Current transfers	1,491	2,650	-1,159	18,431	34,292	-15,861	19,170	36,265	-17,095
	Assets	Liabilities	Balance	Assets	Liabilities	Balance	Assets	Liabilities	Balance
CAPITAL ACCOUNT	200	-	200	-176	-	-176	-2,426	-	-2,426
FINANCIAL ACCOUNT (*)	**-**	**-**	**27,685**	**-**	**-**	**92,793**	**-**	**-**	**40,864**
Direct investment	-4,722	3,562	-1,160	-37,115	13,156	-23,959	-32,365	10,614	-21,751
Portfolio investment	7,530	25,483	33,013	-4,483	65,480	60,997	65,328	-149,746	-84,418
Equities	661	16,653	17,314	-28,088	14,866	-13,221	9,738	1,429	11,167
Debt securities	6,869	8,830	15,699	23,605	50,614	74,218	55,590	-151,175	-95,585
- short-term	3,996	-2,454	1,542	-1,555	-9,156	-10,711	-6,304	-5,685	-11,989
- medium/long-term	2,872	11,284	14,156	25,160	59,770	84,930	61,894	-145,490	-83,596
Financial derivatives	319	-286	33	6,719	-5,993	726	6,889	-4,846	2,043
Other investment	1,760	-6,161	-4,401	8,565	46,640	55,205	-66,127	213,543	147,416
Monetary authorities	7,788	-182	7,606	16,780	1,848	18,628	5,913	273,168	279,081
General government	-1,591	1,356	-235	-7,429	2,179	-5,250	-19,102	16,287	-2,815
MFIs	-5,517	-7,427	-12,944	-2,451	33,223	30,773	-44,053	-79,662	-123,715
Other sectors	1,080	92	1,172	1,665	9,390	11,055	-8,885	3,750	-5,135
Reserve assets (**)	**-**	**-**	**-24,847**	**-**	**-**	**-32,008**	**-**	**-**	**-11,525**

The trade balance has clearly improved by a large amount, with trade in goods registering a surplus of Euro 2.85bn for the 12-month period ending at June 2012, compared with a deficit of Euro 25.24bn during the corresponding period last year. Services registered a deficit of Euro 5.35bn,almost half than Euro 9.06bn a year ago, while the total current account balance was Euro -30.06bn compared with - Euro 59.85bn.

What is worrying is the financial account. Portfolio investment made a very large swing from Euro +61bn to Euro -84.4bn, mainly due to outflows of Euro 95.6bn in securities (especially medium/long-term). Other investment is only positive due to a positive balance of Euro 279.08bn from Bank of Italy. There's actually a very large capital flight out of MFIs which instead of a positive Euro 30.8bn balance now have a deficit of Euro 123.7bn (a change of more than 150bn) with assets and liabilities all playing their part, while 'other sectors' had a Euro 8.9bn reduction in foreign assets.

Although the Italian real tradable sector shows very strong signs of improvement, the capital flight out of Italy is very large.

Policies For Internal Balance

For policy to be successful, it has to be properly aligned with outcomes. People have to know why tough economic decisions are being made and how it benefits them; it also has to make sense. You can't just tell someone that something will be good for them and expect them to do it if it doesn't make sense and isn't in their interests.

Internal balance is important criteria to work the policies. Italy has polices with European system based with banking trade. It occurred to TH after writing the last piece that the Assignment Problem for the euro area was particularly interesting. Correct him if he's wrong, but it seems that what you would probably take away from a quick review of the literature on euro crisis adjustment is that countries in the periphery, such as Spain, or Portugal or Greece are undertaking internal devaluations as a means of regaining external balance. This leaves open the question of what fiscal policy is being used for. Most people would probably argue that fiscal policy is being adjusted to maintain government debt sustainability. But it certainly isn't clear that it is being assigned to maintain internal balance.

Such a view of fiscal policy while not necessarily wrong – but it is probably not completely right either and might be a bit confusing too. In TH's mind the idea that fiscal policy can be adjusted to achieve a non-macroeconomic objective is not associated with key macro variables such as growth, employment, inflation and so on But is more consistent with the new macro orthodoxy for countries on flexible exchange rates, rather than those on fixed exchange rates. It is the assumption that fiscal policy is an extra policy lever that is largely unassigned to macro policy is recall that under flexible exchange rates, the exchange rate adjusts to maintain external balance, leaving monetary policy to maintain internal balance and fiscal policy free to meet non-macroeconomic social objectives such as roads, education and health.

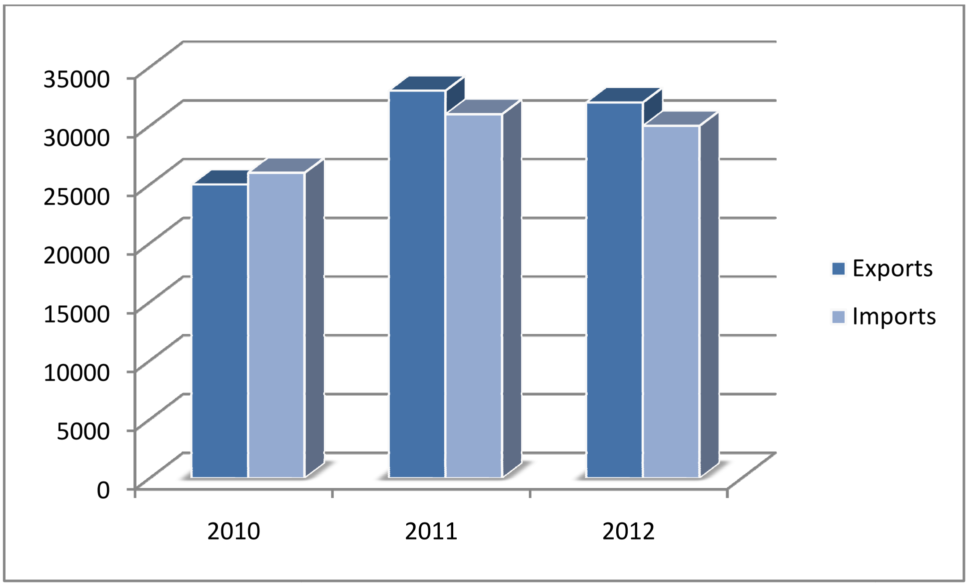
Likewise the idea that an internal devaluation – cuts to wages to deflate the economy – to restore competitiveness and external balance is borrowed from theories about flexible exchange rates. It is the idea that depreciation is what is required keep the balance of payments in balance when faced with a situation where a trade deficit suddenly becomes unsustainable for some reason. But when in a common currency area, it is not quite as obvious that the real exchange rate is what adjusts – other things do too including labour, capital and income flows. This adjustment process is complex and not so well understood as we like to think.

Italy Using fiscal policy to target external balance is not a bad idea either given that for most of the periphery fiscal solvency is directly linked to the solvency of the banking systems that financed the external imbalances. Thus targeting fiscal policy to achieve external balance helps to break the feedback between banks and sovereigns.

The basic message here is fairly simple. The euro area cannot go on ignoring internal balance at the expense of actions to restore external balance and fiscal sustainability. Saying that wages need to be lowered to reduce unemployment to a reasonable level is hard for workers, but it is straight forward, logical and justifiable, so is saying that government savings will be increased to boost national savings.

1.7.7 FOREIGN TRADE POLICY (EXIM POLICY) OF ITALY

Italy recorded a trade deficit for several decades, largely due to the fact that the country lacked energy resources and was entirely dependent on imports for its supply. However, the 2000s brought a change of fortune. Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders. Foreign trade policy works the whole market to trade.



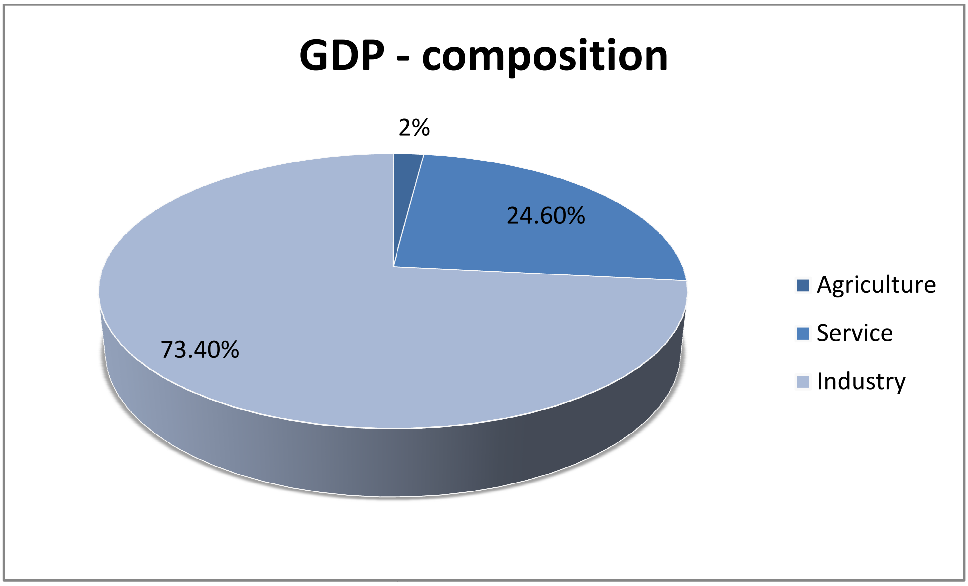
Trade (expressed in EURO millions): Italy

Year	**Exports**	**Imports**
Jan 10	25000	26000
Jan 11	33000	31000
Jan 12	32000	30000

In the start of Jan 10, export trade of Italy is 25000 euro millions, where import is 26000, which is greater. But with strong polices & best trade Jan 11 shows figures of 33000 euro millions of exports & decreased the import with 31000. It is best policy trade. In the last figures Jan 12, shows 30000 euro millions import against 32000 euro millions exports, with vast work & international policies Italy work as GDP based country with great revenue.

Italy benefits from the EU free market, which is not subject to any trade barriers or tariffs, and 56.8 percent of Italian exports, went to other EU countries in 1999. Italy's main export destinations within Europe are Germany (16.4 percent), France (12.9 percent), the United Kingdom (7.1 percent), Spain (6.3 percent), and the Netherlands (2.9 percent). The country's biggest commercial partner outside Europe is the United States, which takes 9.5 percent of Italy's export goods. Recently, a number of Asian countries have become important buyers of Italian products, and exports, particularly of clothes and shoes, to Japan, South Korea, and China are increasing. Italy's major exports are transport equipment, electrical machinery, textiles and clothing, chemicals, and food and beverages. The single largest export is transport equipment, with FIAT the main supplier. FIAT not only exports the motor cars (including Ferraris) for which it is known worldwide, but also a number of other vehicles ranging from train carriages and metro cars to trucks and motorcycles.

GDP - composition by sector: (2011EST.)



Agriculture: 2%

Industry: 24.7%

Services: 73.4%

OTHER ECONOMIC

The government has launched different social measures in order to try to help those who are in the most unfavorable conditions, which had a direct consequence on increasing dramatically the public expenditures of a country that has one of the highest public debts in the world (more than 100% of the GDP). The government has, then, adopted a rigorous plan of EUR 24 billions in three years, it has frozen salaries and increased taxes with the purpose of attempting to bring the public deficit to 2.7% in 2012 and reducing its debt/GDP ratio. The priority is also given to the fight against tax avoidance in this country where the black economy is very significant. The unemployment rate has risen to about 8.7%. Regional inequity is very pronounced, specially between the north, which is very industrialized and dynamic, and the rural and poor regions of Mezzogiorno in the south.

FDI in Figures

In relation to its European neighbors, Italy does not attract but a small amount of foreign direct investment (FDI). After their fall in 2008, under the effect of the global crisis, the FDI flows started to revive in 2009. The privatization program led by the country, the liberalization of the energy and the markets of telecommunications offer interesting opportunities to investors. However, a strict labor law, high taxes, inefficient public services, corruption and the activities linked to organized crime are some of the hindrances to investment.

Globalization - The Benefits of Trade

International trade allows participating countries to benefit from specializing in products and services in which they have a comparative advantage over other countries. In other words it is more cost effective for them to to specialize in a certain product. For example, Italy has a comparative advantage over Israel in wine production, since the climate is good for growing grapes. Israel on the other hand has a comparative advantage over Italy in the production of citrus fruit, since the hot climate is friendlier for growing citrus.

If there was no international trade, all countries would have to meet its own needs. In other words Italy would have to grow its own citrus fruit and Israel would have to make its own wine. Even if this was possible, it would be highly inefficient.

Through international trade it is possible for Italy to specialize in making wine and Israel to grow citrus fruit. This increases productivity and thus raises the living standards in both countries.

With specialization comes greater efficiency, meaning countries who specialize can produce goods and services at a lower cost. At the same time, smaller countries countries can achieve economies of scale through accessing the foreign market. For instance, a small country like Ghana specializes in cacao production, but only because they have access to the foreign market. The domestic market is not big enough for them to benefit from the reduced cost of specialization, while the fact that they can export makes it worth while.

IMPORT-EXPORT INFORMATION

The main exported commodities include:

- Engineering products
- Textiles and clothing
- Production machinery
- Motor vehicles
- Transport equipment
- Chemicals
- Food
- Beverages and tobacco
- Minerals and nonferrous metals

Italy imports the following commodities:

- Engineering products
- Chemicals
- Transport equipment
- Energy products
- Minerals and nonferrous metals
- Textiles and clothing
- Food and Beverages
- Tobacco

Import partners

- Germany
- France
- Netherland
- China
- India
- Russia

Export partners

- Germany
- France
- India
- UK
- USA

1.7.8 GOVERNMENT INFLUENCING ON TRADING & INVESTMENT IN ITALY

GOVERNMENT

In a plebiscite on 2 June 1946, the Italian people voted to end the constitutional monarchy, which had existed since 1861, and establish a republic. At the same time, a constituent assembly was elected, which proceeded to draft and approve a new constitution; it came into force on 2 January 1948. Under this constitution, as amended, the head of the Italian Republic is the president, who is elected for a seven-year term by an electoral college consisting of both houses of parliament and 58 regional representatives. Elections for a new president must be held 30 days before the end of the presidential term. Presidential powers and duties include nomination of the prime minister who, in turn, chooses a cabinet with the approval of the president; the power to dissolve parliament, except during the last six months of the presidential term of office; representation of the state on important occasions; ratification of treaties after parliamentary authorization; and the power to grant pardons and commute penalties. Although the constitution limits presidential powers, a strong president can play an important political as well as ceremonial role.

On 13 May 2001, Silvio Berlusconi was again elected as head of state. Although this coalition government was the longest running in Italy's postwar history, after a low showing in regional elections, Berlusconi was forced to resign and form a new government in April 2005. Italy's 60th government since liberation was formed on 23 April 2005.

LOCAL GOVERNMENT

Under the terms of the 1948 constitution, Italy is divided into 20 regions. Five of these regions have been granted semiautonomous status, although the powers of self-government delegated from Rome have not been sufficient to satisfy the militant separatists, especially in Alto Adige. Legislation passed in 1968 granted the remaining 15 regions an even more limited degree of autonomy. All the regions elect a regional council. The councils and president are elected by universal franchise under a proportional system analogous to that of the parliament at Rome.

The regions are subdivided into a total of 94 provinces, which elect their own council and president, and each region is in turn subdivided into communes townships, cities, and towns that constitute the basic units of local administration. Communes are governed by councils elected by universal suffrage for a four-year term. The council elects a mayor and a board of aldermen to administer the commune. A commissioner in each region represents the federal government.

DOMESTIC TRADE

Milan is the principal commercial center, followed by Turin, Genoa, Naples, and Rome. Genoa, the chief port of entry for Milan and Turin, handles about one-third of Italy's trade; Naples is the principal entrepôt for central and southern Italy. Adriatic as well as Middle Eastern trade is carried through Ancona, Bari, and Brindisi. Although small retail units predominate, department stores and supermarkets are playing an increasingly important role. In 2000, Italy ranked second in Europe in franchise business operations with about 562 companies and over 31,400 franchises.

Advertising in all forms is well developed, and the usual mass media (billboards, neon signs, newspapers and magazines, radio, cinema, and television) are used extensively. Market research is handled by over 100 firms.

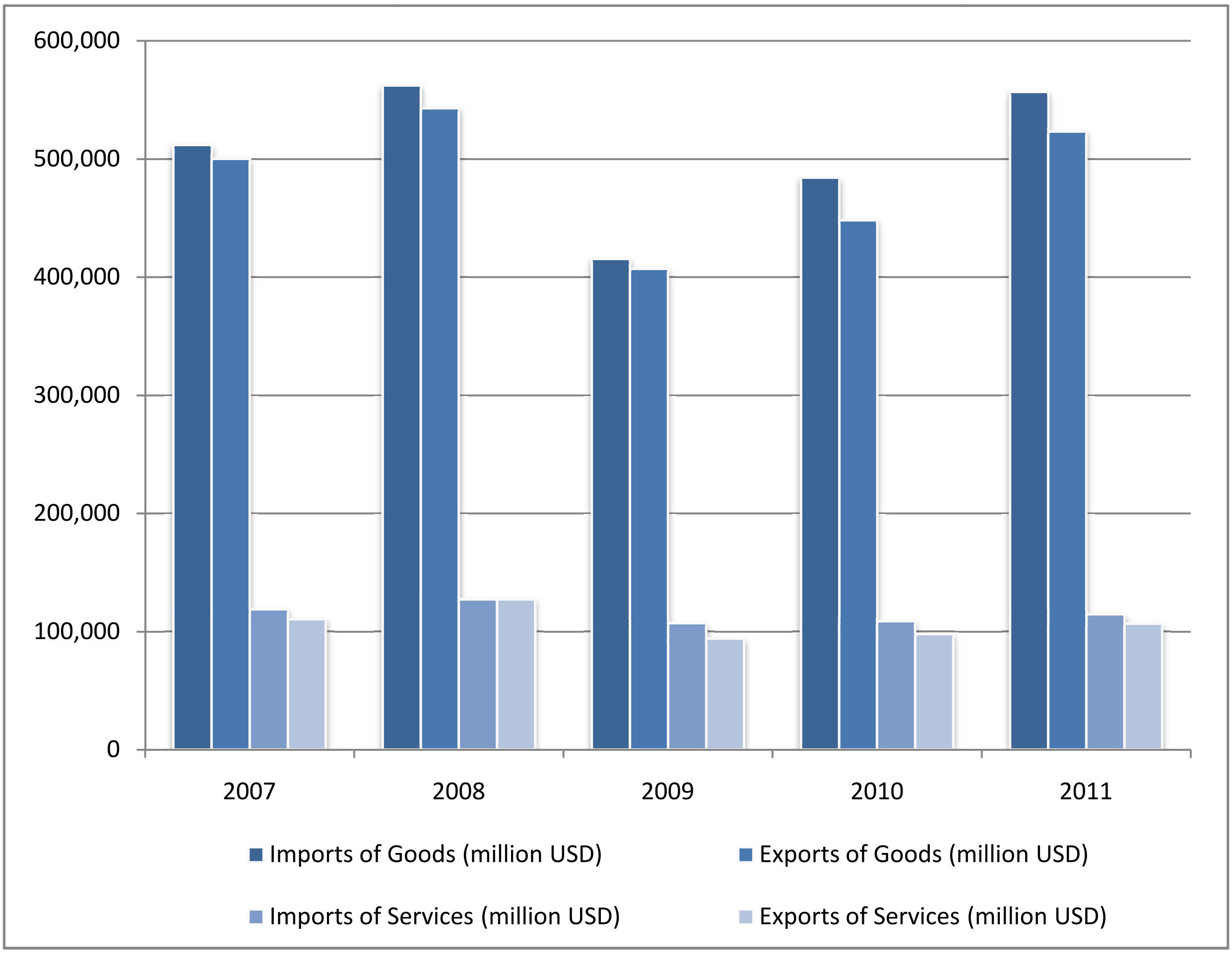
Usual business hours in northern Italy are from 8:30 am until 12:30 pm and from 3:30 to 6:30 pm. In central and southern Italy, customary hours are 8:30 am to 12:45 pm and 4:30 or 5 to 7:30 or 8 pm. Most firms are closed in August. In general, banking hours are 8:30 am to 1:30 pm and 3 pm to 4 pm, Monday through Friday. Retail establishments are generally closed on Sundays.

FOREIGN TRADE

Industrial products, textiles and apparel, shoes, and foodstuffs are Italy's most important exports. However, the textile industry has been hit hard by foreign competition in recent years, especially from China. Fuels, meat, grain products, and various raw materials are among the major imports. Trade deficits were substantial between the end of World War II and 1955, but between 1956 and 1968 the deficit gradually declined, and Italy's trade balance continued in relative equilibrium through 1972. Then, as prices of crude oil and other raw-material imports rose, Italy again began registering growing trade deficits. The resent figures of foreign trade are as under.

Foreign Trade in Figures of Italy

	2007	2008	2009	2010	2011
Imports of Goods (million USD)	511,662	561,919	415,105	483,950	556,873
Exports of Goods (million USD)	499,882	542,748	406,909	447,847	523,001
Imports of Services (million USD)	118,554	127,207	107,094	108,649	114,536
Exports of Services (million USD)	110,439	127,207	93,953	97,628	106,630



As per the World Trade Organization the import and export of goods are increase or decrease with same direction But export of services are more decrease compare to the import of services.

Accounting Rules

Tax Year

The tax year begins on 1 January and finishes on 31 December of the same year.

Accounting Standards

Since November 2001, the organization in charge of the harmonization and control of accounting standards has been the Italian Accounting Organization (Organismo Italiano di Contabilità - OIC). The OIC replaces the "Commissione Paritetica per la Statuizione dei Principi Contabili", a commission controlled by the Italian competent accounting body and which has published 30 accounting standards. Italian accounting standards do not have force of law.

Accounting Regulation Bodies

Organismo Italiano di Contabilità-OIC

Accounting Reports

Italian companies must draw up the following documents in their financial statements:

- The balance sheet.
- The profit and loss accounts.
- The notes to the accounts
- The annual report.

Publication Requirements

The annual report, the audit report, the financial statements and a copy of the minutes of the AGM must be filed with the company register 30 days after the AGM, and this filing must also be published in the official gazette of joint-stock companies(BURSAL). Unlimited liability companies are not obliged to publish their accounts. Companies listed on the Stock Exchange must draw up quarterly financial statements. Unlimited liability companies (SNC, SAS) only have to draw up a balance sheet and a profit and loss account, with no obligatory form. Small companies are authorized to draw up financial statements in a shorter form.

Professional Accountancy Bodies

CNDCEC , National Council of Professional Accountants.

INRC , National Institute of Auditors

Certification and Auditing

The Civil Code obliges limited liability companies whose capital is more than 120,000 EUR to appoint, at the AGM (Assemblea dei soci) an audit committee (collegio sindicale) of three to five members who give an account of their audit in an annual report included in the financial statements of the company. This committee is appointed for three years and may be prolonged indefinitely. Since 2004, a "collegio sindicale" must contain at least one revisore contabile. The law does not impose any particular model of presentation of the audit report. Companies listed on the Stock Exchange must have their accounts audited by external independent auditors (società di revisione).The National Committee for companies and the Stock Exchange is an independent administrative authority whose role is to protect investors.

Taxition

The Italian tax system is considered among the most complicated in the world. Since the late 1990s, the government has been using tax cuts to stimulate economic growth. On 1 January 1998 the government introduced the Dual Income Tax (DIT) system designed to encourage investment by taxing income deemed to be derived from the increase in equity capital in a company at a lower rate than the standard corporate income tax rate. In 2003, the corporate income tax rate (IRPEG), at 36% in 2002, was reduced to 34%. As of 2005, the standard corporate rate was 33%, excluding a 4.25% regional tax (IRAP) on productive activities. Capital gains realized by companies are taxable as business income under the IRPEG and IRAP, and capital losses are deductible. Dividends are taxed at 27% with complete withholding ("payment at the source" or PAYE). This rate may be reduced to 12.5% if residents can show that they had a "nonsubstantial participation" in the firm. A 0% rate applies to dividends paid to resident companies. The PAYE rate for dividends paid to branches of companies from other EU countries is 12.5%

The schedule of personal income tax rates was reformed in 2003 to reduce tax rates and to increase the amount covered by the lowest income band. As of 2005, the individual tax rate progressively increases to a top rate of 39%. However, a solidarity contribution of 4% pushes the top rate to 43%. On 25 October 2001 Italy's gift and inheritance taxes were abolished by the Parliament.

Italy's main indirect tax is its value-added tax (VAT) introduced on 1 January 1973 with a standard rate of 12%, replacing a turnover tax on goods and services. Since 10 January 1997 the standard rate has been at 20% and is applicable to most goods and services. A reduced rate of 10% is applied to some foodstuffs, certain fuel supplies, some transport and some housing, consumers, catering services and live animals. A 4% rate is applied to some foodstuffs, books, newspapers and periodicals, agricultural inputs, and medical equipment. Basic medical and dental services, as well as financial and insurance services are exempt from VAT. A 0% rate is applied to supplies of unwrought gold and ferrous and nonferrous metal scrap, and land not suitable for buildings. Other taxes on transactions include stamp taxes, and contract registration tax.

Tax Rates

Tax Rate - 21%

- There are reduced rates of VAT of 4% and 10% on basic products. A rate of 10% is applied to some foodstuffs, live animals, some fuel supplies, catering, transport and housing.
- A rate of 4% is applied to some foodstuffs, imports of agricultural products, medical supplies, books and magazines.

Other Consumption Taxes

Other taxes are determined at the national or local level such as taxes on tobacco, petrol, alcohol, oil, etc.

Corporate Taxes

Company Tax - 27.5 %.

The calculation is different for banks, insurance companies and other financial intermediaries.

Tax Rate for Foreign Companies

Resident companies are taxed on the basis of their global revenue. Non-resident companies are taxed on the basis of their income earned in Italy.

Capital Gains Taxation

- Capital gains are generally treated as ordinary income and taxed at the 27.5% corporate income tax rate.

Main Allowable Deductions and Tax Credits

- Research expenses. Royalties on intellectual property such as patents and trademarks. Expenses for advertising and entertainments. For additional information, consult the Italy's Tax System on the National Agency for Investment's website.

Other Corporate Taxes

- The Municipal Tax is levied on real estate property.

Country Comparison for Corporate Taxation

Number of Payments of Taxes per Year	15.0
Time Taken For Administrative Formalities (Hours)	285.0
Total Share of Taxes (% of Profit)	68.6

<u>Individual Taxes</u>

Tax Rate - The income tax rate	Progressive up to 43%
EUR 0 - 15,000	23%
EUR 15,001 - 28,000	27%
EUR 28,001 - 55,000	38%
EUR 55,001 - 75,000	41%
EUR 75,001 and over	43%

Allowable Deductions and Tax Credits

- university expenses;
- medical expenses (if they are over 129 EUR);
- Dependent elderly or disabled persons; etc.

Special Expatriate Tax Regime

✓ Expatriates living in Italy will be classified as a Resident or Non-Resident. Non-residents are only taxed on income and gains arising in Italy, compared to worldwide income and gains for residents.

✓ Individuals are considered residents if for a period of 183 days they are registered with the registry office of the Population Registry (Anagrafe); for a period of 183 days has their principal place of business or residence in Italy; for a period of 183 days has his centre of vital interest (i.e. his family) in Italy.

Double Taxation Treaties

Countries with Whom a Double Taxation Treaty Have Been Signed

Withholding Taxes

- Dividends: 27%;
- Interest: 12.5% to 27%;
- Royalties: 15% if resident and 22.5% to 30% if non-resident.

Sources of Fiscal Information

- Tax Authorities - Italian tax agency
- Other Domestic Resources

Opening Hours and Days

- Saturday and Sunday closed, or only Sunday and Monday morning for trade.

Public Holidays

New Year's Day	1 January
Epiphany	6 January
Easter Sunday and Monday	First Sunday after the first full moon of spring
Liberation Day (National holiday)	25 April
Workers' day	1 May
Funding of the Republic	2 June
Assumption	15 August
All Saints	1 November
Immaculate Conception	8 December

Christmas and St Stephen's Day	25 and 26 December
Summer holidays	Second and third week of August

Holiday Compensation

- When a public holiday falls on a Sunday, some shops are closed the Monday after.

Influences on Trade and Investment Patterns

Economic Conditions

Changes in worldwide affluence have affected the total value of world trade and investment, the types of products involved, and the proportionate value of international business accounted for by individual countries. Definitive figures on the changes in historic world output are unavailable, but indications are that international trade has remained a fairly constant percentage of gross world products (GWP) over a long period. This does not mean that trade and production will be related in exactly the same way every year. During economic booms, as in much of the 1970s, trade tends to grow more rapidly than production. Conversely, a slow economic growth rate, as in the early 1980s, causes trade to increase more slowly than production. In the late 1980s, trade and production both grew at about the same moderate rate. The reason for this cyclical relationship is that consumers and government policy-makers consider many foreign goods marginal and thus curtail imports as the economy slackens. Producers may also attempt to export only when they have surpluses and will add capacity to serve foreign markets only if the foreign demand is sustained for a long period of time. Changing world affluence has affected the types of products and their relative importance in world trade. In the mid-nineteenth century, food purchases are replaced by non food items. This trend has decreased the proportion of world trade and investment accounted for by agricultural products and increased the proportion accounted for by the manufacturing sector. In addition to traditional goods and services, the world mass market now has access to commodities that once were luxuries, such as watches and foreign travel.

Technology

Rapid technological changes in this century have created new products, displaced old ones, and altered the relative positions of countries in world trade and investment. The most obvious examples of change are new products, such as jets, computers, and transistor radios, which make up a large portion of international business. Products that existed in earlier periods have increased their share in world trade because of technological changes in the production process, as with automobiles, or because new uses have been found for them, as with soybeans and fish meal. Other products have been at least partially displaced by substitutes, such as artificial fibers for cotton, wool, and silk and synthetic rubber and synthetic nitrate for the natural products. Still other products have experienced reduced growth in demand because technology has resulted in methods of conservation. Thinner tin cans and copper wiring that can carry more telephone messages simultaneously have moderated demand for these metals. Because most technical advances have emanated from the most industrialized (richer) countries, firms from these countries control a greater share of the trade and investment in the manufacturing sector or businesses.

2.1 INTRODUCTION OF FOOD INDUSTRY OF ITALY

The food industry plays an important role in the manufacturing industry because it is the third most important sector, behind the mechanical and the textile sectors. It has specific characteristics and is deeply settled in the Italian productivity sector. the Italian food industry has been characterized by greater connections to the agri-food system and to the food chain. As the years go by, the agri-food sector has been characterized by the growth of a great number of industrial groups, mainly foreign. In addition, the emerging of agri-food districts put in evidence the specialization and the localization of the enterprises in some particular Italian areas. Italy's economic structure relies mainly on its manufacturing and service sectors. The Italian economic structure is well-developed; industrialized in the north, and agricultural based in the south.

The food industry in the European Union In contrast with the ITALY, the EU has a trade surplus in the food and drinks processing sector, exporting 45 billion Euros (€) as against imports of €36.4 billion in 2008. The United States is by far the leading destination country (€9 billion), followed by Japan (€3.7 billion), Switzerland (€2.6 billion) and Russia (€2.6 billion). ITALIAN food industry is well developed & furnish with new level in the global market. Italy has vast market concern with euro zone.

Italy is the 4th largest food & drinks manufacturer in the European union(EU) and Italy's food and drinks industry is the country's second –largest manufacturing sector. It accounts for about 12% of GDP and had a total sales value of US$168 billion in 2008. Italy is still a tradition country when it comes to food. italy is significant producer & exporter of food & beverage products.

Food industry of Italy is best industry concern with business or production base. The relation between agriculture and agri-food industry has been progressively changed, particularly between local agricultural output and transformation. In that food industry there are no. of parts & sector, it includes dairy products, confectionary/ chocolate, cold-drinks, mineral water etc..

2.1.1 INDUSTRY CONCERN TO CHOCOLATE OR CONFECTIONERY MARKET

In this food industry, the chocolate market or confectionery market has good coverage Italy. The Italian chocolate market is very broad and complex, due to the presence of many segments that often cross each other. Almost 10.5 million Italian families buy chocolates/candies more than four times per year. During the last four years, the market has been characterized by a fairly sustained rate of growth (6-7% per year) & should remain in upcoming years

The Italian chocolate market has a limited number of players, especially concerning production. In fact, almost all products are made by the same industry, in the same manufacturing facilities delocalized in the East: China, India, Indonesia and Russia. Distribution partnerships between companies in different countries are quite common: that allows foreign producers to expand their geographic market using already implemented distribution networks.

- Table shows that confectionery or chocolate market portion in food industry of Italy:

SECTOR	TURNOVER 2006 (mill euro)
Dairy products	18000
Confectionery /chocolate	14500
wine	8000
Beef	5000
Pasta	4150
Preserved vegetables	4250
Mineral water	4000
Oils	2500
Coffee	3050
Soft drinks	1700
Diet & child foods	2235
Fruit juice	1015

Other products	28500
Total	**96900**

From this table we identify that, confectionery or chocolate market is second large sector in turnover with 14500 million euro of 2006.

2.1.2 INTRODUCTION OF FERRERO COMPANY

Ferrero SpA is an Italian manufacturer of chocolate and other confectionery products. It was founded by confectioner Pietro Ferrero in 1946 in Alba, Piedmont, Italy. The company saw a period of tremendous growth and success under Pietro's son Michele Ferrero, who in turn handed over the daily operations to his sons. Reputation Institute's 2009 survey ranks Ferrero as the most reputable company in the world. Ferrero SpA is a private company owned by the Ferrero family and has been described as "one of the world's most secretive firms".

The Ferrero Group worldwide – now headed by CEO Giovanni Ferrero – includes It operates more than 70 affiliated companies, has 15 production plants and and employs nearly 22,000 people worldwide. Michele Ferrero's son Pietro died in 2011, leaving his surviving son, Giovanni, as the sole CEO of the group. Ferrero International SA's headquarters is in Luxembourg. Its German factory is the largest of all and Pasquale Giorgio is its current CEO. In short, behind the trademark, the turnover and the expansion of a multinational company, there is the story of a brilli108ant and strong-willed Piedmontese family that gathers its extraordinary strength for growth from the Ferrero Foundation’s motto: “Work Create Give”.

Ferrero have wide range of chocolate variety brands include Ferrero Rocher hazelnut chocolates, Kinder, Nutella and Tic Tac. Ferrero Company Driven by strong sales in Russia, the U.S., and Brazil, revenue rose 9.1% in 2011 to $9.6 billion. That increase pushed up the value of the group, and Ferrero's net worth, by $1.4 billion since last year. Despite the continuing difficult international context and the consequent negative economic trend, characterised by the on-going slowdown in food consumption in some

European markets, the Ferrero Group has nonetheless managed to further strengthen. This growth was the result of an extraordinary dynamism in the areas of the Group's recent expansion (with excellent results in Asia, the United States and Russia), as well as the constant efforts of innovation, Research & development, marketing base, domestic concern.

Table of Chocolate Market

Candy Industry publishes an annual list of the top 100 global confectionery companies, ranking them by net sales.

The table below is an extract from this list, giving the top ten global confectionery companies that manufacture some form of chocolate, by net confectionery sales value in 2012:

Company	Net Sales 2012 (US$ millions)
Mars Inc (USA)	16,800
Mondeléz International Inc (USA)	15,480
Barcel SA, division of Grupo Bimbo (Mexico)	14,095*
Nestlé SA (Switzerland)	12,808
Meiji Co Ltd (Japan)	12,428*
Hershey Foods Corp (USA)	6,460
Ferrero Group (Italy)	5,627
Chocoladenfabriken Lindt & Sprüngli AG (Switzerland)	2,791
August Storck KG (Germany)	2,272
Yildiz Holding (Turkey)	2,200

Report publish by: *Candy Industry*, January 2013

The report publish by candy industry in jan 2013, declare that Top 10 confectionery /chocolate manufacturing company with sales revenue. So we can pointed on our company that ferrero is 7th largest company in last published data worldwide. Which shows that company has large market capital & network with high manufacturing company with 5,627 US$ millions.

According to recent data, ferrero company reached at top ten level in revenue generated in the world.

- **FERRERO IN INDIA**

Ferrero a new plant in Baramati, a rural area 100 kilometres from Pune in the Maharashtra region of India. Attending the inaugural ceremony, besides Giovanni Ferrero, CEO of the Group, ambassador Francesco Paolo Fulci, and representatives from Ferrero's top management, were Italy's ambassador to India Giacomo Sanfelice and the General Consul Giampaolo Cutillo. Extending over an area of 28,000 sqm, which includes the production facilities, a warehouse and service areas, the plant will produce Kinder Joy eggs and Tic Tac mints using locally sourced raw materials and packaging materials, and will provide work for capacity 1300 people (80% of them women) residing in the proximity of the plant. This is a great opportunity for these people who will profit from stable, well-paid jobs and will have access to top-notch professional training as is habitually provided by the Ferrero Group to its employees. Ferrero as part of its Social Enterprise Initiatives scheme to improve people's quality of life, living conditions and development in the underprivileged areas of the world.

MAIN OFFICE & PLANT

- FERRERO INDIA PRIVATE LIMITED
  Administration and Sales Unit
  201-202 Pentagon Tower 1,
  Magarpatta City
  Hadapsar, Pune - 411028
  Tel: 0091-20-66804100
  Fax: 0091-20-66804050

- IMSOFER MANUFACTURING INDIA PRIVATE LIMITED.
  Manufacturing A-5,
  M.I.D.C., Baramati – 413 133,
  Dist. Pune, Maharashtra
  Tel: 0091 2112 244600/ 700
  Fax: 0091 2112 243400

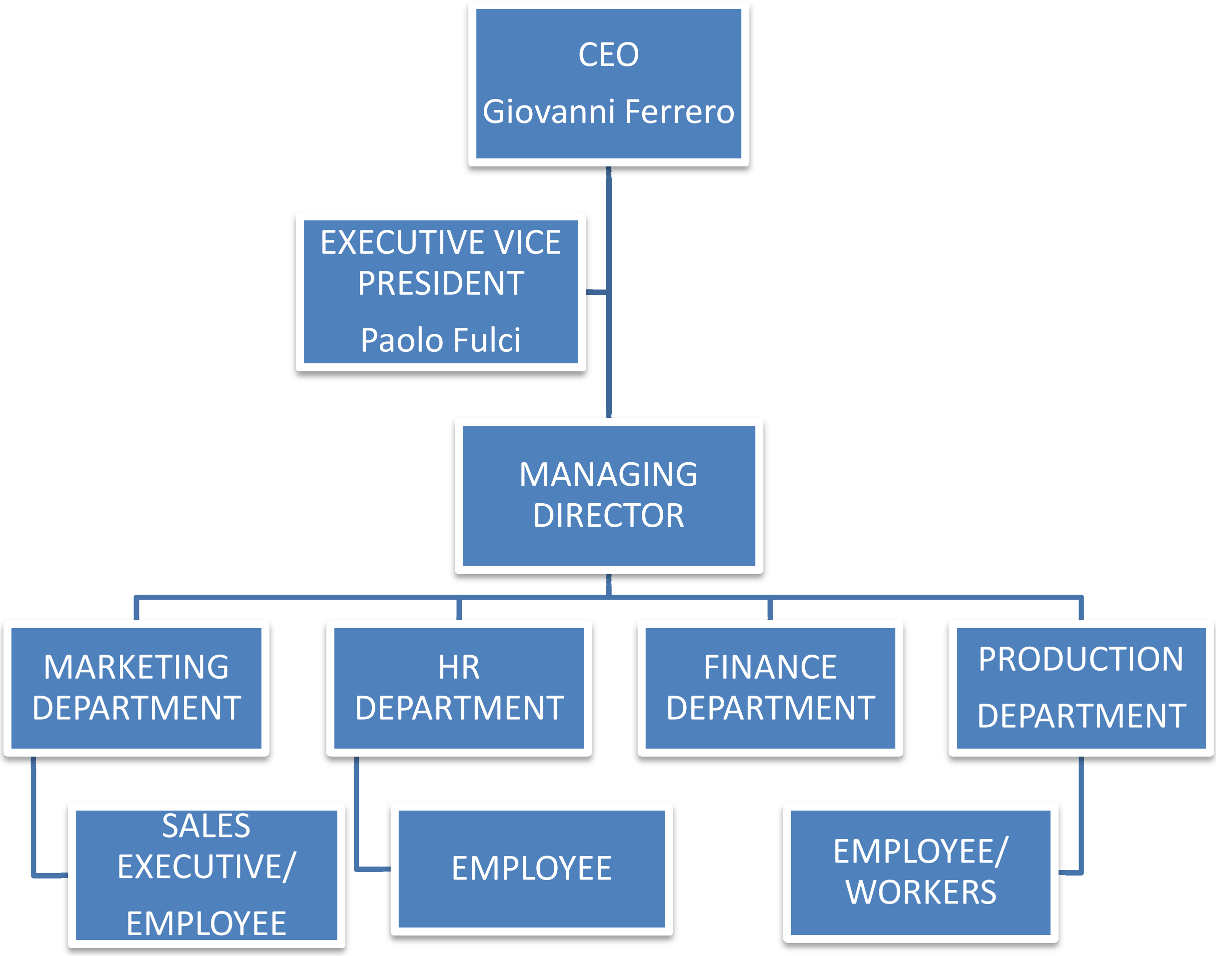
2.1.3 ROLE OF FERRERO COMPANY IN ITALY

Ferrero as the most reputable company in the world. Ferrero International SA's headquarters is in Luxembourg. Ferrero Spa is an Italian manufacturer of chocolate and other confectionery products with large market. ferrero plays an important role in the confectionery market of itlay as well as global. In short, behind the trademark, the turnover and the expansion of a multinational company, there is the story of a brilliant and strong-willed Piedmontese family that gathers its extraordinary strength for growth. Ferrero plays vital role to sustain Italian economy because it’s first booming revenue generator in confectionery market & food industry.

Ferrero Company Driven by strong sales in Russia, the U.S., and Brazil, in 2011 with $9.6 billion. That increase pushed up the value of the group, and Ferrero's net worth, by $1.4 billion since last year. Performance has been particularly positive for the products “Kinder Joy” (in Italy “Kinder Merendero”), “Raffaello” and “Nutella”, which helped the overall growth in different markets, with an increase from the previous year of 24.4%, 9.4% and 8.9% respectively.

Ferrero as the most attractive employer among all the companies operating in Italy. Today, from a survey conducted by the Doxa Reputation Institute, we find that Ferrero ranks first for reputation in Italy. Ferrero ,second was Bmw and third Barilla, were the only companies to reach the “Reputation for Excellence” study. Among the companies that achieved the most appreciable improvements in reputation in 2011. Also ferrero company provides great employment in Italy. Ferrero respects and protects the personal data privacy of its staff, consumers, customers and other stakeholders, fairly and according to the laws in force in the jurisdictions where the company operates. afety is our main concern in the selection, definition and use of procedures, including IT procedures, for the processing of personal data and confidential information, in order to protect the rights, fundamental freedoms and dignity of the person concerned.

2.2 STRUCTURE OF FERRERO COMPANY



- STRUCTURE OF FERRERO:

Ferrero Company has vast global manufacturing or unit in different countries. A business person, Giovanni Ferrero is CEO of ferrero company. In that vice president Paolo Fulci Who operates the firm, handling overall internationally units. The Ferrero Company is based around a Functional Structure with their main Headquarters being in Italy. The Ferrero board will meet and discuss initiatives and business and then forward on their decisions to each Managing Director of each separate sub company. The companies are run in a mirror image scenario, each sub company will have its own HR team, Production team, finance team, marketing and purchasing team. However each sub company will run exactly like each other in respect of what product they are producing, how the HR Function is run and where they get their produce. The only difference will come from the marketing team because each country has a different social network and need.

In that structure of employee, there are 55% workers, employee 30%, Executive & officers 10%, 5% are managers from 22000 employee world wide. In which 60% are male employee & 40% are female employee. Ferrero Company has vast market concern with structural base in the world wide.

2.2.1 FUNCTION & ACTIVITIES OF FERRERO COMPANY

Business functions are the activities carried out by an enterprise; they can be divided into core functions and support functions. In the Ferrero Company, it works with main dignity to run the functions & activities in the business. Ferrero company manufacturing best chocolate in the world, with different varieties which are ferrero rocher, Tic Tac, kinder,nuttrella or other products. Ferrero pursues an ambitious social policy aimed at the well-being of its employees. Two key principles guide this process: **the constant objective of company growth,** and **the desire to further the development of its employees.** Ferrero have endorsed a huge training package for all employees run by the 'Ferrero Learning Lab' which encompasses several training packages to cover all aspects i.e. Managerial, Nutritional and technical. With this standardization approach, Ferrero have been able to offer exactly what they do national but globally, without any major issues and disparity.

Some functions & activities done by ferrero…

- Produce 50% of its own production machinery and technology
- Excellent worldwide reputation in confectionery segment
- Powerful brand name with the Kinder Surprise and TIC TAC mints
  Kinder surprise has become a collectors item worldwide.
- The new implementation of the new distribution and warehousing IT software which called as SAP.
- Company spent more on the R & D Department to produce best chocolate product.
- The Ferrero Company also works on 'Standardizing inputs and outputs' model. Each sub company are standardized to what they produce, how they produce it, how the HR Function is run, where they get their produce and how their staff are trained.
- Company have good distribution and logistics system to transportation activities, warehousing and order processing, locate the product at every way.
- All employees are motivated and made to feel like part of the Ferrero family
- High level of training provided to their employee

2.3 COMPARATIVE POSITION OF CHOCLATES INDUSTRY OF ITALY AND INDIA

Chocolate is the “Food of the Gods”. And it always will be.

India should deeply study the chocolate industry of the Italy and cash in on its nascent domestic Market that has huge growth potentials. The Indian chocolate market is currently poised at over Rs. 4,500 crore according to an analysis by apex industry body ASSOCHAM and is expected to cross Rs. 7,500 crore by 2015 registering a compound annual growth rate (CAGR) of 25%.

Increased consumption of chocolates from a strong and growing economy like India is an ideal breeding ground for new manufacturers to rake in their share. However, rising transportation costs and scarcity of raw materials combined with a formidable 30% import duty on cocoa beans-its major ingredient, makes the scenario of chocolate-making a bleak one. Also, its unique mix of extreme consumption patterns, attitudes, beliefs, income levels and spending patterns are its roadblocks. The following paper is an attempt to draw parallels between the Swiss chocolate industry and India’s with an objective to understand the key challenges that India faces in its race to penetrate the global market.

If there is one thing that represents ITALY in the eyes of the world, it must be chocolate. Was it fate or coincidence that the abbreviation for italy (CH) and the word “chocolate” start with the same two letters? Such mystical connections will probably remain concealed forever. Yet at first there was nothing to suggest that itlys chocolatiers were destined to tread a special path. Thanks to the matchless quality of their products, inventive curiosity and groundbreaking innovations; they honed the manufacture of chocolate to perfection. Today chocolate “made in Italy” dominates foreign markets, and export volumes have risen sharply since 2005.

Chocolate consumption in India has slowly but steadily grown in India and is now pegged at Rs. 4,500 Crores and is growing at a rate of 18-20 per cent per annum. (Times of India, 2012)

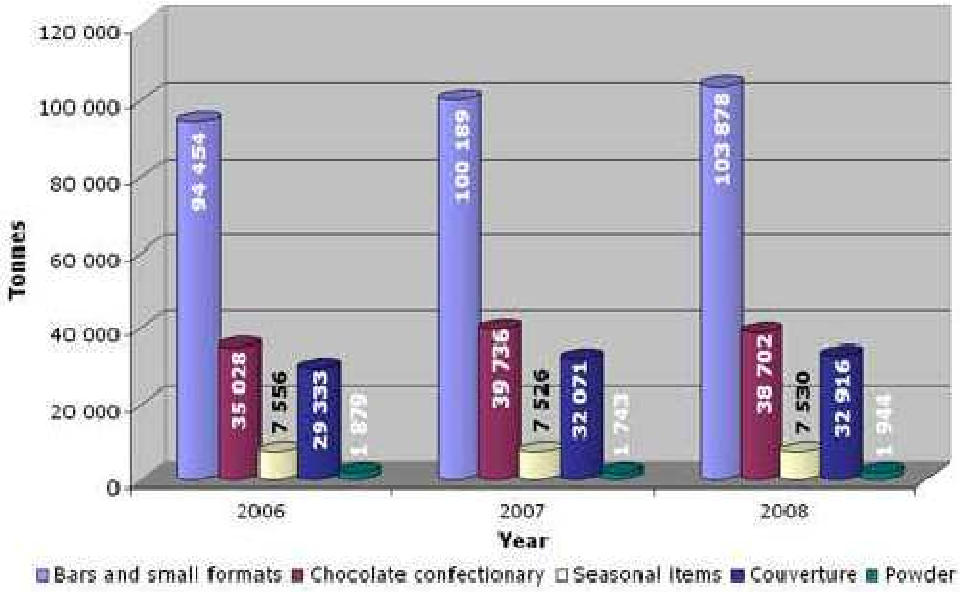
The global chocolate market is estimated around $83.2 bn. The industry is extremely fragmented in terms of range of products. The two giants Cadbury with 70 per cent and Nestle around 25 per cent have been instrumental in building up the chocolate market in India with huge investments in product development, advertising and brand building. Being the second-most populated country in the world gives **India** a readymade domestic market that can be tapped to reap huge financial benefits.

<u>Italy's chocolate is a way of life in Italy</u> :-

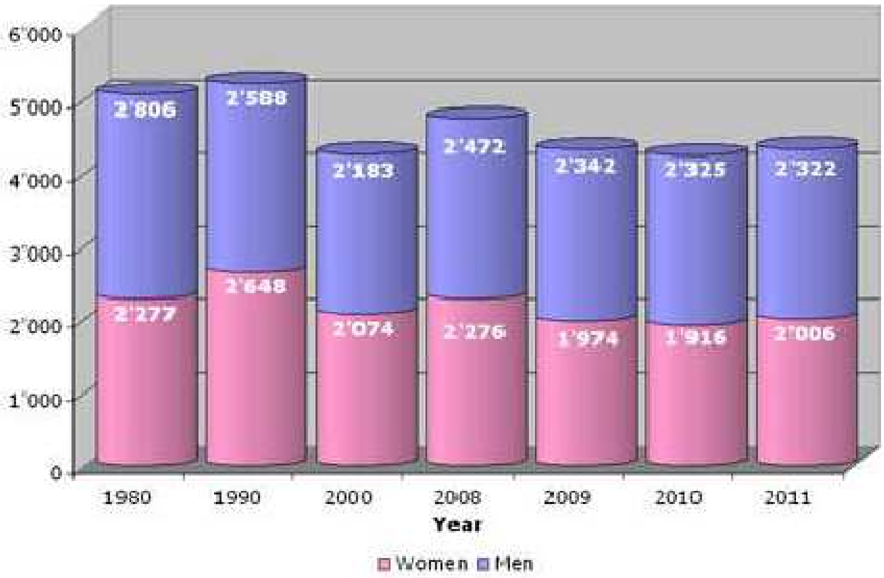
As citizens take great pride in its quality and taste, they especially appreciate its high levels of expensive, smooth, and creamy **kinder Chocolate** butter. The Italy, on average, eat one pound of chocolate per year. Incredibly, 40% of real Italy's chocolate is eaten by citizens of Italy, with 60% being exported for others' consumption.

In 2008, as in most previous years, they had the highest per capita consumption at 12.4 kg.

Composition of Confectionary products in Italy



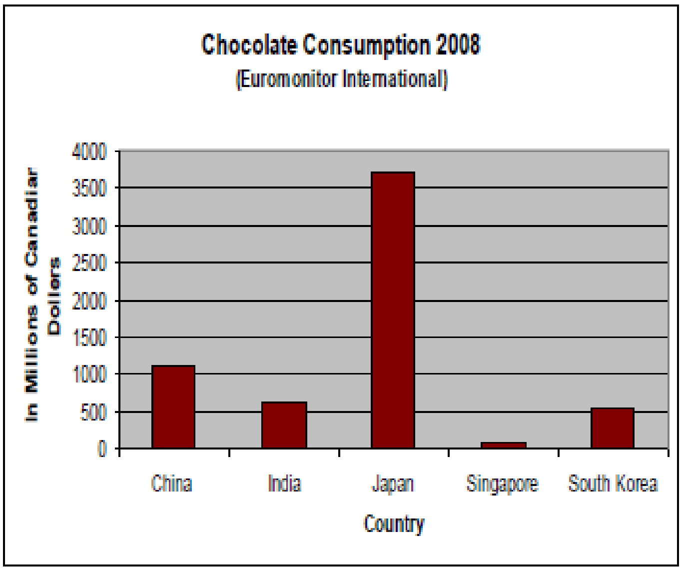
Employment in the Italy chocolate industry



IN INDIA

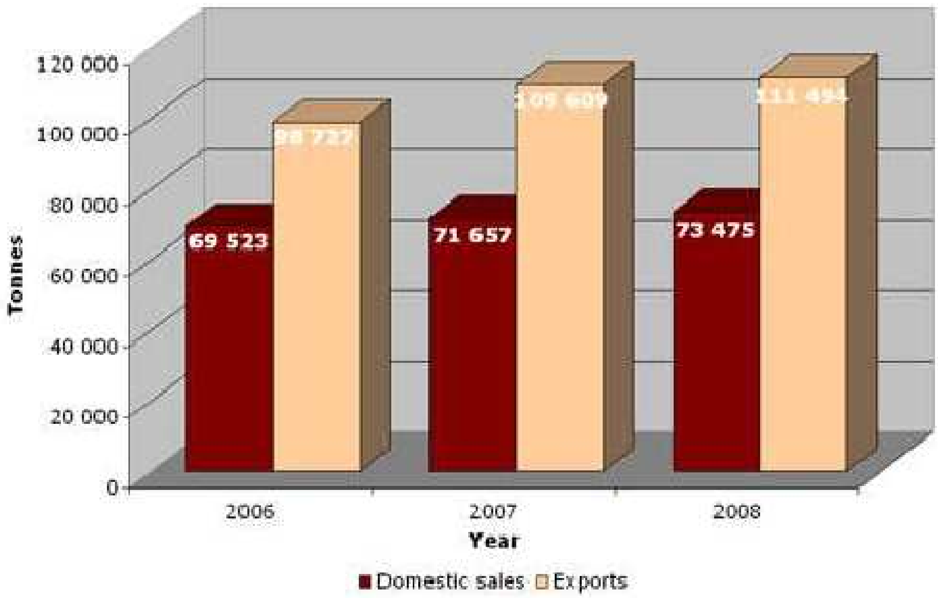
In India, the consumption of chocolate is very low, presently at 60 million consumers mostly in the urban areas, and the rural India is literally "chocolate-free".

India's chocolate Consumption with other country



<u>Domestic Sales and exports of Italy's in india</u>

(To chocolate industries)



Major Players in Chocolate Industry in India

- ✓ Cadbury India Limited
- ✓ Nestle India
- ✓ Gujarat Co-operative Milk Marketing Federation
- ✓ Cocoa Manufactures and Processors Co-operative (CAMPCO)
- ✓ Bars Count Lines Wafer Panned Premium
- ✓ 5-Star, Milk
- ✓ Amul Milk Chocolate
- ✓ Treat Perk Gems,
- ✓ Tiffins Temptation & Celebrations
- ✓ Nestle Milky Bar & Bar One.

2.3.1 FERRERO CHOCOLATES IN INDIA

Top 5 brands in india :

· Ferrero Rocher
· Tic Tac Jems
· Kinder Choclets
· Kinder Bueno
· Nutella

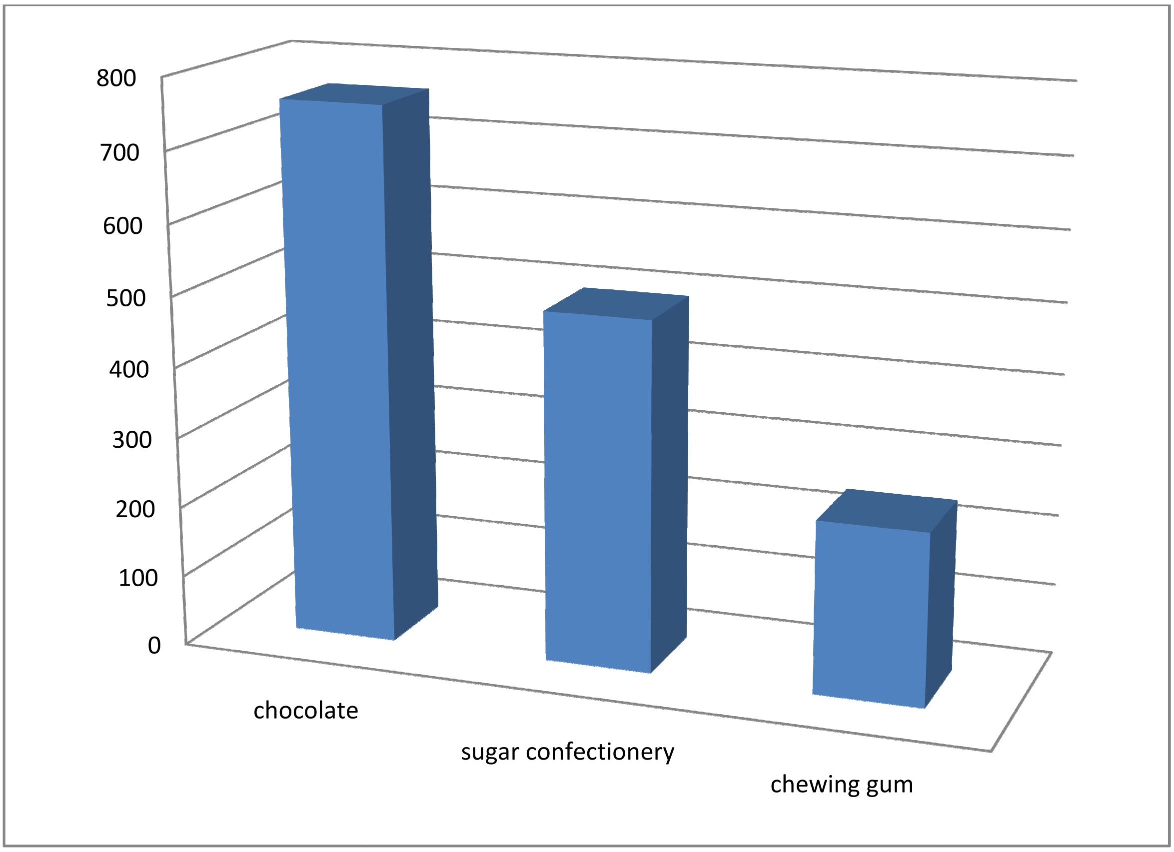
The size of the market for chocolates in India was estimated at 300 Tonnes in 2010. Bars of molded chocolates like Ferrero Rocher ,Tic Tac Jems ,Kinder Choclets ,Kinder Bueno Nutella, comprise the largest segment, accounting for 17% of the total market in terms of volume.

The chocolate market in India has a production volume of 30,800 Tonnes. The chocolate segment is characterized by high volumes, huge expenses on advertising, low margins, and price sensitivities.

Indian growth potential

Ferrero want to tap into the overwhelming growth of chocolate. Chocolate growth is larger than sugar growth confectionery and chewing gum which typically happens in emerging markets as consumers move to more expensive products.

The impulse category is finally driven by visibility and purchasing power of consumers. Traditionally, this is how products are positioned within the impulse category. First come soft drinks, which is a major market. They are followed by biscuits, sugar confectionery, ice creams and salted snacks. In the past, chocolate companies used to consider only the different brands in the chocolate market as their competitors.



The Bar chart shows that The Indian confectionery market is worth an estimated €1.5bn. Within confectionery, chocolate is the largest market, standing at €760m, followed by sugar confectionery at €495m then chewing gum at €243m. Which shows that there is huge demand of chocolate in Indian Market.

Since 2007 chocolate has overtaken sugar confectionery and to the present day the chocolate sector has grown by a whopping 230%.

More Indians, especially in urban areas, display an increasing appetite for western style confectionery products, so the prospects for future growth appear to be promising. However he also warned that the Indian confectionery market was unusual. Many sectors can be split into the organized and unorganized, Whilst the former includes mainstream retail channels, the latter refers to sales of confectionery through outlets such as street vendors and markets, and often cannot be quantified.

Size of the Chocolate industry in India

Size of the industry	The size of the market for chocolates in India was estimated at 30,000 tonnes in 2008.
Geographical distribution	Mumbai, Delhi, Kolkata, Bangalore
Market Capitalization	The Indian candy market is currently valued at around $664 million, with about 70% share ($ 461 million) in sugar confectionery and the remaining 30% ($ 203 million) in chocolate confectionery.

The size of the market for chocolates in India was estimated at 30,000 tonnes in 2008. Bars of moulded chocolates like amul, milk chocolate, dairy milk, truffle, nestle premium, and nestle milky bar comprise the largest segment, accounting for 37% of the total market in terms of volume. The chocolate market in India has a production volume of 30,800 tonnes. The chocolate segment is characterized by high volumes, huge expenses on advertising, low margins, and price sensitivity.The count segment is the next biggest segment, accounting for 30% of the total chocolate market. The count segment has been growing at a faster pace during the last three years driven by growth in perk and kitkat volumes. Wafer chocolates such as kit kat and perk also belong to this segment. The chocolate market today is primarily dominated by Cadbury and Nestle, together accounting for 90% of the market.

Types of Chocolate

Several types of chocolate can be distinguished. Pure, unsweetened chocolate contains primarily cocoa solids and cocoa butter in varying proportions. Much of the chocolate consumed today is in the form of sweet chocolate, combining chocolate with sugar. Now we see the types of chocolate and its market share in India.

Milk Chocolate:

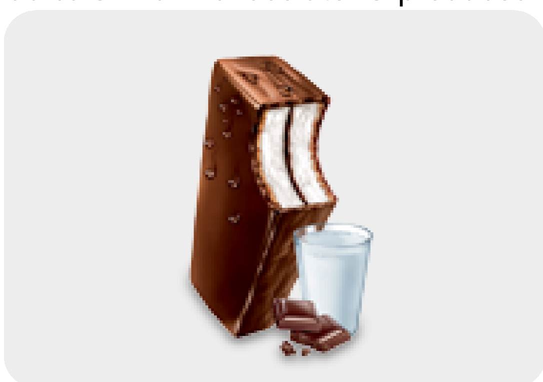
Milk chocolate is sweet chocolate that additionally contains milk powder or condensed milk. In India and Italy milk chocolate must contain a minimum of 20% to 25% total dry cocoa solids. It is god for health.The Milk chocolate demanded in Indian Market and the Children are the main customers in India for Milk Chocolate.

White Chocolate:

White chocolate contains cocoa butter, sugar, and milk, but no cocoa solids. The presence of theobromine renders it toxic to some animals, such as dogs and cats. It has been linked to serotonin levels in the brain. The White chocolate demand is to much in Indian Market and the row material for milk chocolate is easily available in India.

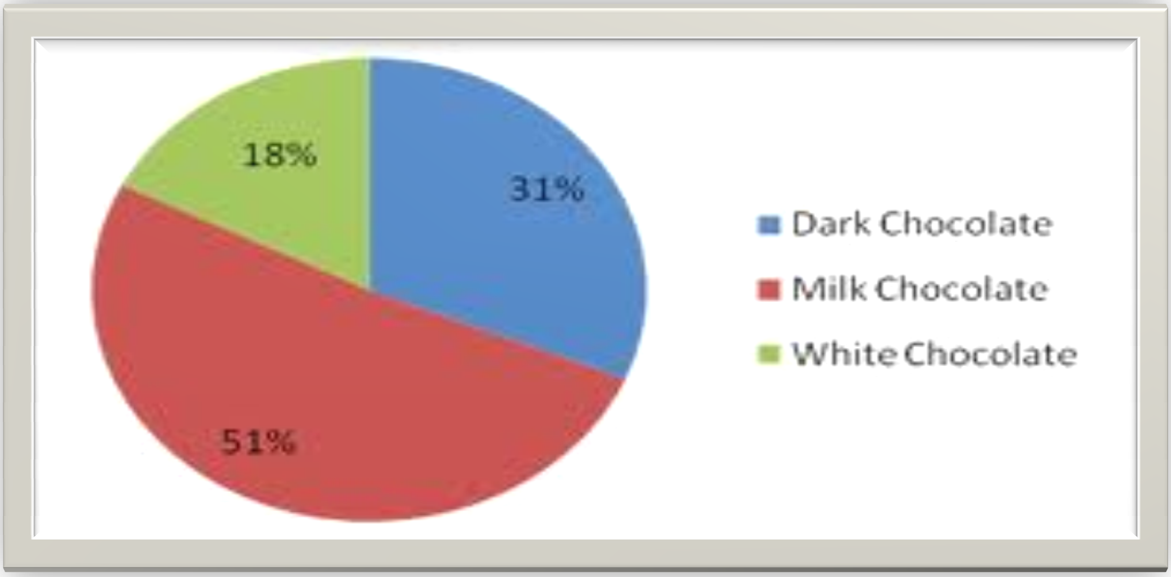
Dark Chocolate:

Dark chocolate has been promoted for unproven health benefits, as it seems to possess substantial amount of antioxidants that reduce the formation of free radicals. Dark chocolate is produced by adding fat and sugar to the cacao mixture. Dark chocolate has also been said to reduce the possibility of a heart attack when consumed regularly in small amounts. There is less demanded compare to others in India, but now a days the demand of Dark chocolate is Increasing in India.



2.3.2 MARKET SHARE OF EACH TYPE OF CHOCOLATE IN GUJARAT MARKET

There are mainly three types of chocolate aviable in Indian market Dark chocolate, White chocolate and Milk chocolate.



The Pie chart shows that there is more market share of Milk chocolate then the Dark and White chocolate it shows that there is more potential growth of Milk Chocolate.

2.4 PRESENT POSITION AND TREND OF BUSINESS OF IMPORT WITH INDIA / GUJARAT DURING LAST 3 TO 5 YEARS

Present Position of Chocolate industry of India

Factors like modern trade, increasing levels of income among the middle class, economic liberalization, and present macroeconomic situations have been major contributors to the prominent status enjoyed by the top chocolate brands in India.

The consumer demand for chocolates has only been increasing in the last few years and this has led to a greater number of companies venturing into the Indian market. In the last 64 years, the market has been led by Ferrero, Catbury, Nutila.

Innovation and diversification are presently the key aspects of the industry and all the leading companies are trying their best to be successful in this regard and thus add to their existing customer base. The products is as per local culture is an important part of the innovation process.

The population of India is such that it presents several ways for international chocolate companies to come here. The regulations too are good enough for international companies to come and operate here. The focus on education over here means that international companies can come and employ local talent to operate their business efficiently.

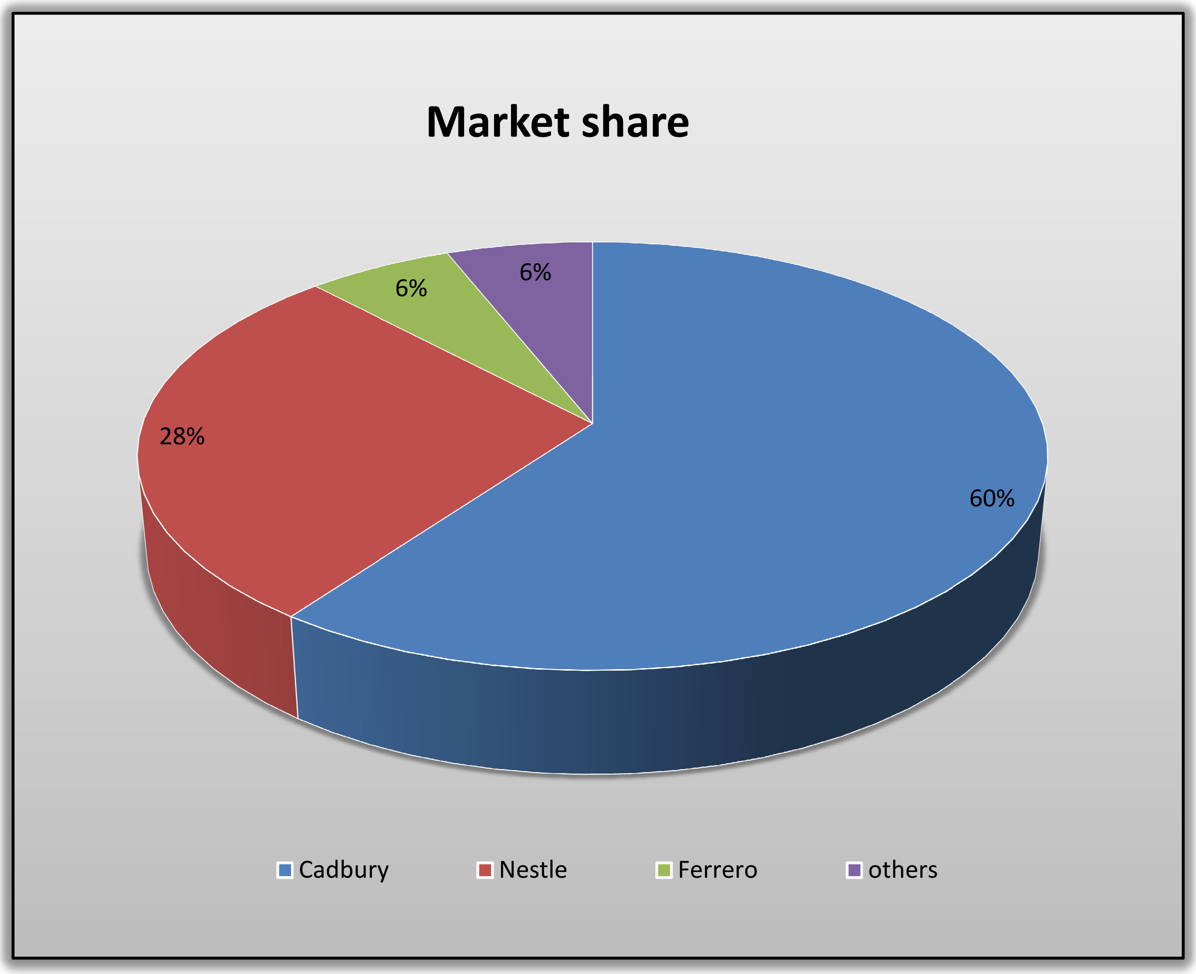
The competition between the Indian and international chocolate companies since the customer bases for both are different. The people who look for international options possess a lot of buying capacity and look for quality. When it comes to the problems being encountered by the international brands in India, that the market is price sensitive, which restricts a product’s appeal in case the price is conceived to be higher than one’s capacity. The fluctuations in exchange rate also pose problems in this regard.

Ferrero's chances

Ferrero will still have strong competition from Cadbury and Kraft. Kraft has just launched Oreos in India so they will have strong competition.

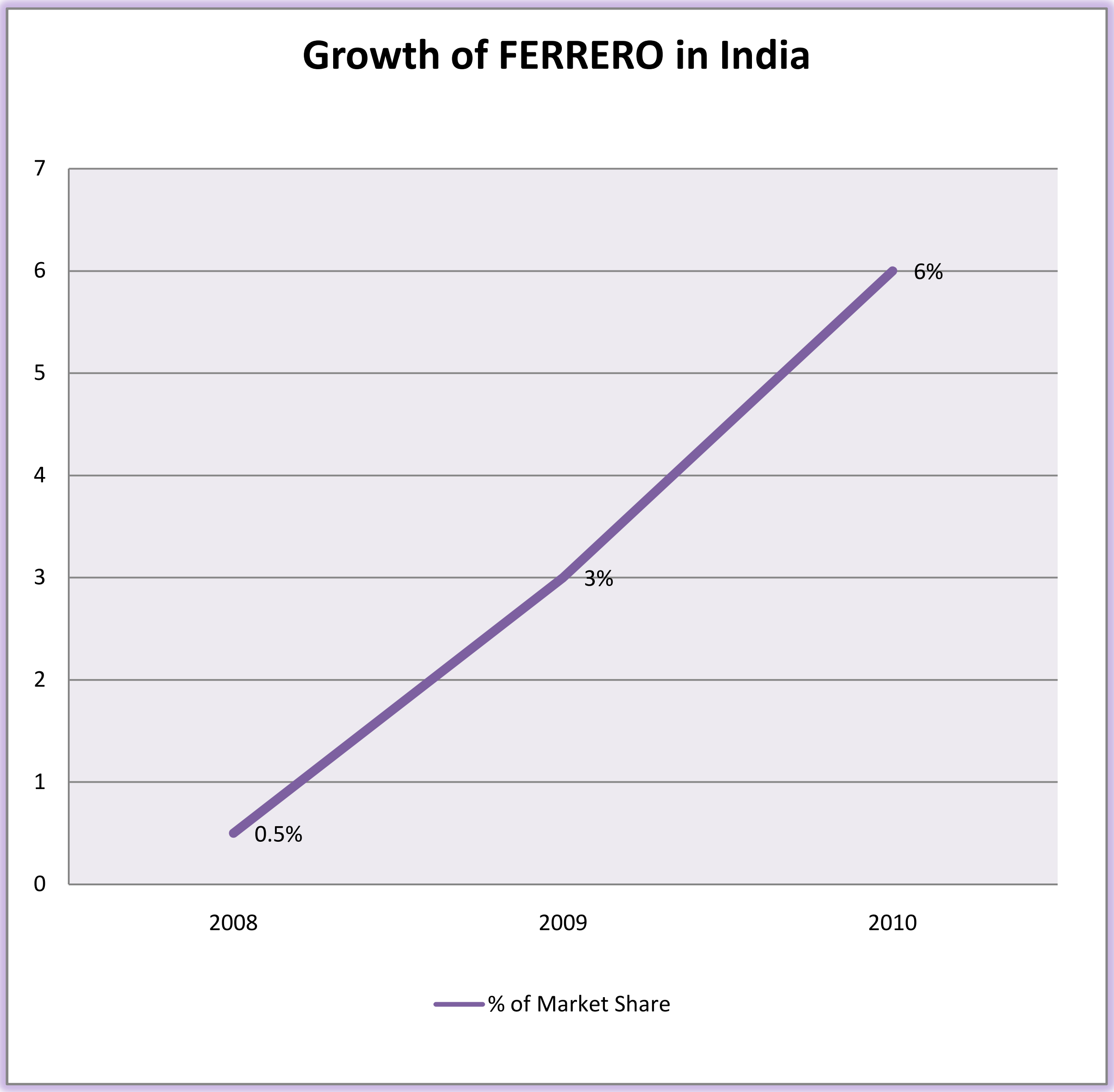
As per the research, Cadbury had it has roots in the country stretching back to the 1940s. Its Dairy Milk brand is one of the largest in the Indian confectionery market, while 5 Star and Perk are strong within the countlines market.

Kraft holds the largest share of the Indian chocolate market through its Cadbury brand, accounting for 60%. Nestle come secoand largest with 28%, while Ferrero comes third largest with 6% and others have 6% Market share in India in 2010.



Even though Ferrero is relatively small compared to its competitors there is potential. They have already grown their share quite significantly. But they won't be knocking Kraft or Nestle off their perch anytime soon.

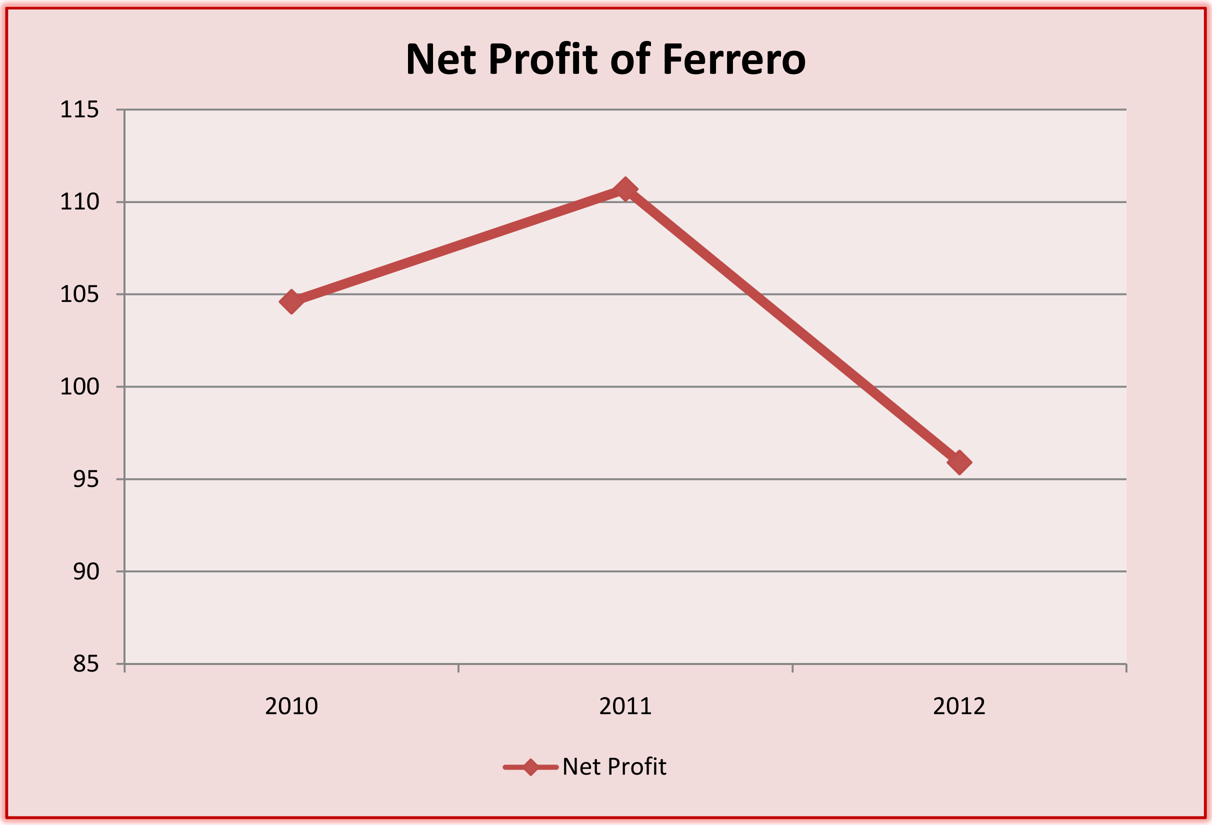
In 2008 Ferrero held just 0.5% market share in the Indian chocolate market. By 2009 this had grown to 3% and in 2010 its share doubled to 6%.



However, a good news for Ferrero is that Hershey appears to be scaling down its interests in India, having recently sold its stake in its joint venture with Godrej Beverages & Foods.

Ferrero's choice of product for the Indian market is Tic-Tac is more cost effective and it broadens their reach while Kinder Eggs helps them tap into the middle classes.

Ferrero Takes Profit Dip In Home Market (Itely)



Ferrero’s Italian subsidiary has reported a 13.3% fall in net profit for the full year due to rising raw material costs.The net profit for the financial year ending 31 August 2012 amounted to €95.9m ($130m), compared to €110.7m ($150m) for year2011. This was largely influenced by the increase of the cost of certain raw materials.

Sales growth of FERRERO in India

Ferrero was however able to keep sales afloat in Italy. It recorded a 1.9% increase in revenues in Italy to €2.55bn ($3.45bn) during the year 2012.

The performance was particularly positive for the brands Estathé, Nutella and Kinder Bueno, which have ensured a significant hold of volumes on the domestic market, increasing respectively by + 4.3% + 2.8% and +1.7% compared to the previous year 2011. Such growth shows an ability to adapt to the needs of the market, despite the current difficult economic situation and the continuing decline in consumption.

2.5 POLICES AND NORMS OF ITALY FOR FERRERO

IMPORTING AND EXPORTING

Importing and exporting can present exciting new business opportunities, from opening up entire new markets to sourcing unique or competitively priced supplies. Understanding export law, import law and the impact of any overseas regulations is a crucial part of developing and managing your international trade.

The European Union (EU) allows for the free movement of goods between Italy and other member states: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden, and United Kingdom.

2.5.1 ***ITALY'S IMPORT***

Italy import regulations impose bans or licensing requirements on some products. More generally, you will want to check that any import meets Italy requirements in terms of product safety, labeling and so on. You should also check whether you are likely to be affected by any overseas regulations in the country where you are sourcing the supplies - for example, any local export taxes or requirements for an export license.

Your contract negotiations with the supplier need to cover payment and delivery terms, including the payment method. Unless you are a regular importer or your supplier takes responsibility, you may find it easiest to use an import agent to handle customs clearance. Import duty and VAT may be payable; customs duty rates depend on the product and country of origin.

Italy Trade: Imports

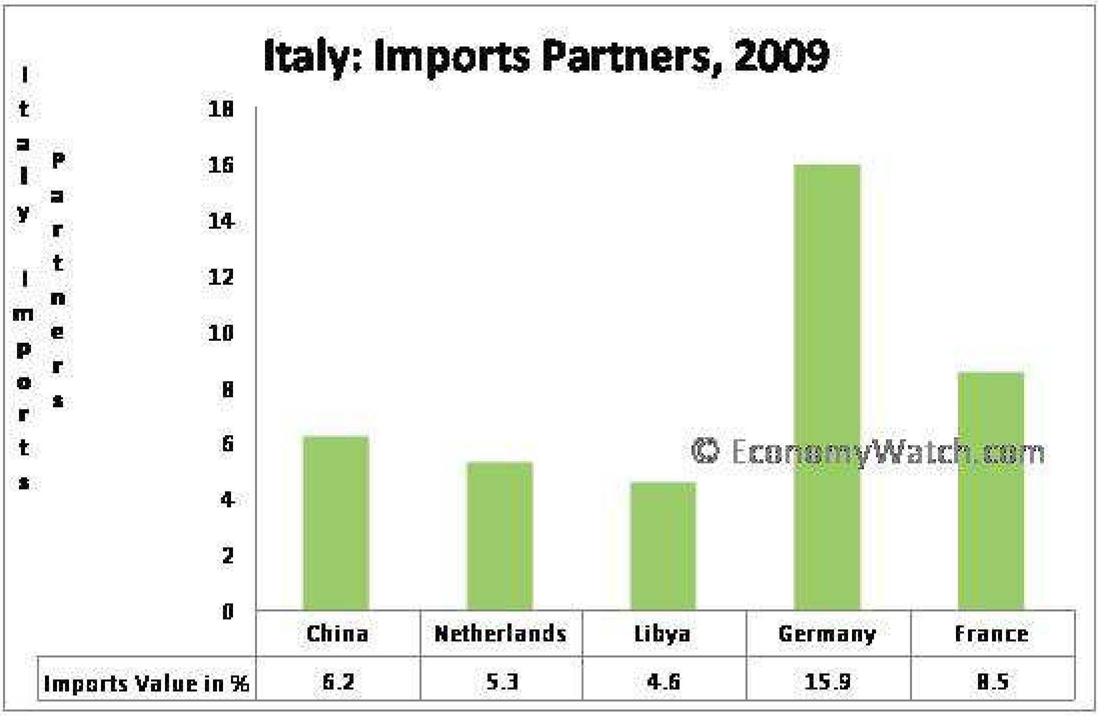
Italy imports the following commodities:

- Engineering products
- Chemicals
- Transport equipment
- Energy products
- Minerals and nonferrous metals
- Textiles and clothing
- Food and Beverages
- Tobacco

Italy's main imports partners are:

- Germany
- France
- China
- Netherlands
- Libya
- Russia

The following graph shows that how the different partners contributed to the total volume (In %).



Import permits - Permits are required from Ministero del Commercio Estero for the following:

- Milk and Dairy products
- Cheese
- Fish
- Wheat, Barley and Other grains
- Vegetables
- Steel
- Textiles and Clothing
- Livestock and animals and parts of
- Firearms, ammunitions and explosives
- Waste products
- Radioactive materials and nuclear reactors

Import Duties

All merchandise coming into Italy must clear Customs and is subject to customs duty assessment unless the goods are duty or tax exempt by law. Customs duties are, generally, an ad valorem rate (a percentage), which is applied to the transaction value (EU Euro) of the imported goods based on the cost of the goods, insurance, and freight charges. Some articles, however, are dutiable at a specific rate of duty (so much per piece, liter, kilo etc.) and others at a compound rate (combination of both ad valorem and specific rates). The dutiable value of merchandise is determined by the EU Customs code. Several appraisal methods are used to arrive at this value. Generally, the transaction value of the merchandise serves as a basis of appraisal. Transaction value is the price the buyer actually pays the seller for the goods sold and being imported. The Harmonized Tariff Schedule of European Union (2002 Edition), issued by Istituto Poligrafico dello Stato, prescribes the rates of duty and classification of merchandise by the type of product; i.e. animal and vegetable products, textile fibers and textile products. The tariff schedule provides several rates of duty for each item.

Below is a summary of the new rules for EU deminimis value that enter into effect December 1, 2008:

- A commercial shipment below 22 Euros: no duty and no VAT collected.
- A commercial shipment between 22 Euros and 150 Euros: no duty but VAT is collected.
- A commercial shipment over 150 Euros: duty and VAT are collected.

It is recommended that before you send Delivered Duty Paid (DDP) shipments to Italy; verify the local customs/VAT requirements at the EU destination country.

1. **Excise Duties**

   Excise taxes are accessed against certain commodities, which are normally identified as "luxury" goods. The excise tax is normally assessed against tobacco products, perfumes and alcohol products but can also be accessed against other goods as deemed by Italian regulations.

2. **Additional Duties**

➢ **Countervailing**

Countervailing duties are assessed to counter the effects of subsidies provided by a foreign government for merchandise exported to Italy resulting in artificially low prices that are detrimental to Italian and other European Union member states industries.

➢ **Watch Duty Rate**

Watches imported into Italy (EU) are subject to duty assessment on a per item basis versus the traditional duty assessment on a set percentage of value declared. The actual duty and the final rate of duty are determined based on the customs classification of the watch at the time of entry processing.

3. **Import Taxes**
4. **VAT**

VAT or value added tax is accessed at a rate of 21% on those shipments that are entered as normal consumption entries in addition to the normal rate of duty.

5. **Examination Fees**

Additional fees can be accessed on some commodities to cover the expense of performing the examinations and or testing required as a condition of the goods entry into the commerce of Italy. Commodities affected: cosmetics, drugs and medicines, artwork.

6. **Exchange Controls**

None.

Italy Import Prohibitions

The following items are prohibited into Italy:

- Atlantic red tuna fish originating from Belize, Panama, and Honduras
- Toys and games containing copper sulphate
- Items having a flexible metal blade entirely contained in a plastic, paper, or fabric sheath
- Illicit Narcotics and Drugs

- All forms of asbestos fibres
- L-tryptophan and any items having L-tryptophan as an ingredient
- Rubber erasers that are similar in appearance to food products that are easily ingested
- Medical thermometers containing mercury intended for human consumption
- Certain U.S. Beef hormones
- Tobacco and Manufactured Tobacco substitutes
- All products containing the biocide dimethylfumarate (DMF)

Italy Restrictions

The importation of certain classes of merchandise may be prohibited or restricted to protect the economy and security of Italy and other EU member states, to safeguard consumer health, well being, and to preserve domestic plant and animal life. Some commodities are also subject to an import quota or a restraint under bilateral trade agreements and arrangements. In addition to Customs requirements, many prohibited or restricted imports are subject to laws and regulations administered by other Italian Government agencies for which the Italian Customs Department is the enforcer. These laws and regulations may, for example, prohibit entry; limit entry to certain points; restrict routing, storage, use, require treatment, labeling or processing as condition of release. Customs release only takes place when the additional requirements are met. These requirements apply to all importation types, including shipments made by mail. The exporter should make certain that the Italian importer has provided proper information to (1) permit the submission of necessary information concerning packing, labelling, etc. and (2) ensure that necessary arrangements have been made by the importer for entry of the merchandise into Italy.

The following commodities are prohibited via FedEx International Priority (IP) services into Italy. However, you may be able to use another FedEx service for shipping these items. For additional shipping options, please contact your local FedEx customer service representative.

Special Import Provisions

The importation of food products containing meat or milk products for personal consumption is prohibited unless accompanied by the necessary documentation from the official veterinary services of the country of origin. Infant milk, infant food and special foods required for medical reasons can be imported under the condition that these products do not require refrigeration before opening, that they are packaged proprietary brand products for direct sale to the final consumer, and that the packaging is unbroken.

Goods may be transported in-bond to another point of entry for clearance by re-manifesting (infrequent) to that location, by using house air waybills (for PS) or by using T docs (EU transit system). A bonded carrier is required to transport the shipment from the point of arrival to point of clearance. Arrangements for transporting the merchandise to an interior point in-bond may be made by the consignee, by the customs broker or by any other person having sufficient interest in the goods for that purpose.

2.5.2 ***ITALY’S EXPORT***

As an exporter, you must check any export restrictions, such as whether an export license is required. You should also check the legal requirements in the destination country. These include whether an import license is needed, local product standards, labeling requirements, restrictions on marketing and so on. You may also want to take steps to protect your intellectual property - for example, with an overseas patent or trade mark registration.

The export contract should make it clear what your responsibilities for delivery are, including who will handle overseas taxes and customs clearance. It is essential to confirm what customs tariffs are payable and who is responsible for payment. You may find it easiest to use a freight forwarder to handle delivery and customs clearance on your behalf.

Negotiating the right payment method is vital. Enforcing contracts overseas can be difficult and expensive, particularly in countries outside the EU. Unless you know and trust the customer, you may want to insist on a payment method such as a letter of credit.

Italy Trade: Exports

The main exported commodities include:

- Engineering products
- Textiles and clothing
- Production machinery
- Motor vehicles
- Transport equipment
- Chemicals
- Food

Italy's main export partners are:

- Germany
- France
- Spain
- US
- UK

Italy Export Prohibitions

Export controls are imposed on Italian exporters by the government can take the form of prohibitions such as blockades, embargoes, boycotts, and sanctions or they can take the form of export licensing and permit requirements for controlled commodities. Export controls may be product specific, technology specific or country specific. The Customs Department holds the list of commodities and areas that are under control and/or require an export license.

Examples of goods subject to export licensing controls:

- Agricultural products; (i.e. grains, cheeses)
- Dual Use goods; (i.e. software, computers, machines and machine parts)
- Biological reagents
- Artwork
- Antiques

2.5.3 TAX ON IMPORTS AND EXPORTS

There are important VAT rules to consider if your business imports or exports goods or makes sales to other countries. Understanding the rules will help your business run smoothly and ensure you avoid fines and financial penalties. Complex rules and regulations govern imports and exports.

VAT on imports

In general terms, VAT is payable on all imports at the same rate that would apply to the product or service in the UK. You do not have to register for VAT to import goods, but obviously if you do not register you will not be able to claim back any VAT you pay. If you buy goods in the European Union you must declare output tax on them on your VAT return. However, you are allowed to reclaim input tax on the goods subject to the normal rules.

If you import goods from outside the EU you will have to pay import VAT and duty before the goods is released by HM Revenue & Customs. Remember that 'duty' is a separate and additional tax which is based on the value of imported goods. The amount of duty varies and depends on the country of origin and the type of product.

Unfortunately duty cannot be reclaimed by VAT registered businesses. There is no duty on goods which originate in an EU country or which have already been imported with charges already paid. Once in the EU there is no more duty to pay if the goods are transported from EU country to EU country.

If you import goods from outside the EU you can store them in approved HMRC warehouses if you wish and only pay VAT and import duty when the goods leave the warehouse. This facility can be particularly useful if you do not intend to sell goods immediately.

If you plan to re-export the goods after processing them you can apply for Inward Processing Relief. VAT and duty only become payable if you sell the goods in the UK or do not comply fully with the scheme's conditions. If you import regularly consider a deferment account, where you settle VAT and duty on a monthly basis. A deferment account is free and the advantage is you can put off payment for an average of 30 days and your goods will normally be cleared for release more quickly. You may need a bank guarantee, although the recently simplified rules (known as SIVA: Simplified Import VAT Accounting) means this is not always necessary. Terms and conditions apply, and not all businesses are eligible so check to see if you qualify.

To reclaim VAT on imports you should fill in your VAT return for the period during which the goods were imported - you will get a C79 certificate to show what import VAT you have paid - and you will need to keep it as evidence to support your claim for inspection by a VAT visiting officer.

VAT on exports

If you export goods outside of the EU you can zero rate their sale provided that you retain commercial and official evidence of their removal from the U.K. The same rules will apply to the sale of most goods to customers registered for VAT in the EU. Under these circumstances you will also need to obtain and record their VAT registration number on your invoice. If you sell goods in sufficient quantities to non registered customers in the EU you may be required to VAT register in other EU States.

If you do lots of trade with Europe you may have to submit more detailed information, know as the INTRASTAT Supplementary Declarations.

The rules relating to the export of services are exceptionally complex and you should seek professional advice.

2.5.4 LEGAL ISSUES FOR IMPORT & EXPORT

Importing doesn’t have to be difficult. Buying from a company based within the European Union is usually relatively straightforward. After all, you are the customer: most of the burden of making sales, and delivering the goods, usually falls on the supplier.

But there are pitfalls. The key is not to take anything for granted. You cannot assume that the supplier will behave in the same way as a UK company would – or that it will be easy to sort out any problems. As with any supplier, delivery could be incomplete, or arrive late. Their product might not meet UK requirements. You might even be prohibited from importing that kind of product in the first place.

You can minimize the risk of any problems by taking a thorough approach. Make sure you agree exactly who takes care of what. Investigate exactly what your legal, customs and licensing obligations are. Where necessary, take advantage of advice from your trade association, your lawyer and business support organizations.

- Generally, importing legal goods from one EU member state to another are custom duty and tariff free. This is Article 30 of the Treaty Forming the EU.
- Import duties and VAT are to be paid in the country where the goods are received. If you are shipping to another EU country there will be no more duties or fees as per Article 30 above.
- You must pay the appropriate Duties and VAT on your imported goods. The rates vary for different goods.
- VAT must be paid in all EU member states.
- You need to declare every import to Customs and Excise. This is also true for exports unless they are within the EU.
- You need to obtain a CAP License from your EU member state Customs Office if you are importing Food or Drink.

2.6 POLICES AND NORMS OF INDIA FOR IMPORT EXPORT

Food processing sector is one of the largest sectors in India in terms of production, growth, consumption, and export. India's food processing sector covers fruit and vegetables; spices; meat and poultry; milk and milk products, alcoholic beverages, fisheries, plantation, grain processing and other consumer product groups like confectionery, chocolates and cocoa products, soya-based products, mineral water, high protein foods etc. Since liberalization in Aug'91 proposals for projects of have been proposed in various segments of the food and agro-processing industry.

2.6.1 INDIA'S IMPORT

Import of goods means bringing into India of goods from a place outside India.

Import Policy

The economic needs of the country, effective use of foreign exchange nd industrial as well as consumer requirements are the basic factors which influence India's import policy. On the import side the policy has three objectives: to make necessary imported goods more easily available, including essential capital goods for modernizing and upgrading technology; to simplify and streamline procedures for import licensing; to promote efficient import substitution and self-reliance.

There are only 4 prohibited goods: tallow fat, animal rennet, wild animals and unprocessed ivory. There is a restricted list, but most of the restrictions are on grounds of security, health and environmental protection or because the goods are reserved for production by small and tiny enterprises, which are home-based or village-based and which require low skills and employ a large number of people. But the policy of restricting import of consumer goods is changing.

The Indian government's clearly laid down policy is to achieve, through a series of progressive steps, the average tariff levels prevalent in the ASEAN region. The basic customs tariff rate now ranges from 0 to 40% plus additional duty of 2%; the average rate is about 30%. Imports are allowed free of duty for export production under a duty exemption scheme. Input-output norms have been specified for more than 4200 items. These norms specify the amount of duty-free import of inputs allowed for specified products to be exported.

There are no quantitative restrictions on imports of capital goods and intermediates. Import of second-hand capital goods is permitted provided they have a minimum residual life of 5 years. There is an Export Promotion Capital Goods (EPCG) Scheme under which exporters are allowed to import capital goods (including computer systems) at concessionary customs duty, subject to fulfillment of specified export obligations. Service industries enjoy the facility of zero import duty under the EPCG Scheme. Likewise, hospitals, air cargo, hotels and other tourism-related industries. Software units can use data communication network to export their products.

Import Regulatory Body

In India, all the activities related to import are handled by the Directorate General of Foreign Trade (DGFT), a government organisation that also controls the export business in India. DGFT and all its regional offices work under the Ministry Commerce and Industries, Department of Commerce, Government of India. All the procedure and policies in matter related to the import is announced by the DGFT through its notification, appendices and forms.

While the majority of the goods are freely importable, the Exim Policy (2007) of India prohibits import of certain categories of products as well as conditional import of certain items. In such a situation it becomes important for the importer to have an import license issued by the issuing authorities of the Government of India.
Import License Issuing Authority.

Validity of Import License

Import Licenses are valid for 24 months for capital goods and 18 months for raw materials components, consumable and spares, with the license term renewable.

Sample of Import License

A typical sample of import license consists of two copies- Foreign Exchange Control Copy: To be utilised for effecting remittance to foreign seller or for opening letter of credit Customs Copy To be utilized for presenting to Customs authority enabling them to clear the goods. In the absence of custom copy, import will be declared as an unauthorized import, liable for confiscation and or penalty.

Customs Duties (Import Duty and Export Tax)

Customs Duty is a type of indirect tax levied on goods imported into India as well as on goods exported from India. Taxable event is import into or export from India. India includes the territorial waters of India which extend up to 12 nautical miles into the sea to the coast of India.

Basic duty

Basic Duty is a type of duty or tax imposed under the Customs Act (1962). Basic Customs Duty varies for different items from 5% to 40%. The duty rates are mentioned in the First Schedule of the Customs Tariff Act, 1975 and have been amended from time to time under the Finance Act. The duty may be fixed on ad –valorem basis or specific rate basis. The Central Government has the power to reduce or exempt any good from these duties.

Additional customs

Additional duty also known as countervailing duty is equal to excise duty imposed on a like product manufactured or produced in India. It is implemented under the Section 3 (1) of the Indian Custom Tariff Act. The Government has exempted all goods, when imported into India for subsequent sale, from the whole of the additional duty of customs leviable thereon under Sub-Section (5) of Section 3 of the Customs Tariff Act vide Customs Tariff Notification No. 102/2007 dated 14th September 2007. However, the importers will be first required to pay the said duty and thereafter required to claim the refund.

Special additional duty

Special Additional Duty of Customs is imposed at the rate of 4% in order to provide a level playing field to indigenous goods which have to bear sales tax. This duty is to computed on the aggregate of –

- assessable value;
- basic duty of Customs;
- surcharge; and
- additional duty of Customs leviable under section 3 of the Customs Tariff Act, 1975

India Trade: Imports

India imports the following commodities:

- Petroleum, Crude & Products
- Gold
- Electronic Items
- Coal
- Organic Chemicals

Top ten importers from India, by value of trade in US$m and share of total

Country	2012-2013 (Apr- Sep)	%Share (2012-2013 (Apr- Sep)
USA	19704.05	13.87
UAE	18601.71	13.09
SINGAPORE	6652.77	4.68
CHINA	6417.32	4.52
HONG KONG	6137.9	4.32
SAUDI ARAB	4636.29	3.26
NETHERLANDS	4458.24	3.14
U K	4112.26	2.89
ITALY	3491.77	2.46
BRAZIL	3042.64	2.14

2.6.2 INDIA'S EXPORT

Export of goods means taking goods out of India to a place outside India.

Export Policy

Exports are the major focus of India's trade policy and a thrust area is exports involving higher value additions. Most items can be freely exported from India. A few items are subject to export control in order to avoid shortages in the domestic market, to conserve national resources and to protect the environment.

Export profits are exempt from income tax. Higher royalty payments of 8% (net of taxes) are permitted on export sales as compared to 5% on domestic sales. Export commissions up to 10% are also permissible. Inputs required to be imported for export production are exempted from the basic customs duty. Export Oriented Units (EOUs) and Export Processing Zones (EPZs) enjoy special incentives such as duty free import of capital goods and raw materials for the purpose of export production.

A Brand Equity Fund has been set up to popularize high quality India brands in the world market. The corpus of the fund of Rs 5 billion (US $156 million) will receive equal contributions from the government and industry.

Registration

- The exporters have to obtain PAN based Business Identification Number (BIN) from the Directorate General of Foreign Trade prior to filing of shipping bill for clearance of export goods.

- The exporters are also required to register authorised foreign exchange dealer code (through which export proceeds are expected to be realised) and open a current account in the designated bank for credit of any drawback incentive.

- Whenever a new Airline, Shipping Line, Steamer Agent, port or airport comes into operation, they are required to be registered into the Customs System.

- The exporters intending to export under the export promotion scheme need to get their licences/DEEC book etc, registered at the Customs Station.

Processing of Shipping Bill

In case of export by sea or air, the exporter must submit the 'Shipping Bill', and in case of export by road he must submit 'Bill of Export' in the prescribed form containing the prescribed details such as the name of the exporter, consignee, invoice number, details of packing, description of goods, quantity, FOB value, etc. Along with the Shipping Bill, other documents such as copy of packing list, invoices, export contract, letter of credit, etc. are also to be submitted.

There are 5 types of shipping bills :-

- Shipping Bill for export of duty free goods. This shipping bill is white colored.
- Shipping bill for export of goods under claim for duty drawback. This shipping bill is green colored.
- Shipping bill for export of duty free goods ex-bond i.e. from bonded warehouse. This shipping bill is pink colored.
- Shipping Bill for export of dutiable goods. This shipping bill is yellow colored.
- Shipping bill for export under DEPB scheme. This shipping bill is blue in colour.
-

The Bills of Export are:-

- Bill of export for goods under claim for duty drawback
- Bill of export for dutiable goods
- Bill of export for duty free goods
- Bill of export for duty free goods ex-bond

Let Export Order

After the receipt of the goods in the dock, the exporter may contact the Customs Officer designated for the purpose and present the checklist with the endorsement of Port Authority and other declarations along with all original documents. Customs Officer may verify the quantity of the goods actually received and thereafter mark the Electronic Shipping Bill and also hand over all original documents to the Dock Appraiser, who may assign a customs officer for the examination of the goods. If the

Dock Appraiser is satisfied that the particulars entered in the system conform to the description given in the original documents, he may proceed to allow "let export" for the shipment.

India Trade: Exports

India imports the following commodities:

- Tea
- Tobbaco
- Gems and Jewellery
- Textile Goods
- Milk Products
- Wheat

Top ten exporters from India, by value of trade in US$m and share of total

Country	2012-2013 (Apr- Sep)	%Share (2012-2013 (Apr- Sep)
CHINA	28025.57	11.92
UAE	19622.81	8.35
SAUDI ARABIA	16094.83	6.85
USA	12208.05	5.19
SWITZERLAND	10779.45	4.59
IRAQ	9803.79	4.17
QATAR	8144.45	3.47
KUWAIT	8134.73	3.46
GERMANY	7154.41	3.04
INDONESIA	6944.86	2.95

Prohibited goods for import and export

- Narcotic Drugs
- Pornographic and obscene material
- Pirated goods
- Wild animals
- Human skull
- Specified live birds and animals

Restricted goods for import and export

- Firearms and ammunition
- Live birds and animals including pets
- Plant and their produces
- Medicines and drugs
- Sandal wood

2.7 PRESENT TRADE BARRIERS OF IMPORT EXPORT

India is an important trade partner for the Italy and a growing economic power. With a growth rate of between 8 and 10% per year it is one of the fastest growing economies in the world. Per capita income more than doubled during the period 1990-2005. In parallel, in just four years, ITALY-India trade has increased by 31% to over €53 billion in 2009 and italy investment to India has more than quadrupled since 2003 to €3.1 billion in 2009.

However, India's trade regime and regulatory environment still remain comparatively restrictive. In addition to high tariff barriers, India also imposes a number of non-tariff barriers in the form of quantitative restrictions, import licensing, burdensome mandatory testing (such as for types for example) and certification for a large number of products as well as complicated and lengthy customs procedures. With regard to intellectual property, some improvement in the IPR enforcement infrastructure has been reported, however there are still significant concerns about India's response to counterfeiting and piracy. Furthermore, in the area of procurement, the Indian legislative framework remains incomplete. Major reforms are needed to ensure compliance with international standards and a predictable environment for bidders.

The current trade performance between the italy and India falls therefore far short of its potential. The comprehensive and ambitious free trade agreement with India currently under negotiation could constitute one of the most significant deals concluded by the EU. A trade deal of this magnitude would generate sizeable benefits to both economies which conservative estimates put in the range of €9 - €19 billion.

The following barriers are significant trade irritants with India which need to be resolved:

1) Burden some licensing requirements related to new security provisions have been proposed which would affect, if fully implemented, the access of European operators to the commercial procurement of telecommunications. The provisions stipulate prior security clearance and technology transfer requirements, as well as an obligation to substitute foreign engineers with Indian ones. Such requirements are unprecedented internationally, and would damage investment in India. In 2009 the EU exported telecommunications equipment worth €1 billion to India.

2) Another topical trade issue concerns India's recent measures restricting exports of cotton. From 2004 to 2009 the italy's imports of cotton have increased by 17%. Several cotton Products are facing export restrictions in India.13 Although italy total imports of these cotton Products have experienced a decline of 48% over the five year period, recent measures on These goods are important since 23% of italy imports of these types of cotton products came from India in 2009. Furthermore, as the second largest cotton producer in the world (20% of global production) and the only global net exporter of cotton, India's policy has a significant impact on global cotton supply and hence on prices, aggravating the global upward price spiral. European industry is therefore facing very high prices and a shortage in supply, as India is the EU's main import source for cotton products.

3) Furthermore, India’s investment policy continues to hinder foreign investments. Many important economic sectors such as multi-brand retail remain closed to foreign investment and a series of measures has been adopted to control foreign capital flows and ensure maximum benefit for local companies through technology and know-how transfers.

- ***Food safety, packaging, and labeling requirements***

The Indian Food Laws could be the main constraint for italy chocolate and confectionery manufacturers’ immediate entry into India via the legal channel, although some recent amendments in the laws will benefit the imports of sugar free confectionery. For example, according to one respondent, an importer and agent for a US brand, 70% of the confectionery range of this brand manufacturer cannot be legally imported into India because certain food additives (colors, preservatives and flavoring agents) used by the company are not approved by PFA in India.

❖ **OTHER BARRIERS**

- ➢ Revenue tariff
- ➢ Protective tariff
- ➢ Specific duties
- ➢ Value added tax
- ➢ Single stage tax
- ➢ Excise tax

3.1 POTENTIAL FOR IMPORT IN INDIA

As we know that india is country of festivals & now a days chocolates are used instead of sweets so here exist high chance of import for FERERRO products.

This is the best time to introduce new products in Indian market, for Fererro. And fererro india has increased its paid up capital by Rs. 64 crores indicating that aggression in Indian market could increase.

The chocolate and confectionery market in india today has undergone major changes and growth since the opening up of the economy and liberalization of the investment regime in 1991. India became an attractive place for foreign investment and several large multinational companies entered the market for confectionery products. This resulted in its steady growth and gradual transformation from a commodity market to a branded products market dominated by multinational companies.

Compared to the conventional fast moving consumer goods (FMCG), the confectionery segment in India offers significantly higher potential for growth. For example, over the past five years toilet soaps and detergents reached over90% of the Indian households, while according to ORG-MARG estimates, chocolate penetration in 2000 was 5% and of sugar boiled confectioner7Evenconsidering the urban market alone, the category reaches just 22% of the urban consumers. For comparison, cookies, considered to have st penetration have reached 56% of the Indian house holds. Clearly the confectionery sector, which has been showing healthy growth over the last years sit has considerable potential to grow before it reaches saturation point, as have traditional FMCG products such as soaps and detergents. Indeed, the confectionery market in India is witnessing tremendous activity. Regular product launches, high decibel media activity, consumer promotions and trade promotions make this one of the most hyperactive categories inthe Indian market.

The following factors suggest that how India is highly potential for import

- **Market size**

Despite its vast population, India's confectionery market is still very small With a population about five times larger than the US, the volume size of its confectionery market is more than 20 times smaller. It is valued at close to US$450 million, and is estimated to be 138,000MT.

- **Retail and bulk chocolate**

India's bulk chocolate imports are very small and are dominated by Malaysia, with some imports originating from Singapore. In 2003-04, Malaysia exported US $390,000 in bulk chocolate to India; Singapore exported a total of US $90,000. Other suppliers include Indonesia, Switzerland, UAE, and the UK, though exports from these countries are negligible. Retail chocolate Bulk chocolate Base: US $5.7 million Base: US $540,000 Source: India Directorate General of Foreign Trade.

3.1.1 INDIAN PORTS FOR IMPORT OF CONFECTIONARY PRODUCT FROM ITALY

- **Ports for entry of import in Gujarat**

Jawaharlal Nehru Port Trust (JNPT), also known as Nava Sheva, is India's largest sea port. It is located within Mumbai harbor on the west coast of India. The port has two dedicated container terminals designed and equipped to handle large size container vessels. One of these handles refrigerated containers. JNPT serves as the port of entry and supplies to the two largest cities – Mumbai and Delhi. Mumbai also serves other smaller metropolitan areas such as Pune, Ahmedabad, Goa, and Hyderabad.

The Chennai Port Trust is an artificial harbor situated on the Coromandel Coast in South-East India and it is the second largest port for handling containers. This port also offers refrigerated container facilities. The Chennai Port is ideal for serving southern India and is the main port of Hyderabad.

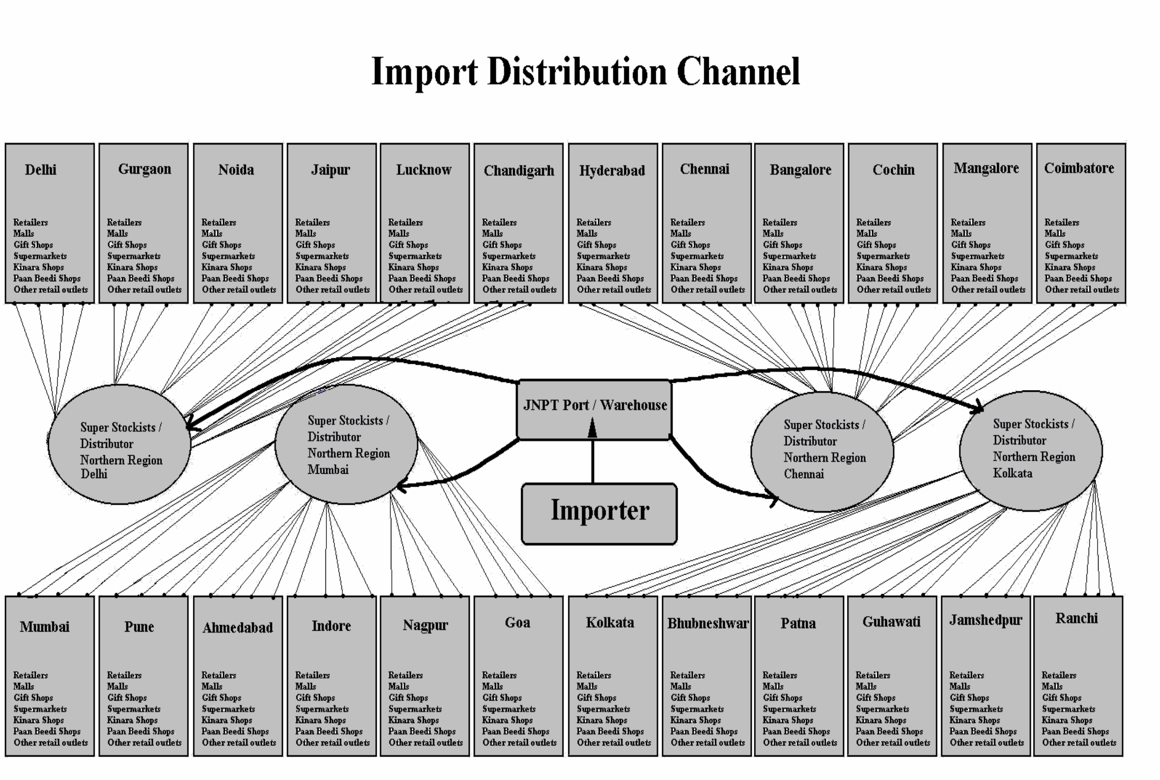
- **Handling of imports**

Confectionery imports into India are mainly handled by local importers who then distribute the products through a network of distributors, wholes113alers, and sometimes directly to large retailers. Figure 28 on the following page illustrates the distribution of imported products from the JNPT port throughout India.

It is important to keep in mind that confectionery imports into India are very small and even the large importers deal in very small volumes. For example, our respondents reported that they import between 10 and 200 containers of confectionery products per year. However, only one reported 200 containers, one reported 100 to 110, one reported 50 to 65, and the remaining 10 said that they import around 10 containers.

- **Business relationships that helps to import from distribution channel**

Given the size of the country, poor infrastructure, and the large number of intermediaries, established business relationships play an important role in the distribution of both domestic and imported confectionery products in India. The majority of the importers and manufacturers that we interviewed has had long-standing relationships with their agents or distributors or has exclusive arrangements for the distribution of their product. As one manufacturer stated, “A C&F agent or distributor can make or break your brand



3.1.2 THE MERCHANDISE WHO CAN IMPORT THE FERERRO'S PRODUCT

- ***Wholesale and retail***

  - **Role and key players**

Food retailing in India is changing rapidly. While small independent stores, such as kiranas and paan-beedi shops prevail, modern supermarkets are becoming increasingly common in urban areas such as Delhi, Mumbai, Kolkata, Chennai, Bangalore, Hyderabad and Pune, leading to increasing demand for quality products, including confectionery. Larger scale wholesale club/hypermarket formats are also appearing. Overall, organized retailing is growing rapidly and in addition to supermarkets and hypermarkets, the shopping mall concept is quickly gaining ground.

Today, India has approximately 12 million retail outlets. These are second only to agriculture sector in terms of employment. It is estimated that food products are sold by an estimated 6.5 million small grocery stores and wet markets throughout India, with only a small percent sold in more organized supermarkets and hypermarkets. . Food and beverage retail sales are estimated at roughly US $135 billion with a growth rate of 4-5% each year. However, out of this, receipts in the organized sector represent less than 1%.

  - **Kiranas**

Kiranas, small independent food stores, account for the vast majority of confectionery retail sales in India. Due to the omnipresence of kiranas and their long-standing existence in India, they remain the most popular choice of consumers for food purchases. Kiranas often offer a variety of services such as home delivery, credit facilities and consumer discounts and Indian consumers remain extremely loyal to these stores.

- **Paan-Beedi**

The friendly neighborhood paanwalla or the paan-beedi shop has played a key role for the growth of the chocolate and confectionery sector in India. The paan-beedi retailer occupies a slot in a locality in urban and rural India that gives enormous convenience to people looking to buy basic things. These stores, positioned to serve the mass market, are usually found in all busy streets and in residential neighborhoods in most Indian cities and towns.

They occupy only about 10 square feet of space and stock everything from chocolates and confectionery, produce, and other food items to cigarettes, batteries, and personal care items and to branded and non-branded items.

It has become increasingly easier for the paan-beedi shops to expand the breadth and depth of their product line, as many branded product brands now come in mono packs and in low unit volumes and prices. Many fast moving consumer goods companies are increasingly using this vast network, which accounts for more than one million stores and is growing.

Paan-beedi shops are generally served by C&F agents and wholesalers and distributors. Several of the leading confectionery manufacturers, including Nestle, Perfetti, ITC Foods, and Cadbury, are using these shops and they have become a major distribution channel for their confectionery products.

- **Candy stores**

Although candy stores in India account for close to 10% of confectionery retail sales in India, their share has been declining in recent years. These stores typically sell a range of confectionery products from domestic and imported chocolates and confectionery to bulk and branded confectionery products and are primarily aimed at children. Indian candy stores usually purchase from domestic manufacturers, C&F agents, and distributors for imported products. However, if importers are based locally, some confectionery retail stores will purchase directly from the importer.

Despite the general decline of the share of candy stores in overall retail sales of confectionery products, some specialized candy stores and chains are thriving. A typical example is the Mumbai based chain Sweet World, which currently has 20 stores in 9 cities in all prestigious shopping malls in Mumbai, Delhi, Pune, Gurgaon, Noida, Bangalore, Hyderabad, Kolkata and Chennai. They have positioned themselves to serve the more upscale market segment and sell more than 150 varieties of confectioneries. Sweet World is a pick'n mix concept store, which sells a wide range of candies. They do not sell branded products, but clearly label the origin of their candies.

- **Supermarkets and hypermarkets**

Supermarket retailing is a relatively new, though rapidly developing concept in India. Although there are no supermarkets that mirror western-style stores, some Indian versions of supermarkets have emerged. These are 3,000 to 5,000 square foot self-serviced and air-conditioned stores which stock a wide range (by Indian standards) of groceries, snacks, processed foods, confectionery, cleaning and personal care products, and cosmetics. They stock most national brands, a large number of regional and specialty brands, as well as their own brands of packaged dry groceries. Many of them have small bakery sections, and some are still experimenting with fresh produce and dairy products. Frozen foods are also often available. A typical supermarket carries about 6,000 stock-keeping units (SKUs).

- **Shopping malls**

The shopping mall is a new and quickly growing retail concept in India. By end of 2003, there were about 25 operational shopping malls in the country, all located in the major cities (New Delhi, Mumbai, Pune, Chennai, Kolkata, Bangalore and the twin cities of Hyderabad-Secunderabad) with total space of about 5m sq. ft. However, expectations are that by the end of 2006, this space will grow about ten times with a significant part of this new space located in the second tier cities like Jaipur, Ahmedabad, Lucknow, Nagpur, Indore, Ludhiana, Nashik, Agra, Thiruvananthapuram, Kochi and Mangalore. According to the global retail and real estate consultant Chesterton & Meghraj, the market share held by the organized retail market will grow from the current 2% to about 20% of the total retail market by the end of 2010.

Scale advantage and superior operations would allow modern large-format stores to be up to 35-40% cheaper than the traditional formats, and this would in turn fuel consumer spends. Studies done in the specific field indicate that there is the potential to improve productivity in the sector by 250%. This development will also have an impact on the food retailing and confectionery sectors in particular. It will lead to improved and more streamlined distribution channels and cutting down the number of intermediaries.

Some of the larger supermarkets in India are:

- **Foodworld Supermarkets Limited (FSL)**

It is a joint venture between the Kolkata-based RPG Enterprises (51%) and Dairy Farm International Holdings, Hong Kong (49%). FSL is India's largest supermarket chain with 90 outlets located in Chennai, Pondicherry, Bangalore, Cochin, Trivandrum, Hyderabad, Pune and Coimbatore. It has annual sales of approximately Rs. 3 billion. It is currently focusing on southern and western India but also has plans to go national in the near future.

- **C3 – The Market Place**

It is owned by TAI Industries in Kolkata. While C3 is only found in Kolkata, the company has plans to expand to other states in the Eastern and North Eastern regions of India.

3.2 BUSINESS OPPORTUNITIES IN FUTURE

Following factors suggest how business opportunities are exist in India.

- **Age**

Children and teenagers are the main consumers of confectionery products, and sugar confectionery and bubble gum in particular. Some of our respondents also indicated that they Have observed increasing chocolate sales to kids and teenagers. This has several important consequences for the further development and growth of the Indian market.

With over 30% of the population younger than 15, and over50% younger Than 25, India is a very young nation. The confectionery market will continue To consumer segment which will remain the main potential for growing the market, particularly in volume terms. Children usually purchase sweets with their pocket money, rather than with their parents' money. Thus price will remain a most important factor when targeting.

- **Urban v/s Rural areas**

Confectionery sales in India are driven mostly by the urban market segment. Estimates suggest that between60% and 70% of the confectionery sales in are concentrated in the more developed urban areas, awareness are generally higher .At the same time, about 70% of the population lives rural villages. Indeed, estimate sales ls indicate that confectionery products have significantly higher penetration (about 22%) in the urban markets that country average penetration. Chocolate consumption is concentrate most entirely in urban India.

- **Market forecast**

The confectionery market in India is expected to Continue to grow at healthy Rates. Sugar confectionery will remain the largest segment, and new product like mints, lollipops and chewing gum, as well as boxed assortments will grow at the rates.

Expert Expected As the market grows, so will imports. Nevertheless, they will remain small and with limited impact on the total market. Imported confectionery products will play a role primarily in this field.

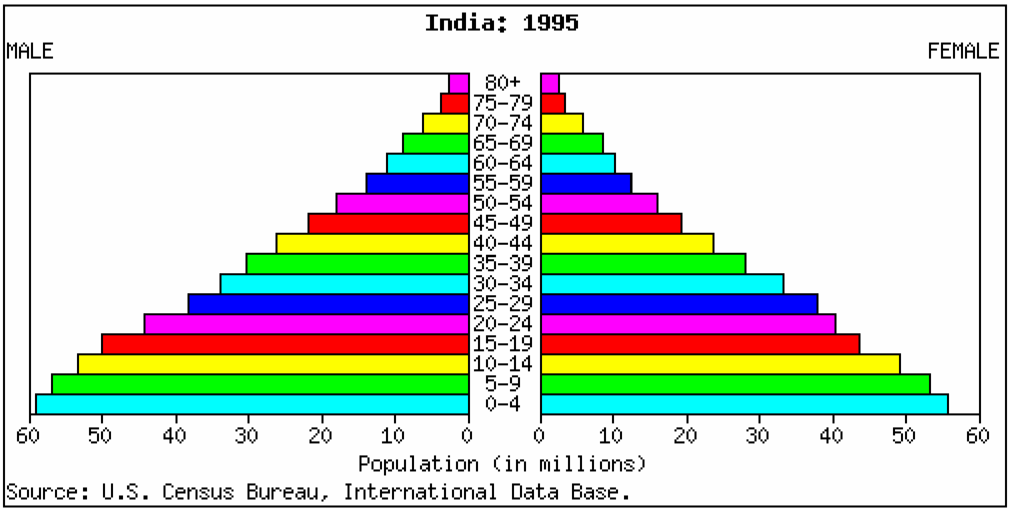
- **<u>Income</u>**

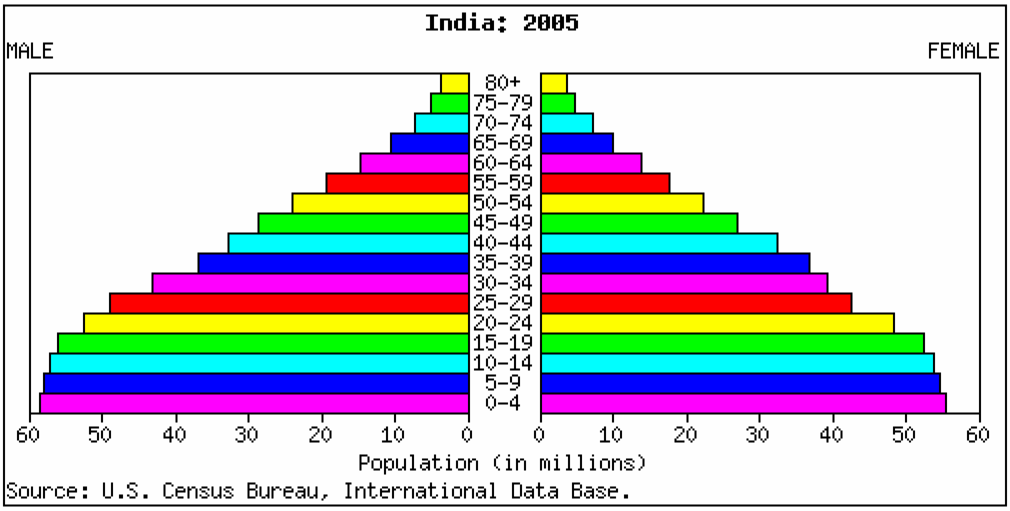
Despite the progress in reducing poverty over the last yea rs, India remains a very poor country with vast disparities between the different groups in India.The good news, however is that the high income classis expanding fast,middle income classes are bulging in size(especially in rural India), and the low income class is shrinking rapidly.

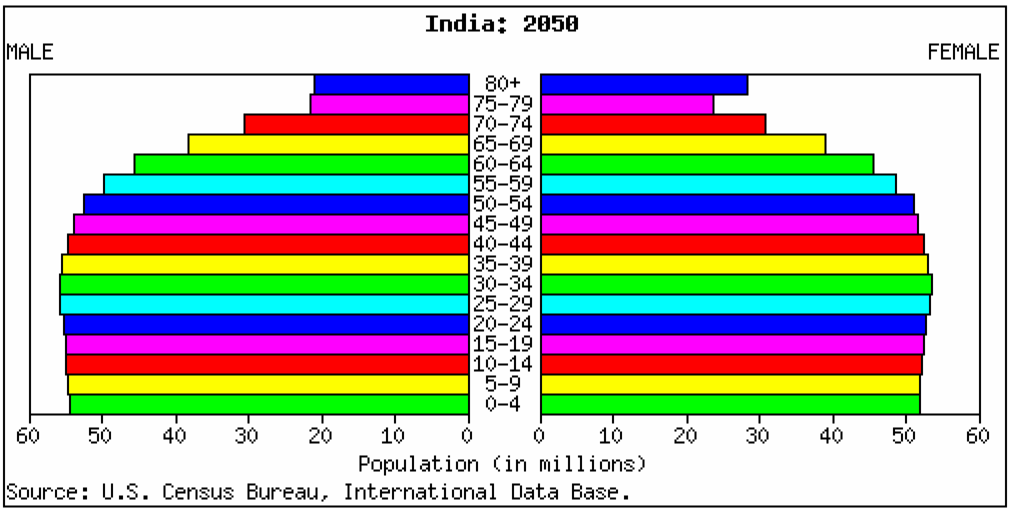
- **<u>Population</u>**

The Indian population represents roughly one-fifth of the global population. Many are poor and There are more than 1,000 languages spoken in the country, nearly 400 of which are spoken by more than 200,000 people. However, only 18 are officially recognized, and Hindi, the primary tongue of 30% of the population, is India's national language. Various States also have their own official languages and some of the most widely spoken ones are Punjabi, Bengali, Tamil, Gujarati, Urdu, Telugu, and Marathi. In addition, English which enjoys associate status is the most important language for international and commercial communication.

We can see chance of development of ferrero Italy from the following chart of indian population.


India: 1995
MALE
FEMALE
80+
75-79
70-74
65-69
60-64
55-59
50-54
45-49
40-44
35-39
30-34
25-29
20-24
15-19
10-14
5-9
0-4
60 50 40 30 20 10 0
0 10 20 30 40 50 60
Population (in millions)
Source: U.S. Census Bureau, International Data Base.


India: 2005
MALE
FEMALE
80+
75-79
70-74
65-69
60-64
55-59
50-54
45-49
40-44
35-39
30-34
25-29
20-24
15-19
10-14
5-9
0-4
60 50 40 30 20 10 0
0 10 20 30 40 50 60
Population (in millions)
Source: U.S. Census Bureau, International Data Base.


India: 2050
MALE
FEMALE
80+
75-79
70-74
65-69
60-64
55-59
50-54
45-49
40-44
35-39
30-34
25-29
20-24
15-19
10-14
5-9
0-4
60 50 40 30 20 10 0
0 10 20 30 40 50 60
Population (in millions)
Source: U.S. Census Bureau, International Data Base.

<u>Diagram showing retail sales purchasing behavior</u>

From the following chart we can conclude that how the growth of retail sales are taken place in india.

Retail sales of packaged foods (in billion Rupees)	1998	1999	2000	2001	2002	2003	Average annual growth
Confectionery	17	18	20	22	24	26	9%
Bakery products	72	79	87	96	104	113	9%
Ice cream	3	4	5	5	6	7	19%
Dairy products	41	44	48	53	59	65	10%
Sweet and savory snacks	4	4	5	6	6	7	12%
Snack bars	-	-	-	-	-	-	-

➢ **<u>Market size</u>**

Despite its vast population, India's confectionery market is still very small. With a population about five times larger than the US, the volume size of its confectionery market is more than 20 times smaller. It is valued at close to US $450 million, and is estimated to be 138,000MT.

➢ **<u>Pricing</u>**

As it was already emphasized, the Indian market is generally price sensitive. Also, many experts see that the mass market will grow at faster rates than the niche segments. In result most confectionery companies are trying to fit their products in the lower price ranges. The most popular price range for confectionery products is the Rs. 0.25 – 0.85.

Most confectionery brands of Nutrine, Lotte, Wrigley's, Perfetti, Candico, Parle, etc. are from the Rs. 0.25 to Rs. 1 price categories. Some chewing gum and bubble gums are in Re. 1/-, Rs. 2/- and Rs. 5/- categories. Most major companies including Cadbury's and Nestle are strongly pushing sales of their Rs. 5/-, Rs. 7/-, and Rs. 12/- categories. There is a big difference in the prices of domestic and imported products. The general rule is that domestic products are the cheapest. Then, there are different ranges of prices for imported products, depending on the brand, country of origin, and product itself. Asian and South American products are usually moderately priced, while European and US products are the most expensive. For example, from the top end products, 100gm Lindt chocolate sells for around Rs. 130.

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- ***<u>Seasonality</u>***

Our respondents reported that there are no seasonal trends in the sales of sugar confectionery and gum. Sales are consistent throughout the year. On the other hand, chocolate sales peak during the festival season (August to February), when exchanging gifts is a tradition

3.3 SUGGESTION

- Exporters should carefully select trading partners from among the Indian importers and distributors, as they will be critical to ensuring presence of their products on retail shelves. Importing is a relatively new business in India, and many importers may lack the knowledge and experience to ensure successful distribution of the products they deal with. Therefore, it is of critical importance to select the right partner.
- Importers and distributors may have limited financial and human resources. Thus U.S. exporters should be willing to offer as much support as possible, particularly in the initial phase of market entry.
- U.S. exporters may directly contact potential importers and distributors to select their partner(s). They may use the list of industry contacts provided in Section 6 or obtain contact through the US Embassy in New Delhi. The typical way of introduction is to send them company brochures, product catalogues, product samples, and price lists. A proper, formal introduction is important for a new entrant to make effective and productive contacts at potential partner firms.
- Mumbai and/or New Delhi are the most appropriate entry markets for US exporters. These cosmopolitan cities, with a larger number of affluent consumers exposed to western influences, as well as better developed infrastructure, are most appropriate for introduction of new US products that are generally higher priced than domestic and some imported products.
- India remains a very price sensitive market and appropriate pricing is key to the success of new products. US exporters should carefully discuss their product pricing and positioning with their chosen partners in India.

3.4 CONCLUSIONS AND RECOMMENDATIONS

Global Country Report is framework of knowledge getting from various aspects. It is one part of management programme. The main aspect of training is to know about world view in corporate aspect. By this conclusion we have learned many matters or what are done in other countries.

The research study has shown that independent variables that are play a very important role in knowing the culture, trade & different systems of other countries. We have finding data on "ITALY" country on topic of "Study of major industries & major trading partners of Italy" By that way we can understood the trade policy of other country, relations, export- import market situations, global market of the country, existence of businesses at there & many more aspects are..

GCR Programme is important part of the knowing the information or work on other countries matters. Every aspects of country are related with each other relations.

The Indian market for confectionery products has undergone significant changes over recent years. While penetration and consumption levels are still very low, overall sales, and particularly sales of higher value premium products have increased. The availability of imported products has also been rapidly rising since India liberalized its imports regime in 2001. Nevertheless, they are still very small leaving ample opportunities for further growth.

The distribution channels have also undergone substantial changes. Supermarkets have emerged and started to gain power over other retail formats. With these changes in mind, we expect that:

- The share of imported confectionery will continue to increase over the next several years, although overall sales will remain modest. Indians' taste will continue to become more westernized and more quality conscious. This trend will be more obvious in the urban areas among middle and upper class consumers, offering higher-end foreign brands growth opportunities. While most domestic companies also focus their new product development efforts on the mass market, a few have products targeting premium products. Nevertheless, Indians associate imported products with higher quality, and therefore respond positively to confectionery imports. The United States along with Western Europe are perceived as offering highest quality, although there is very low awareness of US confectionery products and brands.

- Indian confectioners are increasing their efforts in product development and promotional activities, and exporters will face stiffer competition from the domestic sector. On the other hand, the very low penetration and consumption levels provide ample opportunities for growth and make competition less of a constraint. However, for US exporters competition will be an important factor in the upscale niche segments, where European brands, particularly for chocolate are considered the best.

- The popularity of chocolate products, particularly boxed assortments for gifts, will continue to increase.

- The sugar confectionery will remain the largest confectionery segment. We expect to see growth of new and novelty products, such as mint and medicated confectionery (with added vitamins and/or other minerals), as well as the new to the country sugar-free confectionery categories While the traditional targets for confectionery products have been children and young people, increasing number of marketers have seen growth opportunities in targeting the adult consumer segment. This will lead to new products and marketing strategies aimed at them.

- There will continue to be opportunities for new products that appeal to the young consumer. The ever-present stimulus of novelty and fashion, encouraged by continuing exposure to western culture will keep the doors open for new products and new suppliers.

- Marketing and promotion expenditures for confectionery products will increase and distributors will require promotional support from manufacturers.

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Group-4

A

GLOBAL STUDY AND REPORT ON

"LAVAZZA COFFEE INDUSREY IN ITALY"

Submitted to

N.R. Vekaria Institute of Business Management Studies- Junagadh.

IN PARTIAL FULFILLMENT OF THE

REQUIREMENT OF THE AWARD FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

IN

GUJARAT TECHNOLOGICAL UNIVERSITY

Under the guidance of

Prof. J.K. Vasavda

Prof. D.B. Morvadiya

Submitted by

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Batch: 2011-13

MBA SEM – 3

N. R. Vekaria Institute of Business Management studies – Junagadh.

STUDENT'S DECLARATION

We Ms. Parekh Nirali, Ms. Dave Dhara, Ms. Pabari Disha, Ms. Bhatt Dishani, Mr. Chavada Bhavin, Mr. Nakrani Manish hereby declare that the report for global study report on Italy is a result of our own work and our indebtedness to other work publications, references, if any, have been duly acknowledged.

Place: Junagadh

Date:

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“certified that this Global Study and Report Title” in “Italy” is the bonafide work of we Ms. Parekh Nirali (117360592052), Ms. Dave Dhara (117360592048), Ms. Pabari Disha (117360592051), Ms. Bhatt Dishani (117360592049), Mr. Chavada Bhavin (117360592047), Mr. Nakrani Manish (117360592050) who carried out the research under my supervision . i also certify further, that to the best of my knowledge the work reported herein does not from part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

AUTHORISED SIGNATORY:

Director	Project guide
Dr. Rajesh Patel	Prof. J.K.Vasavda
	Prof. D.B. Morvadiya

PREFACE

There is on **ancient proverb** practice makes man perfect. It indicates practice makes the person more practical and provides training and knowledge through which we can handle related situation.

Here in MBA we study the management and administration of business and its various operations. But that is only a theoretical knowledge. When we are asked to put it in actual practice, most of us have realized that it is not the same infect theory is just the base to go into the practical field. Thus to have an exhaustive knowledge of anything there should be an ideal integration of theory and practice. It is said that theory without practice has no fruits and practice without theory has no root.

Here is given the project report on Italy tried my level best to Collect information from it. I assured that all information is trusted and if any wrong Information is there I sincerely sorry for that.

ACKNOWLEDGEMENT

Man's quest for knowledge never ends. Theory and practice are essential and complementary to each other. I am thankful for the assistance received from various individuals in making this project report successfully.

My acknowledgement remains incomplete without great thanking to respective member Dr. Rajesh A. Patel (Director), Dr. N. M. Munshi (HOD). I am thankful to my internal guide Prof. J.K.Vasavda and prof. D.B.Morvadiya they helped me throughout my project report work as well as documentation

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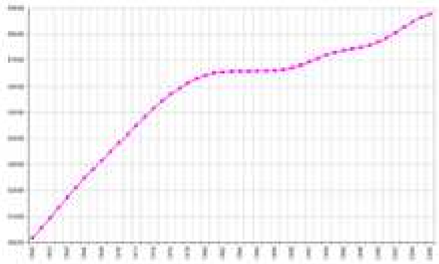
5	Potential for import/export in India/Gujarat market, Business opportunities in future, Conclusion and suggestions	

PART 1

1. DEMOGRAPHICS OF ITALY



Historical population		
Year	**Pop.**	**±%**
1951	47,515,537	+10.6%
1961	50,623,569	+6.5%
1971	54,136,547	+6.9%
1981	56,556,911	+4.5%
1991	56,778,031	+0.4%
2001	56,995,744	+0.4%
2011	60,820,787	+6.7%

This article is about the demographic features of the population of Italy, including population density, ethnicity, education level, health of the populace, economic status, religious affiliations and other aspects of the population.

Italy has 60,626,442 inhabitants according to 1/1/2011 municipal records (*Anagrafe).* Its population density, at 201/km² (520/sq. mile), is higher than that of most Western European countries. However the distribution of the population is widely uneven. The most densely populated areas are the Po Valley (that accounts for almost a half of the national population) and the metropolitan areas of Rome and Naples, while vast regions such as the Alps and

Apennines' highlands, the plateaus of Basilicata and the island of Sardinia are very sparsely populated.

The population of Italy almost doubled during the twentieth century, but the pattern of growth was extremely uneven due to large-scale internal migration from the rural South to the industrial cities of the North, a phenomenon which happened as a consequence of the Italian economic miracle of the 1950-60s. In addition, after centuries of net emigration, from the 1980s Italy has experienced large-scale immigration for the first time in modern history. According to the Italian government, there were 4,570,317 foreign residents in Italy as of January 2011. High fertility and birth rates persisted until the 1970s, after which they started to dramatically decline, leading to rapid population aging. At the end of the 2000s, one in five Italians was over 65 years old However, thanks mainly to the massive immigration of the last two decades, in recent years Italy experienced a significant growth in birth rates. The total fertility rate has also climbed from an all-time low of 1.18 children per woman in 1995 to 1.41 in 2008. Italy has no official religion. The 1984 Lateran Treaty revision abolished the Roman Catholic Church as the official state religion, while recognizing the role it plays in Italian society. 87.8% of the population define themselves as Catholic, 5.8% as non-believers or atheists, and 6.4% other religions, of which 2.6% Islam.

Contents

Urbanization

About 68% of Italian population is classified as urban, a relatively low figure among developed countries. During the last two decades, Italy underwent a devolution process, that eventually led to the creation of administrative metropolitan areas, in order to give major cities and their metropolitan areas a provincial status (somehow similar to PRC's direct-controlled municipality). However, none of these new local authorities has yet become fully operative. According to OECD, the largest conurbations are:

- Milan – 7.4 million
- Rome – 3.7 million
- Naples – 3.1 million
- Turin – 2.2 million

Origin of the population

Origin	Population	Percent
Italian	55,818,099	92.00%

Languages

"Italophone" world. Dark blue: official language; green: secondary, widely spoken or understood; light blue: understood by some due to former colonisation.

Italy's official language is Italian. Ethnologue has estimated that there are about 55 million speakers of the language in Italy and a further 6.7 million outside of the country. However, between 120 and 150 million people use Italian as a second or cultural language, worldwide.

Italian, adopted by the state after the unification of Italy, is based on the Florentine variety of Tuscan and is somewhat intermediate between the Italo-Dalmatian languages and the Gallo-Romance languages. Its development was also influenced by the Germanic languages of the post-Roman invaders.

Italy has numerous dialects spoken all over the country. However, the establishment of a national education system has led to decrease in variation in the languages spoken across the country. Standardization was further expanded in the 1950s and 1960s thanks to economic growth and the rise of mass media and television (the state broadcaster RAI helped set a standard Italian).

Several ethnic groups are legally recognized, and a number of minority languages have co-official status alongside Italian in various parts of the country. French is co-official in the Valle d'Aosta—although in fact Franco-Provencal is more commonly spoken there. German has the same status in the province of South Tyrol as, in some parts of that province and in parts of the neighbouring Trentino, does Laden. Slovene is officially recognized in the provinces of Trieste, Gorizia and Udine in Venezia Giulia.

In these regions official documents are bilingual (trilingual in Laden communities), or available upon request in either Italian or the co-official language. Traffic signs are also multilingual, except in the Valle d'Aosta where—with the exception of Aosta itself which has retained its Latin form in Italian as in English—French homonyms are generally used, attempts to Italianize them during the Fascist period having been abandoned. Education is possible in minority languages where such schools are operating.

Population

60,626,442 (2011 est.)

Age structure

0-14 years: 13.5% (male 4,056,156/female 3,814,070)

15-64 years: 66.3% (male 19,530,696/female 18,981,084)

65 years and over: 20.2% (male 4,903,762/female 6,840,444) (2010 est.)

Sex ratio

At birth: 1.07 male(s)/female

Under 15 years: 1.06 male(s)/female

15-64 years: 1.02 male(s)/female

65 years and over: 0.72 male(s)/female

Total population: 0.96 male(s)/female

Infant mortality rate

Total: 5.51 deaths/1,000 live births

Male: 6.07 deaths/1,000 live births

Female: 4.91 deaths/1,000 live births

Total fertility rate

1.41 children born/woman (2010)

Life expectancy at birth

Total population: 81.8 years (2010)

Male: 79.2 years (2010)

Female: 84.4 years (2010)

Ethnic groups

Italian: 92%, other European (mostly Romanian, Albanian, Ukrainian and others) 4%, North African (mostly Berber) 1.5%, others 2.5%[51]

Religions

Roman Catholic: 87% (approximately; one third practicing), other Christians: 2%, Muslim: 1.8%, Atheist or Agnostic: 9%

Literacy

Definition: age 15 and over can read and write

Total population: 98.6%

2. ECONOMIC OVERVIEW

Gross domestic product (GDP) of US$1.273 trillion makes it the sixth richest country in the world. In income per capita, it occupies 18th place. The country's economic success is a recent accomplishment. Italy was unified in 1861 after 3 wars of independence fought against various foreign rulers who dominated different parts of the country. The driving force behind Italy's unification was Victor Emmanuel II, the king of Piedmont and Sardinia, who waged wars against

foreign rule in the name of Italian independence and territorial unity. Italy had long been carved up by foreign powers, but several self-ruling cities and kingdoms also existed. With the help of committed patriots, such as Giuseppe Mazzini and Giuseppe Garibaldi, Victor Emmanuel accomplished his aim to unify the country under his rule. Despite the enthusiasm of unification, economic conditions were poor. Italy had few industries, and most people lived off agriculture. Furthermore, the difference between the more advanced northern half of the country and the poorer south was evident. The pace of industrialization was slow, and industry could not provide jobs for new generations of workers. Because of the poor standard of living and lack of work, many Italians left the country to find a better life, particularly in the United States. The first wave of mass emigration to the United States took place before the turn of the 20th century, followed by a second wave after World War I (1914-18). During the period of Italy's fascist rule, which lasted from 1922 until 1943, and then following the end of World War II (1939-45), many Italians migrated to European countries such as the United Kingdom, Germany, and Belgium. Before the economic boom in the late 1950s, many Italians also migrated to Australia, South Africa, Switzerland, and Latin America. The turning point in Italian economic history was the economic prosperity of the 1960s. At the time, private and state owned enterprises took advantage of foreign assistance from the United States under the Marshall Plan and the launch of the European Economic Community (EEC) to restore the Italian economy. Despite scepticism about the European Common Market, Italy joined and profited from the progressive integration of Western European economies. By developing strong export-related industries, the industrial triangle of Milan-Genoa-Turin led the economic boom. Italian exports became attractive, and the growth of exports led to a strong internal demand for goods and services. Small and medium enterprises began establishing themselves and prospering in Northern Italy. These companies were the force behind economic growth as they exported machinery, engineering products, textiles, and clothing. Large private companies such as FIAT and state owned companies such as ENI and ENEL also contributed to economic growth. Meanwhile, southern Italy remained 9/19/12 Italy Overview of economy, the second oil crisis in 1979 and domestic political turmoil created high unemployment and high inflation.

Strikes, demonstrations, flight of capital, and confrontations between the trade unions and businesses plagued the country. To steer the country away from this troubled period, political parties formed a Grand Alliance to find a solution that would satisfy most of the people. A national solidarity government was formed and managed to deal with the problem of stagflation (high inflation combined with high unemployment and stagnant consumer demand), reduce civil unrest, and lay the foundations for future growth. The country began to recover about 1983 and moved toward a new period of economic expansion. Strong economic performance allowed successive governments to make improvements in the welfare state that provides health care, education, pensions, infrastructure, and benefits. Before the 1980s, Italy was a free market economy with a strong element of state control and state ownership. Many state owned companies had operated efficiently and contributed to economic growth. By the mid-1980s, however, the state sector was beginning to create distortions in the economy. Many Italians employed by the state lived well above their means, accumulating debts and enjoying a free ride at the public expense Large state-owned enterprises such as the motor car manufacturing company, Alfa-Romeo, were sold to private investors. The progressive disengagement of the state from the economy created more room for private investors. With the prospect of entrance into the European Monetary Union (EMU), Italy was forced to undertake massive reforms to lower inflation, reduce the deficit, and lower interest rates. By 1992 reforms accelerated as the state disengaged from the economic sphere. The relative importance of the Milan-Genoa-Turin industrial triangle declined, and small and medium sized private enterprises in the northern part of the country became the chief participants in the new boom. Recovery from the economic recession of the early 1990s and acceptance into the EMU was due, in part, to the social partnership pact brokered by the government. Employers and labour united to put an end to confrontation and to adopt part-time contracts, flexible hours, and lower overtime rates. Even the public sector embraced these changes to improve its efficiency. Investments were made in technological development, salaries were frozen for months, and the workforce increased production in exchange for job security.

The Italian economy is now much more free-market oriented than at any previous time. Several sectors have been liberalized and state monopolies disbanded. Many state-owned enterprises have been privatized over the last 8 years, with 13 percent of these sold to national private investors and another 8 percent to foreign private investors. The remaining 79 percent were sold to the public via stock offerings. Over 500,000 workers were transferred from the public to the private sector between 1992 and 1998.

By 2000, Italy enjoyed a healthy economy characterized by slow growth. In fact, Italy had the slowest growing economy of the 11 founding members of the EMU. With the GDP growth of 1.4 percent in 1999, Italy lagged behind the 2.9 percent annual growth rate of other countries in the EMU. But growth increased in 2000, reaching an annual rate of 2.7 percent and may be expected to continue to improve in the coming years as the country continues to adjust to the new economic scenario created by the withdrawal of the state. Despite the relatively healthy economy, high unemployment, underdevelopment in large areas of the south, and the large presence of an often criminal, informal economy continue to plague Italy. Most of the unemployed live in the south. Organized crime tries to recruit those people. Unemployment has always been a problem even in times of economic growth. In 2000 unemployment stood at 11.5 percent. Although unemployment is high, it may not be reflective of reality because of the number of people employed in the nation's informal sector. Living conditions in the south of Italy are difficult, the job market is tight, and emigration is still the preferred option of many young people. The government has made a serious attempt to address this problem by granting tax breaks to companies willing to set up business and hire workers in the south. CGIL, the largest Italian trade union, calculated that between October 1997 and April 2000 over 100,000 people found work in small or medium-sized enterprises in the south. The government has toughened laws against businesses that fail to pay their taxes and who gravitate toward the informal economy. Companies that want to move from the informal economy and legalize receive help. The re-emergence of the companies entitles workers to social benefits and helps generate revenue for the state from taxes. Most of the new enterprises are active in the clothing, footwear, agricultural, and construction sectors. Although these businesses operate on a small scale, many hire a large number of workers. It is difficult to determine precise statistics because of the informal nature of the market. It is incorrect to treat the whole of southern Italy as a homogenous area because there are substantial differences in economic and social development in different regions. For example, Abruzzo is more prosperous and developed than Calabria. Within the same southern region, production compares favourably with the more affluent north. Although social development and the standard of living is improving, overall indicators still point, however, to a significant gap between the north and the south. Ironically, factories in the north suffer from a shortage of labour because of recent economic growth.

Nevertheless, the country economy experienced the worst recession, but since 2009 has slowly rebounded, particularly in industrial production. Italy is still susceptible to negative market sentiment due to the concerns over its sovereign debt. It has a debt-to-GDP ratio of over 100%.

An overview of Italy’s economy

Following years of slow growth, the economic crisis highlighted Italy's structural problems, in particular its issues with competitiveness and fiscal discipline. Nonetheless, the country is on a path to recovery. Italy was one of the six member states that established the European Economic Community (EEC), one of the predecessors of the EU. Italy was a founding member of the euro area and was among the first group of countries to introduce the euro on January 1, 1999. Euro notes and coins entered general use on January 1, 2002, replacing the Italian Lira. After the 1950s, Italy transformed from a weak agriculture-based economy, severely affected by the consequences of World War II, into one of the world's most industrialized nations. It has a highly developed infrastructure and was ranked number 10 in The Economist's Quality of Life 2010 Index. However, Italy has been referred to as "the sick man of Europe" due to economic stagnation, political instability, and challenges in pursuing reform programs. The country grew only at a 1.26% rate from 1992 to 2008 in terms of real GDP, just prior to the global downturn.

Italy's Economy – Key Facts

• Italy's GDP per capita was $30,500 in 2010, scarcely above the 2009 figure.

• Italy has a diversified industrial economy, which is divided into a enveloped industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south known as the "Mezzogiorno", with high unemployment. • The World Economic Forum (WEF) Global Competitiveness Report for 2010/2011 ranked Italy 43rd out of 139 countries in terms of competitiveness. • According to the European Commission's September 2011 interim forecast, economic growth is expected to be -3.5% in 2011, a downward revision on the Commission's spring projection, which is much lower than the forecasted euro area average. Plummeting global demand seriously affected the country's exports, while a weak labour market and inflation pressures contribute to low consumer spending. • As is typical during recessions, the government has run a large deficit but it is decreasing over time it is projected to reach 7.4% in 2011. With the persistent government deficit the general government debt is to reach 166.1% of GDP.

3. OVERVIEW OF TRADE AND COMMERCE

Italy covers 116,303 square miles (301,225 square kilometres). Its population of 60.6 million (2011 estimate) includes a workforce of 25.01 million (2010 estimate) occupied primarily in the services industry (67%), **Financial Facts:**

- Estimated GDP (2010) of US$1.774 trillion or US$30,500 per capita
- GDP grew 1.3% from 2009-2010
- Services account for 73.3% of GDP
- Industry generates 24.9% of GDP. Italy's economic strength is goods manufacture and processing, primarily in small and medium-sized family-owned firms. Its major industries are precision machinery, motor vehicles, chemicals, pharmaceuticals, electric goods, and fashion and clothing.
- Agriculture generates 1.8% of GDP

Italy is well known for its large number of small family-run businesses. That makes Italy a market well attuned to the needs and business realities of small and medium enterprises. The organization reports that more than 90% of industrial companies employ fewer than 100 people, and nearly 90% of companies have fewer than 20 employees. This section is designed to help your company identify and assess its international trade opportunities in Italy.

Perhaps you're interested in establishing a partnership with one of the country's exporters. You may be considering joint ventures with Italian companies, franchise or licensing opportunities or sales of your products and services in Italy. Whatever your interests and needs, the resources provided here will lead you to information that can support your entry into the Italian market.

More about Business Basics

Everything from understanding government regulations and tariffs, to the right labelling and gaining local representation comes into play when doing business in Italy. Getting the basics down can prepare you for market entry.
The Federation of International Trade Associations (FITA), whose members include more than 450,000 trade-related organizations, created this resource, which provides an introduction to the Italian market. Use the links on this page to navigate to additional information about the country's economy and political structure, business environment, and standards for selling, buying, and operating a business.

Italy and International Trade This profile of the Italian market was prepared by the Australian Trade Commission (Austrade), the Australian Government's trade and investment development agency. The report provides introductory information about the market, advice to companies that want to export to or do business in Italy, and a guide to etiquette, language and cultural concerns. Italy Trade Information The U.S. Department of Commerce prepared this report. While the report includes chapters dedicated to the sale of U.S. products and services in Italy and leading sectors for U.S. export and investment, it also addresses topics of more universal interest, such as Italy's:

- Political and economic environment
- Trade regulations and standards
- Investment climate
- Trade and project financing
- Business travel
- Contacts, market research and trade

The Market

Understanding market-specific issues, such as licensing, employment issues, getting credit or starting a business or franchise, is critical in moving into new countries.
The World Bank's "Doing Business In" project compares business procedures and economic regulations in 181 countries throughout the world. This page provides introductory information

about the Italian market. Most World Bank materials are published in English, Spanish, Portuguese, French, Russian, Chinese and Arabic.

Cultural Issues

Business success abroad depends not only on the quality of your products and services, but also on the knowledge and respect you show for the customs and manners of business people in your host country. These guides will help you to ensure that your business conduct in Italy makes a positive impression. In addition, you may refer to the business etiquette section of this report prepared by the government of Australia.

Italy has few natural resources and there are no substantial deposits of iron, coal, or oil. Most raw materials needed for manufacturing and more than 80% of the country's energy sources are imported. Italy's economic strength is in the processing and the manufacturing of goods, primarily in small and medium-sized family-owned firms.

Export and Import Facts

- Export volume was US$474.8 billion in 2007
- Top exports by industry include mechanical products, textiles and apparel, transportation equipment, metal products, chemical products and food and agricultural products
- Import volume was US$483.6 billion in 2007
- Top imports by industry are machinery and transport equipment, foodstuffs, ferrous and nonferrous metals, wool, cotton and energy products

- The country maintains an extensive network of bilateral chambers of commerce to promote trade with countries in Europe, the Asia/Pacific region, Africa and North America (for a listing, see Export/Import Resources)

Export and Import Resources

The resources in this section can help guide your company toward its place in this economy. Italy's bilateral chambers of commerce offer some opportunities for networking that can help you establish new connections with importers in Italy or with businesses in other countries whose goods you want to import.

African Chambers of Commerce

Americas Chambers of Commerce

Asia-Pacific Chambers of Commerce

European Chambers of Commerce

Middle Eastern Chambers of Commerce

4. OVERVIEW DIFFERENT ECONOMIC SECTOR OF ITALY

A business does not operate in a vacuum. It has to act and react to what happens outside the factory and office walls. These factors that happen outside the business are known as **external factors or influences**. These will affect the main internal functions of the business and possibly the objectives of the business and its strategies.

Main Factors:

The main factor that affects most business is the **degree of competition –** how fiercely other businesses compete with the products that another business makes.

The other factors that can affect the business are:

- **Social –** how consumers, households and communities behave and their beliefs. For instance, changes in attitude towards health, or a greater number of pensioners in a population.
- **Legal –** the way in which legislation in society affects the business. E.g. changes in employment laws on working hours.
- **Economic –** how the economy affects a business in terms of taxation, government spending, general demand, interest rates, exchange rates and European and global economic factors.
- **Political –** how changes in government policy might affect the business e.g. a decision to subsidise building new houses in an area could be good for a local brick works.
- **Technological –** how the rapid pace of change in production processes and product innovation affect a business.
- **Ethical –** what is regarded as morally right or wrong for a business to do. For instance should it trade with countries which have a poor record on human rights.

Changing External Environment:

Markets are changing all the time. It does depend on the type of product the business produces, however a business needs to react or lose customers.

Some of the main reasons why markets change rapidly:

- Customers develop new needs and wants.

- New competitors enter a market.
- New technologies mean that new products can be made.
- A world or countrywide event happens e.g. Gulf War or foot and mouth disease.
- Government introduces new legislation e.g. increases minimum wage.

Business and Competition:

Though a business does not want competition from other businesses, inevitably most will face a degree of competition.

The amount and type of competition depends on the market the business operates in:

- **Many small rival businesses –** e.g. a shopping mall or city centre arcade **–** close rivalry.
- **A few large rival firms –** e.g. washing powder or Coke and Pepsi.
- **A rapidly changing market –** e.g. where the technology is being developed very quickly **–** the mobile phone market.

Social Environment and Responsibility:

Social change is when the people in the community adjust their attitudes to way they live. Businesses will need to adjust their products to meet these changes, e.g. taking sugar out of children's drinks, because parents feel their children are having too much sugar in their diets.

The business also needs to be aware of their social responsibilities. These are the way they act towards the different parts of society that they come into contact with.

Legislation covers a number of the areas of responsibility that a business has with its customers, employees and other businesses.

It is also important to consider the effects a business can have on the local community. These are known as the **social benefits** and **social costs.**

A social benefit is where a business action leads to benefits above and beyond the direct benefits to the business and/or customer. For example, the building of an attractive new factory provides employment opportunities to the local community.

5. INTERNATIONAL TRADE

International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history (see Silk Road, Amber Road), its economic, social, and political importance has been on the rise in recent centuries. Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders. International trade is, in principle, not different from domestic trade as the motivation and the behaviour of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture.

Another difference between domestic and international trade is that factors of production such as capital and labour are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labor or other factors of production. Trade in goods and services can serve as a substitute for trade in factors of production. Instead of importing a factor of production, a country can import goods that make intensive use of that factor of production and thus embody it. An example is the import of labour-intensive goods by the United States from China. Instead of importing Chinese labour, the United States imports goods that were produced with Chinese labour. One report in 2010 suggested that international trade was increased when a country hosted a network of immigrants, but the trade effect was weakened when the immigrants became assimilated into their new country International trade is also a branch of economics, which, together with international finance, forms the larger branch of international economics.

LEGAL CONSIDERATION

Political overview

The constitution of Italy was adopted in 1947, following a referendum on 2 June 1946 that abolished the Italian monarchy and established Italy as a parliamentary republic. The constitution came into effect on 1 January 1948 and established a bicameral parliament (Chamber of Deputies and Senate), a separate judiciary, and an executive branch composed of a Council of Ministers headed by the President of the Council (Prime Minister). The constitution also created the position of President (elected for a seven year term) to fulfil the ceremonial roles of the (former) Italian monarchy.

Giorgio Napolitano was elected by Parliament as the eleventh President of the Italian Republic in May 2006.In November 2011, Mario Monti was appointed Prime Minister following the resignation of his predecessor, Silvio Berlusconi. He leads a technocrat government mandated to steer Italy through the economic crisis facing the country. As a former EU Commissioner and respected economist, Mario Months enjoyed strong cross-party support and is expected to lead the country through to parliamentary elections in April 2013. Both houses of parliament are directly elected and are of equal authority. The electoral system in the Senate is based upon regional representation. The Chamber of Deputies has 630 members and the Senate 315 elected senators; in addition, the Senate includes former presidents and several other persons appointed for life according to special constitutional provisions. Both houses are elected for a maximum of five years, but either may be dissolved before the expiration of its normal term. Legislative bills may originate in either house and must be passed by a majority in both.

In the 2006 elections, Italians living abroad (about 2.7 million people) were eligible to vote for the first time. They elected 12 members of the Chamber of Deputies and six Senators representing four overseas divisions: Europe; South America; North and Central America; and Africa, Asia, Oceania and the Antarctic.

Italy was one of the Founding members of the European Community — now the European Union (EU). The country was admitted to the United Nations in 1955 and is a member of the North Atlantic Treaty Organization (NATO), the Organization for Economic Co-operation and Development (OECD), the General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO), the Organization for Security and Co-operation in Europe (OSCE), and the Council of Europe. It chaired the CSCE (the forerunner of the OSCE) in 1994, the EU in 1996, and the G8 in 2001, and held the EU presidency from July to December 2003.

Italy participated in and deployed troops in support of UN peacekeeping missions in Somalia, Mozambique, and East Timor and provides critical support for NATO and UN operations in Bosnia and Herzegovina, Kosovo and Albania. 1,000 Alpine troops were deployed to Afghanistan in support of Operation Enduring Freedom (OEF) in February 2003. Italy also supported international efforts to reconstruct and stabilize Iraq through its military contingent of some 3,200 troops, as well as humanitarian workers and other officials. The troops remained in Iraq until December 2006 when they were retrieved by the Romano Prodi government. In August 2006 Italy sent about 3,000 soldiers to Lebanon for the United Nations peacekeeping mission UNIFIL Furthermore, since 2 February 2007 an Italian, Claudio Graziano is the commander of the UN force in the country.

The Italian government seeks to obtain consensus with other European countries on various defence and security issues within the EU as well as NATO European integration and the development of common defence and security policies will continue to be of primary interest to Italy In February 2007, Italy, Britain, Canada, Norway and Russia announced their funding commitments to launch a $1.5 billion project to help develop vaccines they said could save millions of lives in poor nations, and called on others to join them.

Economic overview

The Italian economy has changed dramatically since the end of World War II. From an agriculture-based economy, Italy has developed into an industrial state ranked as the world's eighth-and Europe's third-largest economy. It is a member of the European Union, the OECD, and the G8 and G20 economic forums.

Italy's post-war economic strength has been based on the processing and manufacturing of goods, primarily in small and medium-sized enterprises. The majority of these enterprises are family-owned and are focused on the domestic market and exports to EU and Mediterranean countries. Italy's major industries are tourism, machinery, iron and steel, chemicals, food processing, textiles, clothing and footwear, motor vehicles, and ceramics. Most raw materials needed for manufacturing and more than 80 per cent of the country's energy sources are imported. Italy has a sizeable underground economy concentrated in the agriculture, construction and service sectors, which by some estimates accounts for as much as 17 per cent of GDP.

Despite its strengths, Italy's economy remains divided into a developed industrial north and less-developed, south with high unemployment. Foreign Direct Investment (FDI) remains well below the levels achieved by its benchmark competitors and outward Italian FDI is limited and largely concentrated in Europe and the Mediterranean.

The government has undertaken significant legislative reform to balance its budget by 2013, start to reduce the country's public debt and safeguard its competitiveness. Austerity and growth measures since the second half of 2011 include tax increases, cuts to public administration, and ambitious pension and labour reforms.

Italy's labour market has suffered as a result of these measures and the wider Euro zone crisis. Unemployment has hit 10 per cent, with youth unemployment at almost 36 per cent. Weak exports and domestic demand are further slowing Italy's recovery. As the first country in the world to record more people aged over 65 than under15, Italy's low fertility rate and rapidly aging population, as well as its quota-driven immigration policies, will continue to strain the economy.

Italy is currently experiencing negative economic growth and American rating agency Moody's has predicted its economy would contract by 2 per cent in 2012. In July 2012, Moody's cut Italy's debt rating by two notches to Baa2 from A3, citing contagion through the Euro zone crisis from Spain and Greece.

Bilateral relationship

Australia and Italy enjoy a warm and long-standing relationship underpinned by strong community ties. Bilateral trade and investment and the development of cultural and educational links continue to grow. According to the 2011 census, 916,116 Australians claimed Italian ancestry with 185,402 Australian residents having been born in Italy. At least 30,000 Australians are estimated to live in Italy. On 13 December 2011, Governor General Quentin Bryce became an honorary citizen of Conzano, a small town in the Piedmont Region, following her official visit to the region for the 150th anniversary of the Unification of Italy in June. Australia and Italy have concluded bilateral agreements covering culture, double taxation, air services, economic and commercial cooperation, reciprocal social security and health care benefits, and film co-production. A bilateral Working Holiday Maker Arrangement became operative in January 2004. The two countries have also signed a number of Memoranda of Understanding (MOUs) covering science and technology cooperation, defence materiel, defence industry, motor vehicle safety certification, sports cooperation, game meat exports and trade cooperation. In July 2009 an MOU was signed regarding cooperation on the Square Kilometre Array, a proposed international advanced radio-telescope project. Many state governments have signed MOUs with Italian regional governments to promote cooperative activities and exchanges between the two parties.

High-Level Visits

2012

- The Hon Mark Dreyfus QC MP, Parliamentary Secretary for Climate Change (to attend the Major Economies Forum on Energy and Climate)
- The Hon Chris Evans MP, Minister for Tertiary Education, Skills, Science and Research

2011

- Her Excellency Ms Quentin Bryce AC, Governor-General of the Commonwealth of Australia (to represent Australia at celebrations surrounding the 150th anniversary of Italian Unification)
- The Hon Kevin Rudd MP, Minister for Foreign Affairs (to attend the Second Libya Contact Group meeting in May and to meet with Foreign Minister Terzi en route from Libya in December)
- Senator the Hon Mark Arbib, Minister for Sport (to open the Australian Sports Commission's European Training Centre in Gravitate, Varese)

2010

- The Hon Kevin Rudd MP, Minister for Foreign Affairs
- The Hon Anthony Albanese MP, Minister for Infrastructure and Transport (for the second Ministerial Conference on Global Environment and Energy in Transport)
- Australian Parliamentary Delegation, led by the President of the Senate, Senator the Hon John Hogg
- Senator the Hon Penny Wong, Minister for Climate Change, Energy Efficiency and Water (for Major Economies Forum on Energy and Climate)
- Senator the Hon Kim Carr, Minister for Innovation, Industry, Science and Research

2009

- The Hon Kevin Rudd MP, Prime Minister
- The Hon Penny Wong MP, Minister for Climate Change and Water
- The Hon Martin Ferguson MP, Minister for Resources and Energy
- The Hon Tony Burke MP, Minister for Agriculture, Fisheries and Forestry
- The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government
- The Hon Bob McMullan MP, Parliamentary Secretary for International Aid

Italy's primary export partners

France 11.4%

- Spain 7.4%
- US 6.8%
- UK 5.8% (CIA Fact book 2007)

Italy's foreign-trade rules

It levies no duties on goods from other EU countries and applies common EU customs tariffs (0-20%) on industrial products imported from third countries and variable levies on agricultural goods. Under the European Economic Area agreement, the EU's free movement of goods, services, capital and labor also extends to Iceland, Liechtenstein and Norway. The EU's economic ties with Switzerland, including free trade, are similar and are contained in bilateral agreements. Special arrangements exist for imports from some developing countries, especially in Africa, the Caribbean and the Pacific, and from emerging economies, particular countries defined as being in the "neighbourhood" of the EU, such as the former parts of the Soviet Union that are not EU members and countries around the Mediterranean. (The Economist Intelligence Unit)

Italy's exports commodities

Engineering products

- Textiles and clothing
- Production machinery
- Motor vehicles and transport equipment
- Chemicals; food, beverages and tobacco; minerals, and nonferrous metals.

Telecommunication policy

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The Effects of Non-tariff Barriers on International Trade

While trade can generate many economic benefits, governments at times set up barriers to international trade. One of the more common and harmful barriers is a nontariff barrier, a barrier behind the border that is a policy (other than a tariff or tax) or official practice that can unfairly inhibit competition. Unjustified nontariff barriers can distort the prices and quantities of goods and services traded internationally, restrict international investment, and reduce economic welfare in exporting and importing countries. As tariffs have fallen both in the United States and in many other countries, nontariff barriers have increased in importance and are often cited as more trade restricting than tariffs. Nontariff barriers can arise as a result of government policies aimed explicitly at protecting domestic firms from international competition, or from rules or laws within a country that effectively hinder trade.

Unjustified nontariff barriers (NTBs) make it more difficult for international goods and services to compete freely and fairly with those produced domestically. Common examples of NTBs are burdensome or no transparent product standards or regulations. For example, in Korea, pharmaceutical imports must be tested on Korean nationals, and each individual batch produced must undergo testing. In China, the process of standards certification for telecommunications and IT products can be burdensome and unpredictable, as two separate Chinese regulatory agencies each check for conformity to the same set of standards. Other often-cited NTBs include investment restrictions, government procurement laws, and lax enforcement of intellectual property rights.

A growing body of evidence consistently shows that the economic welfare gains from eliminating NTBs are at least as large as those obtained from further tariff liberalization. One study shows that the U.S. payoff from eliminating NTBs with just seven of our trading partners (Australia, Canada, Germany, Italy, Japan, the Netherlands, and Great Britain) would generate annual income gains of $90 billion for the United States (0.72 per cent of GDP), compared with $37 billion from tariff liberalization (0.30 per cent of GDP). Tariff negotiations are fairly straightforward, and forums such as the World Trade Organization (WTO) exist for this purpose. Members are required to report their tariff schedule to the WTO each year, so members know the tariff rate for each product in every country. However, countries do not always agree on what constitutes a NTB and there is no formal, consistent notification process, thereby making negotiations aimed at addressing such barriers more complicated. Part of the policy problem is making distinctions as to whether NTBs are warranted for nontrade reasons (e.g., product safety standards) or whether they are simply covert barriers to imports (no transparent licensing requirements for foreign firms). For instance, customary regulatory and legal procedures within one country might be seen as complex and overly burdensome to would-be exporters.

For instance, a problematic regulatory environment was cited as a problem in 43 of the 49 countries covered by the survey, and was cited as the top problem in 14 of those countries. The industries facing the most NTBs included entertainment, pharmaceuticals, and information technology.

Tariffs and Non-Tariff barriers

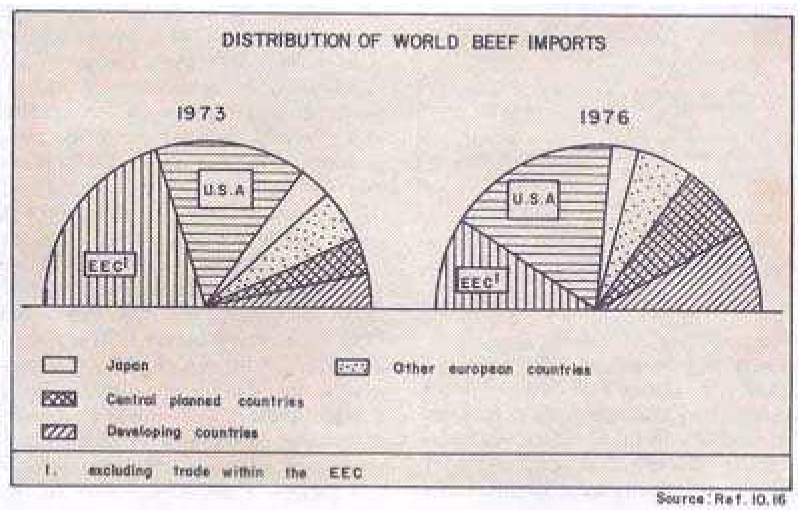
Trade is a key engine driving Canada's economy. Our current and future growth and prosperity depend on open world markets and a stable, predictable and transparent trading environment. To that end, the Government of Canada aggressively pursues improved market access for trade in goods through negotiations at the bilateral, regional and multilateral levels. In the non-agricultural market access negotiations under way at the World Trade Organization (WTO), for example, the Government is seeking the reduction or elimination of tariffs. In agriculture, the Government continues to press for a more level international playing field, so that Canada's producers and processors can compete more effectively in global markets. In particular, Canada seeks the elimination of all forms of export subsidies as quickly as possible, substantial reductions in trade-distorting domestic support, and real and significant market access improvements. In the development of common rules of origin for non-preferential trade, the Government's objectives are to achieve common rules that provide transparency and certainty for traders and that reflect the global nature of the production and sourcing of goods and materials.

As well, the Government provides Canadian exporters involved in trade remedy investigations with information and advice. And in countervailing duty cases involving federal programs, the Government is a respondent and therefore actively involved in the investigation. At the WTO, Canada is actively pursuing improved disciplines on subsidies, greater transparency in the use of trade remedies by our trading partners, and clearer rules aimed at increasing predictability during investigations.

Non-tariff barriers facing beef trade and their impact on exports from Tropical Italy

World The fact that these importers are at a comparative disadvantage to exporting countries with an trade in beef concerns only a small proportion of output (circa 6% for fresh meat and 3% for canned meat), since the major importing countries are also beef producers themselves. extensive livestock production system, has gradually led them to protect their domestic output by imposing import barriers. These barriers primarily concern fresh, chilled or frozen meat. They are divided into two main categories, tariff and non-tariff barriers.

Only tariff barriers are officially sanctioned by GATT as a means of controlling imports. They take the form of specific or ad valorem customs duties which may vary in amount. Import duties on fresh beef amount to circa 5% in the U.S.A., while reaching or even exceeding 20% in many other cases (EEC:20%; Japan: 25%). They also vary according to the nature of the product, tending to rise with the amount of processing involved.



Further taxes are frequently charged over and above the customs duties: turnover tax, veterinary tax, statistics tax. Although high in a number of countries, these additional duties do not appear to be a major impediment in comparison to non-tariff barriers. Among the non-tariff barriers, sanitary regulations often provide a definitive obstacle to the export of fresh meat. Owing to the poor health conditions affecting livestock throughout virtually the whole of tropical Africa, sanitary regulations constitute a major obstacle for African exporters seeking to gain access to the large-scale import markets.

Non-tariff barriers facing meat exports

Non-tariff barriers include all the political and economic measures, apart from tariffs, taken to curb imports or distort exports. They are of various kinds, and may involve both fresh and canned beef, but most of them, and especially those with the greatest impact on trade, concern fresh, chilled or frozen meat.

First amongst these barriers are import levies, which are generally charged over and above tariff duties. The levies are variable or compensatory and are determined according to the difference between prices quoted on the export markets and baseline domestic prices as determined by the official organizations in the consumer countries. Their aim, in line with a policy designed to support the income of domestic producers, is to stabilize domestic prices by isolating them from those of the world market. Examples of countries using a system of variable levies are the EEC and Japan, as well as several European countries outside the EEC: Austria, Finland, Sweden, Greece and Portugal. The impact of import levies is considerable, especially during periods of surplus production when prices on the international market are depressed.

According to the General Agreement quotas are only permitted on a temporary basis under the safeguard clause. Nevertheless, two major importing countries regularly resort to quotas on a permanent basis: these are the U.S.A. and Japan. In Japan the level of the overall import quota for fresh beef is announced twice a year. It has been rising in the long run, but is nevertheless subject to sharp fluctuations in the short term (160,000 tonnes in 1973/74; 50,000t. in 1974/75).

The U.S.A. sets an annual import quota under the United States Meat Import Law (1964). The law provides that fresh beef and mutton imports should not grow faster than domestic production of these commodities. In order to comply with GATT provisions while still limiting imports to the desired level, the United States has negotiated voluntary restriction agreements with its trading partners.

Other European countries also apply quantitative restrictions on imports. These may be implemented in the form of quotas (Switzerland), or else by means of discretionary, or even discriminatory, licences (Austria, Norway and Finland). Moreover, the granting of import licences is often tied to import deposits, creating a further obstacle to trade.

In short, almost all international trade in fresh beef is subject to non-tariff barriers consisting of quantitative restrictions and/or import levies. The result is that markets are sealed off from one another, leading to widely diverging prices for beef throughout the world, and a great deal of instability on the international beef market. Owing to the protective measures applied by importing countries to their own domestic production, and to the low proportion of imports in their overall demand for beef, it is on imports rather than domestic demand that economic recessions have their harshest repercussions. Export restrictions have a similar tendency to aggravate the imbalance of the world market during periods of recession.

In order to remedy this situation, an agreement aiming to promote the expansion, liberalization and stabilization of international trade in beef and live animals has recently been signed in the course of the multilateral trade negotiations staged under GATT (Tokyo Round). The agreement provides for the setting up of an International Meat Council whose task will be to analyze market trends and make recommendations to governments.

The separation of markets from one another due to trade barriers is aggravated still further by the sanitary regulations which are set up as barriers against disease under GATT, sanitary regulations are recognized as legitimate on condition that they do not constitute a means of arbitrary discrimination between countries where the same conditions prevail, or a disguised restriction on international trade.

The regulations applied by importing countries which do not impose a total ban are of various kinds. Generally speaking, imports are permitted only for animals and fresh meat from places and establishments approved by the veterinary authorities in the importing countries. In Europe the regulations usually require that the zone of origin be recognized as disease-free.[1] Zones in areas which are not completely disease-free have to meet certain clearly defined conditions. In the first place they must be isolated, either by natural barriers or by sanitary cordons, so as to permit effective control over the movement of animals and the monitoring of their health. Secondly, animals originating from infected zones are required to spend a minimum period (generally 3 months, occasionally 6) in holding areas, where they receive the required treatment (double vaccination against FMD in particular). They must then spend a period of at least 6 months in the disease-free zone.

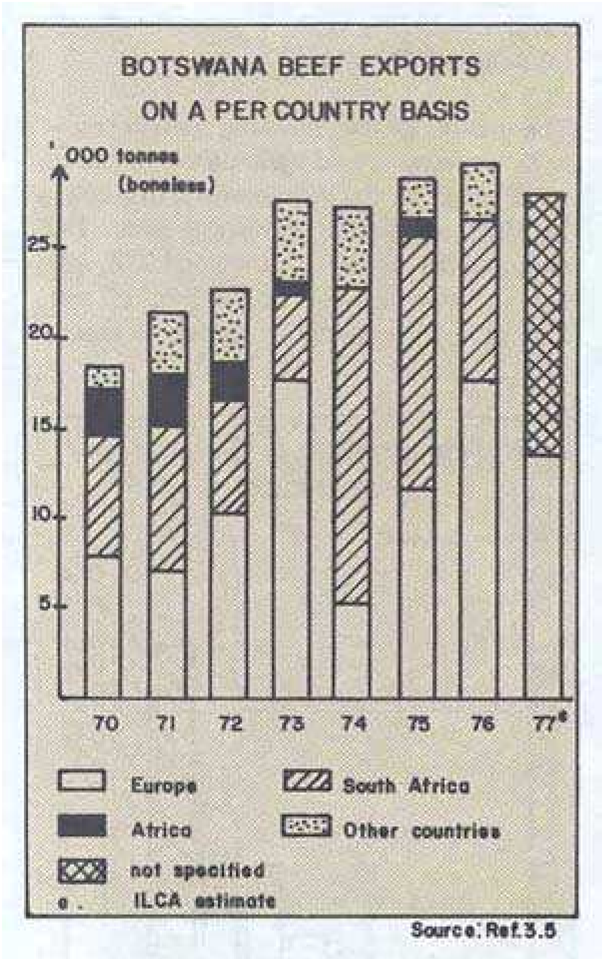
1. The diseases most frequently listed for cattle are FMD, rinderpest and bovine pleuro-pneurnonia.

The regulations also require that a disease free zone should be equipped with an abattoir which meets the hygiene standards laid down by the veterinary authorities in the importing countries. A quarantine area must also be provided, in which animals are revaccinated against FMD and spend a further month prior to slaughter. Drugs which leave residues in the bodies of animals destined for the export market are banned, as are live vaccines.

To sum up, the standards imposed generally bear no relationship to those prevailing on the local markets of many developing exporting countries. They may even differ from those applied on the domestic markets of the less demanding potential importers. They entail the installation of expensive plant and high running costs in a market which is often limited or even uncertain.

On the other hand, in countries where domestic sanitary conditions are less favourable (especially in the Middle East and Africa), imports from non-disease-free zones are accepted. The degree of veterinary protection required is limited (vaccination and inspection by local authorities), usually demanding a quarantine period of only a fortnight or so for export animals.

As they are applied at present, however, sanitary regulations result in the division of exporting countries into two groups. Only the developed meat exporting countries, such as Australia, New Zealand, Ireland, etc., have access to all the import markets. In the majority of developing countries sanitary conditions do not meet the very strict requirements of the major importers. We have already seen that the whole of Africa and several Latin American countries (notably Argentina, where FMD is not yet entirely under control) are denied access to the markets of the U.S.A., Canada, Japan and a number of European countries. Only a very few African countries have access to the remaining European markets, so that sanitary barriers may be seen as constituting a particularly severe obstacle for them.



NON-TARIFF MEASURES

Businesses face a web of non-tariff measures (NTMs) when shipping their products across borders. ITC’s NTMs programme brings transparency into the opaque tangle of rules, which are of particular concern to exporters and importers in developing countries. And with international tariffs at historic lows, the relative importance of NTMs as impediments to international trade is significantly increased.

Background:

NTMs vary across countries and products, and often change quickly and without little notice. This can cause significant impediments to exporters seeking access to foreign markets and their importer counterparts. These businesses need to comply with a wide range of requirements, including technical regulations, product standards and customs procedures. The business sector in developing countries often lacks the information, capabilities, and facilities to meet the complex requirements and demonstrate compliance with NTMs at reasonable costs. National policy makers often lack a clear picture of what their business sector currently perceives as predominant obstacles to trade, and this makes it difficult to develop appropriate trade-related policies.

Project goals:

ITC aims to increase transparency and understanding of NTMs – in order to facilitate trade in the long-run. We help countries to understand the non-tariff obstacles to trade that their business sector faces, and we assist in defining strategies and solutions that meet their exporters' needs to speed up and ease cross-border trade. ITC collaborates closely with ministries, export promotion agencies, research institutes, business associations and local experts in each country. ITC contributed to the development of a classification system for some 240 NTMs, led by the United Nations Conference on Trade and Development (UNCTAD).

The Basics of Tariffs and Trade Barriers

International trade increases the number of goods that domestic consumers can choose from, decreases the cost of those goods through increased competition, and allows domestic industries to ship their products abroad. While all of these seem beneficial, free trade isn't widely accepted as completely beneficial to all parties. This article will examine why this is the case, and look at how countries react to the variety of factors that attempt to influence trade.

Tutorial: Economics Basics

In simplest terms, a tariff is a tax. It adds to the cost of imported goods and is one of several trade policies that a country can enact.

Why tariff and trade barriers are used?

Tariffs are often created to protect infant industries and developing economies, but are also used by more advanced economies with developed industries. Here are five of the top reasons tariffs are used:

A government may levy a tariff on products that it feels could endanger its population. For example, South Korea may place a tariff on imported beef from the United States if it thinks that the goods could be tainted with disease.

The use of tariffs to protect infant industries can be seen by the Import Substitution Industrialization (ISI) strategy employed by many developing nations. The government of a developing economy will levy tariffs on imported goods in industries in which it wants to foster growth. This increases the prices of imported goods and creates a domestic market for domestically produced goods, while protecting those industries from being forced out by more competitive pricing. It decreases unemployment and allows developing countries to shift from agricultural products to finished goods. Criticisms of this sort of protectionist strategy revolve around the cost of subsidizing the development of infant industries. If an industry develops without competition, it could wind up producing lower quality goods, and the subsidies required to keep the state-backed industry afloat could sap economic growth.

National security:

Barriers are also employed by developed countries to protect certain industries that are deemed strategically important, such as those supporting national security. Defence industries are often viewed as vital to state interests, and often enjoy significant levels of protection. For example, while both Western Europe and the United States are industrialized, both are very protective of defence-oriented companies.

Import duty & taxes when importing into Italy

Overview

Import duty and taxes are due when importing goods into Italy from outside of the EU whether by a private individual or a commercial entity. The import duty and taxes payable are calculated on the value of the imported goods plus the cost of importing them (shipping and insurance).

Duty Rates

The duty rates applied to imports into Italy typically range between 0% (for example books) and 17% (for example Wellington Boots). Some products, such as Laptops, Mobile Phones, Digital cameras and Video Game consoles, are duty free. Certain goods may be subject to additional duties depending on the country of manufacture, for example Bicycles made in China carry an additional (anti dumping) duty of 48.5%.

VAT Rates

The standard VAT rate for importing items into Italy is 20%, with certain products, for example books, newspapers and magazines, attracting VAT at the super-reduced rate of 4%. VAT is calculated on the value of the goods, plus the international shipping costs and insurance, plus any import duty due.

Minimum thresholds

When importing goods into Italy duty is not charged, if either the total value of the goods (not including shipping charges or insurance) does not exceed €150 or if the amount of duty payable, does not exceed €10. Neither duty nor VAT is payable if the total value of the goods (not including shipping charges or insurance) does not exceed €22.

Other taxes and custom fees

Excise duty is payable on for example tobacco and alcohol.

Additional custom fees can be charged to cover the expense of performing any required examinations, verification and or testing of the imported goods.

Import Regulations - Italy

Introduction

Italy has been part of the European Union (EU) since 1958, the World Trade Organization (WTO), the Organisation for Economic Co-operation and Development (OECD), the Organization for Security and Co-operation in Europe (OSCE) and the North Atlantic Treaty Organization (NATO), and applies the international agreements signed by these bodies.

The EU forms a customs union and a large unified market having free trade among the member states. It levies a common tariff on imported products coming from non-EU countries such as the United States, Japan, and Canada.

As all members of the European Union, Italy adapts a common trade policy. The EU has a liberal import regime where import licensing is not common. Import licences are issued with due consideration for the provisions of relevant European Union trade agreements and the needs of the specific importing country.

Traders must pay attention to the EU product liability law, which covers all liability regarding defects not ordinarily expected by a consumer. Both the seller and the manufacturer in the EU are liable under the law.

Import duties into EU countries are subject to import tariffs (normally applied on the import c.i.f. value) plus the value-added tax (VAT) which varies according to different importing countries. The standard rates for Italy is 21%

The EU announced developments in the EU's Eco-labels scheme to 219 products, particularly footwear, textiles and personal computer. Exporters trading with the scheme member country will need to get their suppliers adhering to strict production methods in order to comply with the label award. Canadian exporters may have to ensure that the concerned production methods comply with the labelling criteria prior to the EU. For more information on the list of product groups involved in the Eco-labelling scheme.

Environment Protection, Directive on Packaging and Packaging waste, sets out common waste recovery and recycling standards. Manufacturers and exporters should minimize the packaging of their products exported to the EU.

Like the EU, Italy also imposed a ban on the sale of animal-tested cosmetics throughout the EU since 2009, and a ban to all cosmetics-related animals testing. However, cosmetics tested on animals outside the EU are still imported and sold. They are due to be banned in 2013.

Conformity to European standards and "CE" marking

Products governed by these regulations must adhere to certain European standards at the point when they are imported. The "CE" sign of compliance must be on the product, either when the product is imported or when it is sold.

Since the list of products is growing, the following is merely indicative:

- toys

- agricultural machinery, industrial machinery (Machinery Directive 98/37/EEC)
- tractors
- gasoline-powered materials and equipment
- sports and recreational personal protection equipment
- construction products
- pleasure craft

The labelling requirements vary depending on the products, are complex and different from those in Canada. Some adaptation is nearly always necessary. The label should include information regarding origin, identity, quality, composition and conservation of the product. It must be in Italian, and/or English or French

Basic labelling requirements in Italy:

- name of products (physical condition or specific treatment)
- name/address of manufacturer, packer, seller or importer in the Italian language
- country and place of origin
- ingredients in descending order of weight
- metric weight and volume
- additives by category name
- special storage conditions
- minimum shelf life date
- expiry date
- lot number
- indication of allergens
- indication of maximum limits of fats for meat based products
- net quantity in volume for liquids and in mass units for all other products
- instructions for use, if necessary

Tariffs:

Italy applies customs duties to all imported products. Rates can vary considerably, depending on whether the imported product is bulk unprocessed or ready for consumption in retail packages.

VAT, must be added to the cost, insurance and freight (CIF) value of the import. The most common rate is 20%, but a reduced rate of 4% applies to essential items.

Tariffs and Market Access Information

Foreign Affairs and International Trade Canada, through the Multilateral Market Access Division (TMA), offers market access information like tariffs, taxes, rules of origin and some entry procedures to Canadian exporters.

Importing Products

Agricultural and Food Products

With the creation of the single market (1 January 1993), veterinary checks on animal origin products and on live animals, carried out to protect the public health and animal health, are now carried out by the Authority in the Country of production and sale of the product or animals.

The EU country that receive animals or animal products coming from a country within the EU is allowed to proceed with non –discriminatory, random sample checks. For these checks Veterinary Offices for Community Procedures (UVAC) have been set up, which are part of the Ministry of Health.

Animals and animal origin products coming from outside the EU borders are instead subject to systematic checks before being allowed into EU territory. These controls are also the responsibility of the state and are carried out at the Border Inspection Posts (PIF).

Animal products must come from establishments approved by the EU. These include seafood, meat, meat-based products and dairy products. Pet foods must come from factories approved by France. These products must be accompanied by appropriate sanitary certificates. Some products can be imported commercially only by approved operators, and include tobacco and alcoholic beverages.

For agrifood products subject to EU rules, import certifications can be used in any EU customs and are automatically provided by the Ministry of Foreign Trade & Affairs.

Current Issues in U.S. Monetary Policy

Introduction

In this session on central bank policy, I know that Salvatore (Salvatore Rossi, Chief Economist, and Bank of Italy) and I will be covering a lot of the same ground even though circumstances differ within our countries. That is because central bankers share a common responsibility—keeping the purchasing power of our currencies stable.

Over the past 30 years, monetary policymakers around the world have come to realize that a low and stable rate of inflation is absolutely critical for achieving other important objectives, like maximum sustainable economic growth, healthy labour markets, and financial stability. The Federal Reserve certainly has focused on maintaining price stability, as I will discuss this morning.

First, let me share a bit about my role in the U.S. central bank. As the president and CEO of the Federal Reserve Bank of Cleveland, I lead the Fourth Federal Reserve District, which includes all of Ohio and portions of three adjoining states. One important part of my job is to represent this diverse region at the FOMC, or the Federal Open Market Committee, meetings in Washington.

The FOMC consists of members of the Board of Governors and the 12 Reserve Bank presidents, and it meets eight times a year. The Committee decides on critical monetary policy issues, such as targets for short-term interest rates. Our objectives are to promote price stability and maximum employment. That is the dual mandate that the U.S. Congress has given the Federal Reserve.

The Federal Reserve's Response to the Deep Recession

To help you think about monetary policy in the United States today, I'd like to begin with a brief discussion of how the Federal Reserve has responded to the deep recession. As you know, the downward spiral in the United States began with the housing crisis, which led to the financial crisis. Financial markets froze, production collapsed, and employment plummeted.

This recent recession was the longest and deepest since the dark days of the Great Depression. It lasted 18 months, from December 2007 to June 2009. Industrial production fell 17 percent, which was the largest decline since 1939. At the end of the recession, businesses were using just about two-thirds of their existing production capacity.

Employment fell more than 6 percent, which is again a post-Depression record. The loss of nearly 9 million jobs during the recession led unemployment rates to soar from under 5 percent to more than 10 percent. In addition, the value of U.S. homes fell sharply, in some areas more than 30 percent. This decline in economic activity also had dramatic effects on underlying consumer price inflation, which dropped from about 3 percent in late 2007 to 0.5 percent in the middle of last year.

Initially, our actions were focused on establishing programs to provide liquidity to financial markets and to get credit flowing again. Later, to support economic activity more broadly, we sought to lower longer-term interest rates by purchasing $1.7 trillion worth of mortgage-backed securities, government agency debt, and Treasury securities. Last fall, we initiated a second round of large-scale asset purchases to further bolster economic growth and lessen the risk of inflation falling below zero for a sustained period. As a result of our actions, our own balance sheet expanded enormously, from roughly $900 billion before the crisis to approximately $2.6 trillion today.

The Outlook for Growth and Inflation

With that background on the recession and our monetary policy response, I would now like to turn to today's outlook for the U.S. economy and inflation. In preparing for FOMC meetings, I look closely at the outlook for GDP growth, employment, and inflation. I want to emphasize that it is the outlook that is critical in pursuing our monetary policy objectives, not current economic conditions, because there is a significant delay between policy actions and when those policy actions affect the economy.

For almost two years since we emerged from the deep recession, the U.S. economy has been recovering, but at a gradual and bumpy pace. In terms of national output, it has taken us two years just to make up the ground we lost since the recession began. More recently, though, the U.S. recovery appears to have established a firmer footing. The pace of hiring has picked up, and more industries have been adding workers. These are encouraging signs that should point to stronger job growth in the coming months. Also, consumer spending has shown more strength than most forecasters expected. These are good signs that the recovery is entering a virtuous cycle of growth. Rising employment, incomes, and profits are supporting growth in retail sales and business demand, which in turn should fuel further growth in employment, incomes, and profits.

Despite these sources of strength, not all Americans are sharing equally in the recovery. Unemployment continues to be a significant problem. At this point, the U.S. economy has added back only 1.5 million of the 9 million lost jobs. Also, the continuing problems in the housing sector pose a significant drag on economic growth. Historically, investments in new home construction and improvements to existing homes help the economy to snap back quickly from recessions and help to spur GDP growth. However, since the last recession ended, instead of helping to support the recovery, housing investment has fallen by more than 2 percent.

Looking ahead, I expect the U.S. economy to continue to expand at a moderate rate, a bit above its long-term average growth rate of 3 percent per year First, large increases in food or energy prices tend to be temporary. History shows that they are often followed by sharp declines. For example, in 2006, oil prices in the United States rose significantly over the first eight months of the year but then dropped in the remainder of the year. Second, to cause a lasting rise in inflation, the increases in food or energy prices have to be large enough and persist long enough that they spill over and cause sustained increases in a wide array of other consumer prices. At this point, there is no evidence of a broad spill over, but as a central banker, I keep a close eye on this.

To assess the underlying trends in a broad array of consumer prices, my staffs at the Federal Reserve Bank of Cleveland calculates and publishes an indicator known as the median CPI. This index is designed to provide a reliable measure of the average increase in a wide set of consumer prices several important factors will keep inflation in check. One of these factors is the continuing slow growth in wages, which helps determine the cost of producing goods and services and, in turn, the prices set by firms. Another factor is retailers’ reluctance to raise prices in the face of strong competition and soft business conditions. The U.S. economy still has a way to go to more fully recover from the steep recession, which will restrain growth in wages and retail prices.

Another important factor for inflation is the public’s expectation that the Federal Reserve will keep inflation contained. While it may sound like a self-fulfilling prophecy to say that we will have low inflation because we collectively expect low inflation, the relationship between actual and expected inflation has been borne out over history. One reason is that expectations of inflation play a crucial role in the price-setting decisions of firms. When firms expect lower inflation, they raise prices more slowly. Despite the recent surge in food and energy prices, measures of longer-run inflation expectations remain below 2 percent. These measures come from bond yields and surveys of economic forecasters.

Implications for Monetary Policy

Eventually, the FOMC will begin to remove our policy accommodation. This process will involve raising the target for short-term interest rates, draining bank reserves to prevent an undue rise in the broad money supply, and reducing the size of our balance sheet to more normal levels. I believe that when the time comes, we have all the tools we need to make an exit from our current policy stance.

More immediately, as the FOMC’s most recent statement indicated, the Committee is watching carefully for any signs of an unanticipated spill over from oil and other commodity prices into underlying inflation measures. A key to preventing this spill over is to keep long-run inflation expectations anchored because, as I mentioned earlier, inflation expectations are an important determinant of inflation. The current stability in inflation expectations was not achieved just by good fortune. The public’s expectation that inflation will remain low and stable over the long run comes from their expectation that the Federal Reserve’s monetary policy will deliver low and stable inflation over the long run. As a Federal Reserve policymaker, I believe that it is my responsibility to do everything I can to underscore confidence in our commitment to maintain price stability. But I understand that price stability can mean different things to different people. Today, the concept is vague and the FOMC has not established a formal inflation objective.

MAIN ACTIVITIES

Monetary policy

Monetary policy decisions are taken by the Governing Council of the European Central Bank (ECB) and mainly consist of setting the key interest rates.
The ECB has quantified the definition of price stability as a year-on-year increase in the Harmonized Index of Consumer Prices (HICP) for the euro area of below to 2% in the medium term. The reference to the medium term above all takes account of the lag in the monetary policy transmission mechanism: shorter-term measures to combat, for example, a short-term shock to international raw materials prices, would run the risk of creating additional volatility in the economy. A forward-looking orientation is also necessary in view of the impact of inflation expectations on actual inflation; the single monetary policy aims to solidly anchor inflation expectations at levels consistent with price stability.

Quantifying the definition of price stability also contributes to a further aspect of the ECB's monetary policy strategy: by increasing the transparency of monetary policy and providing a reference framework which is easy to understand, it provides a clear and measurable yardstick against which the public can hold the ECB accountable. This renders the ECB's policies credible, which is a precondition for forming market expectations.

Implementation of monetary policy

The implementation of monetary policy is entrusted to the Executive Board of the ECB in accordance with the decisions and guidelines adopted by the Governing Council The Eurosystem has a number of monetary policy instruments at its disposal in order to achieve its objectives. It conducts open market operations, offers standing facilities and requires credit institutions to hold minimum reserves on accounts with the Eurosystem. In accordance with the principles of operational decentralization and subsidiarity established at the European level, the monetary policy operations are carried out by the Eurosystem NCBs on the basis of the necessary instructions given by the Executive Board and under uniform terms and conditions.

Payment systems

In the Italian context, Article 146 of Legislative Decree 385/1993 – the Consolidated Banking Law – is the primary point of reference. It formally recognizes the competence of the Bank of Italy in the field of payment systems. The Eurosystem promotes the efficiency, stability and security of payment systems through various measures, which include providing payment services, acting as a catalyst for cooperation between payment system operators and carrying out standard-setting, regulatory and oversight activities in the context of its supervisory function.

In the Eurosystem, the development of common procedures has been strongly encouraged in all three areas which make up a modern payment system.
In the area of large-value payments, the new TARGET2 system will start operations on 19 November 2007.
In the field of retail payments, work on creating the Single Euro Payments Area (SEPA) is at an advanced stage.

In the context of securities transactions, a project has been launched to develop a single European infrastructure to provide settlement services in central bank money (the TARGET2-Securities project).

Finally, in March 2007 the Governing Council of the ECB decided to develop a single European platform to manage the collateral put forward by intermediaries in Eurosystem credit operations (the Correspondent Central Banking Model 2, or CCBM2, project).

Banknotes and coins

On 1 January 2002, the euro banknotes and coins entered into circulation in the twelve countries then participating in the euro area (Belgium, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland), replacing the national currencies of those countries.

According to the legal framework governing the issuance of banknotes and coins by the Eurosystem, the ECB has the exclusive right to authorize the issuance of banknotes within the European Community, while both the ECB and the euro area NCBs have the right to issue euro banknotes. In practice, however, the banknotes are issued by the euro area NCBs, since the ECB does not have an office for cash operations. The banknotes are available in the following denominations: 5, 10, 20, 50, 100, 200 and 500 euro.

The euro coins are issued by the euro area countries. The ECB acts as an independent assessor of the quality of the coins and contributes to the development and maintenance of a common system to ensure quality in all the euro area mints. The volume of coins to be issued is approved each year by the ECB, and the decision is published in the Official Journal of the European Union. The coins are produced in the following denominations: 1, 2, 5, 10, 20 and 50 cent, and 1 and 2 euro. The Principality of Monaco, the Republic of San Marino and the Vatican City State are also allowed to issue euro coins in line with the relevant agreements.

The euro banknotes and coins are legal tender throughout the euro area. In order to ensure that the public has confidence in the single currency, the quality and integrity of the banknotes in circulation must be safeguarded. To this end, the ECB and the Eurosystem NCBs have defined a framework for the detection of counterfeits and the identification of banknotes no longer fit for circulation by banks and all categories of professional cash handler. The framework must be followed by credit institutions and other professional cash handlers. As part of the fight against the counterfeiting of euro banknotes, a communication system has been developed for the collection and monitoring of data on counterfeits.

In order to make it easy for the public to find and display the whole range of data available, an application has been developed via which euro area aggregates and the corresponding national breakdowns can be obtained for a selection of the main harmonized statistics. The application can be accessed from the websites of all the Eurosystem central banks.

Monetary & financial stability - Overview

Promoting monetary and financial stability is one key objective of the BIS. Bimonthly meetings of the Governors and other senior officials of the BIS member central banks to discuss monetary and financial matters are instrumental in pursuing this goal. The standing committees located at the BIS support central banks, and authorities in charge of financial stability more generally, by providing background analysis and policy recommendations.

About the Basel Committee

The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches and techniques, with a view to promoting common understanding. At times, the Committee uses this common understanding to develop guidelines and supervisory standards in areas where they are considered desirable. In this regard, the Committee is best known for its international standards on capital adequacy; the Core Principles for Effective Banking Supervision; and the Concordat on cross-border banking supervision.

The Committee's members come from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Committee encourages contacts and cooperation among its members and other banking supervisory authorities. It circulates to supervisors throughout the world both published and unpublished papers providing guidance on banking supervisory matters. Contacts have been further strengthened by an International Conference of Banking Supervisors (ICBS) which takes place every two years.

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS), which is chaired by William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, monitors developments in global financial markets for central bank Governors.

The Committee has a mandate to identify and assess potential sources of stress in global financial markets, to further the understanding of the structural underpinnings of financial markets, and to promote improvements to the functioning and stability of these markets. It fulfils this mandate by way of regular monitoring discussions among CGFS members, through coordinated longer-term efforts, including working groups involving central bank staff, and through the various reports that the CGFS publishes. The CGFS also oversees the collection of the BIS international banking and financial statistics.

The CGFS, formerly known as the Euro-currency Standing Committee, was established in 1971 with a mandate to monitor international banking markets. Its initial focus was on the monetary policy implications of the rapid growth of off-shore deposit and lending markets,

Markets Committee

The Markets Committee (formerly the Committee on Gold and Foreign Exchange) was established in 1962 following the formation of the so-called Gold Pool. Subsequently, members continued to meet and exchange views on market issues in an open and informal manner. Over time, the Committee has widened its discussion of financial market developments beyond gold and foreign exchange, and cooperated more closely in assessing current events as well as longer-term structural trends that may have implications for financial market functioning and central bank operations.

To facilitate its discussions and enhance market transparency, the Markets Committee condensed the information on the monetary policy frameworks and market operations of its members into an easily accessible document: Monetary policy frameworks and central bank market operations, first published on 17 December 2007 and last updated in May 2009.

I) WHAT WE MEAN BY INDUSTRIAL POLICY

Industrial can be identified as the make-up of:

a) Competition policies, (e.g. antitrust laws, regulations, customs and administrative barriers, devaluation)

b) Fiscal and credit incentives to favour employment, investments, innovation, local Development, with special regard to southern Italy

c) bail-out

d) Legislation on corporate governance, on goods and services markets, on market factors (e.g. labour market, education, research, banking), and on stakeholders (e.g. consumers, the environment)

e) Changes in the organization of industrial policy governance (e.g. with regard to the agencies in charge, or the level at which decisions are made)

Any in general, any economic policy, is concerned with responding to actual economic problems. Unlike positive economics, it is confronted with day-by-day problems, and decisions to be made, which involve institutions, lobbies, interests to be balanced, technical (e.g. administrative, financial) factors, ideologies and, sometimes, economic analysis.. impacts upon the efficiency and the distribution of resources and rights and it would be naïve to interpret it as a technocratic exercise. This is at least what teaches the Italian experience. In order to understand its motivations and results we need a political economy model that takes into account not only economic variables, but also the organization of the public agencies involved, the influence of different interests and lobbies, the international economic and political context and the political orientation of the governments.

The political background.

There have been three distinct political periods from the early ‘50s to the present time. While they present some common features in economic policies, and industrial policies, the political background is quite different and the mix of public policies changes considerably.

a) Up to the early ’60s, Centre-to-the-right conservative governments prevailed. This is the period of the deep “cold war” in which, because of the division of the world into two areas and because of the weak position of Italy within the “market area”, any policy having some flavour of “socialism” had little chance to succeed. However Italy was “mixed economy “, that is a market economy with a strong presence of the state. These governments pursued the aim of balanced domestic economic growth by following three rules: balanced budget, free market policies (removal of pre-war corporate regulations and reduction of customs), and public investments, both by joint-stock state-owned companies (IRI, ENI) and central state, in basic sectors and infrastructures, to promote economic growth, especially in southern Italy. In this period the state is still seen by decision makers as an instrument to get balanced economic growth, not as an object of political conquest.

b) From 1963 to the early ‘90s, Italy was run, almost continuously, by moderately progressive Centre-to-the-left governments. The “cold war” is getting less cold and the Socialist party enters into the government coalition and some of its classical policies became political agenda, even if the Centre always held the majority. They pursued the goal of balanced domestic growth and income redistribution Italy badly needed reforms targeted at building a welfare state, still missing. Therefore they introduced a regulation in the labour market, and far-reaching social reforms (e.g. in the national pension system, National Health Service, and education system). At the same time they implemented more conspicuous state intervention - both through public administration and public corporations - following in that a model already experienced in other European countries. However the state, differently from the preceding period, becomes more and more an object of political conquest. Decision makers failed to keep inflation and social unrest under control, at least up to the late ‘70s. They also failed to sort out southern Italy's problems, and disregarded the fast rise in public debt, leaving a heavy inheritance to the governments that followed.

c) Since 1992, after the fall of Berlin wall, the political situation becomes more unstable, with a continuous swing from Left -to-the- Centre governments - less statist than in the past, under the influence of the pro-market consent developed in Europe and USA in the ‘80s and of the EC new competition policy-, to Right-to-the-Centre governments - populist, mildly pro-competition-oriented, favouring public intervention in the economy, and inclined to mix public with private interests. Differently from the previous periods now the “Centre” was a minority within the different governments. The slowdown in growth and productivity added up to the still unresolved problems of a huge public debt, and of the North/South economic divide.

A) The economy: growth and industrial development

The ‘50s and ‘60s, the so called “economic miracle” era, were a period of rapid GNP growth and of northern Italy's industrialization. Given the labour market conditions, very favourable to the demand, the growth engine was both export and domestic demand

a) The boom of the building industry (housing and infrastructures) benefited from high internal migration, lack of any serious regulations for urban areas, and public demand;

b) Consumer goods industries (scale-economy sectors:

Motorcycles, automobiles and household appliances) were boosted by the housing boom and the blooming of a new consumer culture, previously unknown; c) investment industries (machinery, intermediate products, e.g. concrete, oil chemistry, iron and steel, tires, electrical power) were sustained by growing investments. In manufacturing, the sector composition and the main pattern of Italian firms followed the European model. In general, these firms were quite competitive in the European market. However, the ownership structure of big Italian corporations differed, since firms belonged either to single families or to the state (IRI , ENI). Only one company (Edison) could be considered a public company, but in fact it was controlled by the CEO. The ‘70s and the ‘80s were much more turbulent, both at home and internationally. Labour shortages and consequent trade unions' increased strength became apparent in the early ‘60s. High wage increases, as a result of labour conflicts, especially in 1962-1963 and in 1969-1977, a period of great social unrest (often violence), and a new legislation on industrial relations (1969) caused labour costs to rise, which affected big unionised firms in particular. The first oil shock (1972-1973) and raw materials price increase had an additional cost rise effect. Because of this internal and international cost push, the ’70 s were years of two-digit inflation. In this respect, it is quite interesting to underline that in 1975 the two main lobbies, the trade unions and the Confederation of Italian Industry, agreed to implement a wage-indexation system that protected wages, but at the same time accelerated the wage-price spiral. New competitors entered international markets, while the European economic integration progressed. Increasing competition and labour and capital costs, and frequent cases of mismanagement by big corporations, both private and state-owned, squeezed profits, causing financial trouble. Risks of failure loomed. Public policies failed to promote macroeconomic conditions for stability. Fiscal policy was deficit spending- oriented (reforms had a cost, and taxation was insufficient), and continuous devaluation (i.e. the monetary side of a protective policy), especially in 1976 and in 1979, tightened the cost price vicious circle On the one hand, the spontaneous surge of small-sized healthy firms, performing mainly in traditional sectors, no longer concentrated in the regions dominated by big-sized firms (Piedmont, Liguria and Lombardy), often organised in districts. The recipe for their success, consolidated over the years, depended on family-ownership (hence limited capital) and human resources (competence), combined with productive specialisation. This was a successful mix, which gained them national and international leadership in specific market segments. It can be acknowledged that this entrepreneurial boom saved the economy from a more serious decline. In the long run, however, the benefits of this system of small-sized firms risked being outweighed by its drawbacks:

C) Industrial policy in the ’60s: nationalisations, public investments and new industrial relations

I) The rationale was determined by the new governments being unhappy with some of the “economic miracle” effects, such as the uneven income distribution (both personal and functional), the persisting backwardness of the South and of infrastructures, the lack of a welfare state, and the strong political power of private capital. According to the new governments, these problems could be sorted out with a farther-reaching state intervention. Consequently the role of the state increases considerably.

ii) Main features of the actual industrial policy

1) The state role was given great prominence. In 1963 the electrical energy producers were nationalized, following after almost 20 years the British and French experience. This decision was justified by efficiency reasons (removing the heavy monopolistic power of electrical energy producers) and financial reasons (favouring the allocation investments in new sectors In the short-medium term, this decision benefited the sector, but in the long run massive inefficiencies showed up. Other problems derived from the nuclear program: in the early ‘80s ENEL (the state monopolist) started a program of investments in nuclear energy, but a national referendum in 1987 blocked all activity, causing heavy losses. Furthermore the private investments financed with the funds derived from the nationalisation private were misallocated, and produced huge losses. The hopes of Bank of Italy turned out to be wrong

2) In 1966 credit incentives to investments were extended to other parts of Italy. These incentives, by reducing the cost of capital, favoured capital intensive investments, instead of labour intensive ones, as needed. Especially in the South they were used to finance the so called "cathedrals in the desert", i.e. highly capital intensive plants which had no effect on the development of other activities. Many of these cathedrals resulted in massive losses.

This policy is a good example of how economic theory can be badly interpreted and utilized to support political decisions. The economic theory referred to in this case was developed by per roux, a French economist. His theory of the so called “development poles”, i.e. the idea that a concentrated bulk of investments can generate the spread of economic activities, was endorsed by powerful lobbies, interested in implementing a policy of investments in heavy sectors, and in maximising the benefits of public capital incentives. The union between a badly applied theory and short-sighted investors ended up in a tremendous waste of capital.

3) The political control of state-owned firms became tighter: many managers became agents of the politicians. In the long term this was bound to bring about the complete breakdown of most of these firms.

D) Industrial policy in the '70s and early '80s: the years of costly state protection

I) the keyword of economic policy in that decade was "economic planning", intended to provide a general political and administrative framework for different public actions, fiscal policy, public (i.e. involving both public agencies and state-owned firms) investments, social policies, industrial policy. In the end "economic planning" turned out to be a label, a dramatic experience which showed the public administration's failure to implement a political and economic strategy.

In particular, they were only marginally affected by the turbulence and the new regulations on labour market. While they benefited from devaluation policies, which helped their exports, they got a limited amount of credit incentives, granted by central and regional agencies (as a result of numerous overlapping and badly coordinated laws) for investments, especially in machinery, and, paradox ally, to provide small-sized firms in trouble with financial help Industrial policy had little to do with this part of the economy. Law 1089/1969, delivered for low-cost financing of applied research, is a good example. In theory, it was aimed at helping firms of any size. In fact, the great majority of the funds went to three or four big corporations, which, by the way, had been the main supporters of that legislation.

FIAT

Is a good example: it has been estimated that, from the middle '70s to the middle '80s, the amount of public funds FIAT was granted by different laws was approximately equal to the profits produced by the company in the same period of time.

ii) Actual industrial policy

a) Some industries, in particular the textile, oil-chemistry and energy-intensive industries, were going through a serious crisis. Consequently for the first time public intervention focused on specific sectors. For instance new law was passed to help textile firms to restructure. Yet, the most important intervention was specifically designed to help restructure, via credit, firms in various sectors, according to the guidelines to be found in the so called "sectoral plans", worked out by the Ministry of Industry. This new instrument, vaguely modelled on socialist-type economy, resulted from a political compromise between the Centre-to-the-left government and the Communist Party, which at the time supported the government in Parliament. In retrospect, the legislation was used mainly to rescue failing medium- and big-sized Corporations. Big corporations proved to be extremely good at lobbying the governmental agency in charge for public help (CIPI). The sectors which most benefited from this policy (receiving 80% of the total funds) were the mature sectors of iron and steel, motorcars and basic chemistry. In those, as well as in other sectors, the firms managed to overcome the crisis by investing in capital intensive technologies, and by increasing labour productivity. Nothing much was done to promote product innovation, new high technology sectors, and foreign investments.

b) To help many big corporations to overcome the financial crisis brought about by higher interest rates, which in turn had resulted from two-digit inflation, a new law was passed. Too late, though. In most cases, inflation itself had managed to sort out the very problems it had generated, by reducing the real debt value.

c) To avert the risk of bankruptcy for quite a number of big corporations -private and state-owned – new and old instruments were used. A new bankruptcy law was passed in 1979, known as "the prodi law". Bailout became ordinary policy. Its main instruments were recapitalisation - for state-owned corporations -, and acquisitions by old (ENI and IRI) and new "ad hoc"(GEPI, 1971) state-owned groups - for private corporations. All these groups, and especially IRI and GEPI, were already structured as conglomerates when first established, but over those years they further increased in size, to the point of becoming unmanageable. The size of the state-owned sector increased, so did its losses, unloaded onto the public budget.

d) New incentives were introduced for industrial innovation, managed by the central government, and aid to export were granted, together with a new law favouring the investments of small- and medium-sized firms in southern Italy.

E) The late '80s and the '90s: a "revolution" in industrial policy

In the late '80s the Italian industry's economic and financial conditions seemed to be better than in the previous decade, as a result of public aid, financial restructuring, mergers and equipment modernization. Yet, it was clear to keenest economists and policy-makers that the recently

implemented policies would prove to be, in the long run, too costly and ineffective; real dead ends.
A close revision of their rationale is now underway. The first signs of this new approach can be found in the privatization of some IRI- and ENI-owned firms or groups of firms, which started in the middle ‘80s. The key factor of change was, however, the EEC. It is now perceived that the deadline of 1992 for the construction of the UEM, and the new direction of the EEC in favour of a more proactive and competitive industrial policy required a new approach to the national industrial policy. The big changes in the industrial policy objectives and instruments, between the late ‘80s and the middle ‘90s, can be explained by the Italian government's impossibility to pay the costs of the old policies, and the new European obligations.

IV) FROM THE LATE ‘80S TO 1992: A CHANGE IN I.P. IS NEEDED

In spite of the improvement of the profitability and the financial stability of the big corporations, structural problems remained. This became more evident in 1990-1991, when a serious national and international recession impinged on the economy. The growth rate of their productivity and their competitiveness in the international markets declined, especially in h. t. and large-scale sectors. The investments in R&D, already low, further decreased.

On the other hand, it was manifest that the more “silent” part of the manufacturing sector, i.e. small and medium-sized firms, and districts, which received much less attention and help from the central state, was performing very well in terms of profitability, despite macroeconomic turbulence. These firms were the engine of a rapid economic development of regions that had only marginally benefited from the “economic miracle” (Italy's North-East, Centre). Their international competitiveness increased, and some of them were able to become large corporations (e.g. Luxottica and Benetton). Yet, even if very successful, small- and medium-sized firms were unable –with a few exceptions - to replace big corporations in h. t. sectors, and in investing in capital formation and R&D.
The push for change came from the EEC. In these years the European Commission developed a new policy to promote competition in the goods and services markets, and mobility of capital and labour. This policy became the backbone of the i.p. in every European country. The deadline of 1992 for the construction of the European Unified Market was approaching, and the European Commission was looking for greater control over national industrial policies, in order to favour precompetitive action. The Italian industrial policy underwent a more and more severe scrutiny by the Commission. Especially in the second half of the ‘80s, the Commission

increased its control over state aid to firms. And in 1990 and 1991 the Court of Justice and the Commission rejected many resolutions of the Italian government to aid some state-owned firms.

VI) THE PAST FEW YEARS: BACK TO AN OLD-STYLE INDUSTRIAL POLICY

The past few years (2001-2008) were ruled by Right-to-the-centre governments, with a short interval (one year, 2006-07) of a Left-to-the-centre government.

1) Berlusconi's first government (2001-06)

In 2001 most of the problems that had long burdened Italian economy and society were still there. There had been some improvement: the debt/GNP was lower, but still very high (about privatised companies were now producing profits. Other problems, such as productivity decline, payment balance, and illegality in the South of Italy had worsened.

a) Berlusconi's first Right-to-the-centre first government was based on a peculiar political alliance between two groups of interest: the small producers of the North (entrepreneurs and independent workers) and people depending, directly or indirectly, from the spending of the public administration in the South. It is not surprising that the old problem of the development of the South almost disappeared from the agenda of the economic policies. It showed up in the political agenda under three different labels: the problem of the North, the problem of the deficit spending in the South and the problem of the criminality.

b) Under Berlusconi's government was simply marked by pragmatism and benign attention to the interests of specific firms or category of firms. No action was taken to solve structural problems, and especially the productivity slowdown. It cut moderately the corporate taxes, reduced the amount of red tape, and enforced a greater flexibility in the labour market on the assumption that the market, left alone, would solve all the problems. Government intervention would be needed only in a situation of crisis.

c) The process of privatisation, i.e. reducing public participation in ENEL and ENI, came to a halt. The setting up of the electrical market proceeded, but the state remained the major shareholder of ENEL, which changed its strategy, by becoming a European competitor. The gas market liberalisation process slowed down, and ENI, while following a strategy of international investments and joint ventures, acted as a monopolist at home. Both ENEL and ENI looked like national champions, distributing profits to the state. Telecom Italia was now in private hands, but the government watches and somehow guided the change in the company's property control. The government managed to stop a law that would favour the privatization of local services, and instead helped Autos trade to get the best deal.

d) The economic slowdown that followed 9/11 worsened the crisis some big corporations and FIAT in particular, were going through. In the circumstance, the state played a key role, by calling for the intervention of a group of recently privatised banks to help the company with a strong line of credit. In a few years FIAT became a success story, after a change in the top management.

e) Being the government very keen on protecting the interests of small-sized, is now mainly handled by the local, i.e. regional, government. The central government tried, unsuccessfully, two kinds of action to help small firms and districts. The first consisted in asking the EEC for some form of protection from Chinese competition. The second was the project for some form of tax relief for firms operating in districts. Once again small firms managed solving by themselves the new problems by the acceleration of the globalization process. Indeed, for the first time, a considerable group of firms succeeded in upgrading from small- to medium-sized. Their strategy consisted in choosing high specialization, focusing on competence and market reputation-building, and positioning in flourishing market niches. Quite often investments in the brand proved to be more advantageous than those in R&S and/or equipment.

2) The Left-to-the-centre government (2007-08)

This government managed to innovate industrial policy along two lines:

I) Deregulation in the service sector (e.g. taxis insurance companies, banks, distribution, and mortgage credit). The objective was to promote more competition in those sectors, and to remove regulations that caused damage to consumers. On the whole, the effect of such action was modest. Notice that in the ’90s another Left-to-the-centre government had tried to deregulate retail distribution, and that the policy had a different impact in the various regions, due to the fact that the implementation of the reform was handled by the regions, which behaved very differently one from the other.

ii) National innovation policy. The central government tried to coordinate of the policies of the single regions implementing a new national policy (Italian Industry 2015). This new program chose 5 areas, or systems, of economic activity that had to deal with the same issues (energy efficiency, logistics, life expectancy, "made in Italy" products, artistic heritage protection). Within each system, a down-top procedure selected a number of projects that involved firms and universities.

The state concentrated its financial resources to help, via credit incentives, the economic subjects who participated in such projects. This has been a rare case of success.

3) Recession and the new scenario (2008)

At the moment it is difficult to predict what kind of will be chosen by the new Right-to-the centre government which in 1998 followed the Prod’s government. One can only make a guess, on the basis of the government's recent decisions. So far the most significant. decision. has been to reverse the resolution of the previous government with regard to the rescue of Alitalia, a company that has made the greatest losses in the Italian post-war economic history. The government, basically for electoral reasons, opposed its acquisition by a foreign company (Air France). Consequently to promote a disguised state aid to favour the birth of a new national airline company, funded by a group of private businessman whose main economic activity in many case depends on good relations with the government. This experience seems to suggests that the government's top priority is to protect national champions, and in general national corporations, by resuming old-style policies (i.e. encouraging actively new business coalitions) , compatibly with EEC regulations. This policy is also intended to stop foreign sovereign funds from buying “important pieces” of Italian industry. It could be interesting to analyze more in details the economic and political reasons of this cycle, which is not limited to the Italian case.

PART 2

HISTORY OF LAVAZZA COFFEE MACHINE

Lavazza has been passionate about coffee for four generations. The company began to consider how people enjoy good coffee at work and at home. In 1989 just as first coffee machines were being produced Lavazza introduced its first closed system espresso machine. That is why Lavazza has a intense, passionate relationship with its coffee machines. In 2010 the Espresso Point espresso coffee machine project is now about thirty years old.

The story begins with the birth of Uno Per, the first single dose capsule machine based in Gattinara. Company which become known as Espresso Point. The first machine was the 1x – a inexpensive, basic box made out of plastic. The first Lavazza designed espresso point coffee machine was developed in 1991 characterized by its warmer gold plated handles and polished steel. It was initially called the Balconcino con Vaporizzatore which later became the Matinee. After five re styles a more modern electronic version of the same machine is still available today.

The next coffee machine / espresso machine in the range was designed by Maurona Zone a external design consultant from EGL. The machine was called the ECL – Espresso e Cappuccino Lavazza. Shaped like an L to represent Lavazza. It was made in white according to the tradition of small kitchen appliances of that time. The coffee machine was designed to use single or double pods. Eventually 13 versions of the coffee machine was made using different size coffee pods / coffee capsules and in different colours.

The next version of Espresso Point Coffee Machine was the Pininfarina's Espresso Point. Pininfarina name is synonymous with Italian design – from cars, furniture, trains and coffee machines. Pininfarina defined the machine as "the gateway to the world of coffee" The machine designed fifteen years is still being sold today in its incarnated versions. The design , sophisticated yet austere at the same time with the rivets that might have come from a cargo ship or a Mecca no set gives the machine a everyday human dimension.

Then come Lavazza Blue in 2003. Blue stands for "Best Lavazza Ultimate Espresso" A new system of self –preserving capsules, new multi-technology, multi-performance coffee espresso machines. Again designed by Pininfarina and produced by Saeco. The mainstay of the blue system was the LB1000 and LB2200. Then in 2006 the Lavazza e Guzzini was introduced.

Then came collaboration between Necta and Lavazza. They introduced the first coffee vending machines to use capsules. The Calibri, Astro, Brio, Kikko . This innovation revolutionized coffee vending in public places and industry. Truly good espresso from a vending machine.

Lavazza then developed commercial coffee machines to use the Lavazza Blue Pods. A few machines were developed by Wega and Bianchi. The most important models in this range is the LB4100 Clara and the LB4700. Both Wega and Bianchi are icons in the Italian coffee machine manufacturing industry.

Then 2008 came the EP 950 produced by Brasilia and designed by Maurizio Giordano. It is a fresh minimalistic product but sophisticated with a white on white Lavazza Logo. It has no steamer and is a true espresso machine – coffee short and strong delivered quickly.

Then came the EP Maxi espresso coffee machine designed by Gianluca Nigro. The design follows the L shape of the ECL Looking like robotic egg heads like something from “Star Wars” Side on them look flagships of a mighty fleet of an Espresso space fleet.

In design is the EP time designed by Marco Merendi and EP Plus.

SYSTEM OF LAVAZZA COFFEE MACHINE

The Lavazza industrial system is split up into six plants, 4 in Italy and 2 abroad. The plants at Turin and Verrès are dedicated to the roasting and packaging of roast & ground coffee. Gattinara produces capsules for the Lavazza Espresso Point, Lavazza BLUE and Lavazza a Mode Mio systems. Pozzilli produces all decaffeinated coffee products for home, bar, café and office consumption. All the plants comply with environmental standards.

TURIN PLANT: THE FIRST HISTORIC SITE

Roasting and packaging of roast and ground products (roast & ground).

Turin is one of the world's largest, most modern coffee roasting and production plants. Every phase of the process is automated, and controlled by a computer system. The warehouse can hold up to 11,200 pallets moved by a computerized system capable of selecting coffee lots to be shipped based on the production date. This guarantees optimal inventory management according to the first-in first-out principle: the first package stocked is the first one taken out for shipping. The Turin plant is certified according to ISO 9001:2008,

GATTINARA PLANT: THE HOME OF AUTOMATIC DISTRIBUTION

Production of capsules for the Lavazza espresso Point, Lavazza BLUE and Lavazza A Modo Mio systems. The company recently undertook a major investment in order to improve its production operations and bring the plant's technology up to date, also by developing innovative systems for espresso preparation: Espresso Point, Lavazza BLUE, and A Modo Mio.

VERRÈS PLANT: MORE THAN 20 YEARS OF EXPERIENCE

Roasting and packaging of roast and ground products (roast ground).

Lavazza came to Verrès in 1989 when it acquired the majority interest in Coinca, the company which had been based there. Today, Verrès is Lavazza second-largest plant in Italy, after Turin, for roast ground products. In 2003 it obtained EMAS

(Eco Management and Audit Scheme) registration, for the continual improvement of the plant's environmental performance.

POZZILLI PLANT: DEK FOR THE WORLD, FROM ITALY

Decaffeination with the natural CO_2 method.

Established in 1991, the Pozzilli plant is exclusively dedicated to green coffee decaffeination. The method is a natural one, as it uses carbon dioxide, a compound present in the air we breathe and the sparkling water we drink. To find out more, go to the Research & Development section.

The plant has obtained certificates of conformity to attest its processing methods comply with EU regulations and the National Organic Program and Organic Production Act of 1990 regulating the biologic transformation of products sold on the American market.

INDIA

THE FRESH&HONEST PLANT IN CHENNAI

Products for the local vending marketing 2007, Lavazza opened the group's ninth subsidiary, its first direct presence in Asia. At the same time, it also acquired the Indian company Barista — India's second-largest chain of coffee shops with approximately 180 bars — and Fresh Honest Café, the leader of the Ho.Re.Ca. Sector, with traditional machines for beans and Lavazza BLUE capsule systems. India also brought the Fresh Honest plant at Chennai, which already had ISO 9000 certification. The plant meets the needs of the local vending market, and also produces coffee for the domestic market.

BRAZIL

TRES RIOS PLANT

In 2008, Lavazza acquired Café Grão Nobre and Café Terra Brazil. Café Grão Nobre owns a roasting plant at Tress Rios, in the state of Rio de Janeiro, which serves the local Ho.Re.Ca. Channel.

INDIA

FRESH&HONEST PLANT IN SRI CITY

In 2011 the foundation stone of the new Lavazza plant in India is laid. The new factory is located in the industrial zone of Sri City, in the Tada region of Andhra Pradesh on the border with Tamil Nadu, approximately 55 km from Chennai. The new industrial complex, comprising five buildings, will stand on a site of about 40,000 square meters, and will use state of the art machinery and equipment.

LAVAZZA COMPANY PRODUCTION SYSTEM

The Lavazza industrial system is split up into six plants, 4 in Italy and 2 abroad. The plants at Turin and Verrès are dedicated to the roasting and packaging of roast & ground coffee. Gattinara produces capsules for the Lavazza Espresso Point, Lavazza BLUE and Lavazza A Mode Mio systems. Pozzilli produces all decaffeinated coffee products for home, bar, café and office consumption. All the plants comply with environmental standards.

TURIN PLANT: THE FIRST HISTORIC SITE

Roasting and packaging of roast and ground products (roast & ground).

Turin is one of the world's largest, most modern coffee roasting and production plants. Every phase of the process is automated, and controlled by a computer system. The warehouse can hold up to 11,200 pallets moved by a computerized system capable of selecting coffee lots to be shipped based on the production date. This guarantees optimal inventory management according to the first-in first-out principle: the first package stocked is the first one taken out for shipping. The Turin plant is certified according to ISO 9001:2008,

GATTINARA PLANT: THE HOME OF AUTOMATIC DISTRIBUTION

Production of capsules for the Lavazza espresso Point, Lavazza BLUE and Lavazza A Mode Mio systems. The company recently undertook a major investment in order to improve its production operations and bring the plant's technology up to date, also by developing innovative systems for espresso preparation: Espresso Point, Lavazza BLUE, and A Mode Mio.

VERRÈS PLANT: MORE THAN 20 YEARS OF EXPERIENCE

Roasting and packaging of roast and ground products (roast ground).Lavazza came to Verrès in 1989 when it acquired the majority interest in Coinca, the company which had been based there. Today, Verrès is Lavazza second-largest plant in Italy, after Turin, for roast ground products. In 2003 it obtained EMAS

(Eco Management and Audit Scheme) registration, for the continual improvement of the plant's environmental performance.

POZZILLI PLANT: DEK FOR THE WORLD, FROM ITALY

Decaffeination with the natural CO2 method Established in 1991, the Pozzilli plant is exclusively dedicated to green coffee decaffeination. The method is a natural one, as it uses carbon dioxide, a compound present in the air we breathe and the sparkling water we drink. To find out more, go to the Research & Development section. The plant has obtained certificates of conformity to attest its processing methods comply with EU regulations and the National Organic Program and Organic Production Act of 1990 regulating the biologic transformation of products sold on the American market.

INDIA

THE FRESH & HONEST PLANT IN CHENNAI

Products for the local vending market In 2007, Lavazza opened the group's ninth subsidiary, its first direct presence in Asia. At the same time, it also acquired the Indian company Barista India’s second-largest chain of coffee shops with approximately 180 bars — and Fresh Honest Café, the leader of the Ho.Re.Ca. Sector, with traditional machines for beans and Lavazza BLUE capsule systems. India also brought the Fresh Honest plant at Chennai, which already had ISO 9000 certification. The plant meets the needs of the local vending market, and also produces coffee for the domestic market.

BRAZIL

TRES RIOS PLANT

In 2008, Lavazza acquired Café Grão Nobre and Café Terra Brazil. Café Grão Nobre owns a roasting plant at Tress Rios, in the state of Rio de Janeiro, which serves the local Ho.Re.Ca. Channel.

INDIA

FRESH&HONEST PLANT IN SRI CITY

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COMPARATIVE POSITION OF LAVAZZA IN INDIA AND GUJARAT

LAVAZZA is synonymous with coffee internationally. It is the true hallmark of Italian coffee and has been responsible for spreading the aroma of espresso coffee around the world for over a century. The popularity of the unique taste of its products comes from the strength of the experience, the use of the finest raw materials and advanced technological resources. Together with espresso, the symbol of the company’s corporate culture, it offers a complete range of products to suit all palates, consumer habits and coffee preparation methods. It is the true symbol of Italian espresso coffee and the associated Italian identity worldwide.

Lavazza entered India by acquiring Barista Coffee Company Limited and Fresh & Honest Café Limited, India's leading coffee, vending and retailing, company in 2007. Luigi Lavazza S.p.A., with its origins back in 1895, is an international coffee powerhouse, synonymous with all things Italian – creativity, art, passion and of course espresso coffee. The brand is one of the most important coffee roasters in the world, enjoys a market share of 48% share in the Italian retail market (value, source: Nielsen) and operates in over 90 countries, in the Home and Away-from-Home sectors (Foodservice, Vending and Cafes). In 2010 sales exceeded USD 1.4 billion.

Today it has consolidated its presence in the retail branded coffee, café products as well as in the coffee machines segment and has become a leading player in the country. Lavazza has a strong international presence in the espresso coffee capsule systems, directed towards the commercial and retail consumers through hugely successful products such as Lavazza BLUE and A Modo Mio.

Why is the Barista important to us?

At Barista Lavazza, we use the Italian method of brewing coffee with finest Arabica beans. When the guest places an order for a cappuccino, the Barista(or brewmaster) grinds a fresh batch of coffee, brews it manually using an Italian coffee machine and serves the espresso with steamed and frothed milk.

The process is very person dependent. A Barista can make a considerable difference to the final product. If he is not properly trained the coffee may taste burnt or over / under brewed. On the other hand if he is passionate about the coffee he can make a huge difference by brewing the perfect cup and creating latte art (the pattern on the froth of the coffee which is done through skilful pouring of the milk).

Live Media and Barista Coffee Company have a strategic alliance, where 200 Barista Lavazza outlets across the country will have Live Media screens on their premises. Barista Lavazza has a tie-up with Visa to allow withdrawal of cash up to 1000 daily in all its outlets without any charges levied on the cardholders or any obligation to purchase. As part of this association, Barista Lavazza also offers 30% discounts on customized meal deals on all Visa debit card transactions

ABN AMRO and Barista Coffee Company have jointly launched a credit card, "ABN AMRO Barista Credit Card", by which customers can avail discounts at its outlets.

Barista Lavazza has formed an association with Mattel Toys (India) Private Limited for the launch of the first edition of Barista Lavazza Cafe Scrabble 2010

Barista is the first coffee retailer in India to start a loyalty programme, Bean-o-holmic, to attract and retain customers.

Barista Lavazza received the Times Group and Business Standard 'Brand of the year' award in 2002

Lavazza (Barista) in Gujarat:

There are three cities which have barista coffee shop

Ahmadabad

Baroda

Surat

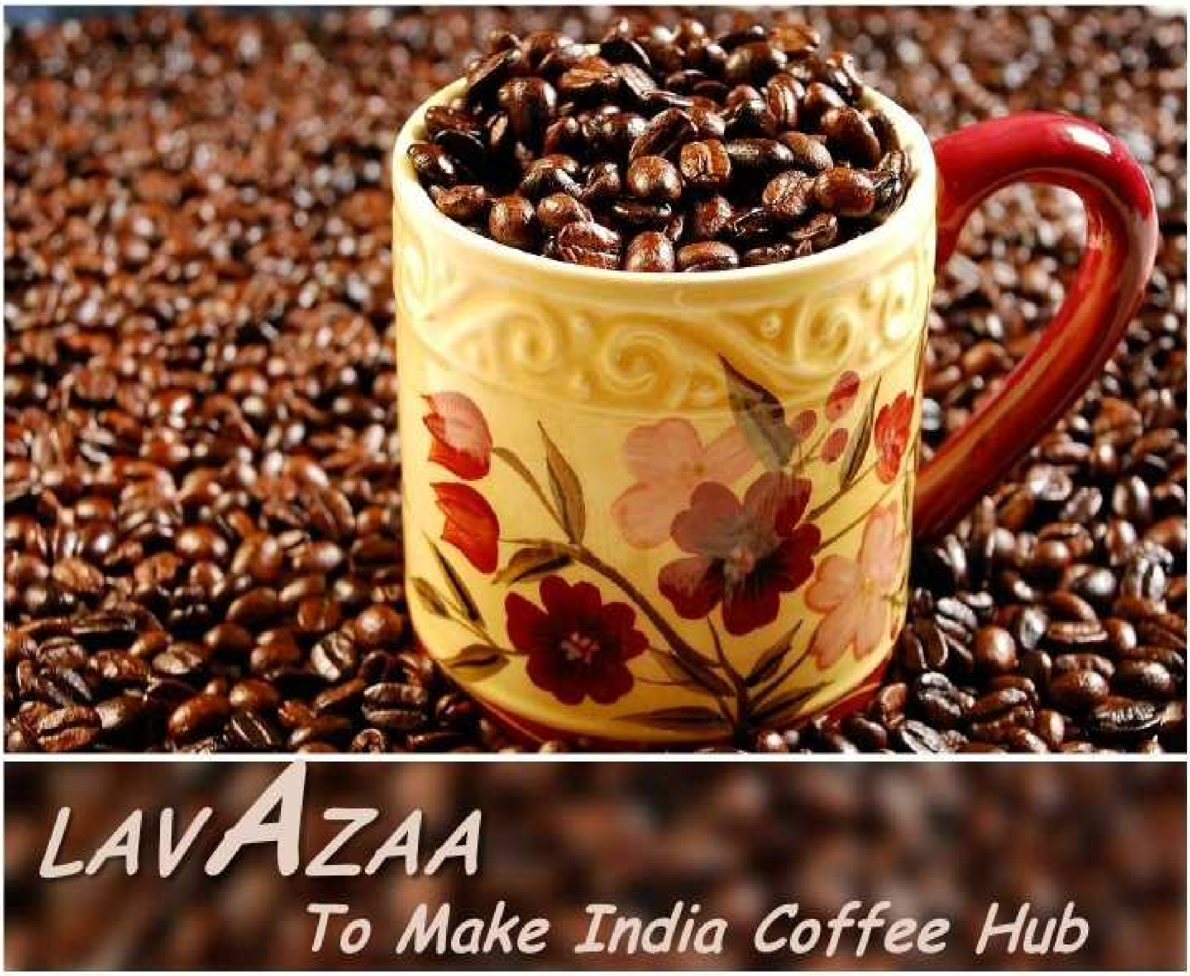
Parent Company	**Lavazza**
Category	Coffee joints
Sector	Food Products
Tagline/ Slogan	Experience it
USP	Finest Italian and Arabica coffees and cuisine at great value prices
STP	

Segment	People looking to go to have a coffee and snacks at a hangout place
Target Group	Youth in the middle and higher income groups
Positioning	Pioneer in Indian Café Culture
SWOT Analysis	
Strength	1.Excellent brand name and brand visibility 2.Huge young crowd as target group 3. Excellent Human Resource – Ambience and décor. 4. Strong brand recall and popularity amongst urban youth 5. Have over 200 stores across India 6. Loyalty programs to offer discounts and attract customers
Weakness	1.Perceived as Expensive brand 2.Competition from other coffee outlets, restaurants and fast food joints means tough segment
Opportunity	1.Introduce cheaper & unique versions of coffee 2.Tap the smaller towns/cities 3. Can diversify in tea beverage segment
Threats	1.Threat from existing coffee chains and fast food outlets 2.Dependent on Govt commodity rates 3.Overall macro environment to support high disposable income.
Competition	

Competitors	1.Cafe Coffee Day 2.Star Bucks 3.Mochas 4.Costa Coffee

Cafe Coffee Day - As of 2011, out of 1400 coffee shop retail outlets registered in India, 1016 belong to Cafe Coffee Day (CCD). In order to increase CCD's market presence in India and abroad, Coffee Day Holdings, the parent company of CCD, has secured investments totaling million from UK based firm Standard Chartered Private Equity Limited and US based private equity and venture capital firm New Silk Route Partners. CCD is expanding their market reach through brand extension by launching mineral water, cookies, and chips under their brand name. Barista has added a variety of cookies, chocolates and ice creams to their offerings under the same principle. While CCD's competitors like Barista Lavazza and Costa Coffee focus on the top 20 percent of the Indian consumers, who are able to afford over per espresso drink, CCD caters to all except the lowest 25 percent.

Costa Coffee - Despite Costa Coffee having only 40 outlets operational across the country as of 2010, Barista Lavazza is facing stiff competition from Costa Coffee. Costa Coffee is an urban chain and location plays a crucial role in its business plan. Although it made a few mistakes such as replicating the UK model in India and opening stores at expensive locations when it came to India in 2005, it has managed to bounce back. Their most profitable venture is from off premise business wherein they set up kiosks at marriages, seminars, and meetings. In the last quarter of 2009, Costa saw a profitable 24 percent growth


LAVAZAA
To Make India Coffee Hub

PRESENT POSITION AND TREND OF BUSINESS

Introducing a coffee culture in a country largely dominated by tea drinkers isn’t exactly everyone’s cup of tea. But barista coffee company’s ambitious plan is to do just that – to make the coffee experiences as ubiquitous as the daily cup of chain, says its CEO, partha dattagupta.

Proliferating the Indian café market with franchises as well as company-owned stores, Barista Coffee Company Limited's aim is to open a new outlet in every roadside herb worth its asphalt and spreading a coffee culture remain is cento fold Italian coffee houses.

When questioned about the impact of the change in guard from Turner Morrison and Tata to being a wholly owned entity of the Sterling InfoTech Group today, Partha Dattagupta, CEO, Barista Coffee Company, says, "Any new strategy will always keep in mind the prevalent competition, positioning, pricing and ambience in conjunction with global trends." Though he admits that expansions were on the backburner during the transition period, it is now perched at an enviable vantage position with over 140 outlets in 25 cities (of which 40 outlets were opened only in the last year) and 100 more planned in the current year.

The game plan bringing about a coffee revolution by altering firmly ingrained tea consumption patterns is by no means an easy task. But when Barista set out to do it in February 2000, it dented the elitist perception that coffee held. It would be simplistic to dismiss the café experience today with that of the days of yore; crumbly biscuits and cutting chi replaced by a wide array of biscotti and Panini’s with aromatic coffee. For Barista, luring coffee drinkers with exotic blends and an option of something to munch on outside the trappings of a five star and within the confines of a warm, informal ambience worked like magic.

This tradition continues. "Our strategy will clearly be to strengthen the Barista brand by enhancing and differentiating our guest experience. We will do this by understanding their needs at all touch points," says Dattagupta. He believes that the fundamental laws of innovating products and services will be integral to customer satisfaction. "Lifestyle change is a reality and the customer today is accustomed to international standards of services and expects the same in India," explains Dattagupta. So whether it is its tie-up with World space Radio for music in its 50-odd cafes or with Planet M to open espresso corners, customer satisfaction is supreme. Barista has also entered into alliances with British Council, Rock Street Journal and Corner Bookstore for book reading sessions, music and film festivals. Technology has been the biggest support in its rapid expansion. While 25 to 30 per cent of its cafes are Wi-Fi enabled, the SAP interface at the outlets is through the Internet, which in turn plays a critical role in its Customer Relationship Management and Web-based activities. "We have been the first retail chain in India to integrate our stores with SAP retail at the backend. This will help us understand sales trends and sales mix better, plan leaner inventories, control COGS and wastage,"

On the horizon the group plans to capitalize on the booming Indian economy and growing disposable incomes. "This financial year we plan to add on 100 new outlets on our own and around 20 outlets through the franchise route. We plan to enter at least 20 more cities next year,"

Barista's outlet expansion strategy combines saturating the metros and expanding in non-metros. The focus on the ownership route in the metros and franchisee in the non-metro cities, where it franchises all outlets to a master franchiser, a factor crucial to maintaining quality and consistency. The non-metro towns Barista intends to focus on will be high population towns with consumption potential such as Surat, Amritsar, Ludhiana, Visakhapatnam, Ranchi and tourist towns like Panjim, Katra, Jammu, Shillong and Ooty. Coimbatore and Kochi are the first forays, with approximately 15 outlets each.

We are clearly a tea-drinking nation, but coffee consumption has been growing five per cent per annum in the past three years. We are working with the Coffee Board to evolve ways to increase domestic consumption

But while studying consumer trends, the company realised that a marked difference between the two segments existed. Consumers in non-metros viewed an F&B experience including café outlets, as a family dining option. This led Barista to expand its menu to include complete meals. "We will cater to the demand by introducing food items like burgers and pizzas," he says, a step forward at redefining the entire café experience. The company will also review its food strategy in B-class cities, tweaking flavours to suit the local palate. Currently, Barista outsources its food requirements in non-metros with central kitchens in metro cities.

Internationally, the company is looking at making a foray into Bangladesh this year and is also eyeing Bahrain, Qatar, Oman and Kuwait. It had previously taken the Barista experience abroad

with a joint venture with Jewelex Trading Limited in Sri Lanka. It is already present in the Middle East.
.Barista Crème, the lounge version of the brand that offers table service, comfort seating and plush interiors, is key to its growth plans. Another avenue that it is looking at to increase its revenues is merchandising to raise the current contribution to its total profits from 2.5 per cent to approximately seven per cent. "Leveraging the brand with mugs, T-shirts, even packaged coffee with brewing equipment, will be a key to growing the brand," Dattagupta opines. This year Barista will also kick start outlets at select petrol pumps on the Delhi-Agra and Delhi-Chandigarh highway, a part of its strategic tie-up with Indian Oil Corporation.

Dattagupta believes...

Dattagupta believes that the potential in hospitality is immense. But global benchmarks are required to improve performance. "Consistency of product and services are the key. We are clearly a tea-drinking nation, but coffee consumption has been growing five per cent per annum in the past three years. We are working with the Indian Coffee Board to evolve ways to increase domestic consumption," he adds.

Demographically, India is a very young nation and the numbers in the 20-25 age groups is on the rise. And with higher disposable income and increase in malls and multiplexes the consumption, he feels, is bound to increase. Dattagupta believes chain restaurants will have the advantage of economies of scale and the benefit of being brands, but standalone restaurants will have their own place. After all, he concludes, letting private enterprise flourish is a necessity for the success of the hospitality sector.

Barista Coffee Company was established in February 2000 by Turner Morrison. In 2001, 35 per cent was bought by Tata Coffee and the rest by Sterling InfoTech Group in 2004. The same year, it bought out the entire stake from Tata Coffee.

Today, the brand along with its superior avatar - Barista Crème - is present in India, Sri Lanka and the Middle East and is perched at an enviable vantage level with over 140 outlets in 25 cities: Delhi, Gorgon, Noida, Ghaziabad, Mumbai, Kolkata, Chennai, Pune, Bangalore, Chandigarh, Degrading, Shimla, Mussorie, Jaipur, Kanpur, Luck now, Mohall, Bhopal, Ahmadabad, Baroda, Bhubaneswar, Indore, Coimbatore, Kochi and Hyderabad. It has also forayed into the international market with four outlets in Sri Lanka seven in the Middle East.

Coffee compunctions in India:

Year	**qty (M.T)**
2011	96000
2010	95600
2009	94000
2008	94400
2007	90000

POLICIES AND NORMS OF ITALY FOR LAVAZZA COMPANY FOR IMPORT/EXPORT INCLUDING LICENSING/PERMISSION, TAXATION

In Italy, coffee is almost a sacred ritual. Gillian Riley, the UK's leading scholar of Italian food, says, "The aroma pervades the streets … and the social rituals of drinking it ... are some of the vital threads in the fabric of Italian society." Indeed, according to Riley, "coffee seems to outsiders to define Italy."

Of course, Italians have had a lot of practice. Italy was the first European country to sample coffee, brought to Venice in the early 17th century from Arabia. After Pope Clement VIII (reign 1592-1605) overcame the opposition of churchmen, who regarded coffee as an "infidel" drink because of its origins, its popularity grew steadily. Italy's first coffee house opened in Venice and throughout the 17th century these important centres of debate and socializing proliferated not just in Italy but across Europe.

The favoured brew in much of Europe was modelled on Turkish coffee, very strong and with the grounds left in. A taste emerged (probably originating in Vienna) for filtering before drinking, and sometimes for adding milk. The practice spread to Italy, where it eventually yielded the ultimate coffee technology: the espresso machine. The patent for the modern espresso machine was given just before the Second World War.

Espresso means three things: "pressed", a reference to the forcing of hot water through the ground coffee to extract the full flavour of the beans; "quickly", because it is made so quickly; and "expressly", meaning made to order. The speed of the operation created not just a new type of coffee but a new coffee experience. Now you could rush into your local cafe on the way to work and be out the door in a matter of minutes, your batteries charged by a quick espresso boost. Or you could linger endlessly over a smooth cappuccino and a pastry. Those options are still available throughout Italy and are an integral part of the country's coffee culture.

Italians say espresso requires perfection in the four Ms: miscela (blend), macinazione (grinding), macchina (espresso machine) and mano (the hand of the operator). The blend must be from top-quality beans, either the highest-quality Arabica variety or a combination of Arabica and earthy Robusta. The roasting time needs to be tailored precisely to the beans and to how they will be used: certain blends will be best as an espresso, some take better to milk in a latte or cappuccino, and some are good all-rounder’s. They must be ground to precise specifications so the water flows through correctly under high pressure. The machine has to be high quality. Those used in coffee bars cost thousands of pounds, though most machines designed for home are far less costly while still being state-of-the-art.

But the beans and the machine would mean nothing without the fourth M: the hand of the person making your coffee. Baristas need rigorous training, and the Italian fanaticism about coffee means that they get it wherever they work. That's why you can get amazing coffee across Italy, whether at a trendy cafe, a humble trattoria, or even an airport cafeteria.

Fortunately, the new generation of home espresso machines automates the process to a remarkable extent. Lamaze’s A Mode Mio machines, for instance, have coffee capsules to eliminate the need for measuring, grinding and tamping, and to ensure freshness, leaving you free to select the type of brew you want.

Lavazza is the world's leading manufactured espresso coffee, sold at thousands of coffee bars and restaurants. But you don't need to go out to savoir the real Italian coffee experience. You can get it at home with A Modo Mio, Lavazza elegant capsule-coffee machines available in a range of colors and styles. A Modo Mio combines state-of-the-art technology and great Italian design for a foolproof push-button route to perfect coffee – each and every time.

A Modo Mio's unique extraction technology makes perfect coffee, exactly as you like it. Want it black? Make a classic espresso with the textbook 25-30ml of liquid and a 5mm cream, or the smaller ristretto (20ml liquid), or an Americano with espresso diluted with hot water. Those who fancy milk can have a macchiato (espresso with a little frothed milk), or a latte (espresso with a head of steamed milk), or a luxurious cappuccino (espresso, steamed milk and frothed milk scooped on top). For the ultimate in indulgence, add chocolate powder or syrup to your espresso and top with steamed milk to make mocha.

Lavazza has a range of coffee capsules each with a unique blend – from the Cafe Crema Documented, suited to making latte, to the delicate and new Soavamente, rich in floral aromas with a refined and sweet aftertaste for a mild espresso to enjoy at any time of day. To take your drinking pleasure to the next level, Lamaze's Le Selezioni Connoisseur blends include a smooth but powerful Medicament – perfect for espresso or Americano – and Tierra Intense, which is 100% Rainforest Alliance Certified and great with or without milk.

Whatever Italian coffee experience you prefer, Lavazza has all the options you need to create it at home, without the need to hop on a plane to Rome or Naples. La dolce vita, right in your kitchen.

But there is one stage no machine can automate – the creation of the milky part of your favourite's coffee. Milk in Italian coffee is partly steamed and partly foamed, to give that luxurious creamy froth we all love. Creating it is not a complicated process, but it does take some practice. The key is to start with the spout of the steam wand just under the surface of the milk so it makes a hissing noise as tiny air bubbles of air are formed. As the milk warms, you tilt the jug and move the steam spout deeper and to the side of the jug. Continue until the jug is too hot to touch, and then turn off the steam dial. Tap the jug on the counter-top to pop any large bubbles, and swirl to blend.

Your favourite coffee bars create beautiful latte art with the foamy milk, and this too is something you can do at home, with practice. A good technique to start with is the "leaf" pattern, created by pouring half the milk along the side of the cup, then pulling the jug into the other side while drizzling milk from right to left. To finish, you "cut" through the design to make the leaf rib. Simple, beautiful and all part of the magic of the Italian coffee experience.

Future direction of EU policy: innovation

Research and development (R&D) in life sciences is a precondition to pharmaceutical innovation. The Commission recognises the key role pharmaceutical R&D plays. Consequently, it is currently implementing various sector-specific initiatives to restore Europe's leading role as the natural home for pharmaceutical innovation.

In 2006, the 7th Research and Development Framework Programme (FP7) and the Competitiveness and Innovation Programme (CIP) were adopted to support not only the development of new technologies, but also to ensure the early commercialisation of scientific findings.

The Innovative Medicines Initiative (IMI) is a unique partnership between the European Community and the European Federation of Pharmaceutical Industries and Associations (EFPIA). The aim of IMI is to support the faster discovery and development of better medicines for patients and to enhance Europe's competitiveness by ensuring that its biopharmaceutical sector remains a dynamic high-technology sector.

The IMI is a crucial element of the Commission's innovation policy. The objective of this new instrument, a public-private partnership involving the industry and the Commission, is to enhance and accelerate the development process of medicines so as to make new treatment options available to patients earlier.

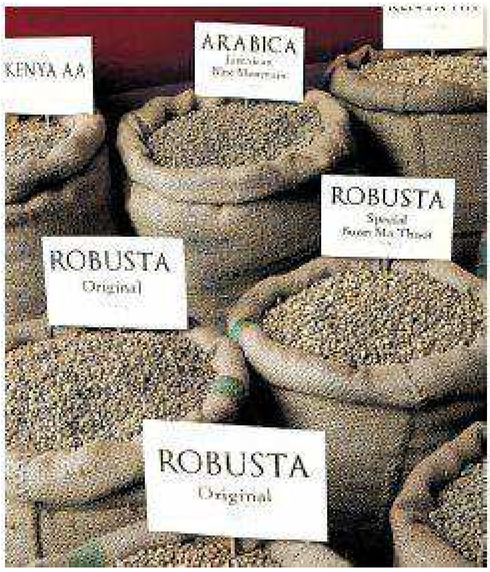
The IMI addresses the issue of Europe's relative decline in pharmaceutical research by focussing on the main challenges to:

- improve prediction of the safety and the efficacy of new drug candidates in the early development phases, i.e. prior to costly clinical trials;
- tackle the current multiplication of research efforts, both in the private and public sector, by jointly developed knowledge management systems;

Bridge gaps in training of professionals to ensure a more skilled workforce in Europe for this sector.

POLICIES AND NORMS OF INDIA FOR IMPORT/EXPORT TO THE ITALY INCLUDING LICENSING/PERMISSION, TAXATION

Indian coffee may brew success with untapped potential



The second-most traded commodity in the world after crude oil, coffee is one of the most valuable primary products in world trade. It is an important source of foreign exchange to producing countries. Its cultivation, processing, trading, transportation and marketing provide employment to more than a hundred million people worldwide. It is one of the most important commodities for many of the least developed economies in Africa.

Considered as the alternative hot beverage of India, coffee is said to have originated in Ethiopia, from where, it spread to Egypt and Yemen. Today, there are two main coffee species cultivated commercially- Coffee Arabica and Coffee Robusta.

GLOBAL SCENARIO

Global production of coffee was estimated to be around 8.36 million tonnes (mt) in 2010 with Brazil accounting for almost 35 per cent of total production as the world's leading green coffee producer. This is followed by Vietnam (13 per cent), Indonesia (9.6 per cent) and Colombia (6.5 per cent) in 2010.

Arabica coffee is cultivated in Latin America, eastern Africa, Arabia, and Asia while Robusta coffee is grown in western and central Africa, throughout South-east Asia, and to some extent in Brazil. Major consumers of coffee include the US, the EU nations particularly Germany, France and the UK followed by Brazil, Japan and other countries in Europe and North America.

INDIAN SCENARIO

Production: India is the sixth-largest producer of coffee after Brazil, Vietnam, Columbia, Indonesia, and Ethiopia. With 4, 04,645 hectares under coffee cultivation, India accounts for 3.8 per cent of total coffee production (3,02,000 tonnes in 2010-11). In India, Karnataka (70 per cent), Kerala (20 per cent) and Tamil Nadu (7 per cent) are the major producers of coffee. Arabica production amounted to 31 per cent of total output, the remaining 69 per cent being contributed by Robusta. In 2010-11, coffee production in Karnataka and Kerala stood at 2, 13,780 tonnes and 65,650 tonnes, respectively, while Tamil Nadu produced 16,650 tonnes during the period. Production of coffee, which was highly concentrated in the South, has now extended to non-traditional areas particularly Andhra Pradesh, Odisha and to North East in the recent years to almost 40,000 ha.

Consumption: Coffee has become increasingly popular in India over the last few years. It is no longer a traditional beverage, but positioned as a youthful and trendy beverage. According to the Coffee Board, domestic consumption is increasing 5 to 6 per cent annually, partly due to expansion of the café culture and the spread of the coffee drinking habit throughout India. Coffee consumption is estimated to be 108,000 tonnes (2010). Urban consumption dominates with about 73 per cent of total volumes and the remaining from rural consumption. South India alone consumes nearly 78 per cent of total coffee consumed in India.

Recent Trends: The coffee planting and bearing area in India has shown an upward trend mostly due to expansion of cultivation in non-traditional States. Arabica coffee productivity in the non-traditional areas is reported to be much lower than in the traditional belt (9.2 quintals/ha), which has brought down the overall yield to 8.4 quintals/ha. Compared to an yield of 21 quintals in Vietnam and 13 quintals in Brazil, productivity is low in India on account of limited mechanisation, pest infestation and labour shortage. Higher price realisation during the past three to four years has prompted coffee growers to follow better agronomic practices, supporting higher production. However, labour costs, which account for almost 65 per cent of the cost of coffee cultivation have continued to escalate in the past few years.

Policy: The Indian Government/Coffee Board provides various subsidies, mostly to small and marginal coffee producers to increase production and improve quality. In addition, the Ministry of Commerce has included coffee in the list of products eligible for the duty entitlement passbook (DEPB) scheme and the Vishesh Kristi Upaj Gramodyog Yojana (VKUGY).Total duty credit under the programmes is subject to a maximum of 7.5 per cent. On April 29, 2010, the Finance Minister announced a new Debt Relief Package in Parliament, intended mainly for small coffee growers. Accordingly, 50 per cent of the pre-2002 term loans taken by coffee growers were to be waived, subject to a maximum of Rs 5, 00,000 for a farmer.

WAY FORWARD

Globally coffee consumption is expected to grow at 6 per cent annually. Both domestic and international coffee prices hit record highs in calendar year 2011, coupled with all-time high exported volumes. The domestic coffee production is expected to increase at a CAGR of 6.2 per cent for the next three years, while consumption is expected to grow at 6.4 per cent. With coffee outlets set to increase multi-fold in the next 3 years, the coffee industry is likely to continue witnessing similar growth trend in future. India being a minor player in the global market has great potential to improve its market share through higher yields and improved quality. Besides, with domestic consumption being very small when compared to the consumption trend globally, there lies a huge opportunity to expand the market with the help of intensive coffee promotion. At the same time key pressing issues of labour shortage and migration, and tremendous increase in cost of labour are major concern areas for the industry, which are to be critically addressed through effective policy interventions.

IMPORT / EXPORT OF LAVAZZA:

Italian coffee major Lavazza is gearing up to expand its market share in the Indian coffee market. The company is setting up a manufacturing facility at Sri City, a special economic zone in Andhra Pradesh, with an investment of 20 million Euros. The facility, which is expected to get operational in mid-2012, would have an initial capacity to manufacture 1,100 tons of coffee with an option to expand it up to 1,600 tones.

“We want India to be our second-largest market. The Indian coffee market has the potential to scale up further since the coffee consumption is increasing,” Giuseppe Lavazza, vice-president of the Lavazza group said.

The group currently records about 1.13 billion Euros in revenues and about 60% of that comes from the Italian market, he said. “We get about 40% of the revenue from overseas market. Currently, France is the second-largest market for us with about 100 million Euros in revenues and we hope to make India the second-largest market for us in about five years,” he said.

Lavazza, a coffee company set up in Turin in Italy in 1895, currently operates in about 90 countries. The group made its foray into the Indian market in 2007 by acquiring Barista and Fresh and Honest Cafe Ltd. Fresh and Cafe has a facility to manufacture 960 tonnes in Chennai. With the new facility in Sri City taking shape, the company is planning to shift the existing facility out of Chennai to the new location.

“We are selling about 800 tons of coffee in India now and the market is growing at the rate of about 10%. The company’s sales are growing at about 10-15%,” he said. The company records about 30 million Euros in revenue from the Indian market.

The company records its sales in two categories - home and away from home (AFH: including foodservice, vending and coffee shops).

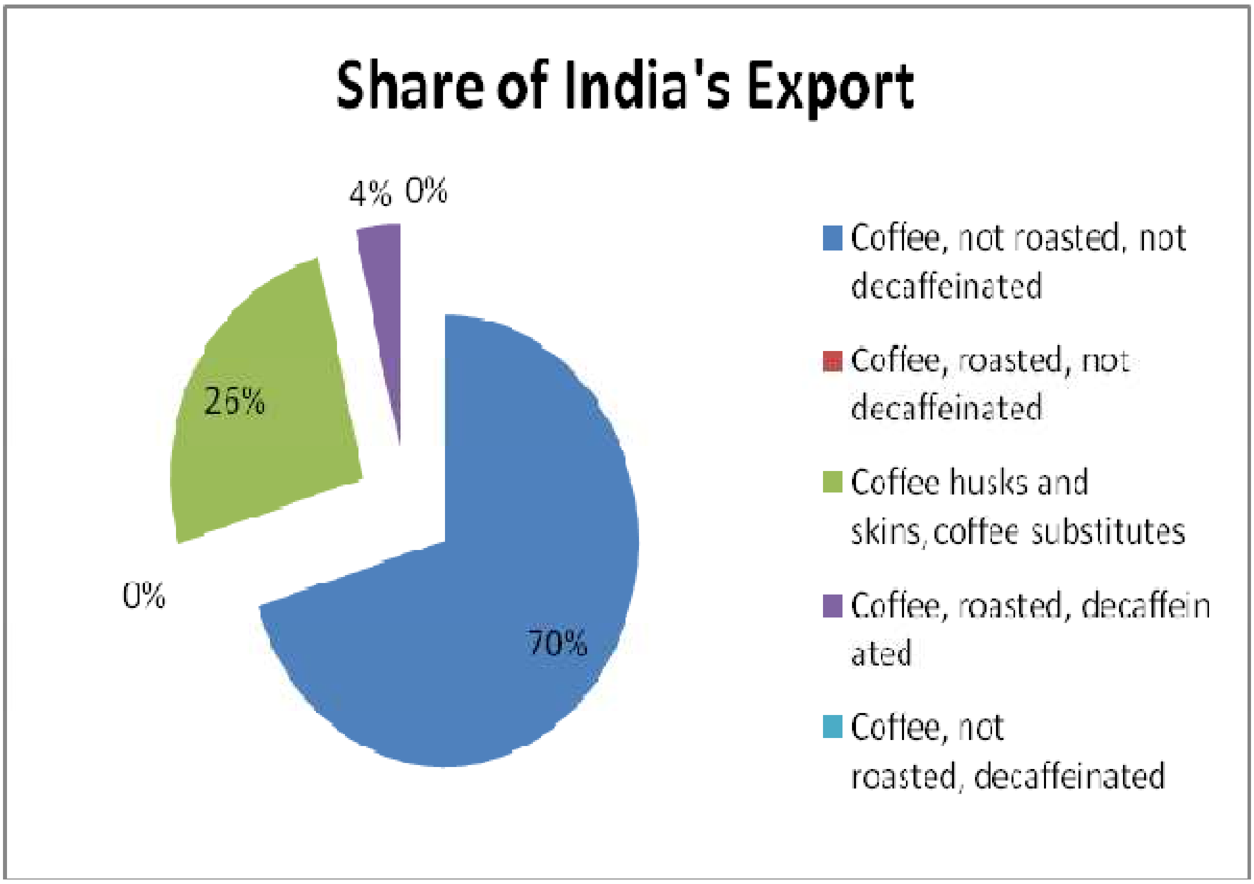
In Indian market, the company is yet to make inroads into the home segment with about 65% sale in the AFH segment. While the Barista network of coffee shops helps the company cater to the retail market, Fresh and Honest provide the company access to several luxury hotels.

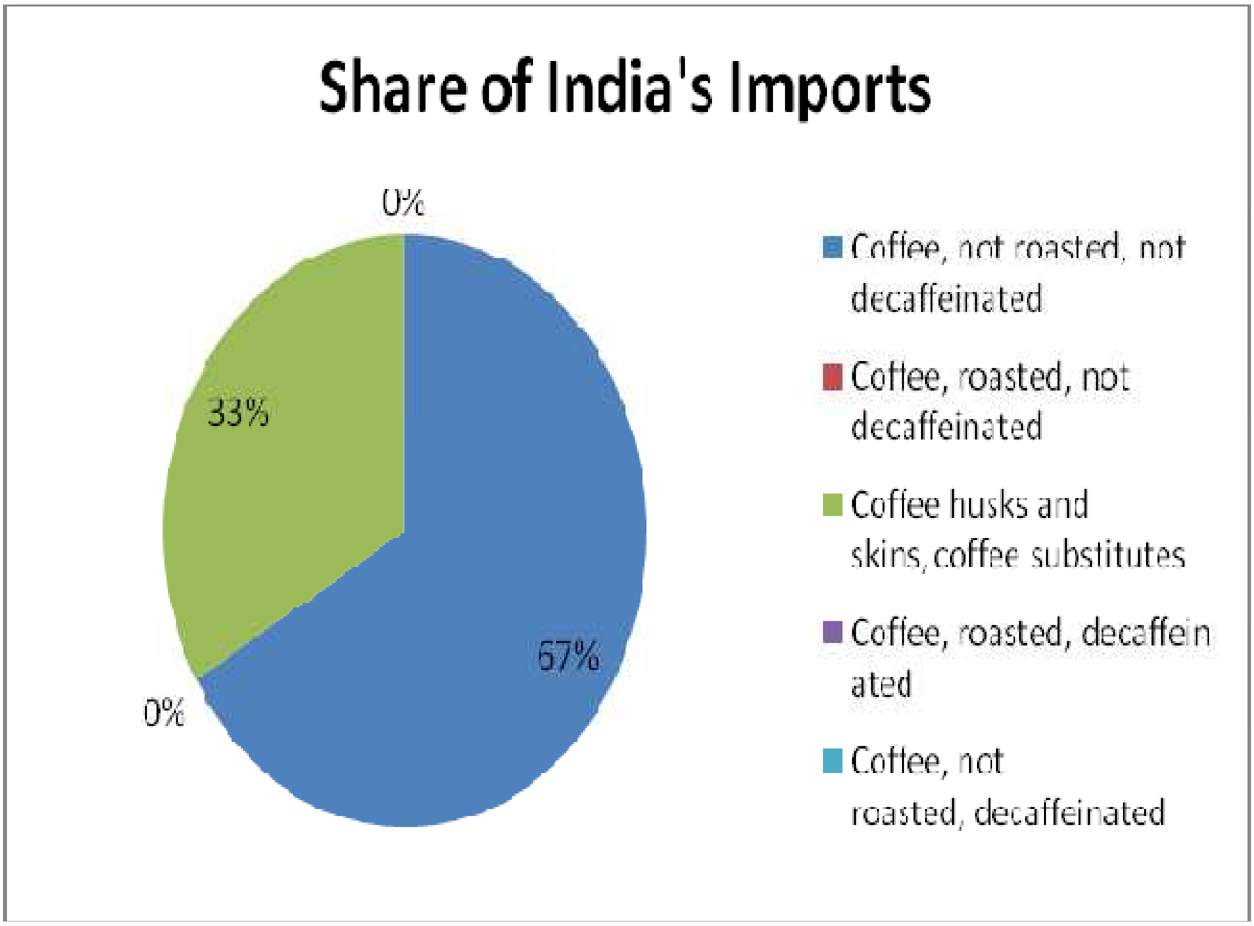
“We are a pure coffee company. We are not into instant coffee but focus only on espresso segment. We have a range of coffee machines that are popular in the home segment which come with coffee capsules. We have a strategy to expand our presence in the home segment in India by offering the complete range of our products,” he said.

Coffee is one of the most widely traded agricultural commodities in the world. It's farmed in 80 countries and exported by over 50 in Central and South America, Africa and Asia. The 25 million coffee farmers in the developing countries are mostly small scale producers. More than a 100 million people are engaged in producing and processing coffee. Clearly, the production of coffee has a significant impact on the economic development of the producing areas and their environment.

Coffee bean prices often below low cost of production unleaded a series of adverse consequences among rural workers and small scale farmers. As handful of Transnational corporations control the market.

This project is about the Indian exports of coffee in the world as India accounts for about 4.5 percent of world coffee production and the industry provides employment to 6 lakh workforce. It was seen from the exports figures that India exports major portion of green coffee instead of processed coffee. Due to that the growers of India as well as exports are not getting the maximum profit being one of the largest producers of coffee beans.


Share of India's Export
4%
0%
26%
0%
70%
Coffee, not roasted, not decaffeinated
Coffee, roasted, not decaffeinated
Coffee husks and skins, coffee substitutes
Coffee, roasted, decaffeinated
Coffee, not roasted, decaffeinated


Share of India's Imports
0%
33%
67%
0%
Coffee, not roasted, not decaffeinated
Coffee, roasted, not decaffeinated
Coffee husks and skins,coffee substitutes
Coffee, roasted, decaffein ated
Coffee, not roasted, decaffeinated

BUSINESS OPPORTUNITIES IN FUTURE

NEW DELHI:

Italy's Luigi Lavazza Spa is looking for a strategic partner or even an outright buyer for its Indian coffee chain Barista five years after acquiring it, and has begun preliminary talks with potential partners and buyers, said a person with direct knowledge of the situation.

In the early 2000s, Barista Coffee pioneered the sale of coffee through espresso bars at tony locations and emerged as a strong brand that was touted as the future Starbucks of India. However, the coffee subsequently lost its sheen as its ownership changed hands three times and rivals such as Cafe Coffee Day and Costa Coffee consolidated their presence. The recent arrival of Starbucks and Dunkin Donuts in India is likely to further alter the market's dynamics.

A Lavazza spokesperson said India is extremely important for the company's overall global growth plans and it is open to possible partnerships in the country. "It is strategic to Lavazza overall growth initiatives across the world and there is no intention to move back from this," the spokesperson said in an emailed reply. "Keeping this in mind and to optimize the opportunities in the Indian market, Lavazza is open to strategic partnerships, including agreements, joint management of the cafe chain Barista Lavazza."

Italian Co to Focus on Coffee Vending

The Lavazza spokesperson, however, said the company has "neither handed an official mandate to address this, nor has initiated any discussion for sale of equity". But a senior executive from the food and beverages industry, aware of Lavazza plan, said a boutique investment firm is already helping the Italian company scout for an outright buyer or a strategic investor for the loss-making coffee chain. The Italian company plans to focus on the more profitable coffee vending business, which it currently operates under the Fresh & Honest and Lavazza brands in India, he added.

A top executive of a coffee chain said he had held talks with Lavazza for an outright sale of Barista, but the two did not agree on the price. He was willing to pay $25 million while the asking price was $75 million. The Italian company had acquired Barista coffee chain and Fresh

& Honest for $125 million from serial entrepreneur C Sivasankaran's Sterling InfoTech Group in 2007.

Lavazza is seeking a strategic investor at a time the market for coffee through cafes is set to double to $410 million by 2017, from about $230 million now. India, on an average, has added about 250 coffee outlets a year in the past five years taking the total to 1,950, up from about 700 outlets in 2007, according to consultancy firm Technopak Advisors. Technopak says about 1,000 more coffee stores will be added in the next five years with global coffee titans, including Starbucks and Dunkin Donuts, setting foot in India in recent months and some more global players planning investments. Existing players too are expected to ramp up.

Years into its launch in the early 2000s, Barista was one of India's fastest-growing brands and the company at that time spoke of opening 1,000 stores by 2010. However, continuous changes in ownership and shifting focus hampered growth, and it lost out to Cafe Coffee Day, which emerged as India's largest coffee chain. Cafe Coffee Day has more than 1,300 stores nationwide while Barista - the No. 2 coffee chain in India - has about 180 outlets. According to financials shared by Lavazza with some prospective buyers and partners, Barista clocked a turnover of around 75 crore in the last financial year with operating losses of 9 crore.

The company had shut some prominent, but unprofitable, stores at locations such as Greater Kailas and Khan Market in New Delhi. It plans to reduce the number of stores to 110 by March 2013, said one of the persons quoted above. He said the cutback was part of a restructuring plan as the company was struggling with massive overheads at the corporate level coupled with sluggish demand and intense competition. Two food industry executives said it was impossible to make money by selling beverages alone. Food is critical to a cafe's success and often necessitates a central kitchen or third-party supplier, and these involve huge fixed costs. Typically, coffee shops require full-day traffic and finding an optimum location is not only difficult but also expensive.

POTENTIAL IN INDIA OF LAVAZZA

In 2007, Lavazza walked into the country by acquiring the Barista coffee house business and Fresh & Honest Cafe, a company that specializes in serving corporate clients with vending machines and ground coffee products, for a reported sum of 100 million Euros. And now, it's time to expand, according to Gaeta no Mele, CEO at the Italian Lavazza Group. On the cards is Lavazza first coffee plant outside home and an ambitious plan to expand its business in the Asia-Pacific region.

About 60% of Lavazza revenues come from Italy and rest from foreign markets. Asia contributes a mere 5% to its coffers. So, it is no surprise that Italy's biggest coffee maker wants to use India and its relatively cheaper raw coffee beans as a base to expand into other markets.

"We are making fresh investments in building a coffee processing plant in Chennai on the lines of the one that we have in Turin," says Mele. "It is our first factory outside Italy and should be operational by the first half of 2011."

Mele is banking on the country's young population and its potential disposable income. China is also a budding market. In the pipeline is a range of designer cafes, such as the popular Lavazza Expression where décor and service make an exciting proposition to coffee lovers.

But more important is the money that Lavazza would save on the nearly 110% import duty it goes through by manufacturing its products here. "Around 70% of the retail price of our products is due to the cost of raw materials," says Attila Capuano, director, Asia & Pacific, Lavazza S.p.A. "It will be a huge saving for us once we start manufacturing in India."At the same time, the Lavazza brand here is undergoing a brand transition with the company's logo slowly being integrated with the Barista logo. "We don't want to suddenly intrude," points out Mele. "It will be a slow makeover." Incidentally, Barista has not performed according to the expectations of the Lavazza group. "We have still not broken even," says Capuano.

But the company's other spearhead, Fresh & Honest Cafe, a part of the Indian coffee vending industry, is going great guns. "We have most of the top hotels as our clients and from only 14 coffee vending machines a month in 2007, we are now selling 100 machines a month, which translates into sales of 50,000 coffee cartridges every month," reveals Capuano. "We will soon touch a lakh," he adds.

Today, compared to around 800 stores of close competitor Café Coffee Day, Lavazza has just over 200 stores in the country. "Don't expect our numbers to go up drastically," explains Mele. "We are not competing with Café Coffee Day." Well, that's how conservatively the Italians "espresso" themselves!

Lavazza is seeking a strategic investor at a time the market for coffee through cafes is set to double to $410 million by 2017, from about $230 million now. India, on an average, has added about 250 coffee outlets a year in the past five years taking the total to 1,950, up from about 700 outlets in 2007, according to consultancy firm Technopak Advisors. Technopak says about 1,000 more coffee stores will be added in the next five years with global coffee titans, including Starbucks and Dunkin Donuts, setting foot in India in recent months and some more global players planning investments. Existing players too are expected to ramp up. Years into its launch in the early 2000s, Barista was one of India's fastest-growing brands and the company at that time spoke of opening 1,000 stores by 2010. However, continuous changes in ownership and shifting focus hampered growth, and it lost out to Cafe Coffee Day, which emerged as India's largest coffee chain. Cafe Coffee Day has more than 1,300 stores nationwide while Barista - the No. 2 coffee chain in India - has about 180 outlets. According to financials shared by Lavazza with some prospective buyers and partners, Barista clocked a turnover of around 75 crore in the last financial year with operating losses of 9 crore.

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Future growth Potentials in India

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TRADE BARRIERS FOR LAVAZZA

There are several different variants of division of non-tariff barriers. Some scholars divide between internal taxes, administrative barriers, health and sanitary regulations and government procurement policies. Others divide non-tariff barriers into more categories such as specific limitations on trade, customs and administrative entry procedures, standards, government participation in trade, charges on import, and other categories.

The first category includes methods to directly import restrictions for protection of certain sectors of national industries: licensing and allocation of import quotas, antidumping and countervailing duties, import deposits, so-called voluntary export restraints, countervailing duties, the system of minimum import prices, etc. Under second category follow methods that are not directly aimed at restricting foreign trade and more related to the administrative bureaucracy, whose actions, however, restrict trade, for example: customs procedures, technical standards and norms, sanitary and veterinary standards, requirements for labeling and packaging, bottling, etc. The third category consists of methods that are not directly aimed at restricting the import or promoting the export, but the effects of which often lead to this result.

The non-tariff barriers can include wide variety of restrictions to trade. Here are some examples of the popular NTBs.

Licenses

Agreements In particular, these agreements include some provisions of the General Agreement on Tariffs and Trade and the Agreement on Import Licensing Procedures, concluded under the GATT (GATT). The most common instruments of direct regulation of imports (and sometimes export) are licenses and quotas. Almost all industrialized countries apply these non-tariff methods. The license system requires that a state (through specially authorized office) issues permits for foreign trade transactions of import and export commodities included in the lists of licensed merchandises. Product licensing can take many forms and procedures. The main types of licenses are general license that permits unrestricted importation or exportation of goods included in the lists for a certain period of time; and one-time license for a certain product importer (exporter) to import (or export). One-time license indicates a quantity of goods, its cost, its country of origin (or destination), and in some cases also customs point through which import (or export) of goods should be carried out. The use of licensing systems as an instrument for foreign trade regulation is based on a number of international level standards

Quota

Licensing of foreign trade is closely related to quantitative restrictions – quotas - on imports and exports of certain goods. A quota is a limitation in value or in physical terms, imposed on import and export of certain goods for a certain period of time. This category includes global quotas in respect to specific countries, seasonal quotas, and so-called "voluntary" export restraints. Quantitative controls on foreign trade transactions carried out through one-time license.

Quantitative restriction on imports and exports is a direct administrative form of government regulation of foreign trade. Licenses and quotas limit the independence of enterprises with a regard to entering foreign markets, narrowing the range of countries, which may be entered into transaction for certain commodities, regulate the number and range of goods permitted for import and export. However, the system of licensing and quota imports and exports, establishing firm control over foreign trade in certain goods, in many cases turns out to be more flexible and effective than economic instruments of foreign trade regulation. This can be explained by the fact, that licensing and quota systems are an important instrument of trade regulation of the vast majority of the world.

The consequence of this trade barrier is normally reflected in the consumers' loss because of higher prices and limited selection of goods as well as in the companies that employ the imported materials in the production process, increasing their costs. An import quota can be unilateral, levied by the country without negotiations with exporting country, and bilateral or multilateral, when it is imposed after negotiations and agreement with exporting country. An export quota is a restricted amount of goods that can leave the country. There are different reasons for imposing of export quota by the country, which can be the guarantee of the supply of the products that are in shortage in the domestic market, manipulation of the prices on the international level, and the control of goods strategically important for the country. In some cases, the importing countries request exporting countries to impose voluntary export restraints. Agreement on a **"voluntary" export restraint** This section does not cite any references or sources. Please help improve this section by adding citations to reliable sources. Unforced material may be challenged and removed. (December 2012)

In the past decade, a widespread practice of concluding agreements on the "voluntary" export restrictions and the establishment of import minimum prices imposed by leading Western nations upon weaker in economical or political sense exporters. The specifics of these types of restrictions is the establishment of unconventional techniques when the trade barriers of importing country, are introduced at the border of the exporting and not importing country. Thus, the agreement on "voluntary" export restraints is imposed on the exporter under the threat of sanctions to limit the export of certain goods in the importing country. Similarly, the establishment of minimum import prices should be strictly observed by the exporting firms in contracts with the importers of the country that has set such prices. In the case of reduction of export prices below the minimum level, the importing country imposes anti-dumping duty, which could lead to withdrawal from the market. “Voluntary" export agreements affect trade in textiles, footwear, dairy products, consumer electronics, cars, machine tools, etc.

Problems arise when the quotas are distributed between countries because it is necessary to ensure that products from one country are not diverted in violation of quotas set out in second country. Import quotas are not necessarily designed to protect domestic producers. For example, Japan, maintains quotas on many agricultural products it does not produce. Quotas on imports is a leverage when negotiating the sales of Japanese exports, as well as avoiding excessive dependence on any other country in respect of necessary food, supplies of which may decrease in case of bad weather or political conditions.

Export quotas can be set in order to provide domestic consumers with sufficient stocks of goods at low prices, to prevent the depletion of natural resources, as well as to increase export prices by restricting supply to foreign markets. Such restrictions (through agreements on various types of goods) allow producing countries to use quotas for such commodities as coffee and oil; as the result, prices for these products increased in importing countries.

A quota can be a tariff rate quota, global quota, discriminating quota, and export quota.

Embargo

Embargo is a specific type of quotas prohibiting the trade. As well as quotas, embargoes may be imposed on imports or exports of particular goods, regardless of destination, in respect of certain goods supplied to specific countries, or in respect of all goods shipped to certain countries. Although the embargo is usually introduced for political purposes, the consequences, in essence, could be economic.

Standards

Standards take a special place among non-tariff barriers. Countries usually impose standards on classification, labelling and testing of products in order to be able to sell domestic products, but also to block sales of products of foreign manufacture. These standards are sometimes entered under the pretext of protecting the safety and health of local populations.]

Administrative and bureaucratic delays at the entrance:

Among the methods of non-tariff regulation should be mentioned administrative and bureaucratic delays at the entrance, which increase uncertainty and the cost of maintaining inventory.

Import deposits

Another example of foreign trade regulations is import deposits. Import deposits is a form of deposit, which the importer must pay the bank for a definite period of time (non-interest bearing deposit) in an amount equal to all or part of the cost of imported goods.

At the national level, administrative regulation of capital movements is carried out mainly within a framework of bilateral agreements, which include a clear definition of the legal regime, the procedure for the admission of investments and investors. It is determined by mode (fair and equitable, national, most-favored-nation), order of nationalization and compensation, transfer profits and capital repatriation and dispute resolution.

Foreign exchange restrictions and foreign exchange controls

Foreign exchange restrictions and foreign exchange controls occupy a special place among the non-tariff regulatory instruments of foreign economic activity. Foreign exchange restrictions constitute the regulation of transactions of residents and non-residents with currency and other currency values. Also an important part of the mechanism of control of foreign economic activity is the establishment of the national currency against foreign currencies.

The transition from tariffs to non-tariff barriers

One of the reasons why industrialized countries have moved from tariffs to NTBs is the fact that developed countries have sources of income other than tariffs. Historically, in the formation of nation-states, governments had to get funding. They received it through the introduction of tariffs. This explains the fact that most developing countries still rely on tariffs as a way to finance their spending. Developed countries can afford not to depend on tariffs, at the same time developing NTBs as a possible way of international trade regulation. The second reason for the transition to NTBs is that these tariffs can be used to support weak industries or compensation of industries, which have been affected negatively by the reduction of tariffs. The third reason for the popularity of NTBs is the ability of interest groups to influence the process in the absence of opportunities to obtain government support for the tariffs.

Non-tariff barriers today

With the exception of export subsidies and quotas, NTBs are most similar to the tariffs. Tariffs for goods production were reduced during the eight rounds of negotiations in the WTO and the General Agreement on Tariffs and Trade (GATT). After lowering of tariffs, the principle of protectionism demanded the introduction of new NTBs such as technical barriers to trade (TBT). According to statements made at United Nations Conference on Trade and Development (UNCTAD, 2005), the use of NTBs, based on the amount and control of price levels has decreased significantly from 45% in 1994 to 15% in 2004, while use of other NTBs increased from 55% in 1994 to 85% in 2004.

Increasing consumer demand for safe and environment friendly products also have had their impact on increasing popularity of TBT. Many NTBs are governed by WTO agreements, which originated in the Uruguay Round (the TBT Agreement, SPS Measures Agreement, the Agreement on Textiles and Clothing), as well as GATT articles. NTBs in the field of services have become as important as in the field of usual trade.

Most of the NTB can be defined as protectionist measures, unless they are related to difficulties in the market, such as externalities and information asymmetries between consumers and producers of goods. An example of this is safety standards and labeling requirements.

The need to protect sensitive to import industries, as well as a wide range of trade restrictions, available to the governments of industrialized countries, forcing them to resort to use the NTB, and putting serious obstacles to international trade and world economic growth. Thus, NTBs can be referred as a new of protection which has replaced tariffs as an old form of protection.

Examples of Non-Tariff Barriers to Trade

Non-tariff barriers to trade can be the following:

- Import bans
- General or product-specific quotas
- Rules of Origin

➢ Quality conditions imposed by the importing country on the exporting countries
➢ Sanitary and phytosanitary conditions

> Packaging conditions

> Labelling conditions

> Product standards

> Complex regulatory environment

> Determination of eligibility of an exporting country by the importing country

> Determination of eligibility of an exporting establishment (firm, company) by the importing country.

> Additional trade documents like Certificate of Origin, Certificate of Authenticity etc.

> Occupational safety and health regulation

> Employment law

> import licenses

> State subsidies, procurement, trading, state ownership

> Export subsidies

> Fixation of a minimum import price

> Product classification

> Quota shares

> Foreign exchange market controls and multiplicity

> Inadequate infrastructure

> “Buy national" policy

> Over-valued currency

> Intellectual property laws (patents, copyright)

<u>**CONCLUSION AND SUGGESTIONS**</u>

The Lavazza introduced the first closed system espresso machine. This coffee machine is about 30 years old. The first Lavazza designed espresso coffee machine was developed in 1991.

Lavazza

LAVAZZA	
Type	Private
Industry	Retail Coffee
Founded	Turin, Italy
Headquarters	Turin, Italy
Key people	Emilio Lavazza (died February 2010), former chairman Alberto Lavazza, Deputy Chairman and CEO Gaeta no Mele, Managing Director
Products	Whole Bean Coffee Merchandise
Revenue	▲€930 million
Employees	1700
Website	www.lavazza.it

Lavazza imports coffee from around the world. Countries include Brazil and Colombia in South America, Guatemala, Costa Rica, and Honduras in Central America, Uganda in Africa, Indonesia and Vietnam in Asia and the United States and Mexico in North America.

Lavazza has four production facilities located in Italy, with seven subsidiaries around the world: France, Germany, Spain, United Kingdom, Portugal, Austria, and the United States. Lavazza distributes their products in eighty countries. In 2008 Lavazza entered the Indian coffee market by buying out (in April 2007) the entire stake of the Chennai-based Sterling InfoTech group, which owns the coffee chain The Barista Coffee and the coffee vending business Fresh and Honest. In 2011 1400 coffee shop retail outlets registered in India. The Lavazza has also entered into alliances with the British council. a Lavazza machine have coffee capsules to eliminate the need for measurement.

The Lavazza industrial system is split up into six plants four in Italy and two abroad.

ITALY

1. Turin plant

2. Verrès plant

3. Pozzilli plant

4. Gattinara plant

INDIA

1. The fresh and honest plant

2. Tress Rios plant

Lavazza in Gujarat:

Ahmadabad

Baroda

Surat

Lavazza is the world leading manufactured espresso coffee, sold in thousands of coffee bars and restaurants.

FOOTNOTE

We have referred:

1. www.lavazza. Com

2. en.wikipedia.org/wiki/Lavazza

3. Www. Money control.com

4. Www. Infodriveindia.com

5. www.italy.info/in

Group-5

A

Global Study Country report

On Italy

Submitted to:

Gujarat Technological University

Guided By:

Prof. J.K. Vasavada

Prof. D.B. Morvadiya

Prepared By:

Jilka Jay,Tejvani Ravi, Thumbar Bhavisha,

Desai Janki,Kachhadiya Rinkal,Vadariya Mandeep

MBA SEM-III

Batch: 2012-2013

Through

N. R. Vekaria Institute of Business

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Junagadh.

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STUDENT DECLARATION

We enrollment no. student of MBA 3th sem. 117360592046, 117360592045,117360592043,117360592042,117360592041,117360592044 hereby declare that the report for Global/ Country Study Report entitled "Italy" are a result of our own work and our indebtedness to other work publications, references, if any, have been duly acknowledged.

Place: ……..

Date: (Name of Student)

Name	Enroll. No.	Sign
Jilka Jay	117360592046	
Tejvani Ravi	117360592045	
Desai Janki	117360592043	
Thumbar Bhavisha	117360592042	
Kachhadiya Rinkal	117360592041	
Vadariya Mandeep	117360592044	

Date:

Place: Junagadh

CERTIFICATE

J.J.C.E TRUST SANCHALIT

N.R.VEKARIA INSTITUTE OF BUSINESS MANAGEMENT STUDIES

MBA DEPARTMENT, BILKHA ROAD,

JUNAGADH-362001

Here by certified that this Global/Country study report titled **"TRADE UNION AND ITS IMPECT ON COMMERCE & TRADE IN ITALY"** is bonafied work Jilka Jay, Tejvani Ravi, Desai Janki, Thumbar Bhavisha, Kachhadiya Rinkal, Vadariya Mandeep students of N.R. Vekaria institute of business management studies have carried out and contained in this report under my supervision & guidance.

Date:

Place:

Project guide

Prof. J.K. VASAVADA DR. RAJESH PATEL

Prof. D.B.MORVADIYA (DIRECTOR)

PREFACE

There is on ancient proverb practice makes man perfect. It indicates practice makes the person more practical and provides training and knowledge through which we can handle related situation.

Here in MBA we study the management and administration of business and its various operations. But that is only a theoretical knowledge. When we are asked to put it in actual practice, most of us have realized that it is not the same infect theory is just the base to go into the practical field. Thus to have an exhaustive knowledge of anything there should be an ideal integration of theory and practice. It is said that theory without practice has no fruits and practice without theory has no root.

Here is given the project report on Italy country we tried our level best to collect information from it. We assured that all information is trusted and if any wrong information is there we sincerely sorry for that.

Acknowledgement

Man's quest for knowledge never ends. Theory and practice are essential and complementary to each other. We are thankful for the assistance received from various individuals in making this project report successfully.

Our acknowledgement remains incomplete without great thanking to respective member **Dr. Rajesh A. Patel (Director), Dr. N. M. Munshi (HOD).** We are thankful to our internal guide **Prof. J. K. Vasavada and Prof. D. R. Morvadiya**; they helped us throughout our project report work as well as documentation.

EXECUTIVE SUMMERY

Italy has 60,626,442 inhabitants according to 1/1/2011 municipal records. Its population density, at 201/km² (520/sq. mile), is higher than that of most Western European countries. However the distribution of the population is widely uneven.

Italy's official language is Italian. Ethnologies has estimated that there are about 55 million speakers of the language in Italy and a further 6.7 million outside of the country. However, between 120 and 150 million people use Italian as a second or cultural language, worldwide.

The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family owned. Italy also has a sizable underground economy, which by some estimates accounts for as much as 17% of GDP. These activities are most common within the agriculture, construction, and service sectors. Italy is the third-largest economy in the euro-zone, but exceptionally high public debt burdens and structural impediments to growth have rendered it vulnerable to scrutiny by financial markets. Public debt has increased steadily since 2007, reaching 120% of GDP in 2011, and borrowing costs on sovereign government debt have risen to record levels. During the second half of 2011 the government passed a series of three austerity packages to balance its budget by 2013 and decrease its public debt burden. The international financial crisis worsened conditions in Italy's labour market, with unemployment rising from 6.2% in 2007 to 8.4% in 2011.

PART - I

Demographic Profile of Italy

Demographic profile of Italy

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Demographic statistics

Population :-

60,626,442 (2011 est.)

Age structure :-

0-14 years: 13.5% (male 4,056,156/female 3,814,070)

15-64 years: 66.3% (male 19,530,696/female 18,981,084)

65 years and over: 20.2% (male 4,903,762/female 6,840,444) (2010 est.)

Sex ratio :-

at birth: 1.07 male(s)/female

under 15 years: 1.06 male(s)/female

15-64 years: 1.02 male(s)/female

65 years and over: 0.72 male(s)/female

total population: 0.96 male(s)/female

Infant mortality rate :-

total: 5.51 deaths/1,000 live births

male: 6.07 deaths/1,000 live births

female: 4.91 deaths/1,000 live births

(2009 est.)

Total fertility rate :-

1.41 children born/woman (2010)

Life expectancy at birth :-

total population: 81.8 years (2010)

male: 79.2 years (2010)

female: 84.4 years (2010)

HIV/AIDS :-

Adult prevalence rate: 0.4% (2009 est.)

People living with HIV/AIDS: 150,000 (2007 est.)

Deaths: 1,900 (2007 est.)

Nationality :-

noun: Italian(s)

adjective: Italian

Ethnic groups :-

Italian: 92%, other European (mostly Romanian, Albanian, Ukrainian and others) 4%, North African (mostly Berber) 1.5%, others 2.5%

Religions :-

Roman Catholic: 87% (approximately; one third practicing), other Christians: 2%, Muslim: 1.8%, Atheist or Agnostic: 9%

Literacy :-

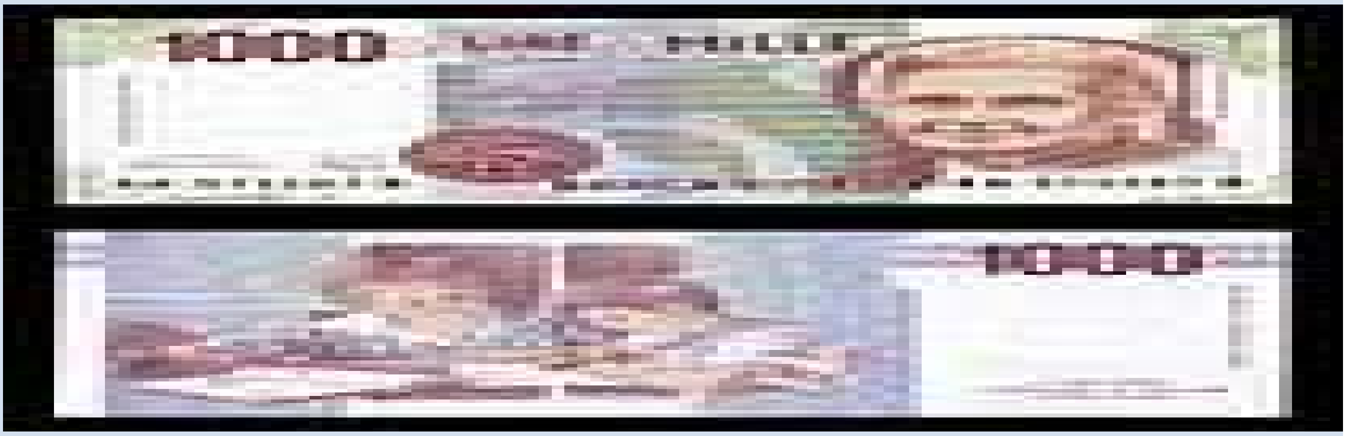
definition: age 15 and over can read and write

total population: 98.6%

Economic Overview of Italy

<u>ECONOMIC OVERVIEW OF ITLY</u>

Economy of Italy



Fiscal year	Calendar year
Trade organizations	EU,WTO, except ind'italia (CHF)

Statistics

GDP	$2.198 trillion (2011) (nominal; 8th) $1.846 trillion (2011) (PPP; 10th)
GDP growth	-0.8 (2012-First quarter)
GDP per capita	$36,267 (2011) (nominal; 21st)

	$30,464 (2011) (PPP; 27th)
GDP by sector	Agriculture : 1.8%; industry: 24.9%; services: 73.3% (2010 est.)
Inflation (CPI)	Agriculture : 1.8%; industry: 24.9%; services: 73.3% (2010 est.)
Population below poverty line	45.2% (2003)
Gini index	36 (2009)
Labour force	25.05 million (2010 est.)
Labour force by occupation	services (65.1%), industry (30.7%), agriculture (4.2%) (2005)
Unemployment	10.8% (September 2012)
Main industries	tourism, communications, machinery,steel, chemicals, pharmaceuticals, food processing, textiles, motor vehicles,home appliances, clothing, fashion
Ease of Doing Business Rank	87th
External	
Exports	$458.4 billion (2010 est.)
Export goods	engineering products, textiles and clothing, production machinery, motor vehicles, transport equipment, chemicals; food, beverages and tobacco; minerals, and nonferrous metals
Main export	Germany 12.6%, France 11.57%,United States 5.92%, Spain 5.69%,United

partners	Kingdom 5.13%, Switzerland4.69% (2009)
Imports	$459.7 billion (2010 est.)
Import goods	engineering products, chemicals, transport equipment, energy products, minerals and nonferrous metals, textiles and clothing; food, beverages, and tobacco
Main import partners	Germany 16.68%, France 8.82%, China6.53%, Netherlands 5.63%, Spain 4.3%,Russia 4.12%, Belgium 4.08% (2009)
Gross external debt	$2.223 trillion (30 June 2010 est.)
Public finances	
Public debt	120.1% of GDP (2011 est.)
Revenues	$1.025 trillion (2011 est.)
Expenses	$1.112 trillion (2011 est.)
Economic aid	*donor*: $2.48 billion, 0.15% of GDP(2004)

Overview of Industry, Trade and Commerce

OVERVIEW OF INDUSTRY, TRADE AND COMMERCE

1) Industry :-

Tourism is one of Italy's most important industries and a major source of foreign exchange. Italy's economy has been gradually diversifying, shifting from food and textiles to engineering, steel, and chemical products. The chief manufactures include machinery; iron, steel, and other metal products; chemicals; motor vehicles; clothing and footwear; and ceramics. Although many of Italy's important industries are state-owned, the trend in recent years has been toward privatization. The service sector has growing importance in Italy and employs well over half of the labor force..The leading exports are engineering products, textiles and clothing, machinery, motor vehicles, transportation equipment, chemicals, food and beverages, tobacco, minerals, and nonferrous metals. The main imports are raw materials, chemicals, transportation equipment, metals, textiles and clothing, foodstuffs, and petroleum. The chief trade partners are Germany, France, Spain, and Great Britain. However, all industries suffered smaller growth rates during the recession years and are still struggling to recover. A challenge for Italy is to increase its energy production, an area where the country is not self-sufficient.

Italy has a smaller number of global multinational corporations than other economies of comparable size, but there is a large number of small and medium-sized enterprises, as in the Northern "industrial triangle" (Milan-Turin-Genoa), where there is an area of intense industrial and machinery production. Italy's major exports and companies by sector are

- motor vehicles (Fiat, Aprilia, Ducati, Piaggio, Iveco);
- tyre manufacturing (Pirelli);
- chemicals and petrochemicals (Eni);
- energy and electrical engineering (Enel, Edison);
- home appliances (Candy, Indesit);

aerospace and defense technologies (Finmeccanica, Alenia Aeronautica, AgustaWestland, Oto Melara);

- firearms (Beretta, Benelli);
- fashion (Armani, Valentino, Versace, Dolce & Gabbana, Roberto Cavalli, Benetton, Prada, Luxottica);
- food processing (Ferrero, Barilla Group, Martini & Rossi, Campari, Parmalat);
- sport and luxury vehicles (Ferrari, Maserati, Lamborghini, Pagani);
- yachts (Ferretti, Azimut).
- Italy's closest trade ties are with the other countries of the European Union, with whom it conducts about 59% of its total trade. Its largest EU trade partners, in order of market share, are Germany (12.9%), France (11.4%), and Spain (7.4%).

2) Trade :-

The economy of Italy is highly dependent on oil, which represents almost 70% of the government's income. The country registered an economic growth of around 8% in 2010, due to the beginning of the activity of exporting gas. Growth estimates for 2011 are of 3.5%. In addition to the….

3) commerce :-

Italy’s financial adjustment and structural reform programme agreed with the IMF and the World Bank will remain the basis for economic policy during 2001. The Government is improving social safety net arrangements in order to curb the hardship that would arise from reform actions.

Civil service reform is one of the most politically important aspects of the reform programme that Italy has agreed with IMF. The current plan calls for a 20 percent cut in the overall number of civil servants by 2003. With unemployment estimated at between 20 percent and 40 percent, the Government is facing considerable resistance to the reform. As a measure to ease the difficulties, the reform programme calls for a creation of a civil service fund, which will, for a limited time, continue to pay the wages of redundant employees. Italy’s real GDP growth estimated at 4.9 percent in 2001 is expected to decline to 4.0 percent in 2002 as oil-production and export growth rates fall back from recent highs.

A new government was formed in April 2001. It is expected that the new government will continue its efforts for the implementation of economic reforms and structural adjustment programmes. The parliamentary election due in April 2001 is postponed until 2003, extending the life of parliament from four to six years.

Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south, with high unemployment. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family owned. Italy also has a sizable underground economy, which by some estimates accounts for as much as 17% of GDP.

These activities are most common within the agriculture, construction, and service sectors. Italy is the third-largest economy in the euro-zone, but exceptionally high public debt burdens and structural impediments to growth have rendered it vulnerable to scrutiny by financial markets. Public debt has increased steadily since 2007, reaching 120% of GDP in 2011, and borrowing costs on sovereign government debt have risen to record levels. During the second half of 2011 the government passed a series of three austerity packages to balance its budget by 2013 and decrease its public debt burden. These measures included a hike in the value-added tax, pension reforms, and cuts to public administration.

The government also faces pressure from investors and European partners to address Italy's long-standing structural impediments to growth, such as an inflexible labor market and widespread tax evasion. The international financial crisis worsened conditions in Italys labor market, with unemployment rising from 6.2% in 2007 to 8.4% in 2011, but in the longer-term Italys low fertility rate and quota-driven immigration policies will increasingly strain its economy. The euro-zone crisis along with Italian austerity measures have reduced exports and domestic demand, slowing Italys recovery. Italys GDP is still 5% below its 2007 pre-crisis level.

OVERVIEW DIFFERENT ECONOMIC SECTOES OF ITALY

OVERVIEW DIFFERENT ECONOMIC SECTOES OF ITALY

Like all advanced capitalist economies, Italy is quickly moving away from its traditional economic sectors to become predominantly services-oriented, although the economic importance of the industrial sector is higher than the EU average. Agriculture accounted for 2.5 percent of the GDP in 2000, while industry and services accounted, respectively, for 30.4 percent and 67.1 percent of the GDP. 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, while the relevance of the agricultural sector continues to decline. In the south, tourism is seen as one of the principal sectors for development, one that would generate employment in the region.

The manufacture of machinery, motor vehicles, clothing, footwear, and food processing are the main industrial sub-sectors. Many of these enterprises manufacture goods almost exclusively for foreign markets and must, therefore, monitor international economic changes very carefully. These companies are largely concentrated in the northern regions and are often small or medium in size. More often than not, they are also family run, and the business is kept within the family for generations. The large manufacturers include such internationally recognized names as FIAT, Benetton, Parmalat, Mediaset, Pirelli, and Zanussi, multinational companies which produce a wide range of products across several manufacturing sectors.

An interesting aspect of Italian economic development is the increasingly important role that small and medium enterprises have come to play. These companies are often family run and can count on a well-qualified and dedicated workforce. They receive extensive support from local government and are well integrated into their communities. These complex business networks are known as integrated industrial districts, which means that almost every company in the same geographic area makes the same products, or necessary components for those products. This pattern enables all companies in the integrated district to share a common distribution network and to take delivery of energy resources or raw materials in huge amounts in one place. The system cuts costs to business and helps them to compete in the international markets.

Thus, for example, the northern area of Friuli is renowned for its furniture making factories, the region of Marche for shoemaking, and so on.

Italy's employment statistics reflect its economic trends. The agricultural labor force is steadily diminishing (down to 5.5 percent of the total workforce in 1999), and industrial employment is also shrinking due to the impact of the new economy (to 32.6 percent in 1999). The service sector employs the largest percentage, 61.9 percent, of the Italian workforce. During the 1993-95 recession, 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 programs. A substantial number of jobs were saved by the introduction of the social partnership plan.

Economic Sectors Of Italy :-

Energy and natural resources:-

Italy has few natural resources. There are no substantial deposits of iron, coal, or oil. Proven natural gas reserves, mainly in the Po Valley and offshore Adriatic, have grown in recent years and constitute the country's most important mineral resource. Most raw materials needed for manufacturing and more than 80% of the country's energy sources are imported. The energy sector is highly dependent on imports from abroad: in 2006 the country imported more than 86% of its total energy consumption .Graphical depiction of Italy's product exports in 28 colors coded categories.

However, in the last decade, Italy has became one of the world's largest producers of renewable energy, ranking as the world’s fifth largest solar energy producer in 2009 and the sixth largest producer of wind power in 2008.

Italy has managed four nuclear reactors until the 1980s, but in 1987, after the Chernobyl disaster, a large majority of Italians passed a referendum opting for phasing out nuclear power. The government responded by closing existing nuclear power plants and stopping work on projects underway, completely putting a halt to the national nuclear program. Currently, the majority of Italian electricity is produced gas, oil, coal, and hydro. Italy also imports about 16% of its electricity need from France for 6.5 GWe, which makes it the world's biggest importer of electricity. Due to its reliance on expensive fossil fuels and imports, Italians pay approximately 45% more than the EU average for electricity.

Agriculture:-

The northern part of Italy produces primarily maize corn, rice, sugar beets, soybeans, meat, fruits and dairy products, while the South specializes in wheat and citrus fruits. Italy is the first or the second largest producer of wine in the world, and one of the leading in olive oil, fruits, flowers and vegetables.

According to the Agriculture Census, there were 2.6 million farms in 2000 covering 19.6 million hectares. The vast majority are family-operated and small, averaging only 5 hectares in size. Of the total surface area in agricultural use grain fields take up 31%, olive tree orchards 8.2%, vineyards 5.4%, citrus orchards 1%, other orchards 3.8%, sugarbeets 1.7%, and horticulture 2.4%. The remainder is primarily dedicated to pastures and feed grains Livestock includes 6 million head of cattle, 8.6 million head of swine, 6.8 million head of sheep, and 0.9 million head of goats.

The most famous Italian wines are probably the Tuscan Chianti and Piedmontese Pinot Grigio. Other famous wines are Barbaresco, Barolo and Barbera (Piedmont), Brunello di Montalcino (Tuscany), Montepulcianod 'Abruzzo (Abruzzo) and Nero d'Avola (Sicily). Quality goods in which Italy specialises are often DOC or 'of controlled origin'. This DOC certificate, which is attributed by the European Union, ensures that the origins and work that goes into a product are recognised. This certification is considered important by producers and consumers alike, in order to avoid confusion with low-quality mass-produced ersatz products.

Transport:-

In 2004 the transport sector in Italy generated a turnover of about 119.4 billion euros, employing 935,700 persons in 153,700 enterprises. Regarding to the national road network, in 2002 there were 668,721 km (415,612 mi) of serviceable roads in Italy, including 6,487 km (4,031 mi) of motorways, state-owned but privately operated by Atlantia company. In 2005, about 34,667,000 passenger cars (equal to 590 cars per 1,000 people) and 4,015,000 road good vehicles circulated on the national road network.

The railway network in Italy totalled 16,862 kilometres (2008) of which 69% are electrified and on which 4,937 locomotives and railcars circulate. It is the 15th largest in the world, and is operated by FerroviedelloStato. High speed trains include ETR-class trains, with the ETR 500 reaching 300 km/h (190 mph). The rail tracks and infrastructure are managed by Rete FerroviariaItaliana.

In 1991 Treno Alta VelocitàSpA was created for the planning and construction of high-speed rail lines along Italy's most important and saturated transport routes. One of the focuses of the project is to turn the rail network of Italy into a modern high-tech passenger rail system in accordance with updated European rail standards. A secondary purpose is to introduce high-speed rail to the country's high-priority corridors, namely the Milan-Naples and Turin-Milan-Venice lines.

The national inland waterway network comprised 1,477 km (918 mi) of navigable rivers and channels in 2002. In 2004 there were approximately 30 main airports (including the two hubs of Malpensa International in Milan and Leonardo Da Vinci International in Rome) and 43 major seaports including the seaport of Genoa, the country's largest and the second largest in the Mediterranean Sea after Marseille. In 2005 Italy maintained a civilian air fleet of about 389,000 units and a merchant fleet of 581 ships.

Finance:-

Banking in Italy has, as of the 11th October 2008, an average assets/liabilities ratio of 12 - 1, while the banks's short-term liabilities are equal to 86% of the Italian GDP or 43% of the Italian national debt.

This is a list of the top 10 Italian banks ranked by market capitalization.Rank Company Market Capitalisation (€)

1	UniCredit	81.39 billion
2	IntesaSanpaolo	69.2 billion
3	Mediobanca	12.38 billion
4	UBI Banca	11.5 billion
5	BancoPopolare	11.34 billion
6	Monte deiPaschi di Siena	11.32 billion
7	Banca CR Firenze	5.3 billion
8	BancaPopolare di Milano	4.3 billion
9	BancaCarige	3.9 billion
10	CreditoEmiliano	2.8 billion

Labor:-

Following the 2003 "Biagi law", a controversial labour reform, unemployment has been steadily decreasing, reaching 6.2% in 2007, the lowest rate since the 1970s.[79] In the south the average unemployment rate is far higher than the national average, but, in recent years, progress was made nonetheless, with the unemployment rate falling from 23.7% in 1999 to 11.2% in 2007 for Campania, and from 24.5% to 13% for Sicily.[80] There is a significant underground economy, especially in the south where it partially offsets the high official unemployment rate, absorbing substantial numbers of people, working for low wages and without standard social benefits and protections. Italy maintains a good self employment rate at 25.5%.

Among their major agreements are a 4-year wage moderation agreement signed in 1993, a reform of the pension system in 1995, and an employment pact, introducing steps for labor market flexibility in economically depressed areas, in 1996. The CGIL, CISL, and UIL are affiliates of the International Trade Union Confederation. Of the three unions, CGIL is the strongest in numbers.[citation needed] CGIL once single-handedly organized a three-million people rally in Rome.[citation needed] Italy's employers are represented by Confindustria, the Italian Employers' Federation.

The average standard of living in Italy is very high. As noted by Mario B. Mignone“In the official economy, the Italian worker is well rewarded with high wages, good benefits, and many paid holidays, but he or she cannot escape from the heavy burden of taxes.”

OVERVIEW OF BUSINESS AND TRADE AT INTERNATIONAL LEVEL

OVERVIEW OF BUSINESS AND TRADE AT INTERNATIONAL LEVEL

This section is an excerpt from the book “Negotiating International Business - The Negotiator’s Reference Guide to 50 Countries around the World” by Luther Katz. It has been updated with inputs from readers and others, most recently in March 2008.Italian businesspeople, especially those among younger generations, are oft en experienced in interacting and doing business with visitors from other cultures. However, that does not always mean that they are open-minded. When negotiating business here, realize that people may expect things to be done ‘their way. ‘Though the country’s culture is relatively homogeneous, business cultures are considerably different between the North and the South. People in the North tend to be business-focused, serious, and somewhat reserved. South of Bologna, and much more so south of Rome, business and negotiation styles get much more relaxed and people are oft en more personable. These variances affect many aspects of negotiations in Italy

Communication :-

The country’s official language is Italia. There are also German -, French -, and Slovene –speaking minorities in the country. Many Italians, especially in the South, do not speak English well, so you may sometimes need a translator. When communicating in English, speak in short, simple sentences and avoid using jargon and slang. It will help people with a limited command of English if you speak slowly, summarize your key points often, and pause frequently to allow for interpretation. Italians in the South generally converse in close proximity, standing only two feet or less apart. Never back away, even if this is much closer than your personal comfort zone allows. Doing so could bread as a sign that you are uncomfortable around them. While Northern Italians also appreciate animated discussions, business meetings are usually quiet raff airs here. They will appreciate constructive criticism if made in a respectful and not over manner. Silence is again rare and usually signals that there is a problem .Gestures and body language can be extensive. It is oft en not a good idea to imitate them, though. Italians tend to gesticulate a lot. Do not read too much into it. There may be frequent physical contact with others of the same gender. Eye contact should be frequent, almost to the point of staring. This conveys sincerity and helps build trust. Anger may sometimes be masked with a smile.

Initial Contacts and Meetings:-

Choosing a local intermediary who can leverage existing relationships to make the initial contact is important, since having a contact is advantageous for doing business in this country. This person will help bridge the gap between cultures, allowing you to conduct business with greater effectiveness. Negotiations in Italy can be conducted by individuals or teams of negotiators. The most senior executive on your side should have the necessary authority and clearly act as the leader of your team. Similarly, the highest-ranking person on the Italian side will likely attend and will be the decision maker.Copyright 2006, 2007, 2008 - Luther Katz 3If possible, schedule meetings at least two to three weeks in advance. Since Italians want to know whom they will be meeting, provide details on titles, positions, and responsibilities of attendees ahead of time.

They will expect to do business with the most important person in your organization. An agenda may be set up front, but this is only a formality. It will likely not be followed. While meetings may start considerably late, Italians generally expect foreign visitors to be punctual. Avoid being more than 10 to 15 minutes late, and call ahead if you will be. This is less critical in the South of the country. Displaying anger if you have to wait only reflects poorly on you. Names are usually given in the order of first name, family name.

Negotiation:-

Attitudes and Styles –

Leveraging relationships is an important element when negotiating in Italy. Nevertheless, Italians oft en employ distributive and contingency bargaining. While the buyer is Ina superior position, both sides in a business deal own the responsibility to reach agreement. They expect long-term commitments from their business partners and will focus mostly on long-term benefits. Although the primary negotiation style is competitive, Italians nevertheless value longtermrelationships and look for win-win solutions. While proposals should demonstrate the benefits to both negotiating parties, neither of them should take attempts to win competitive advantages negatively. It is important to remain non-confrontational throughout the bargaining exchange.

Sharing of Information –

The level of information sharing depends on the strength of the relationship .During initial negotiations; Italians may play their cards close to the chest. Most of them believe in information sharing as a way to build trust, though.

Pace of Negotiation –

Expect negotiations to be slow and protracted, and be prepared to make several trips if necessary to achieve your objectives. Information gathering, bargaining, and decision-making may take considerable time. Decisions are usually made between meetings rather than at the table. Throughout the negotiation, be patient, control your emotions, and accept that delays occur. Attempts to rush the process are unlikely to produce better results and may be viewed as offensive. If your counterparts appear to be stalling the negotiation, assess carefully whether their slowing down the process indicates that they are evaluating alternatives or that they are not interested in doing business with you.

Bargaining –

Italians, especially in the South, are used to hard bargaining and haggling. They may expect to do a lot of it during a negotiation. Strong emotions and much drama may accompany the process, with a wide spectrum reaching from flattery to bitter complaints, but never open aggression. Spend time to understand your counterparts' objectives and prepare for unexpected moves or changes.The bargaining exchange can be extensive. Prices may move by 40 percent or more between initialoffers and final agreement. Leave yourself a lot of room for concessions at different stages. If need, show willingness to compromise as a way to preserve the honour of both parties. After making concessions, always ask the other side to reciprocate.

Agreements and Contracts :-

Capturing and exchanging meeting summaries can be an effective way to verify understanding and commitments. Most Italians expect that verbal commitments be honoured, although they may not fully dependable themselves. Do not mistake interim agreements for final ones. Any part of an agreement may still change significantly before both parties sign the contract. Written contracts tend to be lengthy and oft en spells out very detailed terms and conditions for the core agreements as well as for many eventualities. Nevertheless, writing up and signing the contracts a formality. Italians believe that the primary strength of an agreement lies in the partners' commitment rather than in its written documentation. It is advisable to consult a local legal expert before signing a contract. However, do not bring your attorney to the negotiation table. Italians may read it as a sign of mistrust if you do.6While contracts are usually dependable; their terms are not always strictly met. Business partners usually expect the other side to remain somewhat flexible if conditions change, which may include agreeing to modify contract terms.

Women in Business:-

While Italian society is making progress towards gender equality and some women hold important positions, most of them are still struggling to attain positions of similar income and authority amen. As a visiting businesswoman, emphasize your company's importance and your role in it. A personal introduction or a letter of support from a senior executive within your company may also help. Female business travellers should graciously accept any chivalric gestures they receive. Complimenting women on their appearance is common and viewed as perfectly acceptable. Should someone making such a compliment go too far, it is best simply to ignore the person. Generally, displaying confidence and assertiveness can be effective, but it is important not to appear overly bold and aggressive.

Decision Making:-

Most companies are hierarchical, and people expect to work within clearly established lines of authority. Decision makers are primarily senior managers who consider the best interest of the group or organization. Others are oft en consulted in a committee-style process in order to reach greater consensus over and support of the decision. This process can take a very long-time and requires patience. Attempts to rush or put pressure on the decision making process is an affront to Italian business protocol. It may sometimes be difficult to identify the primary decision maker. In family businesses, it is always the head of the family, though. In other companies, it is strongly advisable to make contact with the most senior manager, seeking to get his or her support even if the person may not be the sole decision maker. When making decisions, businesspeople usually consider the specific situation rather than applying universal principles. Personal feelings and experiences weigh more strongly than empirical evidence and other objective facts do, but all aspects are considered. Italians are oft en uneasy with change and reluctant to take risks. If you expect them to support a risky decision, you may need to find ways for them to become comfortable with it if rest, for instance by explaining contingency plans, outlining areas of additional support, or by off erring guarantees and warranties.

Present trade relations and business volume of different product with India

Present trade relations and business volume of Different product with India

India and Italy have enjoyed overall pleasurable and strong relations throughout history. Italy and India are also close economic partners and is home to a large population of Indian immigrants. The chief of India's leading political party, the Indian National Congress, Sonia Gandhi, is of Italian descent.

Unfortunately at diplomatic level the relations seem not to be always good. An example is the visa situation between the two countries for the past few years, visas of any kind (tourist, business, employment and others) are issued for very short term and after a lot of hurdles for both Indian and Italian nationals. This situation has reduced noticeably the possibility of tourism and business development between the two countries. It is not officially known the reason for the current diplomatic situation.

India has an embassy in Rome, a general consulate in Milan. Italy has an embassy in New Delhi, two general consulates (in Mumbai and Calcutta).

There are around 150,000 people of Indian Origin living in Italy. Around 1,000 Italian citizens reside in India, mostly working on behalf of Italian industrial groups.

By May 18, 2012, Italy called back its ambassador to India for "consultations" after a charge sheet for murder was filed against two Italian naval guards in the killing of two Indian fishermen off the Kerala coast three months back.

Trade

The last few years have seen substantial growth in trade relations between the two countries. The balance of trade has been in India’s favour since the early eighties. Bilateral trade has been impacted negatively as a result of the financial/economic crisis of 2008-09.

The percentage share of India in Italy’s trade has been increasing steadily, though it still hovers around 1%, showing immense potential for development.

India-Italy Bilateral Trade (figures in US$ billion)

Year	India's Exports to	% Growth	India's Imports	% Growth	Total Trade	% Growth

	Italy		from Italy			
2006-2007	3.58		2.67		6.26	
2007-2008	3.91	9.19	3.9	45.99	7.82	24.92
2008-2009	3.82	-2.29	4.42	13.35	8.25	5.52
2009-2010	3.4	-11.09	3.86	-12.78	7.26	-12
2010-2011	4.55	33.85	4.25	10.2	8.8	21.27

Source: Ministry of Commerce and Industry, GoI

Major items of India's exports to Italy

Key commodities of exports to Italy: are textiles, yarns, ready-made garments, motor vehicles, chemicals, iron and steel, footwear, machinery, automotive components, dyes, pharmaceuticals, agricultural and engineering items, granite, gems & jewellery, carpets, iron ore and coffee.

Major items of India's imports from Italy

Key commodities of imports from Italy: are machinery and capital goods, non-electrical equipment, precision and other machine tools, metallurgical products, iron and steel laminates, chemical and pharmaceutical products, engineering items, medium oil and gas oil.

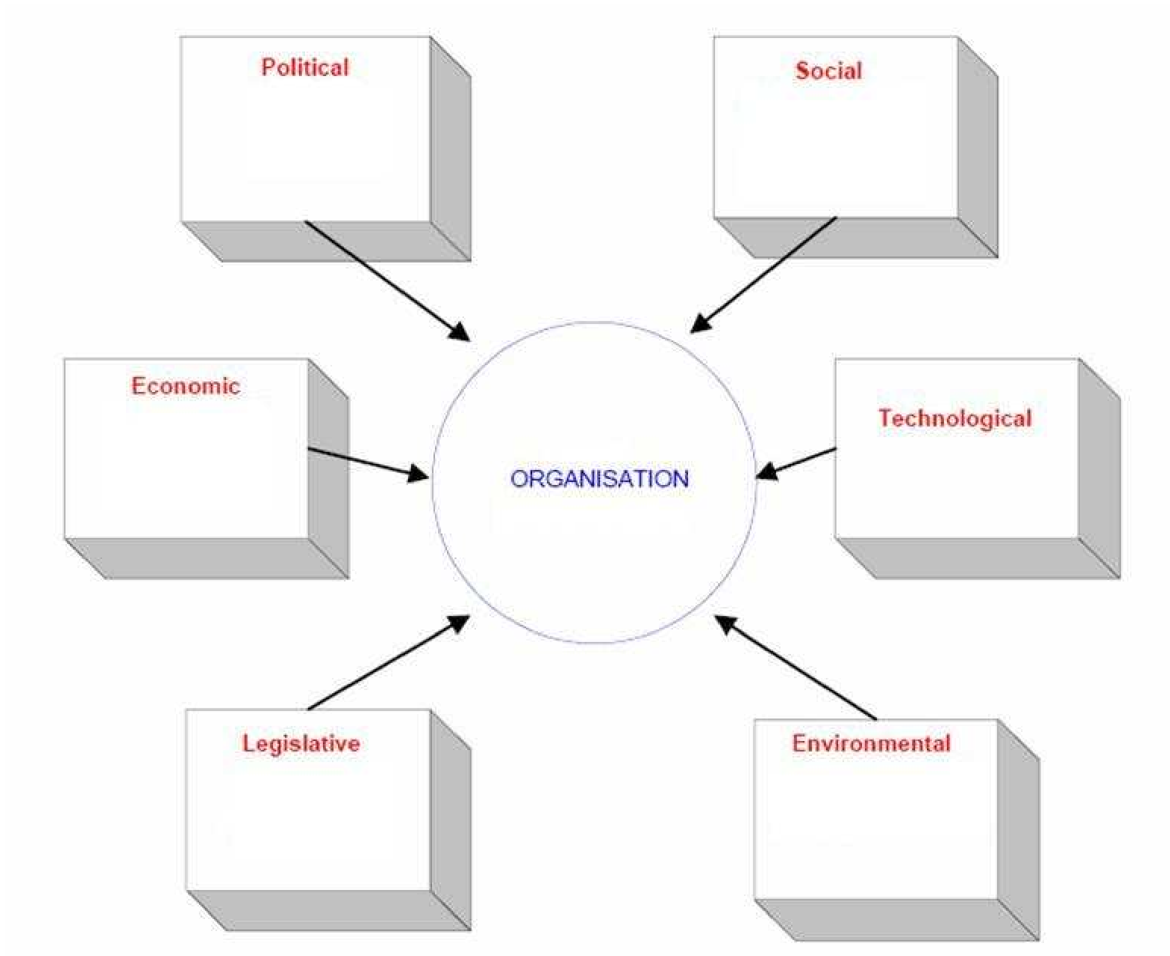
Investments

Italy ranks 12th in terms of cumulative inflows into India amounting to US$ 1 billion (April 2000 – June 2011) accounting for 0.71% of total FDI inflows. Today there are around 400 Italian firms present in India, as compared to 330 firms in 2008, operating especially in the textile and automobile sectors. The highest FDI equity inflows from 1st April 2000 to 30th June 2011 have been in the automobile industry, which accounts for about 58% of FDI inflows from Italy. The services sector, with over 6%, holds the second place and the industrial machinery sector, with over 3%, comes third.

Indian investments in Italy have been more than US$ 500 million. Since 2002, around 30 ventures by Indian firms in Italy have been recorded and they have shown a growing trend with time (particularly in the last three years).

PESTEL Analysis

PESTLE ANALYSIS OF ITALY



1) POLITICAL

Italy is among the relatively freer countries of the Middle East (emphasis on relatively). On paper at least, its president is popularly elected to seven-year terms. But President Giorgio Napolitano, in power since 2006 is effectively the nation's dictator. The 301 members of Italy's lower House of Representatives are popularly elected to six-year terms. The 111 members of its upper Council are appointed, as is the prime minister. Following the 2006 local council elections, international observers judge the process fair, open and competitive.

2) ECONOMIC

Gross Domestic Product (2.223 trillion (30 June 2010 est.)

Real GDP Growth Rate -0.8 (2012-First quarter)

GDP Per Capital $36,267 (2011) (nominal; 21st)

$30,464 (2011) (PPP; 27th)

GDP by sector Agriculture : 1.8%; industry: 24.9%; services: 73.3% (2010 est.)

3) SOCIAL

The government and its security forces, often considered to suffer from rampant corruption, have been responsible for torture, inhumane treatment, and extrajudicial executions. There are arbitrary arrests of citizens, especially in the south, as well as arbitrary searches of homes. Prolonged pre-trial detention is a serious problem, and judicial corruption, inefficiency, and executive interference undermine due process. Freedom of speech, the press, and religion are all restricted.

4) LEGAL

Labour laws are very strong in Italy and the labour organizations play vital role in business. One of Italy foremost attractions as a business location is its business-friendly tax system. Profits are taxed with a standard tax rate of 25 percent - a strong showing even in comparison to the new EU member states. A levy such as trade or net worth taxes (the norm in other European countries) does not exist in Italy.

5) ENVIROMENT

For a long time after the war (world war), reconstruction and supporting the industrial development were the only priorities to Austrians. Only in the late seventies, environmental movements gained momentum and the general awareness of pollution and other issues increased. Later, a Green party formed and a number of environmental laws were released to protect the nature of the nation.

6) Technical and other factors:

Climate change and natural catastrophes increasingly influence business location decisions. It is important to monitor advances in technology and consider adopting new technologies that can increase your marketing capabilities.

ENVIROMENT :-

For a long time after the war (world war), reconstruction and supporting the industrial development were the only priorities to Austrians. Only in the late seventies, environmental movements gained momentum and the general awareness of pollution and other issues increased. Later, a Green party formed and a number of environmental laws were released to protect the nature of the nation.

The country of Italy is a land diverse in its environment. Its climate and landscapes vary, giving travellers a rollercoaster ride of weather depending on where they are and what season it is. To clearly understand the wonderful environment that makes Italy beautiful, one must first understand how its location and surroundings affect its overall climate.

Italy is located in Mediterranean Europe and has its borders with France in the north-west, Switzerland and Austria in the north and Slovenia in the north-east. The Ligurian Sea, the Sardinian Sea and the Tyrrhenian Sea to the west, the Sicilian and Ionian Sea to the south and the Adriatic Sea to the east, surround Italy's peninsula.

The landscapes in Italy are as vast as they are various, but its contour is predominantly shaped by two mountain chains, mainly the Alps and the Apennines. The Apennines extends over 600 miles and consists of great massifs in the western sector, with peaks rising to over 14,000 feet, including Monte Bianco also known as Mont Blanc, Monte Rosa and Cervino or the Matterhorn.

The Alps on the other hand, stretches across the Po Valley plain and is cut down the middle by the river Po which is the longest river in Italy. The Alpine foothills are abundant with large lakes namely Lake Maggiore and lakes Como, Iseo and Garda. A huge chunk of central Italy is characterized by lush green hilly landscapes where the rivers Arno and Tevere run. Italy's main islands are Sicilia, which rises up to the cone of the great Mt. Etna and Mt. Sardegna. On its main archipelago are the Tremiti Islands on the Adriatic Sea, the Tuscan Archipelago, the Pontine Islands, the Aeolian Island and the Egadi Islands on the Tyrrhenian Sea off the coast of Sicilia.

The innate environmental influence of the seas surrounding Italy, and the natural protection that is given by the Alpine barrier from the very cold north winds work together in giving the country a lovely temperate climate. Still, the weather depends on how close or how far you are from one of the seas or mountains. To give you an idea of how diverse the climate is here, winter can be harsh in the alps, where as the Po Plains and the central Apennines are cold and foggy, but on the Ligurian coast, the Neapolitan coast and in Sicilia the weather ranges from mild to warm. The summers are basically hot and dry although the breezes coming from the sea, give a little respite from the heat, with the Alps and the Apennines remaining pleasantly cool.

The mountain areas, as everyone knows, are best for skiing in the winter, and in the summer these areas offer excursions, such as hiking and other similar activities.

ENVIRONMENT TECHNOLOGY

- **Overview of technology :-**

The development and status of Information technology in Italy is a complex question. Italians seem to be stuck with one foot on the shores of a technological oasis and the other in the quagmire of bureaucracy, suspicion and history. Perhaps this was not so noticeable until now because, historically technology has advanced at a slower pace, therefore the juxtaposition between the old and the new was not so apparent. Whereas, now technology is changing at lightening speed making Italy's precarious position more obvious and its next steps increasingly important. At present, Italy is just beginning to adapt to Internet technology while on the other hand the use of a cellular phone is already in a mature state.

The intent of this project is to examine Italian information technology in its early developmental stages, its current reality and its potential growth. We will highlight numerous topics from basic telecommunication infrastructure to electronic commerce and government policies. After extensive information searches and analysis, we have developed a mosaic of information that will assist in defining the impacts of the Italian information technology environment on business.

➢ Telecommunications infrastructure :-

Telecom infrastructure is mainly in the hands of Telecom Italia. Regulatory authority is still evaluating whether to force the incumbent to unbundle its network, and many would be competitors are still deciding if it would be better for them to be facility based or not. Telecom Italia has an almost fully digitized circuit-switched network serving approximately 26 million lines, about 10% of which are ISDN. It has more than two million kilometers of fibre in the long distance network and about half a million in the access network. Most of the infrastructure investments are made by Infostrada and Omnitel . Few companies have begun to build their own local networks, for example in Milan, which has the highest concentration of business activities. City governments that must authorize digging and putting new lines have been very slow to understand the importance of a new telecommunications infrastructure.

High speed lines

Deployment of fiber optic cable (km) 1997
*(*Source: OECD Communications Outlook, 1999*)*

Austria	152,584

Czech Republic	438,634
Finland	647,121
France	1,700,000
Germany	149,200
Greece	11,240
Ireland	40,015
Italy	**2,444,000**
Netherlands	31,000
Spain	47,030
United Kingdom	471,627

International Internet band width by country

	International bandwidth (Mbps)
United States	28 308
United Kingdom	18 338
Germany	11 612
Netherlands	10 874
France	9 687
Canada	8 134
Switzerland	6 816
Belgium	6 213
Sweden	4 388
Japan	2 643
Italy	2 200
Denmark	1 274
Korea	1 106
Austria	979
Australia	729
Finland	670
Spain	618
Norway	490
Turkey	300
Ireland	239
Czech Republic	177
New Zealand	155

These data are drawn from the Top 50 Internet hub cities 1999. Some OECD countries did not have an international route large enough to make Telegeography's cut-off point.
Source: Telegeography 2000.

➢ Telecommunications liberalization and deregulation :-

Italy is the fifth largest market in the world for both television and telecommunications services, which are in the process of deregulation. Telecommunications sector accounts for only 1.5% of the country's GDP in comparison to that of US., while the penetration of cable and pay-TV services are relatively low. The telecommunications system, specifically mobile and personal communications, in

Italy was liberalized by law that Italian government implemented in 1997 in order to comply with the EC directives. This law formalized the liberalization of the mobile telecoms services by opening the market to new competitors. In 1997 Telecom Italia was privatized and in 1999 Telecom Italia was acquired by Olivetti in hostile takeover bid, Mannesmann became Telecom's Italia main competitor through the acquisition of a majority interest in Infostrada and Omnitel. Telecom Italia maintains monopoly over local telephone calls. Customers can reach competitive suppliers in long distance service only through a four or five digit access code. Also carrier preselection and number portability are not available. The most active competitor of Telecom Italia has been Infostrada (founded by Olivetti and sold to Mannesman following Telecom Italia takeover). More than 50 other operators have been licensed to offer voice services. For example Albacom (backed by BT) focuses on business users while others target residential consumers or small and medium sized companies.

- **Telecommunications equipment manufacturing** :-

There is no leading national manufacturer in Italy. For example there is Italtel which is going to be split in two separate units with the mobile and transmissions divisions going to Siemens and the switching divisions going to Telecom Italia. Other large manufacturers are Alcatel, Alenia, Ericsson, Marconi and Siemens, as well as network of smaller manufacturers like IPM, Ermet and rapidly growing Telital, which manufactures cellular and digital phones. Pirelli manufactures wavelength division multiplexing equipment and erbium-doped fibre amplifiers. Telespazio, division of Telecom Italia, is one of the biggest companies manufacturing satellite communications in Europe. It is both a service provider and system provider and conducts complete range of satellite management activities from launch vehicle separation to transfer into final orbit. Nokia has opened new R&D centers in Italy. The liberalization effort is still not complete: data traffic remains underdeveloped; Internet usage is well below European average; new infrastructures built to compete with Telecom Italia are still insufficient; and the future of local telecom equipment manufacturers is uncertain.

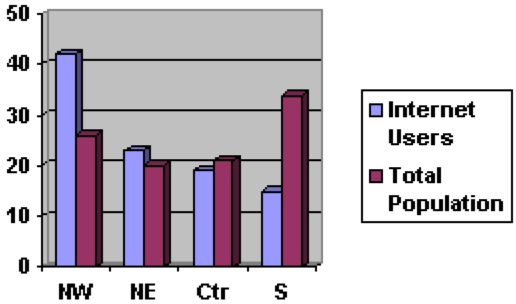
Market Structure and Regulatory Status

Infrastructure provision for following service	Regulatory Status (e.g. monopoly, duopoly, limited number, fully open to any applicant)	Number of licensed operators (1998)
Local PSTN	fully open as of 1.1.98	5 (June 1998)
National PSTN	fully open as of 1.1.98	4 (June 1998)
International PSTN	fully open as of 1.1.98	4 (June 1998)
Analogue Cellular Mobile (e.g. NMT etc.)	monopoly	1
Digital Cellular Mobile (e.g. GSM etc.)	duopoly	2
Other Mobile Communication (e.g. PCS, PCN, CT-2 etc.)	limited number	3 DCS 18001 DECT(June '98)
Payphones	open	

Name of PTO	PTO Ownership Status (1998) (e.g. state owned/privately owned) If a balance of ownership exists please indicate the share (%) held by the government
Telecom Italia	5%
Wind	51% through Enel (national energy utility)
Infostrada	privately owned
Albacom	19% through BNL (state owned bank) 14% through Eni (end 1998)

	The largest PTO's share (End 1997)
Local Access (% of access lines)	Telecom Italia (100%)
National Long Distance (% of total minutes)	Telecom Italia (slightly less than 100%)
International (% of total outgoing MiTT)	Telecom Italia (slightly less than 100%)

Internet Diffusion

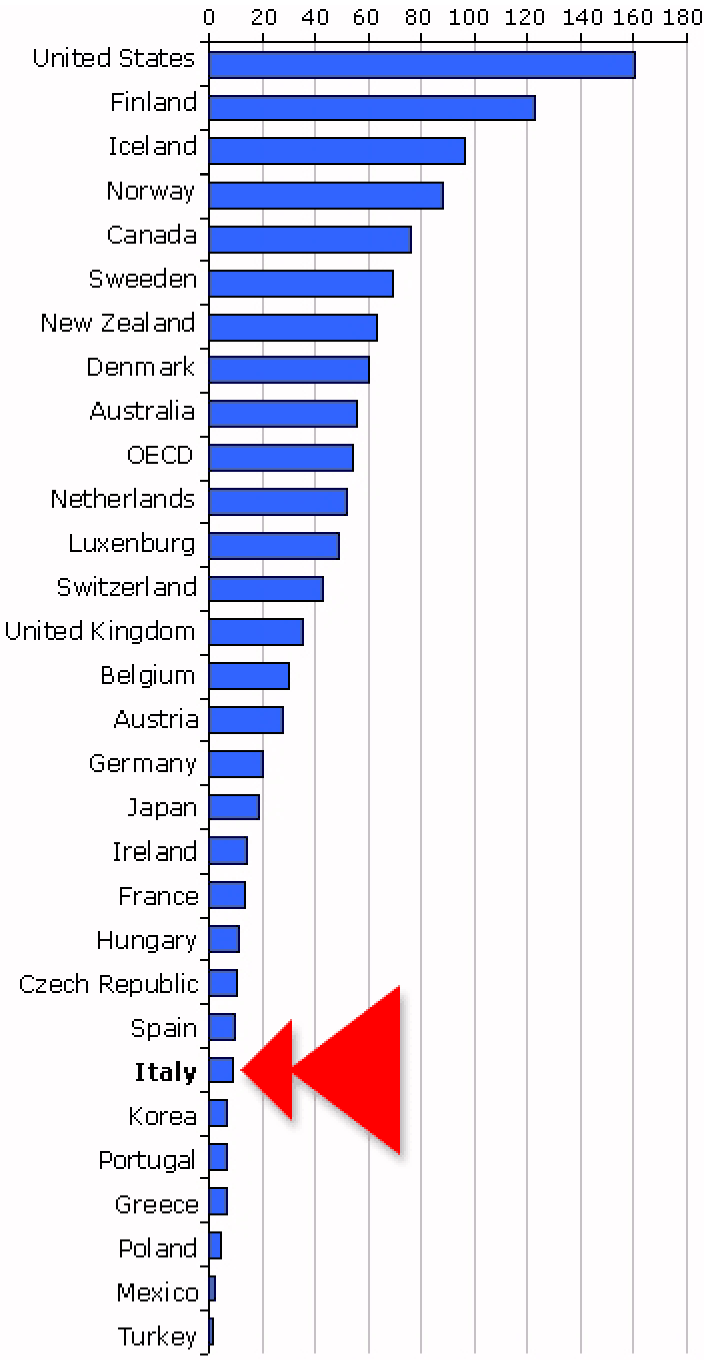


Internet Users by Area

Source: Eurisko - July 1999

As of May 2000, 21% of the total population was online in Italy compared to 55% in the US. Less then one third of Italy's population understands English, and of course of those that understand English the majority are on line. A Censis Study found that 91% of internet users were seeking information, 72% used the internet for email and 10.6% used it for electronic commerce. Also in an April of 1999 survey, 37% of the people in Italy online were women. Women make up 44-46% of the new users on the Internet. Furthermore, the ratio of women online in Italy is higher than the European average. It is also interesting to note that very few people buy online and the few that due buy products get from the US. A recent Ipsos -Explorer survey, indicates that the majority of people that buy online are men ages 25-44, with high education and income.

Internet hosts per 1000 inhabitants, in the OECD area, Sept 1999

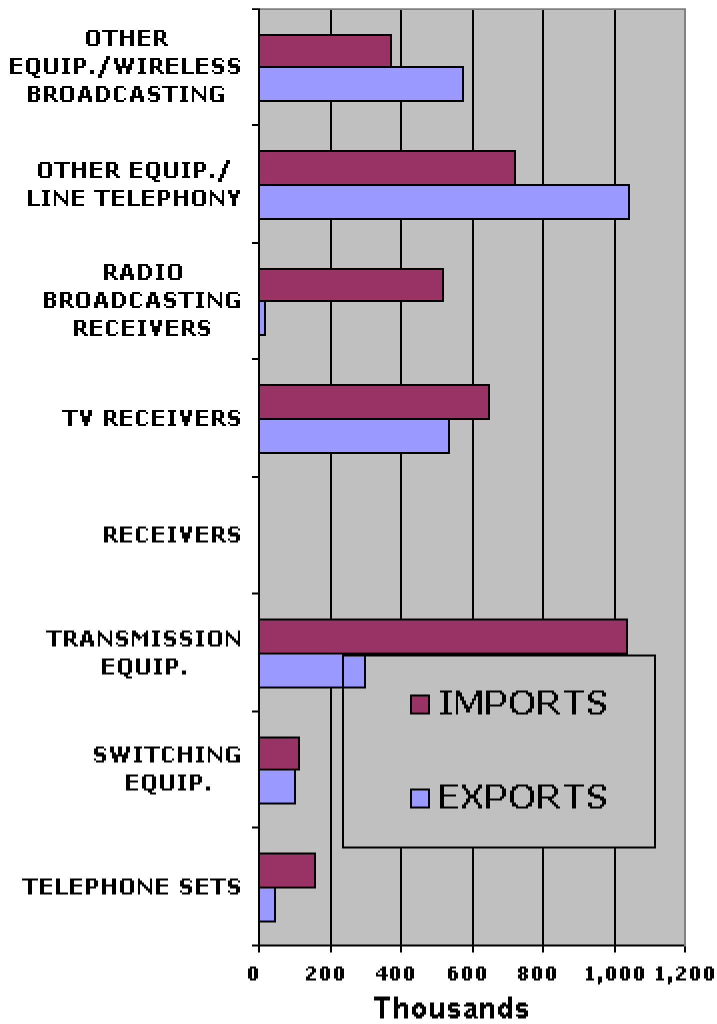


➢ **Software Development :-**

Italy's domestic software industry is very small, with the exception of Olivetti and Finsiel. Foreign vendors, especially from the United States, dominate the standard software products market.

➢ **Hardware Manufacturing :-**

Italy is one of the OECD countries with the largest trade deficit for communications equipment. They are in the company of countries such as the United States, Australia, Spain and the Netherlands.



- **Who uses IT?**

Once introduced Italian cellular phone usage skyrocketed almost immediately, while the Internet has been slow to take off. In fact, by 2001 the number of cell phones is is expected to exceed the total number of traditional lines. Italians are not technologically averse, if they are interested they can be very quick to adapt. One author points out that the key to their interest lies in the answer to the question, What is in it for me? Another possible twist on the story of Internet interest is that Italians are skeptical of outsiders and guard their privacy. Italy is a country in which personal relationships form the cornerstone of life and its daily transactions. The Internet is a global communications network for both individuals and business, where the personal loses its priority. In fact, perhaps some Italians don't trust the Internet because it takes away that local level.

Even today, in a world presumably shrunk by the mass media the typical Italian has a distinct way of identifying himself or herself, usually beginning with his/her city of origin. Perhaps as a result of late unification and late industrialization, compared to the rest of Europe, Italians still feel a profound attachment to the town or even village of origin. Ironically, in this environment as more people begin to use the Internet to communicate long-distance with family and friends, it may strengthen the existing regional cleavages. These cultural idiosyncrasies and other many other issues ranging from financial backing of information technology to the available labor pool and Italian thoughts on immigration are explored in other sections of the site.

Although Italy is one country, it is important to note that there are major differences among the regions in their circumstance and ability to adapt technology. In other words, as Luigi Barzini suggests in his book The Italians, " there is not one reality but an infinite range of realities" (Barzini 1964, 201) Wherever possible we will try to illuminate the differences and to determine the reasoning behind those differences. Italy will only be able to bridge the gap between the old and new if the abilities and special qualities of the whole country are harnessed and used to their full potential.

	% of population	**% of**	**PC per**	**Cost to get**	**Annual Disposable**	**Credit Debit**

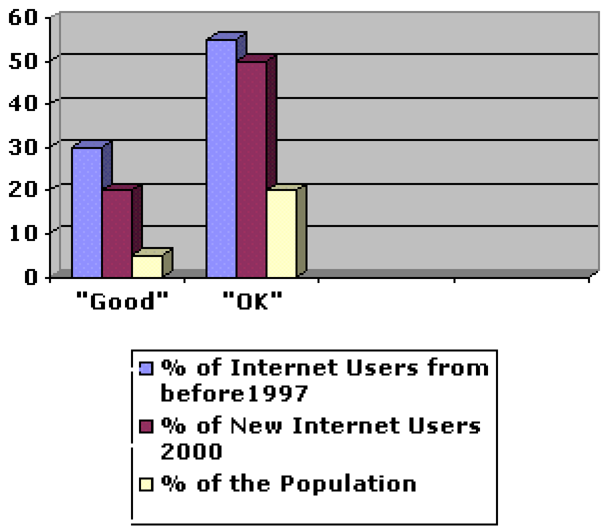
	owning PCs	Population online	1000	online	Income	Cards per 100
Italy		6.1*	297	$35.65	$14,266	14
European Average	26.6	8.3*	352	$49.32	$14,801	39.31
US	30.8	64	580	$34.86	$21,928	148

See links for Davide Gallinos book.

Italy	PC use	Internet Access
Home	30.8	8.3
Business	40.5	13.3

Source: See links for Davide Gallino's book.

ITALIANS WHO SPEAK ENGLISH



IT Labour Market :-

Italy's GDP per capita is around $21,400. There GDP is divided into the following three main sectors: agriculture 2.6%, industry 31.6% and services 65.8% (1998, CIA--The World Factbook 2000) Italian industries are concentrated in tourism, machinery, iron and steel, chemicals, food processing, textiles, motor vehicles, clothing, footwear and ceramics. The Italian population is about 57,634, 327 as estimated in July and of those people 68% are between the ages of 15-64 and 18% are 65 and above. In the year 2015, 35% of the workforce or 1 out of 3 adults will be at least 60, which is the retirement age in Europe. The unemployment rate is an average 11.5% and is one of the highest in Western Europe. There is a great disparity between the unemployment in the Industrialized North (7%) and the economically depressed South (20%). Traditionally, the laborers migrate from the south of Italy to the North, where the jobs are. In 1998, according to an OECD report, 31.8% of students who graduate from the Italian University's are unemployed.

Italy has been engaged in a heated debate over immigration and how many immigrants to allow into their borders. The industrial regions have asked the government to let in 50, 000 more skilled workers. Like most of the rest of the world they are also courting Indian programmers. With high unemployment, it seems odd that companies are looking for immigrant workers. Perhaps the answer lies in the lack of education on computers and in the IT field.

Forecast of demand and supply of IT workers in 2002

Demand and supply in 2002 Number of employees			
	Demand	Supply	Shortage
Austria	**74,088**	**44,970**	**29,118**
Belgium	**67,382**	**32,714**	**34,668**
Denmark	**19,804**	**11,134**	**8,670**
Finland	**20,577**	**12,344**	**8,233**
France	**156,204**	**89,215**	**66,989**
Germany	**449,737**	**261,512**	**188,225**
Greece	**2,382**	**1,518**	**864**
Ireland	**8,567**	**5,074**	**3,493**
Italy	**155,387**	**96,640**	**58,747**
Luxembourg	**1,469**	**1,185**	**284**
Netherlands	**121,637**	**63,634**	**58,003**
Norway	**15,414**	**10,813**	**4,601**
Portugal	**12,572**	**10,443**	**2,129**
Spain	**76,791**	**50,719**	**26,072**
Sweden	**44,419**	**37,408**	**7,011**
Switzerland	**59,823**	**39,595**	**20,228**
UK	**346,270**	**264,502**	**81,768**
Western Europe	**1,632,522**	**1,033,420**	**599,102**
Source: International Data Corporation, 1999			

IT Geographic :-

There are several technology parks around Italy, concentrated in North and Center. For example Technoloplis Tecnopolis CSATA Novus Ortus S.C.r.l. is a non-profit limited liability consortium. University, public bodies and companies are the partners. It works as a major communications hub for the connection to national and international science and technology networks. It has locations throughout Italy.

Lake Maggiore Technological Park is aimed at companies willing to develop and implement innovative projects. The Park offers the companies operating here buildings, plant, equipment and common facilities such as a multimedia hall for meetings and conferences, a computer centre and the Tecnolab laboratory.

Most of hi-tech companies are located around Milan and Turin. But there is a new area developing in Sicily called Etna Valley in suburbs of city of Catania where over past 20 years some 20 technology companies have established their presence. Costs are 30 % cheaper here than the rest of Italy.

IT Financing:-

Business Incubation in Italy:-

Small and medium sized enterprises (SME) have recently become the subject of deliberate policymaking by the government. Promozione e Sviluppo Impreditoriale S.p.A. (SPI) is one of the principal agencies dedicated to the promotion of entrepreneurs and development. SPI 's formula for success is to use Business Innovation Centers (BIC) to nurture new businesses in the South particularly in the fields of high technology and manufacturing. These BICs offer managed workspace within their walls to companies, as well as outreach services to those outside.

The workspace managers are seasoned professionals able to offer contacts and any needed advise. Centers have been established in Trieste, Genoa, Taranto, Pozzuoli, Marcianise, Massa, Teramo, Gorizia, Campobasso, Catania, Casarano and Terni. Two others are currently under construction in Calabria. This new form of government investment is to take the place of the old practice of merely transplanting jobs to the economically depressed regions through direct investment. One of the goals of these business clusters is to create a climate of exchange in which new companies can help each other and build up networks.

Finance for SMEs has been a problem in Italy because of traditional, conservative attitudes toward risk and lending among its fragmented and tightly constrained banking sector. There is little merchant banking in Italy. With the banks inexperienced in these markets and lacking the knowledge to take risks reasonably safely, most entrepreneurs start their businesses from their own resources, such as their savings or money from relatives and friends. BICs are beginning to take on the role of venture capitalists to fund start-ups.

In the high technology and manufacturing sectors, are providing Italy with an alternative to the US "sink or swim" approach for developing high technology companies. Italy and many other countries face problems of undercapitalization, poor cash flow and shortage of working capital during the early stages of life. Thus far in this Italian experiment this alternative method of cash infusion fostering growth in a sheltered environment seems to be working. It seems that these venture capital funds would be a great opportunity for foreign direct investment for countries with experience in these markets.

Analysis: IT Strengths and Weaknesses

- **Competitive Advantages**

Italians are known for their design specialists and they are a creative people of survivors. They have the opportunity to harness these strengths and mix them with the next generation wireless Internet technology to be an economic powerhouse coupled with the strength of the European Union. High cell penetration puts people at an advantage because they can easily search the Internet from their phones instead of having to invest in a PC. The government recognizes the importance of the Internet and has appointed a Junior Minister for Innovation & the New Internet Economy. Furthermore, Portale Italia has been launched to trumpet Italian industry to the world providing a perfect opportunity for FDI.

- **Weaknesses**

Italian bureaucracy is notorious for its abundance and inefficiencies. Perhaps as a result of the ever-changing coalition governments, there are many laws that are extremely complicated and sometimes conflicting. Although, in recent years the government has made some real efforts to improve the laws, things only seem to change on the surface. For all their good intentions, in practice the laws are rarely enforced and the changes are negligible. For instance several years ago a law on digital signatures was passed. Unfortunately, it seems that no one knows how the public key algorithms will be implemented in the hardware and software equipment to certify signatures in public service or government controlled procedures. In the EU, Italy often sits on committees to spearhead change and to improve the state of the EU for economic development in the information economy. On the national side, the Italian government is formed of coalitions between many parties. These coalitions often fall apart and are reborn with a new head every couple of months. Although this does provide some political instability it is important to keep in mind that even though the numbers within the coalitions change the government mix of parties who are in control stays fairly constant. Italian expenditure in IT hardware, services and software is one of the lowest in Europe, although expenditure in telecommunications they are on par with Germany and Finland. (Source: ADB Database & IBC Data, March 1999)

GREEN MARKETING

In the recent era, the importance of green marketing is increased because natural resources which are available are limited and there is scarcity of it but its uses are increased so that there is scarcity of these of resources. So, people have become aware about it and they are trying to do maximum use of these resources in most efficient ways. Green marketing is one of the efforts to use efficient use of resources.

Day by day, these resources are decreasing for e.x. forests are cutting for preparing wood furniture, to built houses, to make paper. So, natural calamities are increased due to these activities. Day-by-day, use of plastic is also increasing which can't be used second time and is not destructible. So, by use of paper people have tried to use paper by made it recycled. This is only one example of green marketing. There are many products which can be also used many times by made it recycled and also it is resources saving, power saving. We cannot decrease use of resources but we can save natural resources by its efficient use. Thus, green marketing is one of the possible ways to make efficient use of these resources and to keep environment clean.

Green marketing refers to the marketing of products and services considered environmentally friendly that make their marketers "environmentally responsible." The advent of green marketing was due to consumer demands. The following definition is much broader than those of other researchers and it encompasses all major components of other definitions. The definition is –

"Green or Environmental Marketing consists of all activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs, with minimal detrimental impact on the natural environment."

This definition incorporates much of the traditional components of the marketing definition that is "All activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants". Therefore it ensures that the interests of the organization and all its consumers are protected, as voluntary exchange will not take place unless both the buyer and seller mutually benefit.

The above definition also includes the protection of the natural environment, by attempting to minimize the detrimental impact this exchange has on the environment. This second point is important, for human consumption by its very nature is destructive to the natural environment. (To be accurate products making green **claims should state** they are **"less environmentally harmful"** rather than **"Environmentally friendly."**) Thus green marketing should look at minimizing environmental harm, not necessarily eliminating it.

The U.S. Federal Trade Commission issued “Guides for the Use of Environmental Claims" (a set of advertising guidelines) that define a green product as one that

1) Has reduced raw material, high recycled content (aluminum cans)

2) non-polluting manufacture/non-toxic material (de-inking solvents)

3) No unnecessary animal testing (cosmetics)

4) No impact on protected species (dolphin-free tuna)

5) Low energy consumption during production/use/disposal

6) Minimal or no packaging; reuse/refill ability when possible (detergent bottles)

7) Long useful life, upgrading capabilities

8) Post-consumer collection/disassembly system; remanufacturing capability.

“GREEN PRODUCTS” OR “ENVIRONMENTAL PRODUCTS”

Although no consumer product has a zero impact on the environment, in business, the terms “green product” and “environmental product” are used commonly to describe those that strive to protect or enhance the natural environment by conserving energy and/or resources and reducing or eliminating use of toxic agents, pollution, and waste.

Greener, more sustainable products need to dramatically increase the productivity of natural resources, follow biological/ cyclical production models, encourage dematerialization, and reinvest in and contribute to the planet's "natural" capital. Escalating energy prices, concerns over foreign oil dependency, and calls for energy conservation are creating business opportunities for energy-efficient products, clean energy, and other environmentally sensitive innovations and products. Following are the most suitable examples:

THE MOST COMMONLY USED GREEN PRODUCTS

- Paper containing post-consumer wastepaper
- Cereals sold without excess packaging
- Shade-grown coffee beans
- Cleaning supplies that do not harm humans or environment
- Wood harvested from sustainable forests
- Energy-efficient lightbulbs
- Energy-efficient cars

WHY GREEN MARKETING IS IMPORTANT?

The question of why green marketing has increased in importance is quite simple and relies on the basic definition of Economics:

- ✓ “Economics is the study of how people use their limited resources to try to satisfy unlimited wants.”

Thus mankind has limited resources on the earth, with which she/he must attempt to provide for the worlds' unlimited wants. In market societies where there is **"freedom of choice"**, it has generally been accepted that individuals and organizations have the right to attempt to have their wants satisfied. As firms face limited natural resources, they must develop new or alternative ways of satisfying these unlimited wants. Ultimately green marketing looks at how marketing activities utilize these limited resources, while satisfying consumers wants, both of individuals and industry, as well as achieving the selling organization's objectives.

THE SYMBOL USED TO DENOTE RECYCLABLE ITEMS

WHY FIRMS ARE USING GREEN MARKETING?

When looking through the literature there are several suggested reasons for firms increased use of Green Marketing. Five possible reasons cited are:

1. Organizations perceive environmental marketing to be an opportunity that can be used to achieve its objectives;
2. Organizations believe they have a moral obligation to be more socially responsible;
3. Governmental bodies are forcing firms to become more responsible;
4. Competitors' environmental activities pressure firms to change their environmental marketing activities; and
5. Cost factors associated with waste disposal, or reductions in material usage forces firms to modify their behavior.
6. Following figure includes importance criteria

1. ***OPPORTUNITIES***

It appears that all types of consumers, both individual and industrial are becoming more concerned and aware about the natural environment. In a 1992 study of 16 countries, more than **50%** of consumers in each country, other than Singapore, indicated they were concerned about the environment. In 1994 study in Australia found that **84.6%** of the sample believed all individuals had a responsibility to care for the environment. A further **80%** of this sample indicated that they had modified their behavior, including their purchasing behavior, due to environmental reasons. As demands change, many firms see these changes as an opportunity to be exploited.

Given these figures, it can be assumed that firms marketing goods with environmental characteristics will have a competitive advantage over firms marketing non-environmentally responsible alternatives. There are numerous examples of firms who have strived to become more environmentally responsible, in an attempt to better satisfy their consumer needs.

- **McDonald's** replaced its clam shell packaging with waxed paper because of increased consumer concern relating to polystyrene production and Ozone depletion.
- **Xerox co.** introduced a "high quality" recycled photocopier paper in an attempt to satisfy the demands of firms for less environmentally harmful products.

2. <u>SOCIAL RESPONSIBILITY</u>

Many firms are beginning to realize that they are members of the wider community and therefore must behave in an environmentally responsible fashion. This translates into firms that believe they must achieve environmental objectives as well as profit related objectives. This results in environmental issues being integrated into the firm's corporate culture. Firms in this situation can take two perspectives;

1) They can use the fact that they are environmentally responsible as a marketing tool; or

2) They can become responsible without promoting this fact.

An example of a firm that does not promote its environmental initiatives is Coca-Cola. They have invested large sums of money in various recycling activities, as well as having modified their packaging to minimize its environmental impact. While being concerned about the environment, Coke has not used this concern as a marketing tool.

Thus many consumers may not realize that Coke is a very environmentally committed organization.

Another firm who is very environmentally responsible but does not promote this fact, at least outside the organization, is Walt Disney World (WDW). WDW has an extensive waste management program and infrastructure in place, yet these facilities are not highlighted in their general tourist promotional activities.

SOME COMPANIES THAT USE GREEN MARKETING AS SOCIAL RESPONSIBILITY.

3. ***GOVERNMENTAL PRESSURE***

As with all marketing related activities, governments want to "protect" consumers and society; this protection has significant green marketing implications. Governmental regulations relating to environmental marketing are designed to protect consumers in several ways,

1) Reduce production of harmful goods or by-products;

2) Modify consumer and industry's use and/or consumption of harmful goods;

3) Ensure that all types of consumers have the ability to evaluate the environmental composition of goods.

Governments establish regulations designed to control the amount of hazardous wastes produced by firms. Many by-products of production are controlled through the issuing of various environmental licenses, thus modifying organizational behavior. In some cases governments try to "induce" final consumers to become more responsible. For example, some governments have introduced voluntary curb-side recycling programs, making it easier for consumers to act responsibly. In other cases governments tax individuals who act in an irresponsible fashion. For example in Australia there is a higher gas tax associated with leaded petrol.

4. ***COMPETITIVE PRESSURE***

Another major force in the environmental marketing area has been firms' desire to maintain their competitive position. In many cases firms observe competitors promoting their environmental behaviors and attempt to emulate this behavior. In some instances this competitive pressure has caused an entire industry to modify and thus reduce its detrimental environmental behavior. For example, it could be argued that Xerox's "Revive 100% Recycled paper" was introduced a few years ago in an attempt to address the introduction of recycled photocopier paper by other manufacturers.

ECONOMIC DEVELOPMENT AND POLLUTION

- **Varied natural environment in Italy**

The natural environment in Italy can be divided into six regions: The Italian Alps, the Po Valley, the Apulian foreland, the Tyrrhenian foreland, the islands and the Apennines. The latter is also divided into northern, central, southern and Calabrian Apennine. While mountain valleys, glaciers and high peaks, dominate the Italian Alps, the Po Valley below is one of the most fertile regions of Italy. The 652 km long Po river is the main lifeline of the entire region and, together with a favourable climate is responsible for excellent agricultural conditions.

- **Environment and Pollution in Italy**

Italy is an Annex I country under the Kyoto Protocol.

Environmental awareness has grown in Italy in recent years, though air pollution remains a serious problem. Because of Italy's heavy reliance on imports to meet its energy needs, energy security and diversification of energy sources are a top priority in Italy's energy strategy.

Italy is Well endowed with renewable energy resources, such as solar, biomass and geothermal, which could be captured and utilized for energy. The government's goal of doubling the country's production of energy from renewable resources by 2012 will help enable Italy to meet its growing energy demand in a more sustainable manner.

As an Annex I country under the Kyoto Protocol, Italy has agreed to reduce its Carbon dioxide emissions by the 2008-2012 commitment period. However, the EU has decided to meet its requirements under the Protocol as a whole, rather than as individual signatories, with each member state given a different emissions target by the EU Commission. Under the EU plan, Italy must reduce its carbon dioxide emissions by 6.5 percent below the 1990 level during 2008-2012; the country was 16 percent above this target in 2002.

Italy emitted 448.7 million metric tons (Mmt) of energy-related carbon dioxide emissions in 2002, slightly lower than 2001. The country consumed 7.6 quadrillion British Thermal Units (Btu) of total energy during 2002, also slightly lower than 2001. High energy prices have encouraged Italian energy consumers to become efficient, and both the energy intensity and carbon dioxide intensity of the Italian economy are some of the lowest rates amongst the 25 members of the Organization for Economic Cooperation and Development (OECD).

The **Italian economic miracle** is the name often used by historians, economists and mass media to designate the prolonged period of sustained economic growth in Italy comprised between the end of the Second World War and late 1960s, and in particular the years 1950-63. This phase of Italian history represented not only a cornerstone in the economic and social development of the country, that was transformed from a poor, mainly rural nation into a major industrial power, but also a period of momentous change in society and culture. As summed up by one historian, by the end of the 1970s, “social security coverage had been made comprehensive and relatively generous. The material standard of living had vastly improved for the great majority of the population."

After the end of World War II, Italy was in rubble and occupied by foreign armies, like Germany and other Axis powers, a condition that worsened the chronic development gap towards the more advanced European economies. However, the new geopolitical logic of the Cold War made possible that the former enemy Italy, a hinge-country between Western Europe and the Mediterranean, and now a new, fragile democracy threatened by the proximity of the Iron Curtain and the presence of a strong Communist party, was considered by the USA as an important ally for the Free World, and therefore admitted to the generous aids provided by the Marshall Plan, receiving $ 1,204 million from 1947 to 1951.

The end of the Plan, that could have stopped the recovery, coincided with the crucial point of the Korea War (1950–1953), whose demand for metal and other manufactured products was a further stimulus to the growth of every kind of industry in Italy. In addition, the creation in 1957 of the European Common Market, of which Italy was among the founder members, provided more investments and eased exports.

The above mentioned highly favorable historical backgrounds, combined with the presence of a large and cheap stock of labour force, laid the foundations of a spectacular economic growth. The boom lasted almost uninterrupted until the "Hot Autumn's" massive strikes and social unrest of 1969-70, that combined with the later 1973 oil crisis, gradually cooled the economy, that has never returned to its heady post-war growth rates.

The Italian economy experienced an average rate of growth of GDP of 5.8% per year between 1951–1963, and 5.0% per year between 1964-73. Italian rates of growth were second only, but very close, to the German rates, in Europe, and among the OEEC countries only Japan had been doing better In 1963, US President John F. Kennedy personally praised Italy's extraordinary economic growth at an official dinner with Italian President Antonio Segno in Rome, stating that "the growth of [...] nation's economy, industry, and living standards in the postwar years has truly been phenomenal. A nation once literally in ruins, beset by heavy unemployment and inflation, has expanded its output and assets, stabilized its costs and currency, and created new jobs and new industries at a rate unmatched in the Western world.

- **Economic development and pollution in Italy**

1945-1965: Rapid industrialization in the North raises pollution levels, but emphasis is on economic growth and development rather than environmental protection. Constitutional articles provide for the protection of Italy's natural, historic, and cultural heritage without details or means to enforce any form of compliance.

1966-1976: Italy establishes general environmental legislation. The Clean Air Law of 1966 delegates responsibility to local governments for setting standards, permitting, and monitoring. The Water Pollution Control Law of 1976 controls discharges of industrial and municipal wastes into surface waters. But Italy's concern for the environment lacks concrete policy and goal-setting mechanisms.

1977-1985: Substitution of natural gas for coal brings a dramatic reduction in sulfur oxides emissions, but overall pollution rates continue to rise. Responsibility for environmental protection is divided among several national institutions and poorly coordinated. A massive earthquake kills more than 3,000 people in the Naples area, causing considerable environmental and economic damage.

1986-1988: International influences such as treaties and United Nations conventions drive environmental action. Italy establishes a Ministry of the Environment, charged with coordinating government activities. Several Italian firms export hazardous waste to developing nations until international pressure forces the Italian government to assume all costs to recover the waste and repair environmental damage.

1989-1990: The Ministry of the Environment develops a planning process based on Three-Year Environmental Management Programs. The Ministry, however, has minimal resources, and other national agencies retain responsibility for many environmental matters in their sector. The government delegates certain implementation duties regarding land and water management and industrial pollution to the country's regions.

1991-1992: The Ministry of the Environment drafts its first 10-year environmental plan and implements "polluter pays" principles, holding air and water polluters fully responsible for environmental damage. Weaknesses in the legislative process cause some difficulties with the

INCREASE POLLUTION LEVEL AND ROLE OF GOVERNMENT

- **Environmental protection at the natural environment in Italy**

Thanks to strict EU rules and an emerging environmental consciousness of the governments, the natural environment in Italy is also subject to increasingly strict environmental protection laws. The Italian Ministry of Environment is increasingly cramping down on polluters. In addition, alarming data concerning water quality on the Italian coasts have called the population and its increasing environmental awareness into action. After all, tourism is one of the main resources of the country and therefore the coastlines present itself much cleaner in recent years and the legal measures for environmental protection seem to take hold slowly. In addition to the protection of the Mediterranean Sea, also the Alps become increasingly important and extensive measures of protective have been established.

Italy has adopted the EU's environment legislation by introducing the National inventory of emissions and their sources (INES) which groups together and publishes data on industrial emissions polluting air and water.

- **Environmental control**

The national strategy for sustainable development determines the main objectives and actions for the four priority areas in terms of the environment: climate; nature and biodiversity; quality of life and the urban environment; sustainable use and management of natural resources and waste.

- Waste management

The national waste observatory is the body responsible for supervision and control of waste, packaging and packaging waste management.

- Chemicals

The National Centre for Chemical Substances deals with the application of the new REACH (Registration, Evaluation, Authorisation of Chemicals) Regulation which substantially modifies the Community legislative framework on controlling chemical risk. The first phase of the application of the legislation consists of gathering information, by the industry, on all substances of which over 1 ton is produced or imported per year.

<u>The activities of the National Centre for Chemical Substances include:</u>

- evaluating the danger from hazardous products/articles present in the Italian market;

- coordinating the execution of analytical assessments and tests on chemical products retailed and the problems linked with overdoses of chemical substances;
- giving opinions on the degree of danger of preparations bound for commerce.
- Environmental declaration single form
- This is a standardised compulsory declaration for businesses (with more than ten employees) which produce special but non-hazardous waste. This must be submitted to the Chambers of Commerce once a year. The environmental declaration single form (MUD - Modello Unico di Dichiarazione Ambientale) includes the declaration on pollutant emissions into air and water to be entered into the National inventory of emissions and their sources (INES).

- **The Italian Ministry for the Environment, Land and Sea (IMELS)**

The Italian Ministry for the Environment Land and Sea was established in 1986, which was originally named as The Italian Ministry for the Environment and Territory (IMET) and renamed as in 2006. Within its scope of competency lie responsibilities related to: sustainable development, protection of territory, pollution and industrial risks, international protection of the environment, appraisal of environmental impact, nature conservation, waste and cleanup, and protection of seas and inland waters. The Italian Ministry for the Environment Land and Sea is strongly committed to promoting and supporting international partnership and cooperation towards global sustainable development.

The Italian Ministry for the Environment, Land and Sea(IMELS),the former Italian Ministry for the Environment and Territory (IMET)， together with the State Environmental Protection Administration of China(SEPA), the Ministry of Science and Technology (MOST) of China, Chinese Academy of Social Sciences (CASS) and both Beijing and Shanghai Municipal Governments has engaged since 2000 an intense cooperation programme on environmental protection

The Italian Ministry for the Environment and Territory is mainly in charge of governing and supervising the environmental problems. It provides economic and technical support for the developing countries promoting the sustainable development on environment.

The Ministry rules the following three environmental areas: energy, climate and air pollution. There are 6 departments in the Ministry such as;

- Nature Protection Department,
- Living Quality Department,
- Environmental Research and Development Department,
- Environment Protection Department,
- Land Prevention Department and
- Interior Service Department.

Each department has different administering areas according to the different environmental areas.

- ➢ The Nature Protection Department is in charge of nature and sea;
- ➢ Living Quality Department is in charge of waste and soil improvement and domestic water protection;
- ➢ Environmental Research and Development Department governs the areas of global environmental protection and sustainable development;
- ➢ Environment Protection Department rules industrial pollution and hazard and environmental impact assessment;
- ➢ The function of Land Prevention Department is including supervising the plan and investment of land protection; prevent and defend land collapse, flood and other hydrology disasters etc.;
- ➢ The Interior Service Department is mainly dealing with the general affairs of the inner Ministry.

NATURAL ENVIRONMENT

Geography:-

Italy occupies a Peninsula running southeast into the Mediterranean from the mainland of Europe. Its land borders in the North are with France, Switzerland, Austria and Slovenia. To the East, Italy faces former Yugoslavia across the Adriatic Sea. To the west is the Tyrrhenian Sea.

Italy has many islands: the largest of them is Sicily. Sardinia, Elba and Capri are also important.

Italy also includes two separate principalities Vatican City in Rome and San Marino.

Rome is the capital city and among other important cities are Florence, Genoa, Milan, Naples Turin and Venice.

In the North, Italy shares the Alps with France, Austria and Switzerland. A major mountain chain, the Apennines, runs down the centre of the country. Vesuvius, close to Naples, is the only active volcano on the European mainland; Etna on Sicily is one of the world's largest volcanoes.

The largest river in Italy is the Po, which begins in the Alpine region in the west of the country and ends in an extensive delta on the Adriatic. The Tiber and the Arno are the other major rivers.

Italy's climate is varied. In the north winters are cold and the summers hot. The Apennines also have cold, snowy winters. The south is warmer.

Environment :-

Italy's natural environment varies from the Alpine regions of the north to the generally rocky and arid south. Mountain flora and fauna are found in the north and along the Apennines. The fertile plains of the River Po are the most productive agricultural land and the river ends in a marshy delta which is one of Europe's major Centres for waterfowl and for migrating birds.

The plant life ranges from Alpine flowers to the famous poplars of Lombardy. Chestnuts, cypress and pine trees are common. Native animals include the ibex and chamois, brown bear and wolves (found only in protected areas) and deer.

Italy is relatively poor in natural resources. This had led to deforestation, with the wood taken for fuel and the land needed for cultivation. Industrial pollution has severely damaged parts of the Po Valley, the region around Venice and other rivers and coastal areas.

Architecture:-

Some traces remain of the prehistoric inhabitants of Italy, but the first significant architecture is that of the Greeks who began colonizing Italy in the eighth century BC. The familiar temples and theatres of classical Greece were found in their great cities such as Syracuse (Sicily) and Sybaris. The most powerful people to the North of the Greek colonies were the Etruscans. Little is left of their civilization except its tombs, some decorated with wall paintings.

The Romans, who conquered the Etruscans and Greeks and unified Italy adapted Greek architectural styles. In particular their invention of concrete and use of vaulting, domes and arches allowed them to build higher and span wider areas than could ever have been attempted before.

The military power of Rome won an empire that stretched from Britain to the Middle East. Famous examples of Roman architecture outside Italy include the Pont du Gard (France), and Segovia (Spain), aqueducts and the mosaic floor (Chicester) and temple of Mithras (London) in England.

Other key Roman building types which can still be seen today in Italy and elsewhere are amphitheatres (Colosseum in Rome and the amphitheatres in Verona (opera) and Nimes (bullfighting) still in use today) and baths, (Bath, England).

The best known architectural reminders of early Christian Rome are the catacombs - underground cemeteries. In the Byzantime era, when the Roman Empire split between East and West, perhaps the best known architectural feature was the mosaics, especially those of Ravenna.

Many examples of Romanesque and Gothic styles can still be found. During the Renaissance period Italy produced the first full-time designer of buildings - Filippo Brunelleschi (1377-1446). Other famous architects, also known as artists, were Raphael (1483-1520), Michelangelo (1475-1564) and Bernini (1598-1680).

Borromini (1599-1667), who began as Bernini's assistant, was the most famous architect of the Baroque style of architecture. The reaction to Baroque's ornateness brought Neoclassical styles into favour during the eighteenth century. Andrea Palladio (1508-1580) reinvented Classical Roman and Greek architecture, especially in Venice and the surrounding area.

In modern times Italy's most important architect was Pier Luigi Nervi (1891 - 1979) an engineer who greatly developed the use of reinforced concrete. The Pirelli building in Milan is a fine example of his work.

Population :-

The population of Italy was estimated at 58,145,321 in 2008. There are small numbers of German, French and Slovene Italians in the north. In the south there are some Albanian and Greek Italians.

Languages :-

Italian is the main language of Italy. Modern Italian is derived from Latin, the language of the Romans. In the north, close to the Austrian and Swiss borders, German is also spoken, as is French in Piemont and Valle d'Aosta. Some Slovene is spoken in the Trieste-Gorizia area.

Religion :-

The majority of Italians are Roman Catholics. The Vatican City in Rome is the centre of the Roman Catholic Church. The Pope, originally the Bishop of Rome, is the head of the Church. Italy also has a small number of Jews.

Food :-

Italian food is very popular throughout the world. Pasta comes in a wide variety of shapes and sizes and is served with many different types of sauce. Pizza also comes in different varieties. (Pizza Margherita was named after King Umberto I's queen).

With both pasta sauces and pizza the basic ingredients are tomatoes, herbs and cheese. Rice, in risottos, vegetables and a wide range of meats are also part of the Italian cuisine; seafood is popular.

Italian desserts are also popular in many countries. Italy is well known for its ice cream which is available in many different flavours. Other Italian desserts are zabaglione and tiramisu.

Italian-style cappuccino and espresso coffee is drunk in many countries and Italian wines are popular worldwide.

PART - II

Introduction of luxottica spa
and
Role of it in economy of Italy

INTRODUCTION OF COMPANY

Luxottica is a leader in the design, manufacturing and distribution of fashion, luxury, sport and performance eyewear. Founded in 1961 by Leonardo Del Vecchio, the Group is a vertically integrated organization. It manufacturing of prescription frames, sunglasses and lenses is backed by wide reaching wholesale and retail distribution network.

Product design, development and manufacturing take place in six production facilities in Italy, two wholly owned factories in China and one sports sunglasses production facility in the United States. Luxottica also has a small plant in India serving the local market. In 2011, production reached approximately 64.5 million units. In 2012, Luxottica will benefit from the addition of a production facility in Campinas, Brazil, acquired in connection with the purchase of Grupo Tecnol Ltd in the first quarter of 2012.

The design and quality of Luxottica s.p.a products and our strong and well-balanced brand portfolio are known around the world. Our house brands include Ray-Ban, one of the world's best known brands for eyewear, Luxottica is a leader in the design, manufacturing and distribution of fashion, luxury, sport and performance eyewear and includes over 40 commercial subsidiaries providing direct operations in key markets.

The Group is currently seeking to further penetrate emerging markets and is exploring new channels of distribution such as department stores, travel retail and E-commerce. Luxottica produces and distributes sun and prescription eyewear of high technical and stylistic quality with the goal of improving the well-being and satisfaction of its customers while simultaneously creating value for its employees and the communities.

Every collection and every pair of glasses is the result of an ongoing process of research and development aiming to anticipate and interpret the needs, desires and aspirations of consumers all over the world. The achievement of high standards of quality reflects the group's strong technical and manufacturing know-how

– the fruit of – and its constant commitment to technological innovation, style and design and the study of changing lifestyles and interpretation of fashion trends.

HISTORY OF COMPANY

Foundation :-

Luxottica Group originated in 1961, when Leonardo Del Vecchio set up Luxottica di Del Vecchio e C. S.a.S., which subsequently became a joint-stock company under the name of Luxottica S.p.A. Having started out as a small workshop, the Company operated till the end of the ‘60s as a contract producer of dies, ferro-tagli, metal components and semi-finished goods for the optical industry.

Leonardo Del Vecchio gradually widened the range of processes until he had an integrated manufacturing structure capable of producing a finished pair of glass. 1969 saw the crucial turning point, the launching of the first frames under the Luxottica brand: the contract producer became an independent manufacturer. Shortly afterwards, the presentation of its first collection, at Milan’s MIDO (an international optics trade fair), made the brand a definitive success.

Expansion in wholesale distribution :-

In the early ’70s, the Company sold its fames exclusively through wholesale dealers. In 1974, after five years of sustained development of its manufacturing capacity, Del Vecchio understood the importance of directly controlling distribution and started to pursue a strategy of vertical integration. This aimed to distribute frames directly onto the market. The first step was to acquire Scarrone S.p.A., a Turin-based distributor with many years experience in the sector and vital knowledge of the Italian market.

International expansion began in the ‘80s with the acquisition of independent distributors, the opening of branches and in a number cases the forming of joint-ventures in the main foreign markets. Having started with a commercial partnership in Germany in 1981, the Company’s international wholesale development culminated in the acquisition of Avant Garde Optics Inc., a wholesale distributor on the United States market.

- **The History of Eyewear :-**

According to recent statistics, 138 million people in the United States use some kind of corrective eyewear. From designer glasses to contact lenses in a variety of materials, oxygen permeabilities and tints, the range of vision correction options available today is overwhelming. To truly appreciate the technological advancement that today's contact lenses represent, we must trace the development of lenses through time -- from the first magnifying glass to the most sophisticated contact lens.

Another early use of lenses was to observe the stars, as mentioned in the writings of a Chinese emperor who lived in 2283 B.C. Later, in the fifth century B.C., during the time of Confucius, lenses are believed to have been used as sunglasses, but there is no evidence that they were used for vision correction.

One of the first recorded uses of lenses specifically for vision improvement was in the thirteenth century when Marco Polo observed elderly Chinese using convex lenses to help them read. At about the same time in Venice, convex lenses were mounted on a frame to form the first pair of spectacles. Originally scarce and expensive, convex lenses became more widely used as reading glasses after the invention of printing in the fifteenth century.

✓ **Invention of eyeglasses**

The first eyeglasses were made in Italy at about 1286, according to a sermon delivered on February 23, 1306 by the Dominican friar Giordano da Pisa (ca. 1255–1311): "It is not yet twenty years since there was found the art of making eyeglasses, which make for good vision … And it is so short a time that this new art, never before extant, was discovered … I saw the one who first discovered and practiced it, and I talked to him."

➢ ROLE OF LUXOTTICA IN ITALY :-

Luxottica Group S.p.A. is the world's largest eyewear company.[2] Its best known brands include Ray-Ban, Persol and Oakley, Inc.. It also makes sunglasses and prescription frames for a multitude of designer brands such as Chanel and Prada, whose designs and trademarks are used under license. Luxottica also makes sunglasses branded Burberry, Polo Ralph Lauren, Stella McCartney, Tiffany, Versace, Vogue, Miu Miu, Tory Burch and Donna Karan.[3] Its prime competitor is the Safilo Group S.p.A.

In addition to making sunglasses and eyeglasses, Luxottica also sells them at several different retail chains that are also owned by them, such as: Sunglass Hut, Oliver Peoples and Pearle Vision Center. Luxottica has been previously been accused of being a monopoly as well as using its power as a price maker to raise the cost of eyewear and keep it high.

That may be the “business” of brands, but if the product itself has had zero design input from the name on the frame, what of authenticity and brand promise? Recently the Economist quoted Rodney Collins, a director at advertising agency McCann, saying, “above all else brands must appear to be ‘authentic’ if they want to succeed.”

Ray-Ban Sunglasses Popular Models

In 1999, Luxottica definitively claimed global leadership status by acquiring Ray-Ban, the world's best known sunglasses. Previously specializing in prescription frames, the Company thus assured itself a crystal sunglass technology, and the manufacturing capacity to go with it, and upgraded its portfolio with brands like Arnette, REVO and Killer Loop.

Ray-Ban was successfully relaunched thanks to its rapid integration and a powerful advertising campaign that restored its former prestige. The launch of its first prescription frame collection later signaled the brand's definitive return to fame.

In 2007, Luxottica acquired California-based Oakley, the world’s leading sports optical brand, for 2.1 billion dollars. The potential of this operation was exceptional: Oakley was not only a brand known and appreciated worldwide but also brought with it an impressive portfolio including Oliver Peoples and the Paul Smith license, not to mention a retail network of over 400 stores. Integration of Oakley in record time confirmed Luxottica’s world leadership and laid the foundation for a major new process of long-term growth.

Structure , Function and activities of luxotticas s.p.a

➢ STRUCTURE OF LUXOTTICA GROUP S.P.A.

The Luxottica governance system—based on a traditional management and control system—is characterized by the presence of:

- Board of Directors, responsible for the management of the Company;

- Board of Statutory Auditors, responsible for supervising:

  (i) compliance with applicable law and with the Company's by-laws

  (ii) compliance with the principles of correct administration;

  (iii) the adequacy of the organizational structure, the internal control system and the account in management system, as well as its reliability to correctly report the affairs of the Company;

  (iv) the procedures to implement the corporate governance rules provided for by the codes of conduct compiled by organizations managing regulated markets or by trade associations, with which the Company declares to comply by making a public announcement;

  (v) the adequacy of the regulations given by the Company to the subsidiary companies pursuant to art. 114, paragraph 2 of the Italian Consolidated Financial Law; and

  (vi) according to the provisions of Italian Legislative Decree 39/2010, the process of financial information, the effectiveness of the internal auditing and management risk system, the auditing of accounts and the independence of the statutory auditor. The Luxottica Group Board of Statutory Auditors also acts as the Audit Committee pursuant to SOX;

- The Shareholders' meeting, which has the power to vote—both in ordinary and extraordinary meetings—among other things, upon

  (i) the appointment and removal of the members of the Board of Directors and of the board of Statutory Auditors and their remuneration,
  (ii) the approval of the annual financial statements and the allocation of profits,
  (iii) amendments to the Company's by-laws.

✓ The task of auditing is assigned to an audit company listed on the special CONSOB register and appointed by the Shareholders' Meeting.

- ✓ The powers and responsibilities of the Board of Directors, of the Board of Statutory Auditors, of the Shareholders' Meeting and of the Audit Committee are illustrated more in detail later in the Report.

- ✓ The Company's share capital is made up exclusively of ordinary, fully paid-up voting shares, entitled to voting rights both at ordinary and extraordinary shareholders' meetings. As of January 31, 2011, the share capital was EUR 27,974,925.60, made up of 466,248,760 shares, each with a nominal value of EUR 0.06.

- ✓ There are no restrictions on the transfer of shares. No shares have special controlling rights. There is no employee shareholding scheme.

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES

Chairman	LEONARDO DEL VECCHIO
Vice Chairman	LUIGI FRANCAVILLA
CEO	ANDREA GUERRA
Director	ROGER ABRAVANEL
Director	MARIO CATTANEO
Director	ENRICO CAVATORTA
Director	ROBERTO CHEMELLO

Director	CLAUDIO COSTAMAGNA
Director	SABINA GROSSI
Director	SERGIO EREDE
Director	IVANHOE LO BELLO
Director	MARCO MANGIAGALLI
Director	GIANNI MION
Director	MARCO REBOA

Type	Società per azioni
Traded as	BIT: LUX, NYSE: LUX
Industry distribution	Eyewear, fashion, luxury, manufacturing, retail wholesale
Founded	Agordo, Italy, in 1961
Headquarters	Milan, Italy
Area served	Worldwide
Key people	Leonardo Del Vecchio (Founder and Chairman)
Products	Sunglasses, spectacle frames, prescription frames
Services	Opticians, optical retail, sun retail
Revenue	€6,222 million (2011)
Operating income	€807.0 million (2011)
Profit	€452.0 million (2011)
Total assets	€8,644 million (2011)
Total equity	€3,625 million (2011)
Employees	65,611 (2011)
Website	luxottica.com

- **FUNCTION AND ACTIVITIES :-**

BRAND PORTFOLIO MANEGEMENT

Building strong brands that create enduring relationships with consumers is key to how Luxottica plans to sustain its business in the future. The Company already has a strong and well balanced brand portfolio that includes a number of house and licensed brands and it is continually evolving. Its composition is gradually modified by the acquisition of new brands, execution of new licensing agreements and the renewal of existing ones along with the withdrawal of brands no longer deemed strategic. These actions are taken in order to continually attract a wide range of consumers with differing tastes and lifestyles.

However, Luxottica's long-term objectives remain consistent:

to focus on leading brands, balance house and license brands, avoid brand dilution, lengthen the average term of licensing agreements and fuel Asian friendly styles.

DESIGN AND TECHNOLOGICAL INNOVATION

Luxottica is committed to staying current with changing lifestyles and emerging fashion and it interprets trends in the design and style of products to address the needs and tastes of consumers. The Company differentiates its products not only through innovations in style and design but also through a commitment to technological innovation.

MARKET EXPANSION

Luxottica is committed to maintaining and strengthening its leading position in the markets in which it operates. It is also focused on evaluating opportunities a key driver of Luxottica's long-term growth strategy. Market expansion is also sought through increasing retail distribution while strengthening its wholesale network.

FINANCIAL DISCIPLINE

The Company has a strong focus on operating profitability and cash generation to sustain growth.

LUXOTTICANS

Highly qualified, motivated and committed employees are critical to the long-term success
of the Company. Luxottica carefully manages the hiring and training process with a view to employing and retaining outstanding professionals.

- Activities

Luxottica started out in 1961 as a contract manufacturer of eyewear components, with 14 employees. It now has six facilities in Italy, two in China and one in US. The Italian plants turn out around 30 million units a year, which is around 74% of its total production worldwide.

- ✓ Product development:

The Prototype and Sample Design function does research & development for new prescription models (frames only) and sunglasses (frames and lenses), from the design phase to production of prototypes and samples.

- ✓ Quality:

The Product and Design area also includes management, organization and development of the Quality Management System, which conforms to precise standards and current legislation.

- ✓ Production engineering:

This unit makes samples and distributes them to agents.

- ✓ IT systems:

The IT function ensures the operation and development of central and distributed information systems and the coordination and professional development of its own employees.

- ✓ Planning - this function:

• ensures the development and construction of models for forecasting demand for products (retail and wholesale);

• ensures planning and programming of manufacturing in all the Group's production sites and those of external semi-finished product suppliers;

• supervises and coordinates the planning of retail business (Europe, USA, Asia-Pacific and China).

- ✓ Procurement:

The procurement function's task is to guarantee optimum organization and management of purchasing of raw materials, components, semi-finished goods and services, also in terms of competitive cost-quality ratios.

- ✓ Logistics:

This function ensures efficient management and organization of logistics centers to the levels of service agreed and guarantees effective and efficient flows of all materials.

- ✓ Maintenance and General Service:

this unit:

• guarantees the efficient running of plant and machinery (routine and extraordinary maintenance);

• ensures proper application of workplace health and safety, environmental and labor regulations;

• guarantees the operation of security services and site access control;

• manages layout activities (modification and reallocation of space).

Comparative position of the company

Comparative position of selected Industry/Sector/specific company/product with India and Gujarat

ITALIAN EYEWEAR STILL RANKS AS THE PROTAGONIST IN FOREIGN MARKETS DURING THE FIRST HALF OF 2012

Italian eyewear exports rule the scene on international markets and, once again, define the profile of a growing and winning sector in the framework of global competition. The area has always been the pride of Made in Italy products in the world.

During the first half of 2012, overall exports in this market sector leaped by 5.6% compared to the same period in 2011. Considering the two key segments, exports of **sunglasses** have **risen by 4.2%**, and those of **vision eyewear by 8.1%,** always on an annual basis.

Exports of Italian eyewear worldwide **during the first half of 2012** amounted to over **1,408 million euro**, and the sector's trade surplus soared over 973 million euro.

Cirillo Marcolin, President of Anfao, stresses once again that, despite the challenging economic situation, the sector is effectively reacting and achieving praiseworthy results: "It is clear that the general economic situation we are experiencing does not make things easy for us; however, our skill in penetrating and establishing ourselves in international markets helps us remain the leading players and maintain a fair growth rate."

Exports have an impact of over 80% in the sector's production and currently seem to be the only avenue for growth. "Right now it is essential to artfully exploit every opportunity offered by international markets. The global vocation and our competitive drive, which are part of our DNA, both of large and small Italian firms, is the secret that still underpins our leading position," says Marcolin.

A geographical outline of exports

The first half of 2012 broadly confirms the**good performance of Italian eyewear exports in most geographical areas**, with the sole exception of Europe.

Specifically, the following has been recorded for overall exports of sunglasses and vision eyewear:**substantial stability towards Europe** (+0.3%); **+10.7% towards America** (North, Central and South America); **+12.9% towards Asia**; **+7.6% towards Africa** and **+14.3% towards Oceania** – the latter two are areas where the rate of Italian eyewear exports is still not significant but is steadily rising.

The excellent performance of exports to the **United States** must be mentioned**.** The USA have always been the landmark for the sector, accounting for 21% of Italian eyewear exports. It was here that a**yoy increase of 11.3%** (+9.5% for vision eyewear and +12% for sunglasses) was recorded during the first half of 2012. Italian eyewear exports to the States have recorded over 298 million euro, 30 million euro more than the period January-June 2011.

In Europe, Italian eyewear exports are paying the price of the financial strains experienced by the Eurozone, **mirroring the performance of individual countries,** thus confirming the distress of countries that have been most affected by the crisis, namely Greece, Spain and Portugal, and the positive trend recorded in Germany and England. In **France,** overall exports of eyewear that were remarkable during the first quarter of 2012, **fell** over the six-month period, **losing 1.5 percentage points compared to January-July 2011**.

In **Germany,** exports of the sunglasses and vision eyewear segment recorded a **+7.2%** rise, compared to the first half of 2011, while in the **United Kingdom** the **yoy increase** of exports was**10.1%**.

As always, Europe considered overall is the principal outlet for our exports, absorbing little more than 50% of our eyewear; however, **since the Old Continent's trend is not a decisive growth factor anymore, the details of exports confirm the sector's inclination to target emerging markets more forcefully**.

Exports of Italian eyewear are, therefore, highly dynamic in emerging countries where they are steadily scoring points: **+27.1% in Brazil**, **+12.9% in the United Arab Emirates**, **+19.1% in Saudi Arabia**and **+21.2% in South Korea** were the increases compared to the first half last year.

Exports to **China** (**+81%** during the period January-June 2012) are still growing, further confirming that the Asian giant has become an important target market today.

“Though emerging countries still account for a rather low percentage of Italian exports in the sector, – explains Cirillo Marcolin –we have been witnessing a steady growth for some time, and we hope it will become considerable to counterbalance the low growth rate of traditional markets, such as Europe, in particular.”

The domestic market

If exports are the secret of the rather good health of the eyewear segment, compared to other manufacturing sectors, the negative point is that the domestic market has shown no signs of recovery to date. **During the first half of 2012 the domestic market fell by 8 percentage points (in terms of sell-in), compared to the same period last year**.

Marcolin explains: “Today we consider ourselves as "fortunate," so to speak, because the eyewear sector exports over 80% of its products and, therefore, can exploit more opportunities, unlike segments that are solely bound to the Italian market. However, the challenging situation experienced by Italy is directly mirrored by the dynamics of each firm and daily enhances investment and work-related difficulties. I cannot fail to make the umpteenth appeal to Italian Institutions to respond to the needs of firms, which only long to carry out business in a more reliable framework."

Financial performance*

Year	Net sales (K€)	Operative income (K€)	Net income (K€) - Net Income attributable to Luxottica Group Stockholders
2011	6,222,483	807,140	452,343
2010	5,798,035	712,158	402,187
2009	5,094,318	571,085	299,122
2008	5,201,611	731,639	390,167

2007	4,966,054	833,264	489,850

RayBan sun optics in India

RayBan Sun Optics India (RSOI) was set up in May '90 as a joint venture between Bausch & Lomb Inc., USA and Bhai Mohan Singh Group. Later in Aug.'00, it entered into an agreement to sell the vision care business of the company to Bausch & Lomb Eyecare (India) Private Ltd. To fulfill this contractual obligation, the company changed its name from Bausch & Lomb India to RayBan Sun Optics India. In 1999-2000, Bausch & Lomb Inc. USA, hived off its sunglasses business including the Rayban and Killer Loop brands to a premier Italian eyewear company Luxottica for $640 mln. Luxottica is the world leader in premium eyeglass frames and owns several well-known brands such as Giorgio Arnmani, Ferragamo, Vogue, etc.

This global divestment of the eyewear business by Bausch & Lomb Inc., USA to Luxottica had made adverse impact on operating performance of the company. Since eyewear is the major business of Indian company, it was also transferred to Luxottica. Subsequently the vision care business of the company was sold off. Following the divestment of the vision-care business in India, RSOI is now focusing on eyewear exclusively and come under the umbrella of Luxottica Group, Italy which has 44% stake in the company. RSOI showcased its 160 models of Ray Ban sunglasses, including premium ones, which will be introduced in the market shortly.

This was for the first time after the take over by the Luxottica group. Ray Ban is synonymous with quality eyewear, while Luxottica is committed to provide the Indian consumer with the same Ray Ban that is available to a consumer in Milan or New York. During 2001, the manufacturing facilities of the eyewear business were up-graded and modernised by introduction of 2D and 3D machines for winding of flat eyes; adoption of induction brazing process for a better quality joints; and up-gradation of tumbling, plating and coating techniques. The distribution chain was restructured by elimination of all eight stockholding locations and moving to a centralised stockholding and invoicing location at Bhiwadi, Rajasthan.

Per Comparison

Company in titens Optic	Market Cap (Rs. in Cr.)
2011	333.78
2010	298.05
2009	286.66
2008	256.65
2007	211.34

PRESENT POSITION
AND
TREND OF BUSINESS IMPORT/EXPORT

PRESENT POSITION AND TREND OF BUSINESS IMPORT/EXPORT WITH INDIA

- **PRESENT POSITION :-**

LUXOTTICA INDIA, THE BEST EYEWEAR BRAND FOR 2009

Last week of August, during a ceremony **in** Mumbai, Luxottica **India** received the Pinnacle Award as Best Eyewear Brand for 2009 from Shoppers Stop, the most important premium department store chain **in India**. This is the first time that Luxottica **India** receives this award. It is the result of a two years project focused at increasing the performance of the modern **trade** for Luxottica **in India**. Two ... stores and optical chains. Luxottica **India** is implementing with Shoppers Stop a category management ... Premio **India**. Last week of August, during a ceremony **in** Mumbai, Luxottica **India** received the Pinnacle Award as Best Eyewear Brand for 2009 from

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Luxottica India, the Best Eyewear Brand for 2009

Mumbai, India, 08.27.2009

Last week of August, during a ceremony in Mumbai, Luxottica India received the **Pinnacle Award** as **Best Eyewear Brand for 2009** from Shoppers Stop, the most important premium department store chain in India.

This is the first time that Luxottica India receives this award. It is the result of a two years project focused at increasing the performance of the modern trade for Luxottica in India. Two years ago, a dedicated team of key accounts led by Akash Goyle has been created to develop department stores and optical chains.

Luxottica India is implementing with Shoppers Stop a category management approach focused on developing the overall performance of the eyewear category in the retail chain.

PRESENT TRADE OF BUSINESS BETWEEN INDIA AND ITALY

Italian Presence :-

Italian eyewear industry viewed as undisputed world leader, especially in the top/premium segment of the market. As per official statistics, share of Italy in imports into India is still very small, being US$ 4.27 million (less than 2% of total imports), except for low cost, low technology products like frames and mountings for spectacles. Sunglasses account for 83% of the imports from Italy. However, the above statistics may not be truly representative, as some of the Italian brands may be imported into India from production locations outside Italy, and also because of the major existence of the parallel market which is not reported in the official statistics.

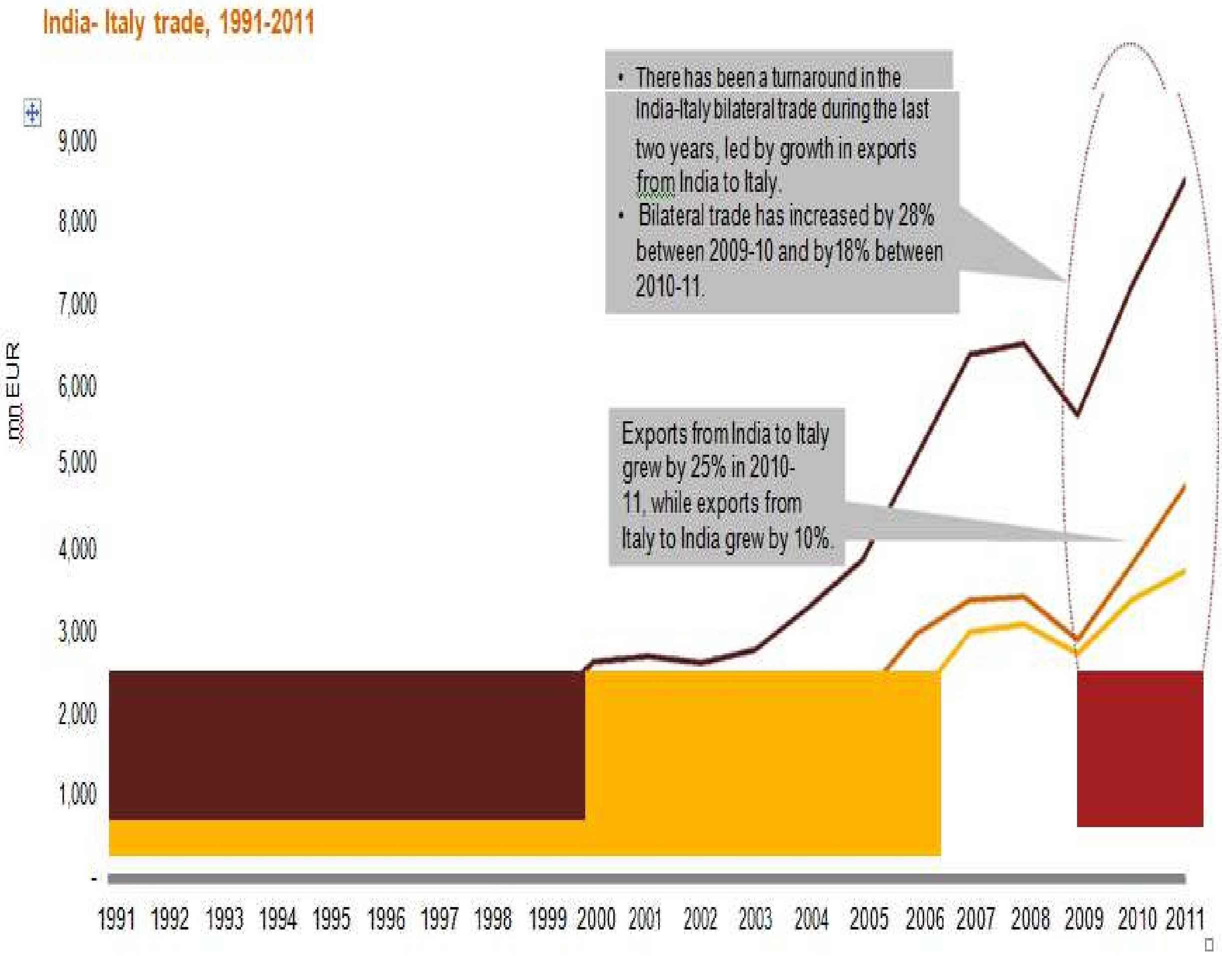
Luxottica entered India consequent to its worldwide acquisition of the sunglass business of Bausch & Lomb in June 1999 and acquired Ray-Ban manufacturing plant at Bhiwadi in Rajasthan. Other Italian companies include Safilo, Oakley etc.

Leading Players :-

Almost all leading international players (Luxottica, Essilor, Carl zeiss) have a strong presence in the Indian market, through own subsidiaries, joint venture, marketing tie-ups etc. though international brand of eye care product have been marketed in India for many decades, their production in India has taken of mostly in the last 10-15 years.

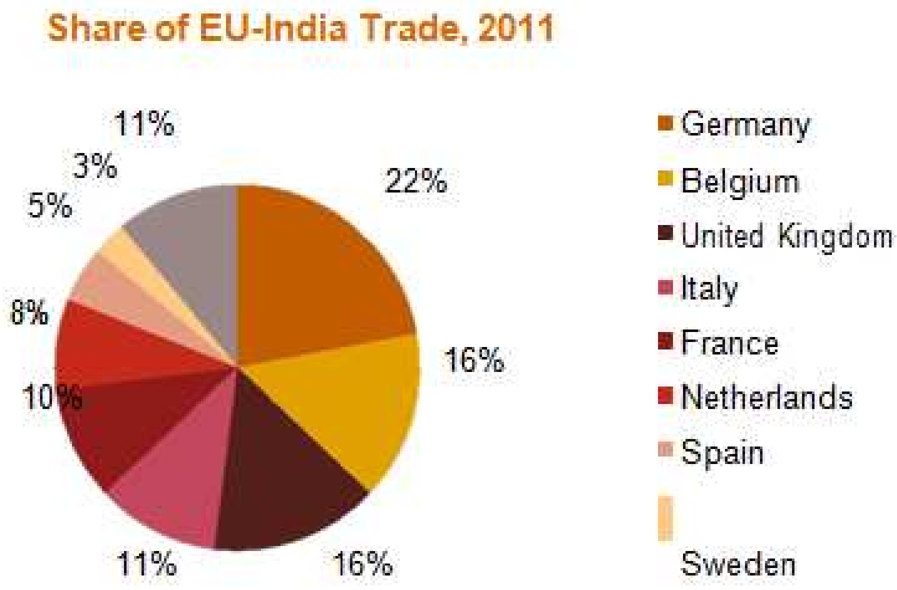
Several indigenous companies have also emeriged as strong players in the Indian market in the recent years in many of these companies have collaboration with global leader in the optical industry, and have set up state of art manufacturing facilities to not only cater to the domestic market but also exporting in big way.

In the last two decades, bilateral trade between India and Italy has grown 12 times from 708 million EUR to 8.5 billion EUR



Within EU27, Italy is the fourth largest trade partner with India

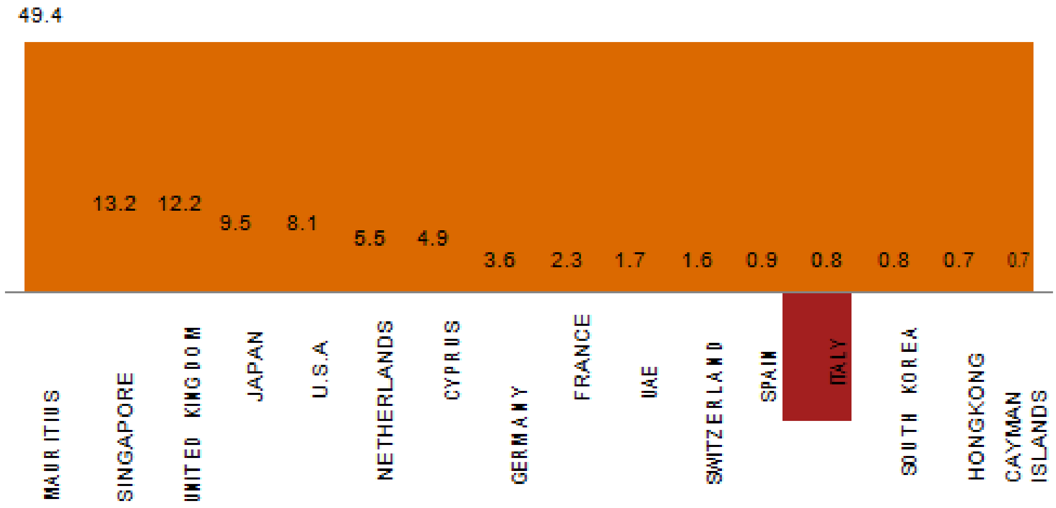
Within EU27, Italy is the fourth largest trade partner of India with a 11% share of the total EU-India trade, preceded by Germany (22%) , Belgium (16.5%) and the UK (16%).



- ✓ Italian exports to India increased at a slightly lower pace than the average growth of EU exports to India (10.4% against 16.2%)
- ✓ **Indian exports to Italy in 2011 grew** by 25%, well above the average growth of Indian exports towards the EU (19%)

Italian investment in India has crossed over 840 mn EUR between April 2000 and March 2012, accounting for 0.6% of cumulative foreign investments in India within the same period

Cumulative foreign investments to India from April 2000 to March 2012 (bn EUR)



- Italy, with a share of 0.6%, ranks 13th in the overall list and seventh among the EU countries after the UK, the Netherlands, Cyprus, Germany, France and Spain.
- **In the last 12 years, Italian cumulative FDI to India have reached 840 million EUR,** against 12 billion EUR from the UK, 3.5 billion EUR from Germany and 2 billion EUR from France.

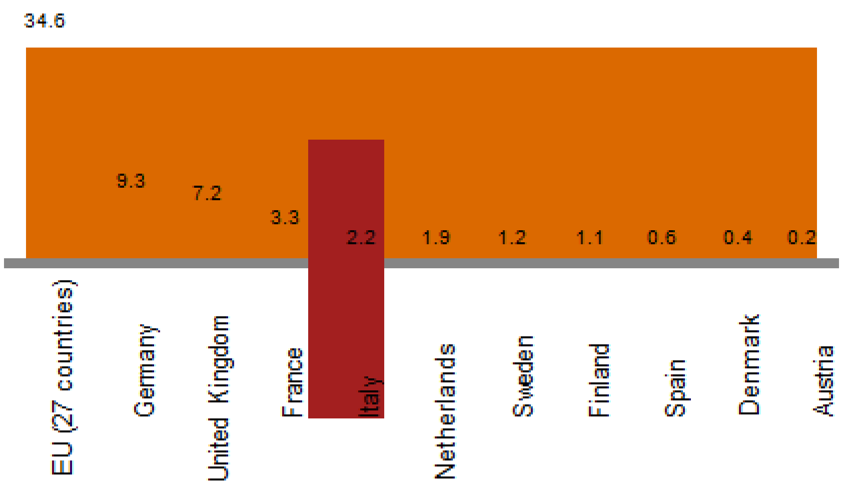
Italian FDI in India - FY2012

Of the total FDI inflow of 36 billion EUR in FY2012 (April 2011-March 2012), Italy accounted for 0.3%, with a net investment of 120 million EUR

As investments from other foreign countries increased, Italy has moved down one position (to rank 13th in FY2012 compared to 12th in FY2011) in the top investors ranking for India

As per European sources, Italy was the fourth largest EU investor in India accounting for 6.2% of cumulative EU investments into India from 2000-11

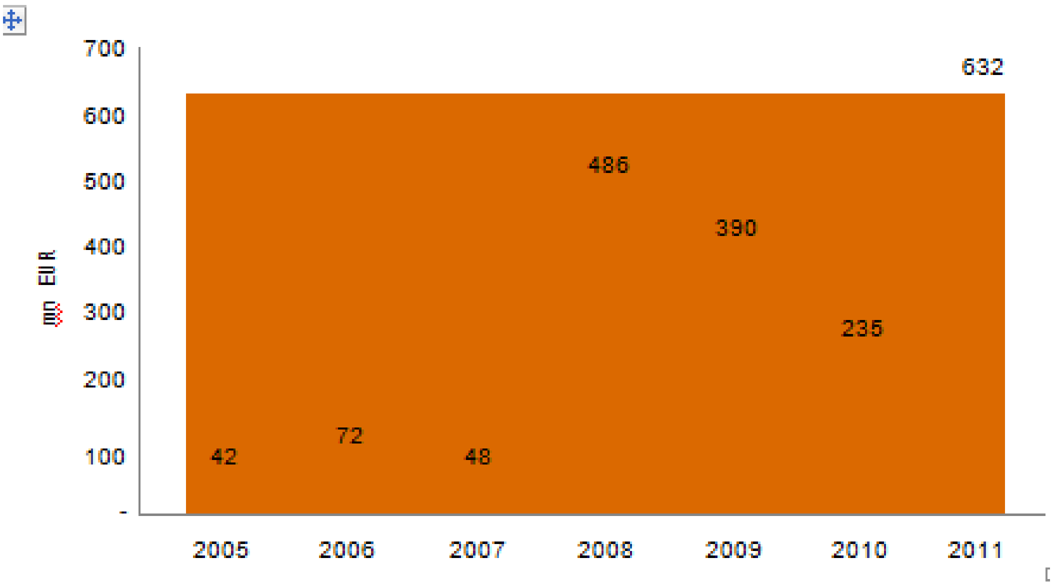
Cumulative EU investments to India from 2000 to 2011 (bn EUR)



Italy had a share of 6.2% of total cumulative EU investments in India (from 2000 to 2011) making it the fourth largest investor in India after Germany, the UK and France

Cumulative Italian investment in India from 2001 to 2011 registered a positive trend, although increasing at a slower pace and volume compared to other Indian trading partners

FDI inflow from Italy to India (mn EUR)



As per data from EUROSTAT, Italian FDI inflow to India in 2011 amounted to 632 million EUR, accounting for 5.3% of total FDI inflow from EU to India

This data differs from the data on the previous page provided by the Department of Industrial Policy and Promotion (DIPP) in India. Some difference in estimates between the two sources can be attributed to the fact that Indian data are gathered based on the fiscal year (from 1 April to 31 March), whereas EUROSTAT data follow the calendar year. Data provided by DIPP seem to reflect consistently lower EU investment in India when compared to that provided by EUROSTAT.

Italy trade policy

Italy trade policy

History :-

- **1945-1950:** Forced to import oil, coal, and iron as a result of its lack of raw materials and under pressure from the United States, Italy opens its economy to the international market. Italy begins to focus less on agriculture and more on industrial exports to North America and Western Europe. Italy does retain, however, some protectionist tariffs.
- **1951-1956:** Italy, Belgium, France, West Germany, Luxembourg, and the Netherlands create the European Coal and Steel Community (ECSC) to pool their coal, iron, and steel resources. They remove custom duties and quantitative restrictions on these raw materials. The low value of the lira and low labor costs make Italian goods competitive. All industries except for the food industry become export-oriented.

- **1957-1963:** Italy is a founding member of the European Economic Community (EEC), which forms a customs union and a unified market with free trade among the member states. The creation of the EEC ends any remaining vestiges of protectionism in Italy. Italy's dependence on imported coal, petroleum, and other raw materials results in an unfavorable balance of trade which is offset by the tourism industry.
- **1964-1969:** Italy's main exports continue to be machinery and transport equipment, textiles, and chemicals, but Italian goods become less competitive as technologies in other countries improve and wages in Italy rise.
- **1970-1975:** Italy's imports become more expensive as a result of constant devaluations of the lira and the soaring price of oil. The terms of trade shift toward producers of primary products. Italy struggles to increase exports to prevent a negative balance of trade.
- **1976-1986:** The balance of trade becomes negative for the first time in years as prices of imports continue to be high and tourism revenues drop as a result of political violence. The Mafia, with its narcotics, arms. and explosives deals, forms a substantial, albeit illegal, part of Italy's international trade.
- **1987-1991:** Italy's trade balance remains largely in deficit, coming out of the red only occasionally with the drop in oil prices and the fall in the value of the U.S. dollar. A government crackdown on organized crime reduces the volume of illegal trade.
- **1992-1996:** With the collapse of the value of the lira in September 1992, exports pick up. The top export sectors are fashion, furnishings, precision instruments, and transportation equipment. The balance of trade swings into a small surplus of $3.2 billion in 1992 which expands during the next four years to reach $60 billion in 1996. Italy joins the World Trade Organization upon its creation in 1995.
- **1997-2003:** Italy conducts 60 percent of its total trade with the European Union. The trade balance remains highly volatile, reacting sharply to changes in the real exchange rate and the economic cycle. The decline of Fiat raises concerns for one of Italy's traditional lead exporters. The government promotes Italian culinary exports with a campaign to rate the authenticity of Italian restaurants abroad.

Italy Import Regulations

Italy has been part of the European Union (EU) since 1958, the World Trade Organization (WTO), the Organisation for Economic Co-operation and Development (OECD), the Organization for Security and Co-operation in Europe (OSCE) and the North Atlantic Treaty Organization (NATO), and applies the international agreements signed by these bodies.

The EU forms a customs union and a large unified market having free trade among the member states. It levies a common tariff on imported products coming from non-EU countries such as the United States, Japan, and Canada.

As all members of the European Union, Italy adapts a common trade policy. The EU has a liberal import regime where import licensing is not common. Import licenses are issued with due consideration for the provisions of relevant European Union trade agreements and the needs of the specific importing country.

Under the EU New Approach to Technical Harmonisation, certain products are required to meet specific quality standards. The directive applies to toy safety, machinery, electromagnetic compatibility (EMC), telecommunications terminal equipment, active implantable medical devices, medical devices, non-automatic weighing equipment, construction products, explosion proof electrical equipment, low voltage electrical equipment, simple pressure vessels, personal protection equipment and gas appliances. Qualified products must carry a CE mark to show its compatibility, fixed onto the product by a manufacturer or importer as self-declaration of compliance.

Traders must pay attention to the EU product liability law, which covers all liability regarding defects not ordinarily expected by a consumer. Both the seller and the manufacturer in the EU are liable under the law.

Import duties into EU countries are subject to import tariffs (normally applied on the import c.i.f. value) plus the value-added tax (VAT) which varies according to different importing countries. The standard rates for Italy is 21%

The EU announced developments in the EU's Eco-labels scheme to 219 products, particularly footwear, textiles and personal computer. Exporters trading with the scheme member country will need to get their suppliers adhering to strict production methods in order to comply with the label award. Environment Protection, Directive on Packaging and Packaging waste, sets out common waste recovery and recycling standards. Manufacturers and exporters should minimize the packaging of their products exported to the EU.

Like the EU, Italy also imposed a ban on the sale of animal-tested cosmetics throughout the EU since 2009, and a ban to all cosmetics-related animal testing. However, cosmetics tested on animals outside the EU are still imported and sold. They are due to be banned in 2013

General Overview

- Conformity to European standards and "CE" marking

Products governed by these regulations must adhere to certain European standards at the point when they are imported. The "CE" sign of compliance must be on the product, either when the product is imported or when it is sold.

Since the list of products is growing, the following is merely indicative:

- toys
- agricultural machinery, industrial machinery
- tractors
- gasoline-powered materials and equipment
- sports and recreational personal protection equipment
- construction products
- pleasure craft
- medical apparatus
- electrical and electronic equipment
- equipment pertaining to the telephone network

Self-certification is possible in some cases.

Generally a specialized laboratory known as a "competent agency" or "notified agency" must be used, including the following:

- QNET-LLC
- European Medicines Agency (EMA)
- Medical Device Safety Service
- Intertek

➢ **Labelling/Packaging Requirements**

The labelling requirements vary depending on the products, are complex and different.The label should include information regarding origin, identity, quality, composition and conservation of the product. It must be in Italian, and/or English or French.

Basic labelling requirements in Italy:

- name of products (physical condition or specific treatment)
- name/address of manufacturer, packer, seller or importer in the Italian language
- country and place of origin
- ingredients in descending order of weight
- metric weight and volume
- additives by category name
- special storage conditions
- minimum shelf life date
- expiry date
- lot number

- indication of allergens
- indication of maximum limits of fats for meat based products
- net quantity in volume for liquids and in mass units for all other products
- instructions for use, if necessary

Labeling in the European Union is regulated mainly by Directive 2000/13/EC and successive amendments. Directives are implemented differently in each Member State country.

On April 18, 2004 strict rules on labeling entered into force in Europe, extending the mandatory labeling to countless food products in the supermarkets. Under the new rules, all foods that contain or consist of genetically modified organisms (GMOs), or are produced from GMOs will have to be labeled regardless of the presence of material in the final product.

Labels must be written in Italian and contain the list of all ingredients contained in the product and the expiry date of the product. Other particular features may be required for particular ingredients. This specific data can be sourced from local port of entries Veterinary and Sanitary Offices.

- **Tariffs**

Italy applies customs duties to all imported products. Rates can vary considerably, depending on whether the imported product is bulk unprocessed or ready for consumption in retail packages.

VAT, must be added to the cost, insurance and freight (CIF) value of the import. The most common rate is 20%, but a reduced rate of 4% applies to essential items.

- **Agricultural and Food Products**

The EU country that receive animals or animal products coming from a country within the EU is allowed to proceed with non –discriminatory, random sample checks. For these checks Veterinary Offices for Community Procedures (UVAC) have been set up, which are part of the Ministry of Health.

Animals and animal origin products coming from outside the EU borders are instead subject to systematic checks before being allowed into EU territory. These controls are also the responsibility of the state and are carried out at the Border Inspection Posts (PIF).

Animal products must come from establishments approved by the EU. These include seafood, meat, meat-based products and dairy products. Pet foods must come from factories approved by France. These products must be accompanied by appropriate sanitary certificates. Some products can be imported commercially only by approved operators, and include tobacco and alcoholic beverages.

Checks on vegetable products imported from countries outside EU borders are the responsibility of the State and are carried out by the Ministry of Health.

Checks that are carried out by The Sea Air and Land Border Posts (USMA) are carried out on all batches of vegetable products destined for human consumption. These Posts also carry out checks on additives, aromas, technological aids and materials destined to come into contact with foodstuffs.

For agrifood products subject to EU rules, import certifications can be used in any EU customs and are automatically provided by the Ministry of Foreign Trade & Affairs.

- **Live Animals**

Like Canada, Italy signed the Washington Convention (CITES) protecting endangered species and limiting trade, and products derived from them (ivory, tortoise, shell, etc.).

The importation of some live animals is prohibited; others are subject to authorization.

- **Textiles & Clothing**

With exception of a small group of largely agricultural items, practically all goods originating in free-world countries can be imported without import licenses and free of quantitative restrictions. There are, however, monitoring measures applied to imports of certain sensitive products. The most important of these measures is the automatic import license for textiles. **This license is granted to Italian importers when they provide the necessary requisite forms.**

Various apparel and textile products and controlled items such as arms and munitions are the most frequently regulated items. Import licenses are generally rapidly granted and delays are usually from lack of proper documentation or information.

Licenses are not transferable. They may be used to cover several shipments within the total quantity authorized. In general, the goods involved are indicated on the license by the Harmonized System classification number and the corresponding wording of the tariff position.

- **Hazardous Products**
- **Intrinsically hazardous products**: Weapons, ammunitions, instruments of war, explosives, radioactive products require an export permit, an import license and/or surveillance.
- **Hazardous or undesirable products:** Authorization may be required to import domestic or industrial wastes.

- **"Sensitive" or "dual purpose" products (high technology products):** Require an export permit, an import permit and final destination control.

Policies or Norms of India For Export-Import:

Policies or Norms of India For Export-Import

Introduction :-

While the majority of the goods are freely importable, the Exim Policy (20of India prohibits import of certain categories of products as well as conditional import of certain items. In such a situation it becomes important for the importer to have an import license issued by the issuing authorities of the Government of India.

- **Import License Issuing Authority**

In India, Import License is issued by the Director General of Foreign Trade. DGFT Delhi office is situated in Udyog Bhawan, New Delhi 110011.

- **Validity of Import License**

Import Licenses are valid for 24 months for capital goods and 18 months for raw materials components, consumable and spares, with the license term renewable.

- **Sample Of Import license**

A typical sample of import license consists of two copies- Foreign Exchange Control Copy: To be utilised for effecting remittance to foreign seller or for opening letter of credit.

Customs Copy: To be utilised for presenting to Customs authority enabling them to clear the goods. In the absence of custom copy, import will be declared as an unauthorised import, liable for confiscation and or penalty.

- **Categories of Import**

All types of imported goods come under the following four categories:

- Freely importable items: Most capital goods fall into this category. Any product declared as Freely Importable Item does not require import licenses.
- Licensed Imports: There are number of goods, which can only be importer under an import license. This category includes several broad product groups that are classified as consumer goods; precious and semi-precious stones; products related to safety and security; seeds, plants and animals; some insecticides, pharmaceuticals and chemicals; some electronically items; several items reserved for production by the small-scale sector; and 17 miscellaneous or special-category items.
- Canalised Items: There are certain canalised items that can only be importer in India through specified channels or government agencies. These include petroleum products (to be imported only by the Indian Oil Corporation); nitrogenous phosphatic, potassic and complex chemical fertilizers (by the Minerals and Metals Trading Corporation) vitamin- A drugs (by the State Trading Corporation); oils and seeds (by the State Trading Corporation and Hindustan Vegetable Oils); and cereals (by the Food Corporation of India).
- Prohibited items: Only four items-tallow fat, animal rennet, wild animals and unprocessed ivory-are completely banned from importation.

- **Category of Importer**

  On the basis of product to be imported and its target buyer, importers categories are divided into three groups for the purpose of obtaining import licensing:

- **Actual Users**- An actual user applies for and receives a license to import of any item for personal use rather than for business or trade purpose.
- **Registered exporters;** defined as those who have a valid registration certificate issued by an export promotion council, commodity board or other registered authority designated by the Government for purposes of export-promotion.
- **Others**.

The two types of actual user license are:

General Licenses : This license can be used for the imports of goods from all countries, except those countries from which imports are prohibited;

Specific Licenses: This license can only be used for imports from a specific country.

- **Custom Inspection**

Any violation in the import license is usually scanned by the custom officials of the custom department. Customer inspector and other custom officials have authority to inspect and evaluate the goods to be imported. It's a part of their job to determine whether imports conform to the description in the import License or not. Custom official even have right to charge fines and penalties if any violation in the import license is found to be done by the importer.

Present tread barriers
for Import/Export of selected goods

Present trade business for import-export of selected group of india

Luxottica's Sunglass Hut further expands its global footprint by entering high-potential Indian retail market in partnership with DLF

First store to open in November of this year

Milan, Italy - November 4, 2008 -Luxottica Group S.p.A.(NYSE: LUX; MTA: LUX), a global leader in the design, manufacturing and distribution of premium fashion and luxury eyewear, today announced that it is set to enter the high-potential Indian retail market with the opening of over 100 Sunglass Hut stores at select high-end malls and other premium retail locations across India .Luxottica will open the stores through a landmark franchising agreement with DLF Group, the leading real estate developer based in New Delhi.

Sunglass Hut, one of Luxottica's leading retail brands, is the only truly global premium eyewear chain fully dedicated to the sun segment .The first India based store will open in November of this year.

Andrea Guerra, chief executive officer of Luxottica Group, commented: "This is an especially important development for our Group and a turning point for our business in India .On the one hand, it allows us to become from day one a key player in one of the most promising retail markets for premium and luxury brands working side-by-side with the leading real estate developer in the market .At the same time, it is an opportunity to further strengthen the positioning of our key brands, with an expected benefit for our entire business in that market."

Kelvin Coyle, Chief Executive Officer of DLF Retail Brands Private Limited commented: "For a few years now, DLF has been involved in developing important projects for the establishment of big brands in India, a market that appreciates high quality products .We are delighted to partner with Luxottica in this important retail initiative for India .Our strategic intent is to partner with brands that are leaders in their categories and Sunglass Hut certainly fits this criteria." Sunglass Hut is the only truly global specialty sun retail chain in the world .With a total of over 2,000 stores, it operates in key markets worldwide with stores in: North and Central America, Australasia, China (including Hong Kong), the Middle East and South Africa, Southeast Asia (Singapore and Thailand) and the UK .Mr. Guerra concluded: "We strongly believe that Sunglass Hut is one of the key opportunities for growth for our Group in mature and emerging markets alike .Thanks to its flexible business model and strong single global brand identity, we have been able to open in key markets on all five continents .We continue to see opportunities for further expansion and strengthening of Sunglass Hut's footprint." "It is our intention to open two Sunglass Huts immediately in New Delhi with a view to develop the chain to 100 stores across the country," said Mr. Coyle .Most recently, Sunglass Hut opened the first two of its 15 expected new locations in Thailand .This year, new stores also opened in the highly strategic Hong Kong market as well as in the Middle East .Luxottica also announced that it will convert to Sunglass Hut all 71 sun stores it already owns in South Africa, the home of the 2010 FIFA World Cup.

Potential for Import/Export in India/Gujarat market

Potential of import-export in india/gujrat

Luxotticas s.p.a. eyeware company very popular in all its gazettes of eye ware and in india they also very famous brand for the sunglasses. In India Luxottica tie-up with the DLF but in gujrat there is not any part of their firm till lounch. Now days they sale their product with the brand name of raiban and ocklay.

Business opportunities in future

BUSINESS OPPERTUNITY IN FUTURE OF LUXOTTICA S.P.A.

Luxottica Group S.p.A. is the world's largest eyewear company. Its best known brands include Ray-Ban, Persol and Oakley, Inc.. It also makes sunglasses and prescription frames for a multitude of designer brands such as Chanel and Prada, whose designs and trademarks are used under license. Luxottica also makes sunglasses branded Burberry, Polo Ralph Lauren, Stella McCartney, Tiffany, Versace, Vogue, Miu Miu, Tory Burch and Donna Karan. Its prime competitor is the Safilo Group S.p.A.

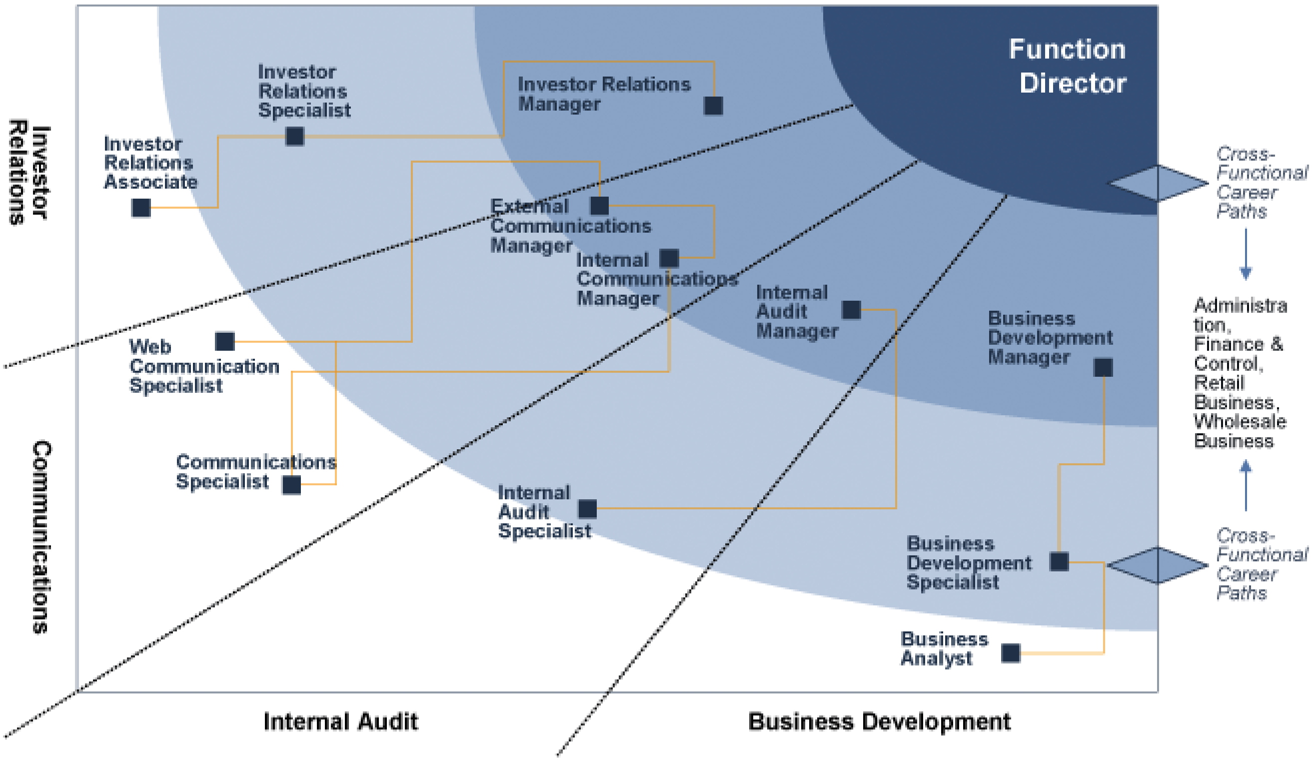
In addition to making sunglasses and eyeglasses, Luxottica also sells them at several different retail chains that are also owned by them, such as: Sunglass Hut, Oliver Peoples and Pearle Vision Center. In the United States, it also owns EyeMed Vision Care, putting it on the buyers' side of the market as well. Due to its extensive holdings, Luxottica has been previously been accused of being a monopoly as well as using its power as a price maker to raise the cost of eyewear and keep it high.

The Italian Luxottica Group S.p.A. announced recently that it is to enter the Indian market having signed a franchising agreement with the DLF Group, a leading real estate developer based in New Delhi. According to the information provided, plans are to open more than 100 Sunglass Hut stores at select premium retail locations across India. The first store is expected to open its doors to the public at the end of this month.

Andrea Guerra, chief executive officer of Luxottica Group, commented, “This is an especially important development for our Group and a turning point for our business in India. On the one hand, it allows us to become from day one a key player in one of the most promising retail markets for premium and luxury brands working side-by-side with the leading real estate developer in the market. At the same time, it is an opportunity to further strengthen the positioning of our key brands, with an expected benefit for our entire business in that market.”

Business Development :-

The Business Development department identifies and guides the development of new business opportunities and initiatives, such as new and/or more effective sources of revenues, new areas of investment (technology, markets, operators...), possible partnerships, strategic alliances, etc.



Strategy :-

Luxottica produces and distributes sun and prescription eyewear of high technical and stylistic quality to improve the well-being and satisfaction of its customers and at the same time create value for employees and the communities in which the Group operates.

Every collection, every pair of glasses, is the result of an ongoing process of research and development whose aim is to anticipate and interpret the needs, desires and aspirations of consumers all over the world. The achievement on high standards of quality reflects the Group's strong technical and manufacturing know-how – the fruit of 50 years of experience – and its constant commitment to technological innovation, style and design, the study of changing lifestyles and interpretation of fashion trends.

Quality and customer satisfaction are also the objectives of the wholesale and retail distribution networks. These structures are organized to offer high quality after-sales service that is consistent but not standardized, being specially tailored to specific local needs.

Manufacturing excellence and the focus on service levels form just two of the strengths that Luxottica leverages to achieve its main corporate objectives, which are customer satisfaction, the well-being of its employees and economic and social development wherever the Group operates.

In general, the Company's long-term strategy is to strengthen its global position and continue to grow in all its businesses, whether organically or through acquisitions.

➢ general opportunity in india

Considering that India has the world's second largest population, of which nearly one-third require some form of eye-sight correction, India represents a huge market opportunity in the optical sector. However, the market is extremely fragmented, complex, price sensitive, diverse and distribution driven.

Most consumers are ignorant about quality, brands, country of origin of products etc., and are largely guided by the opticians and of course the price. Hence, it is very important to educate and train the trade.

Therefore, Italian companies need to be conscious of the importance of tailoring the business model to local conditions. McKinsey offers four key guidelines to setting up a successful business in India, which are quite apt for the optical sector as well.

- Offering "value at the right price," with affordability the main component.
- Educating the consumer, through effective marketing campaigns.
- Designing to cost, as the challenge is to make a profit at prices that Indian consumers can afford.
- Getting the distribution right. No matter what opportunities exist to change the retail scene, McKinsey stresses that "the traditional network of local retailers will remain important for years, even if modern retailing continues to grow at the current rate of 25 percent a year."

In a country of 1 billion plus people, the total market for optical products has only reached US$ 1 billion, which is miniscule as compared to the potential. The average market growth of 20% per year in the last few years is likely to be sustained.

According to eye specialists almost 20-30% of the Indian population, i.e. 200 to 300 million people, requires visual correction. However, only a fraction these people are presently using proper optical products due to lack of awareness as well as affordability issues. Nevertheless this points to huge untapped potential in the Indian market.

Further, branded eyewear has very limited penetration in the Indian market at present, but it is increasing.

- **<u>Favourable Perception of Italian Optical Products</u>**

History and parentage is an important rein forcer for new international brands being introduced in India. Success of European brands in India is to an extent because traditionally, Europe is considered the face of fashion. Retailers, importers and distributors, rate Italian products as superior compared to other imported products and Indian products. Even among the ophthalmologists, the perception about Italian optical products is better or comparable to other imported products.

It is important to highlight here that retailers and ophthalmologists play an important and influential role in the consumers' decision in selection of products and the brand. Therefore, their positive perception about Italian products, inspite of overall market share being low at present, will provide a head start for Italian companies entering the Indian market.

PARTNERSHIPS:

Opportunity for Italian companies to partner with the existing small and medium sized who typically have limited resources for expanding/upgrading their operations, but understand the Indian market dynamics.

Going by the model successfully used by other international brands, Italian companies planning to enter the Indian market should consider tying up with an Indian Importer-Distributor, for handling all import related formalities, and managing the logistics, retail network and promotion.

Another emerging option is to tie-up with major retail chains, to have an exclusive or preferential presence across their retail outlets. While this route promises scale and reach, the margins tend to be lower.

DESIGN AND TECHNOLOGICAL INNOVATION :

Luxottica is committed to staying current with changing lifestyles and emerging fashion and it interprets trends in the design and style of products to address the needs and tastes of consumers. The Company differentiates its products not only through innovations instyle and design but also through a commitment to technological innovation.

- **OTHER FUTURE OPPERTUNITY OF THE LIXOTTICA CO. IN INDIA**

  - **Product development:**

The Prototype and Sample Design function does research & development for new prescription models (frames only) and sunglasses (frames and lenses), from the design phase to production of prototypes and samples.

  - **Better Quality:**

The Product and Design area also includes management, organization and development of the Quality Management System, which conforms to precise standards and current legislation

- **IT systems:**

The IT function ensures the operation and development of central and distributed information systems and the coordination and professional development of its own employees.

- **Planning:**

• ensures the development and construction of models for forecasting demand for products (retail and wholesale);

• ensures planning and programming of manufacturing in all the Group's production sites and those of external semi-finished product suppliers;

• supervises and coordinates the planning of retail business (Europe, USA, Asia-Pacific and China).

- **Promotion of export activity and principles :**

Try to maximum export activity and promotions and some promotional activity and principle as follow :-

1. Introduction, lecture on the theory. Principle of bioresonance. The physical , electromagnetic and biological aspects.
2. Composition of equipment the main channels of communication with the patient.
3. The principle of obtaining information from patient .
4. Work with the software: card index, filling in information, test, evaluation of results of epicrisis, selection of treatment, comparison of action of drugs, preparation of spektronozodes, MORA - therapy, control and accounting of work.
5. Work with the selection of drugs - the basic principles.
6. Maintenance of equipment : assembly of the finished complex, connected to PC, installation software. Terms of exploitation , the possibility of repair.
7. Business with equipment:

- Search for staff of the best groups: administrator, doctor, manager, courier, programmer. The features of each specialization.
- To search the premises, the types of premises
- Features repair
- Complete diagnostic study, a description of investment
- Types of advertising
- Web site, the possibility of working with the Internet, online advertising
- Business - schemes to attract customers who can provide a stable practice

8. The signing of a cooperation agreement, the discussion of remote interfaces, recommendations for optimizing sales.

Conclusion and suggestions

Conclusion

At the time of concluding the report it is clear that this company is very progressive company and the management of every financial factor is done very efficiently.

As per data from EUROSTAT, Italian FDI inflow to India in 2011 amounted to 632 million EUR, accounting for 5.3% of total FDI inflow from EU to India

Indian exports to Italy in 2011 grew by 25%, well above the average growth of Indian exports towards the EU (19%)

Manufacturing excellence and the focus on service levels form just two of the strengths that Luxottica leverages to achieve its main corporate objectives, which are customer satisfaction, the well-being of its employees and economic and social development wherever the Group operates.

In general, the Company's long-term strategy is to strengthen its global position and continue to grow in all its businesses, whether organically or through acquisitions.

Suggestions

The company should take advantage of all these favourable factor in developing and expanding the activities, there by increasing the production and ultimately increasing its turnover and profit. Company should also start exporting. All the above mentioned good factor would definitely help to achieve the desired goal.

- Transition glass lenses can increase market for glasses.
- MORE EXPORT IN INDIA
- Designing to cost, as the challenge is to make a profit at prices that Indian consumers can afford

I HOPE THAT THE COMPANY WILL FOLLOW MY SUGGESTION ON ABOVE BECAUSE THE MAIN MOTTO OF THIS ORGANIZATION IS PROVIDE BETTER QUALITY AND NOT TO EARN PROFIT.

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Abitare

Carnet

Ville & casali

Group-6

A

GLOBAL STUDY COUNTRY REPORT

ON

ITALY

Submitted to

N. R. Vekaria Institute of Business Management Studies

IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF THE AWARD FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

IN

Gujarat Technological University

UNDER THE GUIDANCE OF

Prof. C. D. Lakhlani
Prof. R.J. Patoliya

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Batch: 2013 MBA SEMESTER- IV

Through

N. R. Vekaria Institute of Business Management Studies, Junagadh.

STUDENT DECLARATION

We are students of MBA (Semester – IV) Kamani Dhruv, Mashru Raxit , Chauhan Pallavi, Parmar Daxita, Parmar Gaanga, Kalyani Aamirkhan of Batch 2013 studying at N.R Vekaria Institute of Business Management Studies, Junagadh declare that the project work entitled, **“ZUARI CEMENT ”** of our MBA program under Gujarat Technological University.

Hereby declare that the report for global/country study report entitled **“ZUARI CEMENT”** is a result of our own work and our indebtedness to other work publications, references, if any, have been duly acknowledged.

Date: - **Yours faithfully**

Place: - Junagadh

CERTIFICATE

J.J.C.E TRUST SANCHALIT

N.R.VEKARIA INSTITUTE OF BUSINESS MANAGEMENT STUDIES

MBA DEPARTMENT, BILKHA ROAD,

JUNAGADH-362001

Here by certified that this Global/Country study report titled **"ZUARI CEMENT "** is bonafied work of Kamani Dhruv, Mashru Raxit , Chauhan Pallavi, Parmar Daxita, Parmar Gaanga, Kalyani Aamirkhan students of N.R. Vekaria institute of business management studies have carried out and contained in this report under my supervision & guidance.

Date:

Place:

Project guide

Prof. C. D. Lakhlani DR. RAJESH PATEL

Prof. R.B. Patoliya (DIRECTOR)

PREFACE

It was a privilege for us to do project on impact of **"ZUARI CEMENT"**. The study was under taken during the project work in the period of 2013 as a part of MBA programme of Gujarat Technological University.

Here is given the project report "ZUARI CEMENT ", We tried our level best to collect information from everywhere. We assured that all information are trusted and collected are right information.

Also work done in this report is quite helpful us to under stand the position of other country in various aspects. Such as demographic, economical, technological, international trade, trade union aspects. So, also in future trend such aspects are useful to do some future kind of business or other country related things.

ACKNOWLEDGE

In a span of the time, few achievements of notes have been the product individual effort. Instead, they have been accomplished through the efforts of many. Similarly, the outcome of this training would be impossible without the cooperation, diligence, understanding and encouragement of number of people.

It was a great pleasure to have grand project on **"ZUARI CEMENT".** We would like to express our deep sense of gratitude to all guides for giving us an opportunity to carry out our Grand Project of Global Country at such a renowned time. We are heartily grateful to our project guide Prof. C. D. Lakhlani and Prof. R.J. Patoliya as well as all staff members who helped us directly or indirectly for spending their valuable time and giving us their guidance and insightful suggestions at all stages of our Global Project. . I am also thankful to our director Dr.Rajesh patel, HOD Dr.N.M.Munshi, my project guide Prof. Lakhlani and Prof. R.J. Patoliya who supported me by her valuable suggestion, and helped me in preparation of this report.

The project would never be a success without the cooperation and guidance of all the team members and our friends. Last, but not the least, we cannot forget the support of the almighty and our most beloved parents for their grace and blessing in doing the same successfully!!!!!!

PROJECT SUMMERY

ITALY is a country of full flags of economy, demography, industry, trade and commerce. Today Italy is prosperous. Industry thrives in the triangle formed by Milan, Turin, and Genoa. Craftsmen and artists throughout the land produce the "Italian look" that has become a yardstick of excellence and good taste both in consumer and industrial goods. Tourism booms everywhere, from the northernmost Alps to the southern shores of Sicily. Italy's storied sites await discovery by more than thirty million tourists each year. Italian food is popular everywhere in the Western World. Italy again is a world power, this time, however, not in a military sense but in a civilizing one.

Italian trade unions have more than 12m members. However, a high proportion of them are retired (almost half - 49% - across the three largest confederations). Taking this into account, the ICTWSS database of union membership put union density at 35.1% in 2010.

There are three main trade union confederations in Italy. The largest is the CGIL, which has 5,746,200 members, although only 2,729,300 of them are employed (2009 figures). The second biggest is CISL with 4,542,400 members, of whom 2,284,000 are employed (2010 figures). And the third largest is UIL, which has 2,184,900 members of whom 1,296,300 are employed (2010 figures).

Also this report shows some details about ZUARI CEMENT Company and its potential in INDIA. Zuari Cement is part of the Italcementi Group, the fifth largest cement producer in the world and the biggest in the Mediterranean region. With over 5% market share in the south Indian cement market and sales of about Euro 166 million in 2010

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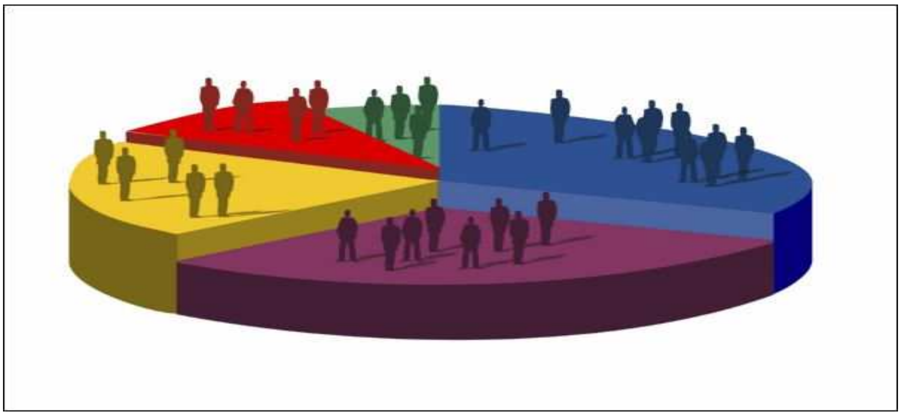
PART – I
ECONOMIC OVERVIEW OF THE ITALY

1.1DEMOGRAPHIC PROFILE OF THE COUNTRY



Proceedings at this round table session got underway with the participants observing that an aging population, immigration and the brain drain are issues that Italy needs to address by looking to the future as well as at the past. Indeed, the current state of affairs is the product of previous trends. In decades gone by, there was a surplus of births over deaths and a negative migration balance, but today that situation has been reversed. Thus, enquiring into how things were as well as how they are likely to be in the future is helpful for shaping policies to deal with demographic changes which, it was noted, have turned out to be very different from those forecast by the UN itself no less than ten years ago.

Relocation flow management cannot, on its own, provide the key to reversing the processes underway. Immigration plays an extremely important role, including in terms of labor supply, but it would take 690 thousand new arrivals a year to reverse the current trends. That would be difficult to sustain, particularly considering the global fall in migration. However, what could make a real difference are measures aimed at increasing the fertility rate (which is fixed at 1.4 births per woman and is lower than that in other countries), at overhauling personal care and health policies, and at encouraging young people aged between 25 and 30 to stay in the country. Indeed, in respect of the latter, the participants pointed to statistics showing that the number of Italians in that age group moving abroad exceeds the number of young immigrants arriving in Italy.

It was stressed that in the absence of targeted policies, Italy will be confronted with three questions in the future. The first of these relates to birth and fertility rates. The country has been below the generational replacement level (that is, fewer than two births per woman) since 1977, and immigrants have not succeeded in making a significant contribution to reversing this trend, because their birth rate is increasingly approaching that of Italians, and because, as evidenced by massive allowance flows, they harbor a desire to return to their countries of origin. Today, there are around 80 thousand births a year amongst the immigrant population, but in four years, the fertility rate of non-native women has fallen to Italian levels. It was noted that in advanced economies, there is a positive correlation between female employment ratios and fertility rates.

The second issue relates to optimizing the country's stock of human capital. In this regard, the participants highlighted that young people in Italy are finding it difficult to leave the family home (which prevents them from assuming full adult responsibilities) or they are leaving the country. Finally, the third question concerns the aging of the population. The number of great-grandparents is overtaking the number of great-grandchildren, and in addition to an increase in the number of people over 65, Italy is also seeing a rise in over-80-year-olds. It is this gradual growth in the number of people within the elderly age brackets that is posing some of the more difficult challenges. Whilst the pension system is now sustainable thanks to recent reforms, there is still a need to better integrate the country's tax and social security systems.

Turning to the area of health and personal care services, the participants felt that this sector requires special attention, also taking into consideration the older population's propensity to save. The growth in the number of single-person households, particularly amongst the elderly, results in greater vulnerability and a loss of the family support network. Attention was drawn to the necessity of considering the proportion of voters that are over 65 and over 80, and the consequences that this might have on the kind of policies capable of generating social consensus.

Over-65-year-olds may already have or develop several chronic conditions, for which hospitalization is not the best treatment option. It is with the aim of reducing hospitalization rates and encouraging treatment centered on the individual that the structure of healthcare provision is moving towards the large hospital model. Technology will also need to provide a means of ensuring that people in older age brackets are better able to contribute to productivity, a necessary prerequisite, along with savings, for the pursuit of constant economic growth. Finally, in order to reverse or at least reduce the erosion of savings associated with aging, the participants stressed the need for policies that encourage people to take out supplementary health and – in the case of young people – pension cover.

1.2 ECONOMIC OVERVIEW OF THE ITALY

Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south, with high unemployment. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family owned. Italy also has a sizable underground economy, which by some estimates accounts for as much as 17% of GDP. These activities are most common within the agriculture, construction, and service sectors. Italy is the third-largest economy in the euro-zone, but exceptionally high public debt burdens and structural impediments to growth have rendered it vulnerable to scrutiny by financial markets. Public debt has increased steadily since 2007, reaching 120% of GDP in 2011, and borrowing costs on sovereign government debt have risen to record levels. During the second half of 2011 the government passed a series of three simplicity packages to balance its budget by 2013 and decrease its public debt burden. These measures included a hike in the value-added tax, pension reforms, and cuts to public administration. The government also faces pressure from investors and European partners to address Italy's long-standing structural impediments to growth, such as an inflexible labor market and widespread tax evasion. The international financial crisis worsened conditions in Italy''s labor market, with unemployment rising from 6.2% in 2007 to 8.4% in 2011, but in the longer-term Italy''s low fertility rate and quota-driven immigration policies will increasingly strain its economy. The euro-zone crisis along with Italian austerity measures have reduced exports and domestic demand, slowing Italy''s recovery. Italy''s GDP is still 5% below its 2007 pre-crisis level.

PARTICULARS	DETAILS

GDP (purchasing power parity)	$1.847 trillion (2011)
GDP (official exchange rate)	$2.164 trillion (2011)
GDP - real growth rate	0.4% (2011)
GDP - per capita (PPP)	$30,500 (2011)
GDP - composition by sector	agriculture: 2% industry: 24.7% services: 73.4% (2011)
Labor force	25.08 million (2011)
Labor force - by occupation	agriculture: 3.9% industry: 28.3% services: 67.8% (2011)
Unemployment rate	8.4% (2011)
Population below poverty line	NA%
Budget	revenues: $1.025 trillion expenditures: $1.111 trillion
Public debt	120.1% of GDP (2011)
Agriculture - products	fruits, vegetables, grapes, potatoes, sugar beets, soybeans, grain, olives; beef, dairy products; fish

Industries	tourism, machinery, iron and steel, chemicals, food processing, textiles, motor vehicles, clothing, footwear, ceramics
Industrial production growth rate	0.2% (2011)
Industrial production growth rateExports	$524.9 billion (2011)
Exports – commodities	Engineering products, textiles and clothing, production machinery, motor vehicles, transport equipment, chemicals; food, beverages and tobacco; minerals, and nonferrous metals
Exports - partners	Germany 13.3%, France 11.8%, US 5.9%, Spain 5.4%, Switzerland 5.4%, UK 4.7% (2011)
Imports	$549.6 billion (2011)
Imports - commodities	engineering products, chemicals, transport equipment, energy products, minerals and nonferrous metals, textiles and clothing; food, beverages, and tobacco

1.3 OVER VIEW OF INDUSTRY TRADE AND COMMERCE IN THE ITALY

Commerce is the whole system of an economy that constitutes an environment for business. The system includes legal, economic, political, social, cultural, and technological systems that are in operation in any country. Thus, commerce is a system or an environment that affects the business prospects of an economy or a nation-state. We can also define it as a second component of business which includes all activities, functions and institutions involved in transferring goods from producers to consumer.

More specifically, Italian economy is damaged by the lack of infrastructure development, market reforms and research investment, and also high public deficit. In the Index of Economic Freedom 2011, the country ranked only 87th in the world, in particular due to the high rate of corruption, an excessive state interventionism, and a strong labor law. In addition, the most recent data show that Italy's spending in R&D in 2011 was equal to 1.1% of GDP (12th in the world by expenditures), below the European average of 1.7% and the Lisbon Strategy target of devoting 3% of GDP to research and development activities.

Italy has a smaller number of global multinational corporations than other economies of comparable size, but there is a large number of small and medium-sized enterprises, as in the Northern "industrial triangle" (Milan-Turin-Genoa), where there is an area of intense industrial and machinery production, notably in their several industrial districts, which are the backbone of the Italian industry. This has produced a manufacturing sector often focused on the export of niche market and luxury products, that if on one side is less capable to compete on the quantity, on the other side is more capable of facing the competition from emerging economies based on lower labour costs, with higher quality products.

The country was the world's 7th largest exporter in 2009.Italy's major exports and companies by sector are motor vehicles (Fiat, Aprilia, Ducati, Piaggio, Iveco); tyre manufacturing (Pirelli); chemicals and petrochemicals (Eni); energy and electrical engineering (Enel, Edison); home appliances (Candy, Indesit); aerospace and defense technologies (Finmeccanica, Alenia Aeronautica, AgustaWestland, Oto Melara); firearms (Beretta, Benelli); fashion (Armani, Valentino, Versace, Dolce & Gabbana, Roberto Cavalli, Benetton, Prada, Luxottica); food processing (Ferrero, Barilla Group, Martini & Rossi, Campari, Parmalat); sport and luxury vehicles (Ferrari, Maserati, Lamborghini, Pagani); yachts (Ferretti, Azimut). Italy's closest trade ties are with the other countries of the European Union, with whom it conducts about 59% of its total trade. Its largest EU trade partners, in order of market share, are Germany (12.9%), France (11.4%), and Spain (7.4%).

1.4 OVER VIEW OF DIFFERENT ECONOMIC SECTOR OF THE ITALY

- **Energy, wind power and Nuclear Sector**

Italy has few natural resources. There are no substantial deposits of iron, coal, or oil. Proven natural gas reserves, mainly in the Po Valley and offshore Adriatic, have grown in recent years and constitute the country's most important mineral resource. Most raw materials needed for manufacturing and more than 80% of the country's energy sources are imported. Also in Italy, we can find that of more development of wind farm sector also.

However, in the last decade, Italy has became one of the world's largest producers of renewable energy, ranking as the world's fifth largest solar energy producer in 2009 and the sixth largest producer of wind power in 2008.

Italy has managed for nuclear reactors until the 1980s, but in 1987, after the Chernobyl disaster, a large majority of Italians passed a referendum opting for phasing out nuclear power. The government responded by closing existing nuclear power plants and stopping work on projects underway, completely putting a halt to the national nuclear program. Currently, the majority of Italian electricity is produced gas, oil, coal, and hydro. Due to its reliance on expensive fossil fuels and imports, Italians pay approximately 45% more than the EU average for electricity.

- **Vegetable and Fruits**

The northern part of Italy produces primarily maize corn, rice, sugar beets, soybeans, meat, fruits and dairy products, while the South specializes in wheat and citrus fruits. Italy is the first or the second largest producer of wine in the world, and one of the leading in olive oil, fruits (apples, oranges, lemons, pears, apricots, peaches, cherries, strawberries, kiwi), flowers and vegetables.

- **Transportation**

In 2004 the transport sector in Italy generated a turnover of about 119.4 billion euros, employing 935,700 persons in 153,700 enterprises. Regarding to the national road network, in 2002 there were 668,721 km (415,612 mi) of serviceable roads in Italy, including 6,487 km (4,031 mi) of motorways, state-owned but privately operated by Atlantia company. In 2005, about 34,667,000 passenger cars (equal to 590 cars per 1,000 people) and 4,015,000 road good vehicles circulated on the national road network.

The railway network in Italy totalled 16,862 kilometres (2008) of which 69% are electrified and on which 4,937 locomotives and railcars circulate. It is the 15th largest in the world, and is operated by Ferrovie dello Stato. High speed trains include ETR-class trains, with the ETR 500 reaching 300 km/h (190 mph). The rail tracks and infrastructure are managed by Rete Ferroviaria Italiana.

Banking

Banking in Italy has, as of the 11th October 2008, an average assets/liabilities ratio of 12 - 1, while the banks' short-term liabilities are equal to 86% of the Italian GDP or 43% of the Italian national debt. This is a list of the top 10 Italian banks ranked by market capitalization.

1.5 OVER VIEW OF BUSI. AND TRADE AT INTERNATIONAL LEVEL

Italy had experienced a lower growth than the European average, and it was severely affected by the global crisis, its economy reduced to -5% in 2009. However, it benefited from the revival in global demand and the return of confidence. The exports and investments recovered in 2010, providing a growth rate evaluated at 1% of the GDP. According to the forecast, the growth rate should remain weak in 2011.

The government has launched different social measures in order to try to help those who are in the most unfavorable conditions, which had a direct consequence on increasing considerably the public expenditures of a country that has one of the highest public debts in the world (more than 100% of the GDP). The government has, then, adopted a rigorous plan of EUR 24 billions in three years, it has frozen salaries and increased taxes with the purpose of attempting to bring the public deficit to 2.7% in 2012 and reducing its debt/GDP ratio. The priority is also given to the fight against tax avoidance in this country where the black economy is very significant.

The unemployment rate has risen to about 8.7%. Regional inequity is very pronounced, specially between the north, which is very industrialized and dynamic, and the rural and poor regions of Mezzogiorno in the south.

FDI in Figures

In relation to its European neighbors, Italy does not attract but a small amount of foreign direct investment (FDI). After their fall in 2008, under the effect of the global crisis, the FDI flows started to revive in 2009. The privatization program led by the country, the liberalization of the energy and the markets of telecommunications offer interesting opportunities to investors. However, a strict labor law, high taxes, inefficient public services, corruption and the activities linked to organized crime are some of the hindrances to investment.

FDI Government Measures

There is hardly any assistance in Italy for promoting foreign investment. This trend is reinforced by the European Union which wants Italy to harmonize its tax incentives with the Community regulations. Italy only promotes the development of its regions which are in difficulty, in order to facilitate SME activity and job creation. The defense sector and other sectors likely to compromise public safety are not open to foreign investors.

The Italian Institute for Foreign Trade lists and makes available a guide to aids for setting up business in Italy. Italy is amongst the top 10 trade countries in the world and trade represents almost 60% of the GDP. Manufactured goods account for more than 90% of the country's exports. The country shows a deficit in trade and its balance got worse after the rise in oil prices in 2008 (the country imports 80% of its energy resources), and the appreciation of the euro. Despite its recent improvement, the trade balance should continue to deteriorate in the next coming years. The main trade partners of Italy are the European Union (Germany, France, Spain, Netherlands, United Kingdom), China, the United States, Switzerland and Russia.

1.6 PRESENT TRADE RELATION AND BUSINESS VOLUME OF DIFFERENT PRODUCTS WITH INDIA/GUJARAT

From last few decades Italy has done great relation ship of doing business with india. Following are of some good examples that define that now days also they are maintaining good relationship for trading with INDIA.

NOV 2012- Italian auto components maker Magneti Marelli has opened a new automobile exhaust systems manufacturing plant in Manesar, near Gurgaon, India. The new production plant is built on a surface of 8,000mt² by SKH Magneti Marelli Exhaust Systems, a joint venture between Magneti Marelli and SKH Metals. About 4,500mt² of the new plant will be used for the manufacturing of Hot End components (catalytic converters) and Cold End Components (mufflers).

At the new plant, the company will produce about 400,000 Cold End components and 150,000 Hot End systems a year. According to the company, the new Indian plant will expand the product portfolio to include cold end systems and ensuring more room for production activities.

NOV 2012- Mahindra has launched the XUV500 crossover in Italy, the first European market to get the flagship crossover from the Indian car and utility vehicle major. The XUV500 that will be sold in Italy comes at an introductory price of 22,932 Euros, which translates to about 15.6 Lakh Indian Rupees. The XUV500 that is sold in Italy will be offered in two versions, a front wheel drive model and an all wheel drive model. The all wheel drive model of the XUV500 will be priced a tad higher, at Euro 24,983. In order to increase car buyer confidence in the XUV500, Mahindra is offering a 5 year-100,000 kilometer warranty on the Euro-spec XUV500.

NOV 2012- The foreign investment proposal by Italian jewellery brand Damiani to set up a 51:49 joint venture with Mehta's Pvt Ltd got the government's approval, sources said. The proposals were cleared by the Foreign Investment Promotion Board (FIPB) headed by Economic Affairs Secretary Arvind Mayaram. The government also cleared three FDI proposals worth Rs 106 crore in single-brand retail, including that of America's oldest clothing retailer Brooks Brothers and UK's footwear chain Pavers England. Sources said the footwear retailer plans set to invest Rs 100 crore. After the meeting, Mayaram said that the proposal of Pavers England has been cleared.

GENERAL OVERVIEW

1.7 HISTORICAL BACK GROUND ABOU ITALY

Italy became a nation-state late in 1861 when the city-states of the peninsula, along with Sardinia and Sicily, were united under King Victor EMMANUEL. An era of parliamentary government came to a close in the early 1920s when Benito MUSSOLINI established a Fascist dictatorship. His disastrous alliance with Nazi Germany led to Italy's defeat in World War II.

A democratic republic replaced the monarchy in 1946 and economic revival followed. Italy was a charter member of NATO and the European Economic Community (EEC). It has been at the forefront of European economic and political unification, joining the European Monetary Union in 1999.

Persistent problems include illegal immigration, the ravages of organized crime, corruption, high unemployment, and the low incomes and technical standards of southern Italy compared with the more prosperous north.

Inspite of this cultural power, Italy remained under the heel of foreigners. Under Garibaldi and his redshirts, it was finally reunited in 1861 - when the United States was in the throes of the Civil War. Established as a kingdom under King Victor Emmanuel, who abdicated after World War Two, Italy has existed as a nation for not much more than 130 years.

Today Italy is prosperous. Industry thrives in the triangle formed by Milan, Turin, and Genoa. Craftsmen and artists throughout the land produce the "Italian look" that has become a yardstick of excellence and good taste both in consumer and industrial goods. Tourism booms everywhere, from the northernmost Alps to the southern shores of Sicily. Italy's storied sites await discovery by more than thirty million tourists each year. Italian food is popular everywhere in the Western World. Italy again is a world power, this time, however, not in a military sense but in a civilizing one.

1.8 EU EMPLOYMENT LAW

European Union (EU) employment law protects the rights of workers across the EU. It covers areas such as: conditions of employment – eg working time, part-time and fixed-term work, posting of workers, discrimination, equal pay and the protection of pregnant workers, informing and consulting workers – through works councils and in collective redundancy and business transfer situations, protection of personal data. EU law had to develop in the context of pre-existing national legislation and on top of well- established national systems. This has led to shared competence in the employment field. One of the most challenging aspects is that the national systems are very different – with much more divergence than in other EU mandates such as competition or environment.

Implementation for EU employment legislation is usually achieved though directives. These are largely binding as to the results to be achieved – there is little obligation as to the precise method of implementation. This gives Member States considerable leeway when implementing EU law. The overlap of EU and national employment law means there is generally no single uniform law applicable across the EU. A few exceptions exist, for example in relation to European Works councils. There are, however, minimum standards which must be adhered to in a number of areas.

The free movement of workers across national borders within the European Union was a fundamental pillar of the EU treaty. But over the last two decades EU law has had a major influence on national laws in the following areas:

- Anti-discrimination laws, covering harassment, and with reversal of burden of proof
- Atypical workers –part-time, fixed-term workers
- Information and consultation –European Works councils and national Works councils
- Health and Safety, including working time
- Data protection
- Pensions

Although several issues, such as individual dismissal, remain purely national in scope. The economic crisis of 2007-12 has encouraged the European Union to reduce its drive towards increased social protection and its attempt to move away from setting purely minimum standards towards the establishment of employment norms. The European Commission is also becoming concerned about the way that high levels of social protection can actually prevent job growth and encourage employers to hire staff on part-time and short-term contracts. A tacit support for sectoral collective bargaining is also being replaced by an emphasis on workplace bargaining.


TRADE
UNION

1.9 INTRODUCTION OF THE TRADE UNION

A trade union is an organization of employees formed on a continuous basis for the purpose of securing diverse range of benefits. It is a continuous association of wage earners for the purpose of maintaining and improving the conditions of their working lives.

- A trade union is an organization that employees can join in order to have their interests & goals better represented.
- Trade unions are a major component of the modern industrial relation system.
- Traditionally trade unions used to focus their attention on obtaining a good standard of pay for their members but more recently unions are concentrating on protecting the individual rights of their members.
- Trade unions are thus the recognized associations of workers in one or more professions.

DEFINITION OF TRADE UNION

"A trade union is a continuing long-term association of employees, formed & maintained for the specific purpose of advancing & protecting the interest of members in their working relationships"

Dale Yoder

In other words "a trade union as a combination, whether temporary or permanent, formed primarily for the purpose of regulating the relations between workmen and employers or between workmen and workmen, or between employers and employers, or for imposing restrictive condition on the conduct of any trade or business, and includes any federation of two or more trade unions."

This definition is very exhaustive as it includes associations of both the workers and employers and the federations of their associations. Here, the relationships that have been talked about are both temporary and permanent. This means it applies to temporary workers (or contractual employees) as well. Then this definition, primarily, talks about three relationships. They are the relationships between the:

- workmen and workmen,
- workmen and employers, and
- Employers and employers.

Thus, a trade union can be seen as a group of employees in a particular sector, whose aim is to negotiate with employers over pay, job security, working hours, etc, using the collective power of its members. In general, a union is there to represent the interests of its members, and may even engage in political activity where legislation affects their members. Trade unions are voluntary associations formed for the pursuit of protecting the common interests of its members and also promote welfare. They protect the economic, political and social interests of their members.

- **<u>REASONS FOR JOINING TRADE UNIONS</u>**

The important forces that make the employees join a union are as follows:

1. Greater Bargaining Power

The individual employee possesses very little bargaining power as compared to that of his employer. If he is not satisfied with the wage and other conditions of employment, he can leave the job. It is not practicable to continually resign from one job after another when he is dissatisfied. This imposes a great financial and emotional burden upon the worker. The better course for him is to join a union that can take concerted action against the employer. The threat or actuality of a strike by a union is a powerful tool that often causes the employer to accept the demands of the workers for better conditions of employment.

2. Minimize Discrimination

The decisions regarding pay, work, transfer, promotion, etc. are highly subjective in nature. The personal relationships existing between the supervisor and each of his subordinates may influence the management. Thus, there are chances of favoritisms and discriminations. A trade union can compel the management to formulate personnel policies that press for equality of treatment to the workers. All the labor decisions of the management are under close scrutiny of the labor union. This has the effect of minimizing favoritism and discrimination.

3. Sense of Security

The employees may join the unions because of their belief that it is an effective way to secure adequate protection from various types of hazards and income insecurity such as accident, injury, illness, unemployment, etc. The trade union secure retirement benefits of the workers and compel the management to invest in welfare services for the benefit of the workers.

4. Sense of Participation

The employees can participate in management of matters affecting their interests only if they join trade unions. They can influence the decisions that are taken as a result of collective bargaining between the union and the management.

5. Sense of Belongingness

Many employees join a union because their co-workers are the members of the union. At times, an employee joins a union under group pressure; if he does not, he often has a very difficult time at work. On the other hand, those who are members of a union feel that they gain respect in the eyes of their fellow workers. They can also discuss their problem with' the trade union leaders.

6. Platform for self expression

The desire for self-expression is a fundamental human drive for most people. All of us wish to share our feelings, ideas and opinions with others. Similarly the workers also want the management to listen to them. A trade union provides such a forum where the feelings, ideas and opinions of the workers could be discussed. It can also transmit the feelings, ideas, opinions and complaints of the workers to the management. The collective voice of the workers is heard by the management and give due consideration while taking policy decisions by the management.

7. Bettermen of relationships

Another reason for employees joining unions is that employees feel that unions can fulfill the important need for adequate machinery for proper maintenance of employer-employee relations. Unions help in betterment of industrial relations among management and workers by solving the problems peacefully.

PART – II

TRADE UNION AND ITS IMPACT

2.1 OVER VIEW ABOUT ITALIAN TRADE UNION

Italian trade unions have more than 12m members. However, a high proportion of them are retired (almost half - 49% - across the three largest confederations). Taking this into account, the ICTWSS database of union membership put union density at 35.1% in 2010.

There are three main trade union confederations in Italy. The largest is the CGIL, which has 5,746,200 members, although only 2,729,300 of them are employed (2009 figures). The second biggest is CISL with 4,542,400 members, of whom 2,284,000 are employed (2010 figures). And the third largest is UIL, which has 2,184,900 members of whom 1,296,300 are employed (2010 figures).

In the past these union confederations had fairly clear political affiliations. CGIL was close to the communist party; CISL was created by Catholic trade unionists who were also active in the Christian Democratic Party, while UIL was closest to the socialist party. However, changes in the political structure (none of these parties still exist in their previous form) and changes within the confederations mean that this political categorization is no longer appropriate.

It is clear, however, that in general CGIL has taken a more combative approach to the right-wing government of Silvio Berlsuconi and the employers than the other two. In the recent period this has been clearly evident in the three confederations' approach to changes in the system of collective bargaining. CISIL and UIL agreed a new national framework for bargaining with the government and the employers in January 2009 but CGIL refused to sign (see below). Since then, despite areas of agreement, relations between CGIL and the other two confederations have been difficult.

This picture of varied relations between the three main confederations is not new. For decades, periods of close co-operation have been followed by periods of greater coolness, if not hostility.

The current period is clearly one of marked differences and competition between the three traditional union confederations and the prospect of organizational unity, which was a clear goal in the 1970s, now seems very distant.

The three main confederations are all organized in the same way on an industry basis. CGIL is the strongest of the three in manufacturing industry, while the strongholds of both CISL and UIL are the public services, although here too CGIL has a level of support comparable to that for CISL.

There are other groupings of trade unions outside these dominant confederations. The most important is the UGL, formerly called CISNAL. It was close to the right-wing party Alleanza Nazionale, which merged with Berlusconi's Forza Italia party producing the Partito della Libertá. The UGL states that it has two million members.

Other union confederations include: CISAL, which states it has 1.7m members in "autonomous unions" particularly in public and finance sectors; and CONFSAL, another grouping of autonomous unions. In addition some unions in particular industries and occupations are not attached to any confederation. One notable example is FABI in banking, while another is CGU, a teachers' union set up in 2003. There are also unions representing managers, such as CIDA and Unionquadri. In addition there are the "cobas", groups of rank-and-file workers working in specific areas such as the railways or the airlines, who have frequently been involved in industrial action. Overall these groupings certainly add to the total of union members, although the numbers claimed by some of the confederations seem exaggerated.

Overall, trade union representation in Italy has become increasingly fragmented in the last 20 to 30 years, particularly in the public sector and transport. Figures compiled by the state agency ARAN, for example, show that in 2008, although union density in the public sector was around 50%, with 80% of union members in the three major confederations, CGIL, CISL and UIL, more than 700 other unions were also present. Of these, more than half (52%) had a membership below 0.1% of total union membership, including around 30% whose membership was below 10 and 11.5%, which had only a single member.

In the view of some commentators, there is a common feature found among all the autonomous unions, with the exception of the UGL and Sindacato Padano. This is that they are similar to special interest groups, representing small groups of employees, who unite to protect their own specific interests and see no need to take account of other concerns.

Trade union membership has grown in Italy in recent years. Much of the growth has been among retired members, but all three major confederations have also seen the number of their employed members increase since 2000: by 14.6% for CISL and 13.0% for UIL. The number of CGIL's employed members has grown by slightly less – 11.5% – but this is between 2000 and

2009 rather than 2000 and 2010 as for the others. For much of the decade growth in the number of union members did not keep pace with the growth of employment in Italy, leading to a fall in result union density. However, the drop in employment as a result of the crisis has produced a rise in union density.

2.2 ABOUT FedEE (Federation of European Employers)

The Federation of European Employers (FedEE) originated from an employers' network first formed in 1988. The founder of the Federation, Robin Chater, became an adviser of the European Commission in 1982. His early involvement with the Commission centered on the development of equal opportunity action programmes. Robin was a consultant with Philadelphia-based HAY Management Consultants and had studied the use of affirmative (positive) action programmes in the USA. The Commission was interested in exploring the use of such programmes as a way to improve female career paths and asked Robin to carry out a three-country study of attitudes towards such an approach in private sector companies. The study discovered major cultural differences in the attitudes of human resource professionals and general management, whilst underlining the strength of the barriers faced by women in the workplace.

Robin remained an advisor to the Commission until 1992 and during this time he helped to focus policy on the importance of a common EU framework for maternity leave and how parental leave could transform the balance of childbearing responsibilities within the family unit. He also highlighted the shortage of public and corporate childcare facilities in many EU countries and worked with LEGO to establish the first comprehensive directory of such facilities in the UK.

Throughout the 1980s Robin assisted an increasing number of multinational companies to shape their equal opportunity policies. This led the Commission to suggest that participating companies could benefit from sharing their experiences. In May 1988 a meeting of around 40 major employers was held at BP's head offices in Moor Lane, London. All agreed that it would be useful to hold such meetings on a regular basis and Robin was asked if he could act as convener for the new network. Thus the EU Employers' Network was launched and over the next ten years member companies met on a quarterly basis and also acted as a sounding board for new EU initiatives. The brief of the Network also rapidly widened to cover all employment-related issues.

Although initially wholly funded by the European Commission, by 1992 the Network had become largely self-funding. The Commission continued to fund special projects such as a review of the European Works Council Directive and health and safety legislation. But by 1996 the Network was operating its own website and receiving a high level of interest from potential members. For this reason it was decided to open up membership to more companies and relaunch the organization as an employers' federation. FedEE was registered in 1998 and a board appointed from amongst the Network's original membership. Over the next two years the new organization took shape and in November 2000 FedEE opened itself up to a wider membership base.

Today the Federation’s membership is truly global, with particular concentrations in Canada, France, Germany, India, the Irish Republic, Japan, Netherlands, Sweden, the UK and USA. FedEE members employ, on average, around 8,000 people worldwide and there are particular concentrations in sectors such as banking, defense, electronics, engineering, information technology, insurance, medical devices and services, pharmaceuticals, professional services, real estate, search engine operators, social networking providers and telecommunications. The Federation has a board consisting of four corporate members and one personal non-executive director and is currently chaired by Ford Europe.

- **Current FedEE Board Members**

Steve Evison (Chair)	HR Director: Ford Europe (Germany)
Gary Byrne (Deputy Chair)	Partner: Byrne Wallace (Irish Republic)
Iona ElliottFormerly European	HR Manager: Kingston Technology Europe (Cyprus)
Angela Hughes	HR Manager (EMEA): Aris Global (England)
Robert Inglis	Formerly IR Manager: Forth Ports (Scotland)
Robin Chater (Secretary)	FedEE Secretary-General (France)

- **FedEE's Founder**

FedEE was founded by Robin Chater in 1988 with initial financial support from the European Commission.

Robin holds an honours degree from Leeds University and a Masters degree from the University of Lancaster. He also carried out post-graduate research in the Industrial Relations Department of the London School of Economics. He is a Fellow of the Royal Statistical Society and a Chartered member of the CIPD.

Robin began his career as a teacher in Oxford. Following his post-graduate education he joined Incomes Data Services to write about labour relations developments for IDS report. During his time with IDS he was regularly quoted in the national and international press concerning pay issues and was the first person to apply Shakespeare's phrase "Winter of Discontent" to the state of labour relations in Britain during the late 1970s.

He has been an advisor to the UN European Social Welfare Programme and the UK Information Commissioner and continues to speak regularly at international conferences.

He currently divides his time between the UK and the South of France, is a director of business service and media companies and is an expert on (and avid collector of) fine art, early European paper currency and letters from nineteenth century social reformers.

Full name	Italian General Confederation of Labour
Native name	Confederazione Generale Italiana del Lavoro
Founded	June 1944
Members	5.775.962 (2011)
Country	Italy
Affiliation	ITUC, ETUC, TUAC
Key people	Susanna Camusso, secretary general
Office location	Rome, Italy
Website	www.cgil.it

3.1CGIL (CONFEDERAZIONE GENERAL ITALIAN LAYORE)

A whole day with workers in all sectors and of all Italy for a discussion between the protagonists of the crisis in the country. On stage will alternate delegates, actors, workers, young people and musicians. Stand in the regions and categories. The conclusion will be entrusted to the Secretary General of the CGIL, Susanna Camusso

GENERAL INFORMATION ABOUT CGIL:

The Italian General Confederation of Labour is an association of worker representation and labor markets. It is the oldest Italian trade union and is also the most representative, with about 6 million members, including workers, retirees and young people entering the world of work.

The CGIL plays an important role in protecting the work from the free and unregulated operation of the market. It does so through the tireless work of construction and reconstruction of team spirit in the workplace and among workers, through daily practice commitment made concrete representation and bargaining.

When she was born in 1906 - but the first room of work dating back to 1891 - had two hundred thousand members. Since then he has maintained the dual structure: vertical, consisting of federations, and horizontal, through the Chambers of work. Currently there are 13 national categories while the chambers of labor throughout the country are 134.

The CGIL National is headquartered in Rome in the historic venue of course Italy 25. Its history is intimately linked to the history of the country: the conclusion, through trade associations, labor contracts and plays at the same time protective action, aiming to defend, assert and achieve individual and collective rights, ranging from systems welfare rights in the workplace.

The CGIL is affiliated to the European Trade Union Confederation (ETUC) and the International Trade Union Confederation (ITUC-CSI). The current Secretary-General is Susanna Camusso, elected November 3, 2010.

3.2 HISTORICAL ARCHIVES OF CGIL

Formed since the years immediately following the reconstitution of the CGIL unit, the Historical Archives of the Italian General Confederation of Labour, receiving in 1980 the Superintendent archives for Lazio, the "declaration of considerable historical interest."

It collects materials that cover a period from 1944 to now, the consistency of which amounts to about 9,000 bags for 950 meters. Completely rearranged, cataloged and made available to scholars until 1986, the Archives house within itself an important iconographic section.

They are available in the attached file the minutes of the statutory bodies until 1959. For a general description of the contents of each fund is available selections list. To view the contents of series, subseries and partitions lower level to select the + symbol to display the contents of individual archival items, position the cursor on the title card.

Over the years, have contributed to the cataloging of archival memory now, Christian Pipitone, John Venditti, Patricia Ventura, Ilaria Romeo with the planning and coordination of Teresa Runners and Ilaria Romeo since July 2010.The Historical Archives CGIL national reports and adhere to "For an Italian labor history"

Since March 2012, the National Archives CGIL involved in the project Archivionline the Senate.

CATAGORIES AND FEDERATIONS OF CGIL

- **Federazione Italiana Lavoratori CRADE A lbergo MENSA and Services**

Associates throughout the country workers working in the private service sector (trade, tourism, services): Organize employees still employed (in business or at home, full-time or part with relationship or scadenzato or insecure), workers associated in forms or self-managed cooperatives, the unemployed, the unemployed looking for work.

- **Federazione Italiana Lavoratori Chimica, Tessile, Energy, Manifatture**

Formed by the merger of the categories Filcem and Filtea, the Filctem-CGIL work in important sectors of industry and crafts (chemical, pharmaceutical, textile, clothing and footwear, rubber, plastic, glass, leather tanning, ceramics and tiles, glasses , industrial laundries, lamps and display), energy (oil, gas, mining) and services high technological relevance (electricity, water, gas).

- **Federazione Italiana Lavoratori Lnited Ediligence and Affini**

Organizes workers in the productive branches: construction and related wood and related products, bricks, cement, lime, gypsum, cement, cement, stone material, billboards.

- **Federazione Italiana Lavoratori Transport**

Organize by workers employed in services, activities directly or supporting, land, sea, air

- **Federazione Impiegati OPerai Metallurgici**

Italian organizes workers in the metal industry

- **Federazione The taliana Sindacale Lavoratori Assicurazione and Credito**

Organize the workers engaged in the lending business, financial, parabancarie, insurance, tax collection, the Bank of Italy, the capital (Consob, ISVAP)

- **Federazione Lavoratori Agro Industry**

Organize employees, fixed, seasonal (and unemployed sector) in the different joints professional working in the agro-industrial system and to protect the environment

- **Federazione Lavoratori of CNOWLEDGE**

Organize university professors, school teachers, researchers, technical, administrative and auxiliary staff is on permanent precarious. The Federation is responsible for state schools, universities, research institutes, vocational training, non-state schools, academies and conservatories, schools and lecturers all? 'Abroad.

- **Function Pubblica**

Organizes workers in the state, para-state, local government, health and their companies.

- **Sindacato Lavoratori Communications**

Representing the employees of the companies operating in the field of public and private broadcasting system, telecommunications and postal services

Full name	Italian Confederation of Trades' Unions
Native name	Confederazione Italiana Sindacati Lavoratori
Founded	1950
Members	4,507,349 (2008)
Country	Italy
Affiliation	ITUC, ETUC, TUAC
Key people	Raffaele Bonanni, secretary general
Office location	Rome, Italy
Website	www.cisl.it

4.1 ABOUT CISL (Confederazione Italiana Sindacati Lavoratori)

CISL, the second largest (4.427.037 members in 2007) Confederation of Trade Unions in Italy (19 major National branch (sector) Federations: e.g. metalworkers, chemical, textile workers, public employees, service, agricultural workers, etc., and 9 other, as we say, secondary Federations), affiliates salaried, white and blue collar employees, through its branch or sector

Federations on the basis of non-denominational, non-partisan and non- ideological Values and principles.

CISL is locally structured, as a Confederation of the above mentioned branch unions, at territorial (district: such as, for instance, Milan, Rome, Palermo, Florence...) and regional levels (21 regions, in the country: such as Lombardy, Latium, Sicily, Tuscany...; and the Pensioners' Union Members abroad).

The task CISL sets for itself, and its main immediate goal, is that of defending both employed and unemployed workers' interests, in the conviction society's interests they are, thereby, better promoted. Several fundamental, shared values support such an approach: democracy, solidarity, pluralism and trade union independence from any economic power, employer, Government or political party. And the firm belief that employees, as builders of the wealth of their societies, are entitled to "participate", through collective bargaining and socio/political independent action by the trade unions of their own choice, to the construction of their Own and their communities' future.

That is why negotiation, on one side, and on the other what we call concentration (the building up of a co-decision system where, always through negotiation, the social partners as well as the countries' political actors engage themselves to pursue and further agreed goals and behave consequently to achieve an effective all-incomes policy) are the main instruments of our action. CISL does not give up conflict, of course, as a possible recourse. But we look at industrial action not as a value in itself but, really, as a last recourse.

Collective bargaining is the rule, instead, and the normal method of action. Following a national framework agreement on industrial relations signed in July 1993, collective bargaining is presently structured in Italy as a two tier system: national branch sectorial level, to define what we might, somewhat improperly, maybe, but effectively call a minimum wage and conditions accord, and company or local level to improve wages along productivity trends.

A unity of action pact, in force for many years with the two other main Italian trade unions Confederations (CGIL and UIL) ensures a more effective bargaining posture -- even when the relationship among the three union Confederations is, at times, because of different priorities in general, not be the best possible one.
Moreover, the three Confederations would like to maintain with the present Government too a regular consultative, quasi-bargaining relationship; and/or, as appropriate, with local institutions (regional administrations, municipalities...) on the setting of the country's main macroeconomic, incomes policy picture (social security issues, welfare reforms, taxation levels, etc.); as of course with our counterparts, like Confindustria the main Industrialists' Association.

Recently a good working relation, after almost four years of troubled relationship - the employers trying consistently to ignore the unions' weight - has been reestablished between social partners (or, if you want, counterparts) after the election of the new president of Confindustria chosen by the very people who had taken the confrontational road but now convinced that, it does not really pay, even from their point of view.

With the present Government, though the Unions would have maintained an open dialogue and the concertation policy initiated in 1993, such an approach did not work: since their first day in office, the Government officially declared they did not believe in concertation and let it be clear that, if they could have gotten away with it they would very much have liked to do away with the unions.
They have not yet surrendered to the idea - common, today, to CGIL, CISL and UIL and Confindustria - that today's society complex governance is better made by autonomous and convergent co-decision of social, economic and political actors (concertation), but they are beginning to realize that they can't simply act alone and are trying to open up ways, not to concentration yet, but at least, as they say, to social dialogue. Meaning, in effect, they will consult the unions because they realise in Italy they are much too strong to be ignored, but than they will do as they like, if they can.

They can't, though...Concertation, for us, for CISL, is a strategy and a policy choice. Others, even inside the union movement, tend to see it simply as an instrument. But then those who support this view must resign themselves to the fact any of the actors might well pick, or discard, concertation at their own unilateral convenience.
Which is wrong, according to us, and vilifying the relevance of the policy? What it really means, instead, is a search for the common definition of goals by Government and the social partners and, then, the attainment of those goals by each of the "concert players" on its own, by consequent, responsible action.

The final decision, of course, rests as it should in the hands of the democratically elected political institutions. But in such a way the voice of organised work is guaranteed its due weight.

CISL is a founding member of the ETUC (European Trade Unions Confederation), of the ITUC(International Trade Unions Confederation) well aware since its very beginning that no union can afford to be an island in our small planet and, most particularly, in the era of globalisation.

4.2 SERVICES ABOUT CISL

To ensure to members and workers protection, individual, family and social environment more efficient and extensive CISL provides a range of services ranging from social security, tax and housing issues, consumer protection, leisure and training professional.

Addition to providing assistance and advice in the areas mentioned above, the CISL also involved in the field of cooperation, new professionalism, unity with developing countries, and assistance to immigrants

In every Italian city members can find multipurpose facilities the ICFTU which help you find the answers to their problems.

The toll free number **800-249307** provides all possible information about the activities offered by the service centers CISL.

4.3 SERVICES UNDER CISL

INAS - Protection and assistance of the worker and retired in dealing with social security and insurance

CAF - advice and practices on fiscal, land, social benefits, tax litigation

IAL - Training of workers, young people, graduates.Continuing education.

CENSORING - Assistance and consulting in labor disputes, control payroll, debt collection, appeal the dismissal

ADICONSUM - Association for the protection and consumer protection

ISCOS - the Trade Union Institute for Development Cooperation that operates as a non-governmental organization, in all areas of the globalized world

ANOLF - advice, assistance, information and advice on all issues related to immigration

ETSI - Activities and Services for the free time available to workers, the unemployed, pensioners and families

SICET - Information and advice in dealing lease, condominium rules, access to social housing

CENASCA - Promotes the work in the social economy, and non-profit sectors. Promotes, coordinates and manages the*National Civil Service* (Law 64/01)

4.4 DEPARTMENTS

General Policies

Department of Labour policies and training the South and Territorial Development School, University, Research

Institutional Reforms

Department Policies and Organizational Services

- Department of General Administration and Budget, Financial policies, economic and financial flows, Membership
- Department of Civil Service
- Energy Crafts
- Policy Department of the Tertiary and Private
- Department Policies contractual industrial sector
- Department of Economic Democracy, Social Economy, Taxes, Retirement Planning
- Training Auditors
- Department of Social Affairs and Health
- Department of Migration Policy, Women and Youth

- Department of Environment, Home, Health and Safety, Agribusiness

4.5 ORGANISATION AND ASSOCIATION

ADICONSUM	Association of consumers and users
ANOLF	National Association of Beyond Borders
CAF	Service center and tax advice
CENASCA	Self-management cooperation center social associations
ETSI	Tourist Office Italian Social
IAL	Learning Innovation Work
INAS	National Institute of Social Assistance
SICET	Tenants' Union House and territories

Unione Italiana del Lavoro

Full name	Italian Labour Union
Native name	Unione Italiana del Lavoro
Founded	1950
Members	2,196,442 (2011)
Country	Italy
Affiliation	ITUC, ETUC, TUAC
Key people	Luigi Angeletti, general secretary
Office location	Rome, Italy
Website	uil.it

5.1 ABOUT UIL

Luigi Angeletti, from June 13, 2000 National General Secretary of the UIL, was born in Greccio (Rieti) May 20, 1949. He has worked for a long time at the OMI (Optical Mechanics Italian) an engineering company in Rome, of which he was director. Thus began the current leader of the UIL union militancy. From 1975 to 1980 he was appointed Provincial Secretary of the LWF and UILM of Rome. In 1980 he was elected National Secretary of UILM, of which it is the Secretary-General in February 1992.

In this role, in July 1994, made the first renewal of the metalworkers' contract without a single hour to strike. Always as Secretary General of the UILM is the protagonist of the birth of the supplementary pension fund CO.ME.TA (1997).

Has always been committed on the issues of industrial development, is among the most active supporters of the birth of the modern European factory car (FIAT MELFI).

In 1998 he was elected Confederal Secretary UIL. For the federal government deals with contractual policies and industrial policies for all sectors of industry and trade. On 13 June 2000 he was elected Secretary General of the ILO, still in office.

Luigi Angeletti is also a member of the ETUC (European Trade Union Confederation) and member of CNEL (National Council for Economy and Labour). He has written numerous essays and articles on the main Italian newspapers.

5.2 HISTORICAL VIEW OF UIL (UNION ITALIANA DEL LAVORO)

The first Trade Union Convention (second if you count the constitutive convention), electing Italo Viglianesi as General Secretary was held in Rome on December 6th to

8th 1953. The convention approved the union guidelines to be followed by Uil siding against "the combined offensive of communism and the upper classes". (Also see our history).

These were the hard times of the cold war and of the productivity campaign of Marshall’s plan for the reconstruction of Western Europe after the Second World War. The members of the confederation along with Viglianesi were; Bacci, Cariglia, Corti, Raffo, Rossi, Sommovigo and Vanni. From February 9th to 12th 1958 the third National Convention was held in Florence. The final motion of the convention pin pointed how the main problem of the country was the development of new employment opportunities, reform in the economic structure, unity of the Trade Workers, the conditioning of International politics and the development of government participation. The fundamental problem was that of safeguarding the rights of the workers in the years of the economic "boom" but in reality it did not solve the structural imbalances of the country beginning with the north south split. The council elected was made up of Viglianesi, Bacci, Benevento, Corti, Dalla Chiesa, Raffo, Rizzo (substituted later by Gatti), Simoncini & Vanni.

From February 29th to March 4th 1964 in Montecatini, Uil held its fourth National Convention. These are the years of the center/left wing which attempts to give concrete answers to the necessity to resolve the persistent structural imbalances and the slogan for the convention was "Programming Strengthens Union Actions and Guarantees Democratic Efficiency". The convention considered the strengthening of the union’s contractual power prejudicial to the effective progress of the country. The elected concil of the convention was made up of Viglianesi, Benevento, Benvenuto Silvio, Corti, Dalla Chiesa, Raffo, Ravenna, Rossi, Simoncini, Tisselli, & Vanni. Uil’s 5th convention was held in Chianciano from 27 to 31 October 1969, during the so-called "warm autumn" elected Italo Viglianesi President of the National council of Uil, of which the general secretaries were, Lino Ravecca (Psdi), Ruggero Ravenna (Psi) and Raffaele Vanni (Pri). Members of the confederate council were Benevento, Berteletti, Cesare, Dalla Chiesa, Rossi, Simoncini, Sommi, Tisselli and Torda. Uil was reforming it’s structure and renewing itself in order to keep up with the changing society and the work force.

The central committee of 27 October 1971 elected Raffaele Vanni General Secretary of Uil. The members of the council were, Benevento, Berteletti, Bonino, Cesare, Manfron, Muci, Ravecca, Ravenna, Rossi, Simoncini e Torda. On July 24th 1972 Cgil-Cisl-Uil sanctioned the federative pact and the federation made up of Cgil-Cisl-Uil was born.

From 21 to 25 March 1973 the 6th convention was held in Rimini and the theme was "The Unity of Uil for the Unity of the Workers". The convention confronted the debate on the unitary process and elected the confederate council made up of Vanni, Benevento, Berteletti, Manfron, Muci, Querenghi, Ravecca, Ravenna, Rossi, Rufino and Torda. The representatives of Uil in the confederated Trade Unions council were Vanni, Ravecca, Ravenna, Rossi and Ruffino. These were the years of "Pan-unionism" but also the difficult years of terrorism and of tension strategies.

On September 30th 1976, Uil’s central committee elected Giorgio Benvenuto General Secretary. The seventh convention that took place in Bologna from 29 June to 3rd July 1977 confirmed Benevento as General Secretary and elected the following confederate secretaries, Bugli, Buttinelli, Luciani, Manfron, Ravecca, Ravenna, Rossi, Torda, Vanni and Zoni, The slogan from the convention was " Participation of a Union for Unity Betweem Workers, Youth, Women and the Unemployed". The theme for the participation of the union was to lay claim to a moment in time which was essential to the changes taking place in the country.

In Rome from June 10th to 15th 19981, the eighth national convention took place. Uil was laying claim to the passage from antagonism to protagonist and elected the new council made up of Benvenuto, Agostini, Bugli, Della Croce, Galbusera, Izzo, Larizza, Liverani, Luciani, Mattina, Mucciarelli and Sambucini. Uil substantially took the side against the changes made to salary automatism, however, the difficult international ties contributed in determining the risk of an elevated inflation rate and the necessity to adopt a strategy of overall income permitted to confront the problems of the economy in an organic manner. Due to the cut in the "escalator" (a growth in pension over time), and the controversy created by the referendum requested by the Pci for the abolition of self providing caused the dissolution of the Cgil – Cisl – Uil Federation in 1984.

The convention in Florence (9th, 26-30 November 1985), marked a new season for Uil. The slogan was significantly “Turn to the New". In this occasion Uil declared itself "the union of the people", giving value to its role even outside of the work place, for the defense of workers rights even when they were not working. Uil had already addressed the important survey on the disorder of the country in which the internal revenue office was one, "I pay taxes do you?". In this way Uil was giving a concrete answer to the problems faced by the unions and put itself forward as one of the forces for a politics of harmony that could bring good results to the country.

Benvenuto was confirmed as leader of Uil as he did at the end of the 10th convention held in Venice from 23 to 28 October 1989.Slogan for the convention was "Making Italy Work", in line with the politics of the peoples union and the role of harmony and participation of the union organization.

In February 1992 Pietro Larizza became General Secretary of Uil. The eleventh national convention (Rome, 3-8 May 1993) had "The Rights of Work and Work for Development" as its slogan and confirmed Larizza as the leader of Uil. During his introductory speech Larizza asked for "a contract for development", a contract "for the reconstruction and enlargement of the productive basis, including all of the sectors that must compete for the development of the "Italy Company". A contract to make Italy work".

From the 4th to the 1998, the twelfth UIL convention was held in Bologna. The significant slogan "….più unionists". 1024 the delegates participating, 71 international delegates and 66 journalists attended. The convention approved the new flag that went from the traditional red to light blue which was an explicit call to the colours of the Europeans unit (which UIL has always backed). The convention furthermore confirmed Pietro Larizza as the leader of the organization.

5.3 UIL SERVICES

The System SERVICES UIL is the integrated structure of coordination of services for which the ILO has adopted to provide people with effective forms of assistance and protection more appropriate and responsive to different social requirements.

The UIL wants to make more usable both services for decades are offered to individuals and their families, and the new services by providing expertise and professionalism.

In a society increasingly less attentive listening and solving problems of people the System SERVICES UIL is a center in which they operate, in a synergistic way with the categories of the UIL, different subjects such as the ADOC, the CAF UIL, the Patronato ITAL UIL, the Uniat and Arcadia reconciles, the Office H, the ANCS and UIM.

The System SERVICES UIL has an extensive network of branches located throughout the country and abroad can offer information, advice and legal and administrative protection on welfare, social security, taxation, housing and consumer rights.

ArcadiaConcilia
Risoluzione dispute civili e commerciali

UILPENSIONATI UIL

6.1 Italy without industry?

The Report of the CGIL cases of crisis still open in the manufacturing, rade and services in Italy, to the national demonstration in Rome on October 20 to say 'Work first'. Income from employment dive with over half a million workers in the IGC, more than 30 thousand companies disappeared. In trouble even trade, tourism, transport and the banks: the economic and social drama in Italy.

Continue the monitoring of the Confederation on the most acute crisis situations that are literally shaking the industrial fabric of the country, but also the system of services, trade and credit. Continue the bleeding of jobs with astonishing figures, half a million people in just three years 2008/2010, in all manufacturing sectors, from mechanics to the steel industry, from household appliances to pharmaceuticals, textiles, ceramics, to which are added those lost in construction, trade, telecommunications, transportation, and banks.

Thay are in the midst of a crisis to 360 degrees that does not discount anyone, but affects one sector after another. In fact, when it closes or reduces drastically the production establishment to disappear from the market is also its product, and so in Italy in danger of disappearing entire sectors such as aluminum in Sardinia (Alcoa, Eurallumina) or steel (ThyssenKrupp, Lucchini , Ilva) with a consequent increase in imports and therefore the dependence on foreign sources of our economy. At the risk Made in Italy in the textile industry and the white (Merloni, Indesit), ceramics (Ginori), food and upholstered furniture in that 10 years ago covered 16% of the world production today while recording a mortality of 80% of production activities. If it is true that the Italian industry has been less suffering under the point of view of exports, from 61.4% in 2000 to 55.6% in 2011, to suffer greatly crisis are the companies that cater exclusively or almost exclusively for the domestic market.

The framework for the Italian industry is dramatic: the first signs of the crisis our country warned us in 2008, when he recorded a decline in industrial activity by 22.1% (April 2008 March 2009) and since then it does not substantially has ever recovered. To prove it is the disappearance between 2009 and 2011 of 30 thousand companies. To this they must add the suffering of the industrial applications of hours of layoffs, about a billion a year to 500 thousand workers, it is important to stress, negatively affect productivity per hour, which however is usually calculated on the total number of the workforce.

Relocation of cost, liquidity crisis, lack of investment and infrastructure, energy costs are too high, reorganization to a question on the decline, are some of the major causes of the crisis in our country. For this reason, the CGIL back to reiterate the need for an industrial policy with a central investment and innovation in the energy, environment and materials that will stimulate greater collaboration between the public and private sectors relying on public demand. There is need for resources to make our country competitive. Jump-start the economy also means reviving domestic consumption through non-restrictive policies and pro-labor income and pensions that with the current government interventions are undergoing a drastic reduction.

E 'to give voice to all those who live in this crisis, the first person who struggle every day to save, which can result in your workplace, including layoffs, solidarity contracts and announcements of redundancies, the CGIL calls to get off in Piazza San Giovanni Italy the crisis, but the crisis that want to get through work.

Following are some updates to particularly critical situations.

6.2 Economic policy in Italy

Like the rest of Europe, Italy has come through the worst of the crisis, although recovery is extremely slow and macroeconomic indicators are still a long way off their early 2008 level. In two ears, Italy's GDP has dropped by 6-6.5%, a loss of about 90 billion euro. Growth in 2010 was estimated at 1%, and a similar increase in GDP is expected for 2011. Chances of the recovery picking up pace hinge in particular on the largely unused capacity of businesses caused by the credit squeeze, the lack of public investment, and also difficulty in obtaining credit and rising unemployment. The crisis has worsened the downturn in productivity with resultant repercussions on employment, which are the most serious problems we are dealing with, primarily in Southern Italy and in younger generations (1 in 4 are unemployed): almost one million jobs have been lost and half of all workers still in a job are there thanks to special measures known as "social shock absorbers".

In 2010, public deficit/debt issues began to emerge throughout Europe much earlier than expected, deepened by the financial crisis of the previous two-years. Interventions to save banks and financial institutions and to prop up the economy forced public deficit into a downwards spiral in all industrialized countries in the western world and triggered a sharp rise in sovereign debt. Exit strategies that had originally been pushed back to 2011/12 to try not to strangle new business in the starting blocks, were brought forward, also as a reaction to the Greek crisis. The general approach was to make cutting the public deficit a priority by cutting expenditure and/or raising taxes. Overlooked in these strategies is the huge role the massive redistribution of wealth away from the medium to low-classes has played, and the failure to appreciate how such policies, especially when implemented on a wide scale, can thwart any chance of growth and therefore also the ability to deal with public debt.

If a nation doesn't grow, then there is a risk that any policies to cut the public deficit will be ineffective or even counter-productive. If individual countries can and must be asked to introduce budget control plans, the European Union should be allowed/be able to implement a Europe-wide growth plan. Without this, the various deficit-cutting measures of individual states may choke the much-heralded growth, which is weak to begin with, before it can have any effect, making it even more difficult to realign public accounts in many countries. There's no escaping the issue any more that we have a single currency but separate fiscal and budget policies.

The hard line championed by the Italian Treasury Ministry for the current economic climate should be embraced. Italy can't afford to waver from this hard line, because our ability to finance the country's debt (obtained moreover on very competitive financial markets) depends on the credibility of our accounts, with debt currently equal to 120% of GDP. This is the hard lesson we must learn from Greece. Steps to reintroduce emergency social shock absorbers and associated provisions are steps in the right direction, along with confirmation of tax relief on production bonuses, although they are not enough. Any action must go beyond merely stabilizing the public deficit, we can't hang in a limbo that is stopping us from pursuing growth; for growth to really take off, we need investment and household consumption to boost demand and we need to start from the tax system.

Having gotten to grips with the public deficit, the government must now take steps to bolster development, introducing the necessary reforms in domestic policy then lobbying the European Union to focus on more than just cutting public expenditure. Far-reaching fiscal reform could generate the necessary resources to kick start the economy by seriously lightening the tax burden on

labour (workers and businesses), changing tax rates for long-term assets and financial and propertyrelated

income, intensifying the war on tax and social security evasion.

Abnormal political costs and incalculable waste in public finances must be reduced. Organic reform in the tax system and support for families is the key objective to be pursued single-mindedly.

In 2010, a heated debate took hold between social partners, trade unions and industry, on the subject of which issues should be targeted to promote growth and make the nation more competitive, and which policies were needed as quickly as possible. There was a strong similarity in the positions adopted by CISL, UIL and leading industrial players on the need to act together, to forge a social pact of shared commitment, responsibility and policy in the face of the changes Italy needs to make in order to grow and compete: a social pact that would encourage the government to adopt a strategic vision of change, to confer with the opposition, to engage in debate with the nation, starting with the immediate launch of a "think tank" on fiscal reform.

6.3 Industrial Relations

Defending and improving the rights and living conditions of Italy's workforce, while playing a role in promoting development of the country has always been an integral part of the history of the co federal trade unions in Italy. The 1993 agreement with the Ciampi Government got the country through the grave crisis of 1992 and took it into the Eurozone. Things have always been done this way, irrespective of whoever was leading the nation, the only objective being to defend workers in a context of shared responsibility.

In this framework, CISL and UIL working together with CGIL, started collective bargaining with Confindustria and other employer groups in 2008 to amend the 1993 agreement on the collective agreement and trade union representation. To this end, the three union confederations signed a common agreement, although by the end of negotiations, relations had unfortunately broken down between CISL and UIL on the one side, and CGIL on the other. As a result of this, CGIL did not sign the agreement with employer associations. The government was also one of the signatories, its role being to guarantee the payment of tax and social security incentives, as well as its obvious role as an employer.

Even without CGIL's signature, in 2009/2010 the new contract covered the way for the renewal of a large number of contracts in both the private and public sectors, signed by Cgil – Cisl – Uil categories. Metalworking and mechanical engineering industry contracts were the only exception. This was an outstanding result during such a grave economic crisis. One issue that was particularly important was that of workers' participation. Consultation promoted by the government between all social partners to formulate a Joint Announcement on the issue came to an end in 2010. We are now waiting for this to be discussed in parliament and a law passed in support of institutes of economic democracy in Italy.

6.4 The state and the outcome of negotiations in the private sector

In the private sector, the number of workers covered by collectively negotiated contracts and the numbers of these that have been renewed on time is within the norm. Considering the recession, this is a remarkably positive situation. ISTAT figures published at the end of November 2010 show that 62.1% of employed workers were covered by collective agreements, the economic conditions of which were the only ones in force. The figures for national agreements begin to differ when you look at more specific sectors: coverage in the *agricultural* sector is total, compared to 94.2% in *industry* and 65.7% for *private services*. From January 2010, all contracts in the *public administration* expired as a result of a freeze in negotiations imposed by the government in response to the European Stability and Growth Pact's request to bring the public budget into order. A portion of collective contracts, equal to about 25% of employees, expired at the end of December 2010 and are due to be renewed.

In 2010 the new bargaining system proved its worth. Its main elements draw on the Framework Agreement reached in January 2009, signed by CISL, UIL, other trade unions and by all employee associations, although not by CGIL. The traditional system of industrial relations, based on national and decentralized collective bargaining, was therefore confirmed and given new strength. The new agreement focused on two main pillars: safeguarding against inflation on the one hand, and growth, redistribution of productivity, profitability and quality on the other.

Compared with the 1993 agreement, provision was made in the new system for a whole range of measures to make the renewal of national contracts quicker and easier: first and foremost there was a transition from planned inflation often set quite arbitrarily by governments over the last decade, to inflation set by a qualified and independent "forecaster" with no direct relation to the unions nor to employers; also included are: an interim pay guarantee after the expiry of the previous agreement, the review of time scales to submit requests and of the negotiation process itself, and recovery of any gaps between actual and expected inflation in the three-year period in which the contract applies. The pay scales laid down in collective national labour agreements have kept pace with growing prices; indeed, on the one hand we have seen a shift from the slower retail-price index for households, white- and blue-collar workers, to the faster Harmonized Index of Consumer Prices (HICP), and the factoring-in of the prices of imported energy products. The two together have not affected actual salaries.

The January 2009 agreement aims to boost growth in productivity, something Italy has struggled with since the early 90's, through decentralized bargaining. More attention will be given to collective and individual contributions to increasing competitiveness and productivity. Over the years, CISL and UIL have requested and obtained tax and social security incentives on collective wage rates agreed at the decentralized level, with benefits for employees in terms of their net income. The purpose of the incentives is in fact to use collective bargaining to encourage more and more organisations to introduce schemes whereby employees are much more involved in the process and bonuses are linked to results, i.e. participatory schemes for employees and in industrial relations.

On a final note, the framework agreement and agreements that subsequently evolved from it provided that deviations from the collective national agreement could be made in concertation, although this was in no way whatsoever to be considered a carte blanche departure but a condition with which to leverage significant investment to boost business, employment and the territory. Such departures are foreseen in two different cases in metalworking and mechanical engineering industry contracts, either experimentally or temporarily: to promote economic development and employment by creating the right conditions for new investment or to contain the effects of organisational crisis.

Agreements regarding these deviations must specify which articles of the national contracts have been modified, and they must not involve a cut in wages or affect statutory rights. The prospect of introducing a participatory element must be seriously considered and applied as the new generation in industrial relations.

More than 50 collective national labour agreements were renewed in 2010, which according to Istat figures, involved 30% of Italian workers. Sectors with the greatest proportions of workers with renewed contracts are: Construction, Tourism, Textiles, Farm Workers, Wood, Rubber, Plastic, Energy and Oil, Electricity, Footwear, Ceramics and Tiles, Stone, etc. This figure can be added to agreements signed between the end of 2009 and early 2010 (Food, Metalwork and Mechanical Engineering, Telecommunications, Paper and Chemicals Industries), which reflect the new set of rules defined in January 2009. Agreements were generally renewed unitarily, except for those that FIOM did not sign (at the end of 2009, Confindustria Metalworkering and Mechnical Engineering, followed by Confapi Mechanical Engineering, Gold and Silversmiths). The new agreements have achieved some fairly important results, considering the grave crisis of recent months, in themanufacturing sector in particular. This certainly does not help collective bargaining and most importantly, actually slows down renewal times. Some sectors that had already renewed their respective labour contracts, went on to sign agreements on other issues, in particular agreeing guidelines for company-level bargaining (metalworking and mechanical engineering and the food industry).

As provided in the Framework Agreement, there has been a return to the three-year contract for both the legislative part and the economic side. Contracts have in fact been renewed much quicker, despite the prevailing economic crisis that the country is experiencing. In fact, the contracts of workers in the metalworking, mechanical engineering and chemicals industries were both due to expire on 31/12/2009 but were renewed before this date; the average time required to renew a contract for the 13 most significant renewals in the private sector was around two months, compared to the more than six months in the previous round; on the whole, this can be considered a physiological delay, given that the new three-year contract was being renewed instead of the previous two-year salary period. Renewal times for contracts in the private service industry are longer, due in particular to the difficulties in some specific areas such as transports and private health; contracts in the public sector have been frozen since 2010. Pay rises established in national agreements between the end of 2009 and early 2010 for the threeyear period from 2010 to 2012 varied from 7.5% to 5.4%, as compared to an overall rise in average prices of 5-6%. It should also be pointed out that the Metalworking and Mechanical Engineering contract that was not signed by FIOM CGIL provided for pay rises (6.4% for the three-year period from 2010 to 2012) that are absolutely in keeping with those of other agreements reached individually with CGIL federations.

Collective agreements have also aimed to extend second-level bargaining. In general, more straightforward models have been defined along with discretionary indicators of productivity, profitability and quality that can be applied in situations or industries in which it is difficult to set more complex production bonuses.

In application of the 2009 Framework Agreement, national agreements have introduced a wage guarantee scheme (or enhanced existing ones) for employees in companies in which there is no company-level bargaining or who receive no other form of individual or collective supplementary payment other than as prescribed in their national agreement. Generally, payment is made annually although in some cases it may be monthly.

In all renewals, an attempt was made to extend the number of contractual welfare institutes, the aim being to strengthen the power of the national agreement as a means of universal solidarity. The instruments applied are those of the bilateral system, whilst the areas which attracted the most scrutiny were private health care plans and wage support schemes. On the subject of training, the focus was on forging a more effective relationship with Interprofessional Funds (*Fondi Paritetici*) to establish organisational plans. The new agreements also attempted to safeguard the positions of temporary workers. Many agreements feature measures to safeguard workers with temporary contracts, one of which is recognition of the length of service built up from contract to contract, to allow the individual to benefit from automatic seniority increases and labour mobility. More training will be provided on issues concerning health and safety in the workplace. Some agreements have established an Employee Representative for Safety and the Environment (*RLSA in Italian*) in companies where the environment poses a greater risk; this person takes on additional responsibilities than the Employee Safety Representative (*RSA*) with respect to the environment; the representatives work together within the scope of their respective functions, to achieve safety and environmental targets. Specific information-sharing and training measures are planned to this end.

6.5 Trends in wage rates

We discussed earlier how the collective bargaining system, as modified in early 2009, has not floundered, even in the face of such a deep crisis. The new agreement did not cause any drop in wage rates, as its critics had initially forecast.

Summary figures show that wage scales in national agreements are being maintained; according to ISTAT, from January to November 2010 these rates rose by 2.2% compared to a 1.6% rise in HICP (not counting increases in fuel prices). Nevertheless, when it comes to actual wages, this is not the case; due to the crisis, these havedropped as fewer hours have been worked and fewer supplements have been paid than would normally be the case in the more positive phases of the employment cycle (company-level bargaining, bonuses, benefits, promotions). In 2009, total wages paid out, i.e. the total amount actually received by employees in the country, dropped due to rising unemployment and the increasing use made of social shock absorbers, by a nominal 0.6% across the economic system and by 5.7% in manufacturing industry in the stricter sense. This figure continued to fall the following year too.

6.6 Contracts frozen in the public sector

The June 2010 "manoeuvre" made changes to collective bargaining and public sector pay scales.The government has ruled that from 2011 to 2013, the overall retribution of individual employees must not exceed the level they would have normally been entitled to in 2010.

As in previous years under centre-right and centre-left governments, in 2010 there was no opposition to plans to cut the public deficit. On this subject, Italy faces a serious burden of debt built up over many years, and which is now putting the stability of the country at risk. All the same, many governments, both European and non-European, have opted for spending cuts and cut-backs in public sector pay and work forces, in order to reduce their deficits, and these measures have been more severe than those introduced in Italy.

There has been criticism that while public sector agreements have been frozen, not enough is being done to curb wasted resources and inefficient management that the political machine is primarily responsible for at all levels. Pressure has been put on the government to at least hold back on the most problematic measures, such as the brutal instalment scheme proposed for public sector severance pay and the freeze on seniority increases for teachers; these requests were accepted.

While maintaining the principle of shared responsibility, a request was made to safeguard supplementary decentralized bargaining for efficiency, productivity, and operating economies of scale in the public administration, in order to put a stop to the many misjudgements made in deploying public money that push up the cost of services for citizens and drain any resources available for employment agreements: savings and economies are drastically needed to create funds to cut deficits and improve services and the professionalism of civil servants. This forced stop on pay negotiations should be exploited to build new grounds to justify the role that trade unions have to play:

- We need to bring key issues regarding the training of public sector workers back onto the agenda, as collective bargaining in recent years has tended to relegate these to second place; most importantly of all is the development of public sector professionals, anticipating changes and examining local training needs.
- If we are to contribute to the growth of the country and of public pay scales, we also need to be at the forefront of the modernization of public services and as part of this process, restore public faith in public service employees, and of the latter in their trade union.

The election of joint workplace union structures (*RSU in Italian*) in the public sector has not been frozen; these will take place in accordance with already established principles, once the categories of the new contractual divisions have been decided, in light of the recent reform of the public administration.

6.7 Labour Market

According to the Italian National Council for Economics and Labour, one million jobs have been lost as a result of the crisis. Half of these are still with the companies. The other half are unemployed. Initially, the hardest hit was the category referred to as "atypical", hence young people for whom the national unemployment figure now stands at 29%, which goes up to 30% in Southern Italy, where 36% of women are out of work. However, the crisis has now started to affect workers with open-ended contracts. The precise unemployment rate, bearing in mind those receiving the Wages Guarantee Fund (*Cassa Integrazione*), is on the rise. Total figures for the third quarter of 2010 pointed to more than two million people without a job (an unemployment rate of 8.7%); if you then add "laid off" workers receiving the wages guarantee fund to cover lost wages, the figure rises by a further 340,000.

Given the unusual circumstances brought about by the economic crisis, at the end of 2008 the social partners asked the government to invest heavily in social shock absorbers for sectors that were not previously covered by the standard measures, hence they were referred to as "special" shock absorbers. A total of €8 million euro was set aside for the two-year period from

2009 to 2010, with the scope of the social measures extended to small businesses and sectors that traditionally couldn't use the wage guarantee scheme.

By signing the general agreement "*Linee Guida per la Formazione nel 2010*" (training guidelines for 2010), the government, local authorities and social partners agreed on a common objective to make more efficient use of wage support schemes implemented as a result of the crisis. This was to be done through targeted measures to retrain workers on such schemes (wage guarantee fund, suspension, mobility, unemployed) to make sure unemployment doesn't become widespread in a given area or generate sections of the population that have never worked.

In 2010, a total of 1.2 billion hours of wage guarantee fund payments were authorized, which was a year-on-year rise on the 914 million (31.7%) paid out the previous year. Last year, ordinary wage supplements which are the primary intervention in times of economic difficulty, was seen to drop; the extraordinary wage supplement on the other hand, rose until September 2010 at which time it showed signs of dropping slightly in October; special supplements continued to rise with some signs of levelling off in recent months. In December 2010, a 16.4% core reduction was seen in the total hours authorized under the wage supplement scheme, as compared to the same month in 2009.

This situation is no less alarming nevertheless. Businesses may still be forced into laying off workers, especially in industries which have been hardest hit by the recession. An exit strategy for labour policy is needed urgently, i.e. a way of limiting the social effects of the downturn without discouraging the research of new jobs and the requalification of workers on wage support schemes.

In particular, the request to refinance the system of special social shock absorbers in 2011 was accepted, along with continued shock absorbers for all businesses that are unable to return to normal operating conditions, better wage protection for workers on ordinary wage supplement schemes, and more specifically, maintenance of initial levels of pay throughout all extension periods of special supplements. At the same time, the Italian economy has to be given the means to expand; hence measures to boost employment have to go hand in hand with growth in productivity.

Young people, the worst hit in this period of economic decline, must be given the chance of a job and a stable life without resorting to the easier option of creating jobs artificially in the public sector

that are paid for by public supplements on which no return is generated.

6.8 The FIAT agreement

The Fiat dispute, which was the biggest source of confrontation ever in relations between organized associations of workers, actually started in 2008 with the unitary agreement between CGIL, CISL and UIL laying down "Reform of the Collective Bargaining Structure” and the foundations of a series of negotiations which culminated in the Agreement of 22 January 2009 establishing the new bargaining model but without CGIL. In the debate which followed the transition from the previous model of the contract (Agreement of 23 July 1993) to the new one (Framework Agreement of 22 January 2009), one of the most contentious issues was the question of whether to allow second-level bargaining the power to depart from the standard terms laid down in Collective National Labour Agreements.

To bolster our manufacturing system, to ensure the growth of business and pay and to protect jobs in the global economy, our industries need to be more competitive. This will not come about just through cutting the cost of labour, which in many cases actually has no effect on competitiveness; it can and must be achieved by making more use of plants which can generate returns on investment and therefore increase pay.

All this can only be negotiated and achieved at the company level, implementing where necessary, deviations from National Collective Labour Agreements.

The 2009 Framework Agreement set out provisions in this regard, envisaging that to govern situations of organisational crisis from the local context or to promote economic development and employment in the local area, collective national labour agreements could be used as a tool to allow the industrial associations and trade union structures at the territorial level that stipulated the original contract, to reach further agreements to amend, either in full or in part, possibly experimentally or temporarily, individual economic conditions or norms governed by national collective labour agreements for different categories of workers. The power to amend agreements depends on measurable parameters identified within the collective national contract, such as labour market trends, the skilled and professional resources available, the productivity rate, the rate at which production activities are started up or ceased, and the need to establish more agreeable conditions to attract investment.

From 2009 to 2010, FIAT's industrial policy was the main and most effective testing ground for the proposed new bargaining model, especially after the company acquired a majority stake in Chrysler in June 2009 and reorganised its manufacturing network, proposing to review the organizational agreements of Mirafiori and Pomigliano in particular.

The option to stipulate amended agreements had been envisaged in the national collective labour agreements for metalworkers, signed without FIOM-CGIL in the same year.

These proposals proved to be the breaking point for the trade union front, as relations failed with FIOM as it declared its unwillingness to enter into any agreement advocating deviations from the national collective labour agreement, and with the other associations of workers who intended to negotiate new working conditions, also as a means of promoting new investments.

Key agreements on investments, shifts and plant use were reached in Mirafiori and Pomigliano. Rights were not affected in any way; to the contrary, the right to work was defended along with the future of thousands of workers.

Both agreements shared some key clauses:

• *Responsibility clause,* whereby penalties would be incurred (contributions and permits) if the unions defaulted on any of their undersigned obligations.

• Add-on clauses to individual contracts, whereby failure to observe the relative clauses would be considered a disciplinary offence. The filter of a *joint conciliation body* was envisaged in both cases.

Both agreements address the basic elements of flexibility and organisation of labour, the aim being to make full use of production sites following the standard practices used in German and US automobile industries: from shift patterns and compulsory overtime to breaks and the control of absenteeism, for which a *joint control body* was also established. Shift workers are set to benefit by around €3700 gross per annum. The 10 minutes cut from breaks shortened from 40 to 30 minutes will be converted into a monthly sum of €32.50.

The hard work that went into reaching these agreements was sustained by the unswerving determination to reach a favourable outcome:

• Investments in a situation that apparently no one wanted to risk investing in.

• Employment level maintained and even increased.

• Wage rises on the back of improved productivity.

• Bargaining was a key tool in achieving these goals.

The objective to increase investments clashed with a situation in which investments in Italy over the past three years had dropped off by about 12%, despite the positive effect of the incentives made available through government intervention; an upturn is not expected in 2011 and this will have a devastating effect on employment.

In 2008, foreign capital in Italy amounted to USD 343 billion compared to 1000 billion in France and Great Britain, 700 billion in Germany or even 635 in Spain. There have been no signs of recovery since the downturns of 2008 and 2009.

Italy's ability to attract direct foreign investment is nowhere near that of other European countries of a similar size; this is not just down to the evident structural gaps but also, as the Italian banking institution Banca d'Italia has pointed out, multinationals tend to migrate towards areas offering powerful economies of scale and a highly active research community, things which are present on a lesser scale in Italy. Contrary to the prevailing trend then, through these agreements we obtained a total investment of 20 billion from Fiat, which we will check from factory to factory; 1 billion of this is earmarked for Mirafiori (250/280 thousand Jeep and Alfa Romeo) and 700 million for Pomigliano (280 thousand Pandas per year once the investment cycle has been completed).

This will permit the re-entry of all workers in the two companies (about 10,000), potentially create new jobs, generate work throughout the supply chain (50,000 jobs in Turin alone) and as we mentioned early, lead to better pay.

Those who criticize the government for failing to act in this regard are clinging to the previous practice of using the public purse as a means of support, thereby justifying the politicization of trade union relations. This on the other hand, is the positive development.

Government makes no attempt (given the state of public finances, it couldn't anyway) to prop up uncompetitive products. Competition-related issues need to be resolved in the market, and more participatory trade union relations are essential to generate work and create jobs. The task of generating wealth, attracting investment and assuring the success of business also concerns workers, their commitment and their responsibility. Their participation must be recognized in order to implement economic democracy (*governance* and financial), which for the time being is the missing part in Fiat’s "*Fabbrica Italia*" (Factory Italy) strategy, unlike German or US models, and which has sparked much political and parliamentary debate.

The unsubstantiated opinions of those who didn't sign the agreements concern primarily:

• The *clauses* governing compliance with the terms of the agreement on the part of the signatory unions and the resultant obligations in the employment agreements that would bind individual workers.

• *Measures to change the organisation of work* which are without a doubt challenging, but nevertheless already in place in other competitor industries in the western world, and not forgetting the precarious position of businesses on the brink of closure. Those who refuse to accept the reality of the situation or event that a large number of jobs might be at stake, hide behind ideological radicalism, deriding the value and liberty of collective bargaining:

• Such individuals use the term "holding to ransom" to refer to the need for industrial relations, to organize work to make more efficient use of manufacturing structures by people who have invested billions of workers’ savings, including pension funds and employee health plans, which demand guaranteed results.

• They regard the outcome of the Mirafiori referendum, where more than 54% voted yes, as "illegitimate" because the workers were "held to ransom" to force private investment through, equating it with the political vote and after refusing to accept the result of the Pomiliano referendum where the yes vote was 63% last summer.

• They "constitutionalize" agreements like the 1993 one on joint workplace union structures (*RSU*), trivializing the Workers' Statute and demanding the protection of contractual entitlements as "inalienable rights", fabricating fallacious violations of the Constitution and statutory rights.

On these issues, no confirmation has been forthcoming from legal contexts, whereas the labour law specialists that have commented so far have ruled out any constitutional or legal infringement. In actual fact, factory closures would put worker rights most at risk, not agreements like the one at Mirafiori.

Failure to join the industrial confederation system at Pomigliano and Mirafiori, freed *Fabbrica Italia* from compliance with the rules on Unitary Workplace Union Structures based on the Agreement of 23 July 1993, and returns union representation and rights to the definitions laid down in articles 14 (freedom of workers to organize trade unions in the workplace) and 19 (only members of trade union organizations that are signatories to collective agreements are granted trade union rights by contract) of the Workers' Statute / Law 300.

The failure to accept the outcome of the referendum and the unscrupulous way strikes were conducted, even though most of them failed, convinced FIAT to raise the bar even higher to guarantee its investments, i.e. the certainty that its plants would be used to maximum capacity and the terms of agreements would be observed until renewal, otherwise the investment would be withdrawn.

There again, the afore-mentioned provisions of articles 14 and 19 of Law 300 bring to bear the full weight of the democratic and sacrosanct rights laid down in the Workers' Statute, and no one can say that democracy in the workplace did not exist before the 1993 industry-wide bargaining agreement.

6.9 Representation and union democracy

A pressing issue at the moment is negotiated regulation on union representation and union democracy.

On the subject of trade union representation and reconfirming the right to union association as a founding value and the main reason for joining a trade union, the feeling is that we can no longer put off fully implementing the agreement on representation stipulated in 2008 by CGIL-CISL-UIL, approved almost commonly by the associate bodies and sent to all employee associations in the trade union report on collective bargaining reform.

The unitary agreement clearly and firmly outlined representation consisting of a mix of trade union membership form sent and registered by the company and votes obtained in *RSU* elections, validated accordingly by an independent third party. That aside, there is an essential balance to be maintained between different interpretations of contractual decisions, between the primacy of the right to associate and to representative and delegated democracy, and endowing a decisive role to direct, balloted and mandated democracy and to member and non-member workers.

Conversely, trade union pluralism, a truly valuable asset in Italian industrial relations, cannot be eclipsed and wiped out by legislative intervention that forces either one interpretation or the other; amongst other things, it would undermine (through further legislative intervention/referenda) every structure and impair the "subsidiarity" at the very heart of trade union autonomy. The solution therefore is an interconfederal agreement drawing on the 2008 unitary agreement which, if anything, would be later ratified.

"*Collegato Lavoro*" Legislation (relating to labour disputes)

The labour dispute and process reform introduced by the so-called "*Collegato Lavoro*" law, has opened a heated debate and sparked many reactions, which have not been without ulterior motives and distortions. In particular, an argument has been put forward that the reform of conciliation and arbitration would be a surreptitious way of getting round art.18 of the Workers' Statute relating to guarantees on the ability to dismiss workers.

Not so. Much political attention has been given to the reform of the labour process over severalparliamentary terms in the face of the worrying and growing trend in labour disputes in the Italian courts.

Over the course of this review, there has been a refusal to bow to the indefensible radical thinking according to which labour law, considered as totally immutable and unmodifiable, cannot be amended, or to the de facto, explicit and widespread deregulation with the risk of damaging the rights of workers. Instead there has been a look at the merits and substance of the regulations that the Government is proposing, in order to formulate specific and precise requests for modifications.

In particular, the text in its final form has endorsed the Joint Announcement of the social partners dated 11 March 2010, as well as comments made by the President of the Republic.

These are the most significant amendments to the original structure of the bill:

• Conciliation and arbitration run in parallel with the judicial process, which remains fully open and available to all.

• The choice between the two channels is made voluntarily by each employee.

• Free legal fees for both the initial case and subsequent appeal were requested and obtained so that no one is denied access to the judicial process.

• Collective bargaining becomes the regulatory tool for conciliation and arbitration, and in particular the arbitration clause, which allows potential contract disputes to go to arbitration.

It should be noted that the arbitration clause, which provides the employee with the possibility of signing a commitment to use the arbitration channel for any future disputes, will not enter into force immediately. The arbitration clause will only be introduced if included in interconfederal agreements or collective labour agreements (to be signed over the next 18 months).

In any case, the clause cannot be signed when the worker is hired or at the end of a trial period and no provision will be made for disputes concerning the termination of an employment contract (dismissal).

The position of those who have spoken of holding workers to ransom, of the “freedom to dismiss”, or of an attack on art. 18 of the Workers' Statute is totally without foundation. The text approved by Parliament, while acknowledging some of the requested amendments, is still problematic in some areas, and finding a solution to these problems must continue to involve both political and social partners. The best way towards changing and improving the critical issues, to give greater assurances of effectiveness and transparency to safeguard rights, is through collective bargaining: this is the way in which the credibility, responsibility and autonomy of the unions are measured, as well as their ability to transform the trust they receive from their members and all workers into action.

To suggest that a return to contracts and agreements between the parties is not an acceptable guarantee is an insult to the unions, and to their history; but most importantly, it is an insult to the millions of working men and women who, on a daily basis, are helped and protected by them, both individually and collectively.

The contractual regulation of conciliation and arbitration is the key way to successfully implementthe new legislation, without compromising, and even increasing, the level of protection for workers.

6.10 Pensions

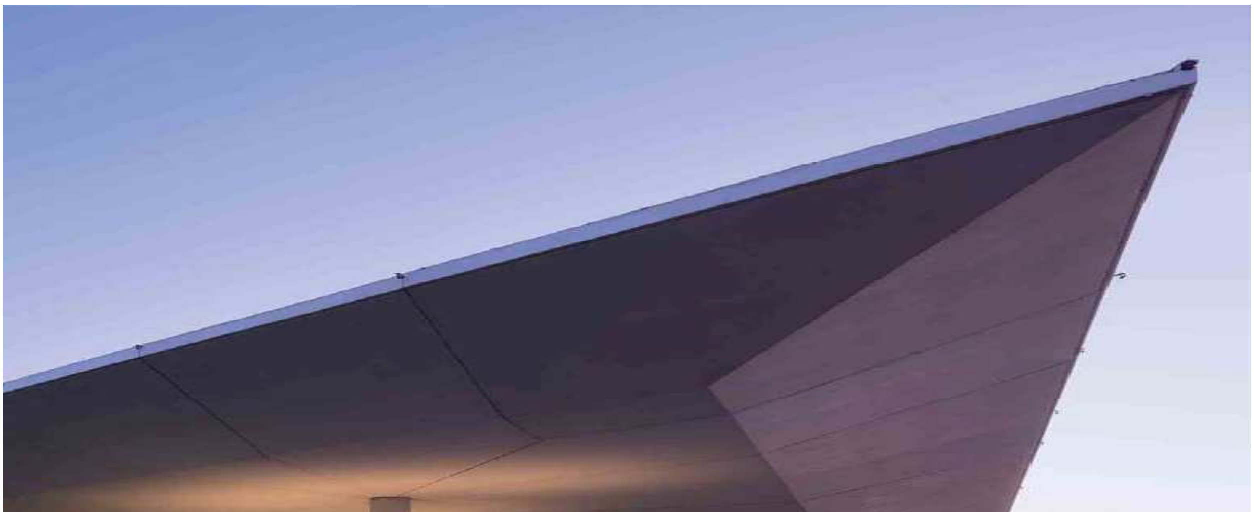
Over the last 20 years, CISL and UIL, together with CGIL, have actively contributed to the reform of the Italian pension system, knowing that only a financially sustainable pension system can provide guarantees for workers' retirement. In this context, the government's latest proposal to progressively raise the retirement age in line with increased life expectancy, should not be viewed negatively. After all, with the transition to a contribution system, this principle underlies the pension reform put in place in 1995 with the agreement reached between the government and CGIL-CISL-UIL. It should also be noted that the government had to raise the retirement age of women in the public sector under penalty of sanctions by the European Union.However, these measures do not mean that the pensions issue has been exhausted, and the government is misguided in thinking so. The next problem on the horizon concerns the future pensions of young people, and in particular for those who have been in low paid work with low social security contributions for relatively long periods, or who have large gaps in their social security contributions due to breaks in employment. Taking the current labour market into account,this is a problem that will become increasingly important in years to come, paving the way for an alarming social situation.

PART – III

ZUARI CEMENT COMPANY

Λατομεία Χάλυψ
Halyps Quarries
Italcementi Group

Zuari Cement
Italcementi Group



1.1-INTRODUCTION OF THE CEMENT SECTOR

A production volume just under 48 million tons (a record value for the national sector) which makes Italy the European Union's second cement producer, thanks to increased investments in construction, for a total of145.55 billion euros in 2006 (+5.2% year-on-year). These are the latest available figures for Italian cement manufacturers – a sector where there are about 30 firms operating under the trade organization AITEC (www.aitecweb.com). It's a relatively high number of businesses, which also sets Italy apart from other European markets where mergers and acquisitions have consolidated the market. The Italian cement sector operators are highly heterogeneous: there are multinational groups as well as small and medium sized enterprises that operate nationally or even locally.

- ✓ The most important groups are those listed in the Milan Stock Exchange: Italcementi, Buzzi Unicem and Cementir: three large players who cover over 52% of total output, which has been growing constantly in the past ten years. The data on their 2007 financial year indicate an overall growth in turnover: +4.2% to 6.1 billion euros forItalcementi, +9.1% to 3.5 billion for Buzzi Unicem and +9% to 1.15 billion for Cementir. Overall, the operators' estimates confirm that the growth trend of the past few years will continue into 2007. A positive curve is also expected for investments (480 million euros in 2006).

- ✓ Exports are not strong in this sector, although volumes are constantly increasing: in 2012(source: Aitec' latest annual report) Italian exports reached 2.6 million tons (5.5% of national production), up 8.7% from 2011. Italy's first export market is Spain, who turns to import in order to satisfy local construction demand which has truly boomed in the past few years. The Spanish market absorbs one third (33.4% of Italy's total exports). Other key destinations are Albania and Malta which, with Spain, receive 67.7% of Italy's export flow. In Europe Italy is the fifth exporter by volume, ahead of Spain, France and the United Kingdom.

- ✓ Italy’s cement sector includes 91 plants, 47% of which are located in the North, 18% in the Centre and 35% in the South and the Islands: a widespread distribution network throughout the country allows the production plants to be relatively close to the end user’s location. In terms of production capacity, the most significant is the medium cohort – 300 thousand to 600 thousand tons a year – with 26 plants. It is followed by the medium-low cohort – 100 thousand to 300 thousand tons (21 plants – and the medium-high cohort – 600 thousand to 1 million tons (18 plants). The most significant quota, however, is still the one produced in the 15 large-surface plants: their production capacity is greater than a million tons per year and they are able to put on the market 18.56 million tons of cement, i.e. 38.8% of Italy’s total production.

1.2-INTRODUCTION OF THE ITALCEMENTI GROUP

❖ Brief Over View

- The world's fifth largest cement producer
- A worldwide presence in 22 countries
- An overall staff of 19,000 people
- A consolidated production capacity of approximately 68 million tons
- 2012 annual sales amounting to 4.5 billion Euro
- The first cement company to be listed on the Italian Stock Exchange.
- Over 145 years-old successful business strategy implemented by a family-driven company

With an annual production capacity of 68 million tons and 53 cement plants, considering also the companies consolidated by equity, Italcementi Group is the world's fifth largest cement producer. Along with the cement plants, Italcementi Group's industrial network includes 10 grinding centers, 7 terminals, 449 concrete batching units combining the expertise, know-how and cultures of 22 countries across four continents. In 2012 the Group exported consolidated revenues of about 4.5 billion Euro. The Parent Company, Italcementi S.p.A., is one of Italy's 10 largest industrial companies and is listed on the Italian Stock Exchange.Italcementi, founded in 1864, achieved important international status with the take-over of Ciments Français in 1992.Following a period of re-organization and integration that culminates in the adoption of a single corporate identity for all Group subsidiaries, the newly-born Italcementi Group began to diversify geographically through a series of acquisitions in emerging countries such as Bulgaria, Morocco, Kazakhstan, Thailand and India, as well as operating in North America. As part of the plan to further enhances its presence in the Mediterranean area, in 2005 the Group boosted its investments in Egypt becoming one of the market leaders. In 2007 it further strengthened its presence in Asia and the Middle East.

- ✓ As a member of the World Business Council for Sustainable Development (WBCSD) Italcementi Group has signed the Cement Sustainability Initiative's Agenda for Action, the first formal commitment that binds a number of world cement industry leaders. To further confirm its commitment on these issues, the Group has taken over the co-Chairmanship of the Cement Sustainability Initiative for the period 2006-2007. Moreover, Italcementi has adhered to the UN Global Compact, a strategic initiative promoted by the United Nations to align companies operations and plans with universally accepted principles in the areas of human rights, labour, environment and ethics.
- ✓ Through the activities of its advanced Research and Innovation centers in Italy and in France, among which the new i.lab of Bergamo stands out, the Group intends to anticipate market trends and requirements giving priority to environmental issues and the optimization of resources.

1.3-HISTORY OF THE COMPANY

Zuari entered the Cement business in 1994 to operate the Texmaco Cement Plant. In 1995, Texmaco's Plant at Yerraguntla was taken over by Zuari and a Cement Division was formed. The fledging unit came into its own in the year 2001 when Zuari Industries entered into a Joint Venture with the Italcementi Group, the 5th largest producer of Cement in the world , Zuari Cement Limited was born. Zuari Cement took over Sri Vishnu Cement Limited in 2002. Today, the Company is amongst the topmost cement produces in South India.

Zuari and Italcementi. The strength of two Zuari Cement is one of the leading cement producers in South India.A fully owned subsidiary of the Italcementi Group, Commitment to customer satisfaction has seen Zuari Cement grow from a modest 0.5 million tonne capacity in 1995 to almost 6 million tones in 2010,and earned a place among the most reliable cement producers in the country.

- **Italcementi Group History**

Founded in 1864, Italcementi was quoted for the first time on the stock markets, at the Milan Stock Exchange, in 1925, under the name of "Società Bergamasca per la Fabbricazione del Cemento e della Calce Idraulica" and has been operating since 1927 under the name of Italcementi Spa.

Careful plan of investments and takeovers of other cement producers, the company expanded, quickly reaching a strong position on the market and becoming the leading cement manufacturer in Italy.

After several acquisitions abroad, in 1992 Italcementi achieved important international status with its take-over of Ciments Français, one of the main global cement producers.In 1997 Italcementi consolidated its verticalisation strategy with the acquisition of Calcestruzzi, thus becoming Italian leader in the ready-mixed concrete sector.In March 1997, all the international companies of the Group gathered under one single corporate identity. Since 1998 Italcementi Group has been pursuing its internationalization strategy by acquiring new cement works in Bulgaria, Kazakhstan, Thailand, Morocco, India, Egypt and the United States.

1.4-INTRODUCTION ABOUT ITALCEMENTI (ZUARI CEMENT) GROUP

- ✓ Zuari Cement is part of the Italcementi Group, the fifth largest cement producer in the world and the biggest in the Mediterranean region. With net sales about 5 billion Euros in 2011 and a capacity of 74 million tones, Italcementi Group combines the expertise, know-how and culture of a number of companies from more than 21 countries in 4 continents. This includes an industrial network of 55 cement plants, 10 grinding centres, 8 terminals, 90 aggregates quarries and 494 concrete batching units. In India, with its inherent strengths, Italcementi Group's Zuari Cement is committed to give the building industry cement that is truly international.

- ✓ As a member of the World Business Council for Sustainable Development (WBCSD) Italcementi Group has signed the Cement Sustainability Initiative's Agenda for Action, the first formal commitment that binds a number of world cement industry leaders to an action plan that aims at satisfying present-day needs at the same time as safeguarding the requirements of future generations.
- ✓ Italcementi has been included in 'The Sustainability Yearbook 2012' - the most comprehensive publication on corporate sustainability released yearly by SAM (Sustainable Asset Management).

1.5-ECONOMIC ROLE

A commitment to customer satisfaction has seen Zuari Cement grow from a modest 0.5 million tone capacity in 1995 to 6.0 million tones in 2011. In 2010, we have expanded the production capacity at our yerraguntla plant by installing a second burning line with a designed production capacity of 2.3 million tons of cement per year and adopting top-of-range technical solutions with a particular focus on energy performance. By this the production is almost doubled and a grinding center at Chennai of 1 million ton capacity was commissioned in May 2011. A captive power plant with a capacity of 43 MW has already been set up at the Company's cement manufacturing facility at Sitapuram. Our manufacturing units at Yerraguntla and Sitapuram are **ISO Certified** units and maintains the highest quality standards in line with the global quality policy

With over 5% market share in the south Indian cement market and sales of about Euro 166 million in 2010, Zuari Cement has chalked out ambitious plans for the future. This includes strengthening its presence in the Maharashtra, Orissa and West Bengal markets. While technology is just one of its strengths, there are many other factors that contribute equally to Zuari's success. These include a high-level organisation and decentralised quality assurance teams to guarantee the full compliance with the customers' expectations.

2.1-MANAGEMENT STRUCTURE OF THE COMPANY

While professional management and quality workforce ensure superior results, the role played by the core management should not be discounted. With their vision and experience, they make sure that Zuari Cement moves in the right direction. Towards becoming one among the leading cement producers in India.

Maurizio Caneppele
Managing Director

Emiliyan Andreev
Chief Financial Officer

Maurizio Caneppele
Managing Director

Emiliyan Andreev
Chief Financial Officer

Ramesh Surya
Senior Vice President HR & IR Development

Narayana S.SURESH
Director Business

❖ PRODUCT OF THE COMPANY

✓ **Primo Concrete Cement - Concrete Redefined**

✓ Primo - The success story

In 2007 Zuari Cement launched its high-strength cement under the brand name 'Primo Concrete Cement' in Bangalore City. 'Primo'improves the density of the concrete matrix and increases the durability of the concrete, making it an immediate hit among construction and infrastructure projects undertaken in and around Bangalore. Recently Primo was also launched in Kochi and Chennai. An extensive marketing and distribution network across south India concretes Zuari Cement's success story. New products, on the line of the extremely successful 'Primo' launch, will play a significant role in key markets.

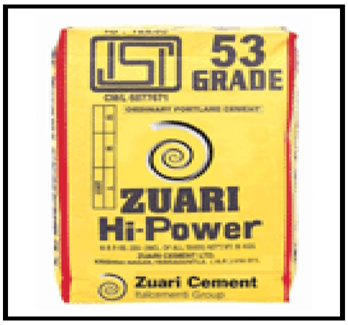
✓ Primo Concrete Cement - Concrete Redefined

Primo concrete cement is a high quality cement prepared from the finest raw material. Owing to optimum water demand, it contributes to a very low co-efficient of permeability of the concrete prepared. This improves the density of the concrete matrix and increases the durability of the concrete. Primo is a high performance cement far exceeding the codal requirement of IS 12269-1987. It is this very durability that translates into long-lasting residential and commercial constructions of a wide variety, such as dams,canals, highways, roads and flyovers.

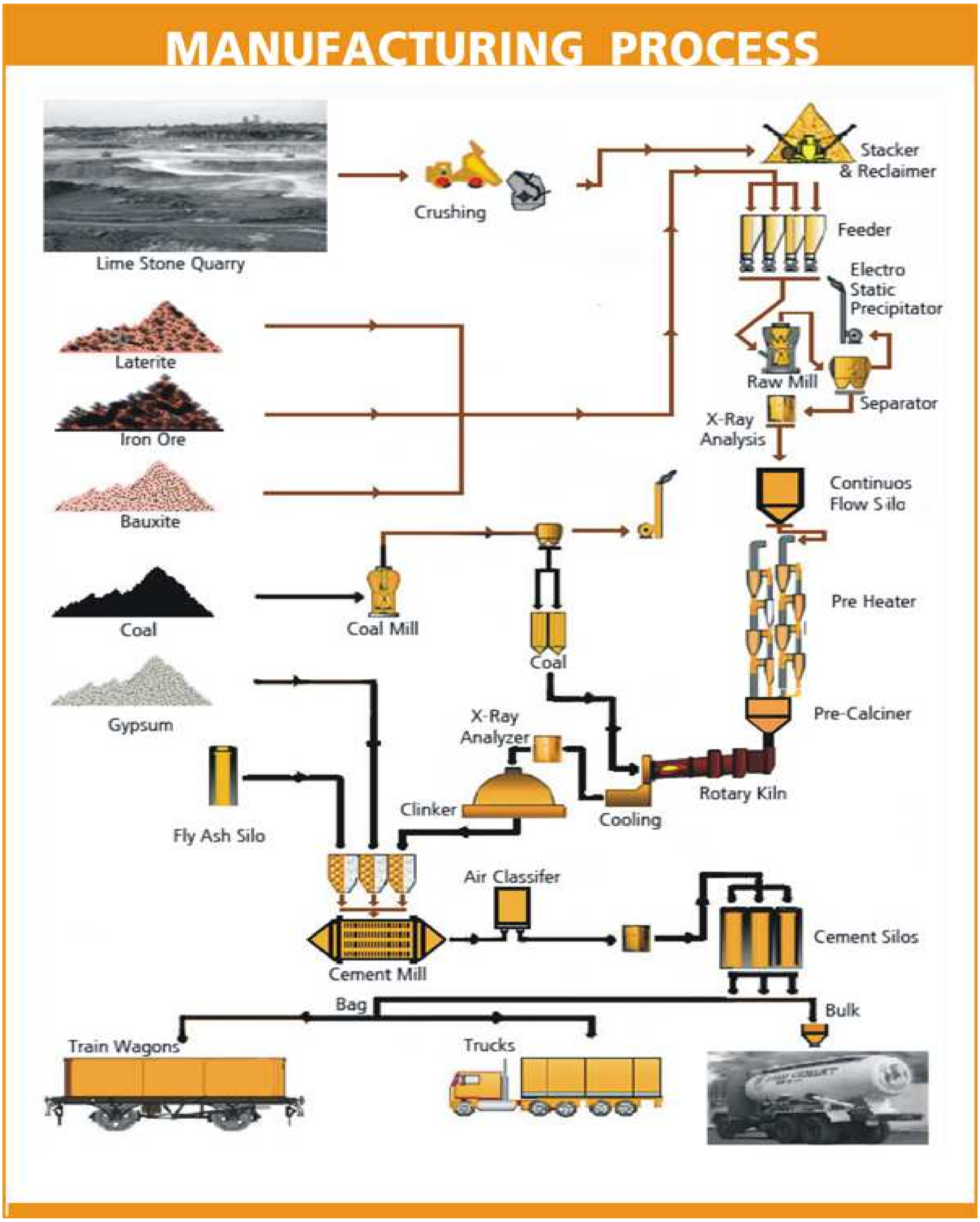
- Higher compressive strength

- Better soundness
- lesser consumption of cement for M-20 Concrete grade
- And above
- Faster deshuttering of form work
- Reduced construction time.

✓ **<u>OTHER PRODUCTS</u>**



- ✓ **PRODUCTION PROCESS**



- ❖ **BUSINESS ACTIVITIES**

- ✓ **The trading business:**

Interbulk Trading is the international subsidiary of Italcementi Group engaged in trading of clinker,Ordinary and special cements, mineral products and solid fuels worldwide.

Interbulk Tradings's core activities include:

- Hydraulic binders trading
- Solid Fuels trading
- Shipping & Maritime Logistics
- Supervision of International Terminals

- ❖ **INTERNATIONAL TERMINALS**

Italcementi Group is always eager to pick up on development opportunities in emerging countries as they arise, also by coordinating and managing international trading terminals located in key geographical areas.

Interbulk Trading supervises the activities of four terminals:

- ✓ **Albania**: Eurotech Cement commenced its activities at Durres in 1998. A second terminal has been Activated at Vlora in February 2008 to cover the Southern Albanian market.

- ✓ **The Gambia**: Gacem is part of Italcementi Group since 1993.
- ✓ Located in Banjul, Gacem is the sole Gambian cement importer; Sri Lanka: controlled by the Group since 2000, the Singha Cement Terminal is located close to Colombo.

- ✓ **Mauritania:** Mafci started its operations with acement terminal in 1997 that was converted in a grinding centre in 2001. Mafci is ISO 2001 certified and has recently started the ready mixed business through the company MBR (Mauritanienne des Bâtiments et Routes).

2.2-COMPARATIVE POSITION OF ZUARI CEMENT WITH INDIAN CEMENT COMPANIES

Company	Plant	No of plants	Annual installedcapacity(milliontonnes)
ACC Ltd	Chaibasa, Chanda, Jamul, Kymore, Lakheri, Thondebhavi, Madukkarai, Sindri, Wadi I & II,, Gagal I & II, Damodar Cement Works, Tikaria (G),, Bargarh Cement Works, Kudithini	17	28.68
Birla Corp. Ltd	Birla Vikas & Satna, Birla Cement & Chanderia, Durgapur (G), Rae Bareli (G), Durga Hitech (G)	7	5. 78
CCI Ltd	Adilabad, Akaltara, Bokajan, Charkhi-Dadri, Kurkunta, Mandhar, Neemuch, Rajban,Tandur, Delhi (G)	1 0	3. 85
Andhra Cements	Vizag (G), Nadikude-Durga Cement	2	1. 42
J.K. Group	Nimbahera, Mangrol, Gotan, Muddapur, Lakshmi Cement, Lakshmi Cement-Kalol (G)	6	12.27
Century Textiles	Century Cement, Maihar Cement, Manikgarh Cement	3	7. 80
India Cements	Sankarnagar, Sankaridurg, Chilamkur Works, Dalavoi, Visaka Cement, Yerraguntla, Raasi Cement, Vallur(G), Parli(G), Trinetra Cement	1 0	15.85
Tamil Nadu Cement	Alangulam, Ariyalur	2	0. 90
Madras Cements	Ramasamyraja Nagar, Jayantipuram, Alathiyur Works I & II, Ariyalur, Uthiramerur(G), Salem(G), Kolaghat(G)	7	12.72
Mehta Group	Saurashtra Cement, Gujarat Sidhee Cement	2	2. 70
HMP Cements Ltd	Porbandar, Shahabad	2	0. 67
Ultra Tech Cement Ltd	Rajashree, Hotgi (G), Vikram, Aditya I & II, Rawan, Reddipalyam, ACW, JCW(G), HCW, Gujarat,	2 2	48.75

	APCW-I & II, Jafrabad, Magdalla (G), Ratnagiri (G), ARCW (G), Bhatinda(G), WBCW (G), Dadri(G), Panipat (G),Ginigera (G), Kotputli, Aligarh (G)		
Ambuja Cements Ltd	Ambuja Cement, Gajambuja Cement, Ambuja Cement-Himachal Pradesh (2), Ambuja Cement Ropar (G); Ambuja Cement Rabriyawas, Ambuja Cement-Bhatinda (G), Maratha Cement; Ambuja Cement Roorkee (G); Ambuja Cement Bhatapara, Ambuja Cement Sankrail (G); Ambuja Cement Magdella (G); Ambuja Cement Farakka (G)	1 3	27.35
Orient Paper Industries	Orient Cement, Orient Cement-Jalgaon (G)	2	5 . 00
Penna Cement Industries	Penna Tadippatri I & II, Penna Ganeshpahad, Penna-Boyareddypalli Ltd, Penna -Tandur	4	6 . 50
Prism Cement	Prism Cement I & II	1	5 . 60
Lafarge India (P) Ltd	Arasmeta, Sonadih, Jojobera (G), Mejia (G)	4	6 . 55
Malabar Cements	Malabar Cements, Malabar Cements (G)	2	0.62
Binani Cement	Binani Cement Sirohi, Binani Cement Sikar (G)	2	6.25
Rain Cements Ltd	Rain Comdt. Unit I, Rain Comdt. Unit LN-1, Rain Comdt. Unit LN-2	2	4
KCP Ltd	KCP Ltd-Macherla, Maktyala	2	2.35
OCL India Ltd	OCL India-Rajgangpur, OCL India-Kapilas (G)	2	5.35
Dalmia Cements	Dalmia-Dalmiapuram, Dalmia-Kadapa, Dalmia - Ariyalur	3	9.00
Cement Manu. Co. Ltd	Cement Manu. Co. Ltd, Megha T&E (P) Ltd (G)	2	1.27
Chettinad Cement	Chettinad-Karur, Chettinad Karikkali, Chettinad-Ariyalur	3	10.50
Zuari Cement Ltd	Zuari Cement, Sri Vishnu Cement	2	3.40
Heidelberg Cement (I) Ltd,	HCIL - Ammansandra, Damoh, Jhansi (G), Dolvi (G)	4	3.10
Shree Cement	Shri - Beawar, Ras,	6	13.39

	Khushkhera(G), Suratgarh(G), Roorkee(G), Jaipur (G)		
Others*	Shree Digvijay-Sikka, Khyber Inds. (P) Ltd, Lemos Cement, Kistna, Bagalkot Cement & Ind. Ltd, J&K Ltd, Kalyanpur Cement, KCP Ltd, Mawmluh Cherra, Panyam Cements, Sone Valley, Meghalaya Cements Ltd, Shriram Cements, Sanghi Industries Ltd, My Home Industries, Meghalaya Cements Ltd, Anjani Portland Cements	12	11.29
	Grand Total	1.71	294.43

Company	Market Cap (Rs. in Cr.)	P/E (TTM) (x)	P/BV (TTM) (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)	D/E (x)
Tata Chemicals	8,269.51	11.77	1.65	9.43	13.6	13.1	0.66
Coromandel Inter	5,526.11	10.01	2.33	8.41	32.4	26.5	0.90
G S F C	2,267.47	3.35	0.64	2.44	23.9	29.3	0.16
Natl.Fertilizer	2,241.95	0.00	1.28	19.02	7.4	6.8	1.08
Chambal Fert.	2,210.08	6.01	1.24	6.90	14.5	14.3	1.78
R C F	2,135.04	7.71	0.98	6.63	11.9	13.6	0.41
F A C T	1,465.61	0.00	9.02	13.27	5.0	11.1	5.53
G N F C	1,176.53	4.19	0.47	5.09	11.8	11.1	0.65
Deepak Fert.	946.83	5.80	0.77	4.73	18.6	18.0	0.73
Zuari Agro Chem.	700.51	7.99	0.89	0.00	27.3	10.8	3.77
Mangalore Chem.	485.34	6.87	1.07	8.10	16.3	14.8	1.78
Liberty Phosphat	309.88	9.42	1.89	1.29	47.8	49.0	0.57
S P I C	271.25	0.00	-0.27	8.21	0.0	0.0	0.00
Zuari Global	207.40	13.12	0.36	18.19	5.3	5.2	0.54
Madras Fert.	197.35	0.00	-0.59	4.92	64.2	18.0	0.00

Company	Market Cap (Rs. in Cr.)	P/E (TTM) (x)	P/BV (TTM) (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)	D/E (x)
Tata Chemicals	8,269.51	11.77	1.65	9.43	13.6	13.1	0.66
Coromandel Inter	5,526.11	10.01	2.33	8.41	32.4	26.5	0.90
G S F C	2,267.47	3.35	0.64	2.44	23.9	29.3	0.16
Natl.Fertilizer	2,241.95	0.00	1.28	19.02	7.4	6.8	1.08
Chambal Fert.	2,210.08	6.01	1.24	6.90	14.5	14.3	1.78
R C F	2,135.04	7.71	0.98	6.63	11.9	13.6	0.41
F A C T	1,465.61	0.00	9.02	13.27	5.0	11.1	5.53
G N F C	1,176.53	4.19	0.47	5.09	11.8	11.1	0.65
Deepak Fert.	946.83	5.80	0.77	4.73	18.6	18.0	0.73
Zuari Agro Chem.	700.51	7.99	0.89	0.00	27.3	10.8	3.77
Mangalore Chem.	485.34	6.87	1.07	8.10	16.3	14.8	1.78
Liberty Phosphat	309.88	9.42	1.89	1.29	47.8	49.0	0.57
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Zuari Global	207.40	13.12	0.36	18.19	5.3	5.2	0.54
Madras Fert.	197.35	0.00	-0.59	4.92	64.2	18.0	0.00

2.3-CURRENT POSITION OF TRADE IN INDIA WITH IMPORT EXPORT

- **COMPANY INFORMATION**

Full name :	Zuari Cement Ltd.
Status:	Non-Listed:
Legal Form:	Limited Liability Company
Operational Status:	Operational
Legal Address:	Financial Auditors: BSR & Co (2011) Krishna Nagar, Yerraguntla, ; Yerraguntla; Andhra Pradesh; 516311 Tel: 08563-275104

- **COMPANY DESCRIPTION**

Zuari Cement is part of the Italcementi Group, the fifth largest cement producer in the world and the biggest in the Mediterranean region. With net sales of about 5 billion Euros in 2010 and a capacity of 70 million tonnes. Italcementi Group combines the expertise, know-how and culture of a number of companies from more than 22 countries in 4 continents. This includes an industrial network of 59 cement plants, 11 grinding centres, 5 terminals, 90 aggregates quarries and 350 concrete batching units.

- **COMPANY ANALYSIS**

According to the individual - Audited financial statement for the Year of 2010, total net operating revenues decreased with -5.38%, from INR 1,095.25 tens of millions to INR 1,036.34 tens of millions. Operating result decreased from INR 355.97 tens of millions to INR 192.28 tens of millions which means -45.98% changes. The results of the period decreased -87.84% reaching INR 20.63 tens of millions at the end of the period against INR 169.64 tens of millions last year. Return on equity (Net income/Total equity) went from 14.43% to 1.72%, the Return On Asset (Net income / Total Asset) went from 9.58% to 1.14% and the Net Profit Margin (Net Income/Net Sales) went from 15.49% to 1.99% when compared to the same period of last year. The Debt to Equity Ratio (Total Liabilities/Equity) was 151.01% compared to 150.55% of last year. Finally, the Current Ratio (Current Assets/Current Liabilities) went from 1.92 to 0.99 when compared to the previous year.

2.4-PRESENT POSITION AND TRADE OF BUSINESS WITH INDIA

Italcementi Group entered the Indian market in January 2001, through the acquisition of Yerraguntla cement plant, located in the southern part of Andhra Pradesh State. This investment was initially made through a 50/50 joint-venture with the KK Birla Group; then, in May 2006, Italcementi Group acquired the full control of the company. In January 2002 Zuari Cement took over another company, Sri Vishnu (SVCL), situated in Sitapuram, in the northern part of Andhra Pradesh State, near the capital, Hyderabad, the 3rd consumption centre of the South. Until now, Italcementi Group has invested around 200 million euro in India. The reference market spreads over almost the whole of South India and represents in excess of 30% of the country's consumption. In the South, Italcementi Group holds a market share of 5.0%.

The Group has further strengthened its presence in India with a strong industrial investment plan, setting up a second line in Yerraguntla which has begun operations by March 2010.

To serve the local markets of Chennai, the company has set up a grinding unit at Chennai with a capacity of one million tonne. Commissioned in May 2011, the grinding unit receives the clinker from its Yerraguntla plant in Kadapa. Innovative products from the Group, like the TX Active range of cement products, are being launched in the country aimed at providing a genuine industrialized solution to the problem of pollution in cities.

❖ ITALCEMENTI GROUP IN INDIA

✓ PRODUCTIONFACILITIES

Companies	**Zuari Cement**
Cement plants: 2	Yerraguntla Sitapuram

❖ KEY DATA

(in millions of euro)*	**2011**	**2010**	**2009**
Revenues	223.5	169.8	171.8
EBITDA	57.2	35.9	60.5
Capital expenditure	42.7	68.9	50.8
Employees	797	787	777

Italcementi Group entered the Indian market in January 2001, through the acquisition of Yerraguntla cement plant, located in the southern part of Andhra Pradesh State.

This investment was initially made through a 50/50 joint-venture with the KK Birla Group; then, in May 2006, Italcementi Group acquired the full control of the company. In January 2002 Zuari Cement took over another company, Sri Vishnu (SVCL), situated in Sitapuram, in the northern part of Andhra Pradesh State, near the capital, Hyderabad, the 3rd consumption centre of the South. Until now, Italcementi Group has invested around 200 million euro in India.

3.1-POLICIES AND NORMS OF ITALY FOR CEMENT INDUSTRY

❖ Licensing & taxation policy

- ✓ Italy has been part of the European Union (EU) since 1958, the World Trade Organization (WTO), the Organization for Economic Co-operation and Development (OECD), the Organization for Security and Co-operation in Europe (OSCE) and the North Atlantic Treaty Organization (NATO), and applies the international agreements signed by these bodies.
- ✓ The EU forms a customs union and a large unified market having free trade among the member states. It levies a common tariff on imported products coming from non-EU countries such as the United States, Japan, and Canada.
- ✓ As all members of the European Union, Italy adapts a common trade policy. The EU has a liberal import regime where import licensing is not common. Import licences are issued with due consideration for the provisions of relevant European Union trade agreements and the needs of the specific importing country.
- ✓ Under the EU New Approach to Technical Harmonization, certain products are required to meet specific quality standards. The directive applies to toy safety, machinery, electromagnetic compatibility (EMC), telecommunications terminal equipment, active implantable medical devices, medical devices, non-automatic weighing equipment, construction products, explosion proof electrical equipment, low voltage electrical equipment, simple pressure vessels, personal protection equipment and gas appliances. Qualified products must carry a CE mark to show its compatibility, fixed onto the product by a manufacturer or importer as self-declaration of compliance.
- ✓ Traders must pay attention to the EU product liability law, which covers all liability regarding defects not ordinarily expected by a consumer. Both the seller and the manufacturer in the EU are liable under the law.
- ✓ **Import duties into EU countries are subject to import tariffs (normally applied on the import c.i.f. value) plus the value-added tax (VAT) which varies according to different importing countries. The standard rates for Italy is 21%**

- ✓ The EU announced developments in the EU's Eco-labels scheme to 219 products, particularly footwear, textiles and personal computer. Exporters trading with the scheme member country will need to get their suppliers adhering to strict production methods in order to comply with the label award. Canadian exporters may have to ensure that the concerned production methods comply with the labelling criteria prior to the EU. For more information on the list of product groups involved in the Eco-labeling scheme.
- ✓ Environment Protection, Directive on Packaging and Packaging waste, sets out common waste recovery and recycling standards. Manufacturers and exporters should minimize the packaging of their products exported to the EU.

❖ ***General Overview***

Conformity to European standards and "CE" marking

- ✓ Products governed by these regulations must adhere to certain European standards at the point when they are imported. The "CE" sign of compliance must be on the product, either when the product is imported or when it is sold.

Since the list of products is growing, the following is merely indicative:

- toys
- agricultural machinery, industrial machinery
- tractors
- gasoline-powered materials and equipment
- sports and recreational personal protection equipment
- construction products
- pleasure craft
- medical apparatus
- electrical and electronic equipment
- equipment pertaining to the telephone network

Basic labelling requirements in Italy:

- name of products (physical condition or specific treatment)
- name/address of manufacturer, packer, seller or importer in the Italian language
- country and place of origin
- ingredients in descending order of weight

- metric weight and volume
- additives by category name
- special storage conditions
- minimum shelf life date
- expiry date
- lot number
- indication of allergens
- indication of maximum limits of fats for meat based products
- net quantity in volume for liquids and in mass units for all other products
- instructions for use, if necessary

❖ ***Tariffs***

✓ Italy applies customs duties to all imported products. Rates can vary considerably, depending on whether the imported product is bulk unprocessed or ready for consumption in retail packages.

✓ VAT, must be added to the cost, insurance and freight (CIF) value of the import. The most common rate is 20%, but a reduced rate of 4% applies to essential items.

✓ Specific information on tariffs applied by the EU can be found on the official EU site on TARIC codes.

✓ The EU TARIC CODE Database Online (Source EU Portal)

✓ This Database is one of the EU'S online tools for international exporters. The Commission develops and operates several databases in conjunction with Member States' Customs and Taxation Services. The databases are parts of the information systems of Taxation and Customs Union.

3.2-POLICY AND NORMS OF INDIA

- ✓ Cement sector may face some tough time after the imposition of value-added tax (VAT), as the sector is already under the huge tax burden, industry officials told Daily Times.

- ✓ The sector may also witness some negative developments in the upcoming budget of fiscal year 2010-11, as unlike past budgets lower Public Sector Development Programme (PSDP) targets and implementation of VAT this time, would remain key concerns for the sector, they added.

- ✓ The 16 percent general sales tax on cement sales would be replaced with 15 percent VAT. A one percent reduction in VAT would have no impact as cement margins are already declining due to excess supply in the country, they said.

- ✓ Documentation at dealers' stage through VAT may result in slowdown in sales or some increase in final consumer price. Moreover, cement dealers with annual turnover of Rs 7.5 million would be brought under the VAT regime.

- ✓ The federal excise duty of Rs 35 per bag would remain intact next year, as the cash crunched government would not reduce any avenue for tax collection, they said, adding that the government has already allowed in-land freight subsidy of 35 percent to cement manufacturers to enhance export sales and this is likely to continue next year.

- ✓ They were of the view that with higher construction activities by the private sector and recovery in economic activities, the total cement dispatches are expected to improve by 11 percent to 34 million tonnes in FY 2010. The county has 15 million tonnes of cement export potential (including both bulk and bagged cement) in 27 countries.

- ✓ Afghanistan is most likely to be a permanent market due to lack of availability of limestone while the demand may rise to 15 million tonnes from the current 2.5 million tonnes, they said. In the last decade the demand for cement increased by 235 percent to 33.2 million tonnes while, supply, due to expansions has increased to 44.8 million tonnes - excess supply of 11.6 million tonnes. The Pakistan cement sector may witness an expansion phase in 2014 due to pickup in local and regional demand, an analyst said.

- ✓ They key challenges highlighted include higher indirect taxes (Rs 700 per tonne fixed excise duty, 1 percent special excise duty) which make Pakistan's cement less competitive against regional players - India and China.

- ✓ With huge potential of exports, Pakistan's cement industry requires the government to take effective measures to support export sales with reduction in port costs (port duties and dock labour cost), increase of rebate on exports, separate births at ports for export clinker and cement, they demanded.

- ✓ The cement industry is investment intensive and the reduction of interest rates would reduce the cost and consequently cheaper cement can be sold to the end users, which can encourage construction activities.

- ✓ Cement industry is one of the highest taxed industries and there is a good case for government to consider either abolishing excise duty altogether or at least reducing it by half. This measure would also help in giving momentum to the construction activities, as we should be able to reduce the price of the cement accordingly, he said.

3.3-PRESENT TRADE BARRIERS OF IMPORT/EXPORT IN INDIA

- ✓ Trade barriers are measures that governments or public authorities introduce to make imported goods or services less competitive than locally produced goods and services. Not everything that prevents or restricts trade can be characterised as a trade barrier.

- ✓ A trade barrier may be linked to the very product or service that is traded, for example technical requirements. A barrier can also be of an administrative nature, for example rules and procedures in connection with the transaction. In a number of areas, special international ground rules have been agreed, which limit the ways in which countries can regulate trade. It means that some barriers are legal while others are illegal.

- ✓ Sometimes it may also be possible to assist companies that face obstacles to trade that do not fall under the definition of actual trade barriers.

- ✓ Actually Zuari cement or ital cementi group faces lots of trade barriers for export of their cement to the India as well as in the different countries. Following are of some trade barriers.

(1) Competition Related Trade Barriers:

- ✓ India's largest diversified engineering and construction company Larsen & Toubro (L&T) has filed for arbitration proceedings against cement maker Zuari Cement, a fully-owned subsidiary of Italian cement major Italcementi Group, to claim R188.53 crore in unpaid bills and payment delays, two people with direct knowledge of the development said.
- ✓ L&T's engineering and construction division, which contributes more than three fourth of the revenues of parent L&T, took Zuari Cement to court after the cement maker failed to repay R31.53 crore outstanding dues to build a 5,500 tonne a day cement plant. The rest of the claim is for penalty payment for delays and encashing the performance guarantee.

(2) Plantation Related Barriers:

- ✓ If we check plant capacity of this company, than we find that zuari Cement has quite lower plant capacity in India as compare to other Indian cement industry just like Ultra tech and Ambuja Cement. Because Zuari Cament co. has just 2 plants in India while we can find that rest of the main companies have more than 5 or 10 plants in India are there.

(3) <u>Installation Capacity Related Barriers:</u>

In Ultratech Cement has 48 million tones plant capacity per year, while Ambuja has 65 million tone per year capacity. But if we check plant capacity of Zuari Cment in India than we can find that it has only 3.4 million tones capacity. So it is quite lower than other cement companies.

(4) Cost Related Barriers:

It is also an important factor which affects as barrier for Zuari Cement. As they have two plants in India but cost of manufacturing in India is quite higher as compare to the cost of manufacturing in India.

(5) Currency Devaluation:

It is one of the important barriers that include that at the time of import and export currency devaluation may be there and it may be because of change in currency rate. Though Zuari cement has plantation in India, main plantation of this Ital Cementi Group is in Italy. So ultimately they have to face currency devaluation problem.

(6) Trade Restriction:

It is quite obvious thing that as compare to domestic company foreign company has more restriction in relation to taxation, investment, trade policy, share participation etc.…

4.1-POTENTIAL FOR IMPORT/EXPORT IN INDIAN MARKET

- ✓ Italcementi Group entered the Indian market in January 2001, through the acquisition of Yerraguntla cement plant, located in the southern part of Andhra Pradesh State. This investment was initially made through a 50/50 joint-venture with the KK Birla Group; then, in May 2006, Italcementi Group acquired the full control of the company. In January 2002 Zuari Cement took over another company, Sri Vishnu (SVCL), situated in Sitapuram, in the northern part of Andhra Pradesh State, near the capital, Hyderabad, the 3rd consumption centre of the South. Until now, Italcementi Group has invested around 200 million euro in India.
- ✓ The reference market spreads over almost the whole of South India and represents in excess of 30% of the country's consumption. In the South, Italcementi Group holds a market share of 5.0%. The Group has further strengthened its presence in India with a strong industrial investment plan, setting up a second line in Yerraguntla which has begun operations by March 2010. To serve the local markets of Chennai, the company has set up a grinding unit at Chennai with a capacity of one million tonne. Commissioned in May 2011, the grinding unit receives the clinker from its Yerraguntla plant in Kadapa. Innovative products from the Group, like the TX Active range of cement products, are being launched in the country aimed at providing a genuine industrialized solution to the problem of pollution in cities.

In above chart shows that there are just two plants of Zuari Cement in India. But they have quite competition with Indian cement companies just like Ambuja Cement, Ultra tech Cement, Sandhi Cement, ACC Cement, Binani Cement, Hathi Cement etc…Also plant capacity of zuari cement is low as compare to others. So Zuari Cement co. will have TO increase their plant capacity and also try to get more subsidies which are available by Indian government for more potential in India.

With over 5% market share in the south Indian cement market and sales of about Euro 166 million in 2010, Zuari Cement has chalked out ambitious plans for the future. This includes strengthening its presence in the Maharashtra, Orissa and West Bengal markets.

4.2-CONCLUSION & SUGGESTION

SUGGESTION

- For any company before getting the growth, existence in the market is must because of healthy competition. So, Zuari Cement Company should direct their efforts towards formulating strategies which can make him compatible in Indian market.

- They have already create two mergers in India. But it is a small light in huge dark so that type of efforts will direct the company towards sustainable existence in this competitive Indian market.

- Towards the achievement of more market share, Zuari cement has to establish a more plants in different zones of India. So that to increase the market shares.

- We all know that foreign investment is being encouraged in India by Indian government. Zuari Cement should see this thing as an opportunity to gain maximum return on investment.

5-CONCLUSION

The Group Vision is to be a world class local business building a better and sustainable future for all our stakeholders. The vision is declined into the operational Mission of creating value in the building materials sector through the innovative and sustainable use of natural resources for the benefit of our communities and clients. Vision and Mission are grounded on the five Group Values: Responsibility, Integrity, Efficiency, Innovation and Diversity, which are strategic directives for everyone working with the Group.

Inspired by the Group Code of Ethics and the Charter of Values, the Sustainability Policy is the cornerstone of the Group approach towards sustainability. It covers key themes affecting the sphere of business influence of the Group and its activities, namely: human rights, business integrity, health and safety, labour practices, social initiatives, supply chain, energy efficiency, environment, quality of products and processes, research and innovation. All relevant issues are covered by daughter Policies deriving from the Sustainability Policy itself. All the Group Policies draw their inspiration from international references such as the United Nations Universal

Management systems cover the organizational structure, operational standards, procedures, processes, tools and resources needed to meet the Group targets and ambitions, through a cycle aiming at continuous improvement. Implementing effective management system brings many benefits to the Group, including more efficient resource use, improved risk management, and increased stakeholder satisfaction. Health and safety, quality, energy, environment, training activities, human capital development and supply chain activities are topics covered by this approach. Therefore, the Group can benefit from global management experience and good practice. Relevant impacts, targets and ambitions are available under the proper sections. At Group level, sustainability is regularly brought to the Board agenda, also driven by dedicated quarterly meetings involving the Chief Executive Officer (CEO), the Chief Operating Officer (COO) and the Sustainable Development Director.

The Group formalized its commitment to sustainability in 2000, by joining the World Business Council for Sustainable Development (WBCSD) and the Cement Sustainability Initiative (CSI). All the Group subsidiaries are part of the existing Regional Networks of the WBCSD.

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  - ✓ www.gogetpaper.com
  - ✓ www.wikipedia.com
  - ✓ www.businessweekmagazine.com

- **FOLLOWING ARE THE ITALIAN NEWSPAPER:**

  - ✓ ABITARA
  - ✓ BRAVA CASA
  - ✓ CARNET
  - ✓ GLAMOUR

- **SOME RELATED LINKS**
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Group-7

A
GLOBAL COUNTRY STUDY REPORT ON
ITALY

Submitted To

N. R. Vekaria Institute of Business Management Studies
In Partial Fulfillment of the Requirement of
The Award for the Degree of
Master of Business Administration In
Gujarat Technological University

Under the Guidance of

Prof. Chetan Lakhlani
Prof. Rajendra Patodiya

Submitted By

GROUP-V
Batch: 2012-2013,
Enrollment no: - 2027, 2028, 2029, 2030, 2031 & 2032.
MBA semester III and IV

Through

N.R.Vekaria Institute of Business Management Studies,
Junagadh

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ENROLLMENT NUMBER	NAME
117360592027	**RAJA NAIMISH.**
117360592028	**PANCHANI RITU.**
117360592029	**KAGATHARA KINJAL.**
117360592030	**JOSHI NISHRA.**
117360592031	**VEKARIA CHANDNI.**
117360592032	**RAIYANI KHAYATI.**

STUDENT DECLARATION

We undersigns here enrollment number student of MBA 4th semester **Joshi Nishra, Kagatra Kinjal, Vekariya chandni, Pancholi Ritu, Raiyani Khayati, Raja Naimish**. Hereby declare that the report for Global Country Study Report entitled ITALY are a result of our own work under the guidance of Prof. C.D.LAKHLANI and Prof. RAJENDRA PATODIYA of N.R.Vekaria Institute of Business Management and Studies. This is our real work and has not been submitted to any other university or institute towards the award of any degree.

Date: **Signature :**

Joshi Nishra

Kagatra Kinjal

Vekariya chandni

Pancholi Ritu

Raiyani Khayati

Raja Naimish

CERTIFICATE

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Junagadh-362001.

This is to certify that **JOSHI NISHRA , KAGATHARA KINJAL ,PANCHANI RITU, VEKARIA CHANDNI, RAIYANI KHAYATI & RAJA NAIMISH**. Students of N.R.Vekaria Institute of Business Management Studies, IV sem. MBA College, Junagadh has carried out the project work that the reports for Global/Country Study Report entitle “ITALY” contained in this report under my supervision & guidance.

Date:

Place :

DR.REJESH PATEL	**PROF.C.D.LAKHLANI**
(Director)	**(Professor)**

PREFACE

Knowledge is one of the most important treasures for any person. The amount of the knowledge in this world is a doubling every five years and with the end of the 21st century it is now expected to double every two years. So if we plan to be in this knowledge explosion means that we would be facing with unprecedented challenges and opportunities. How well we address that we would depend upon, in large part on my ability to adapt to the continuing changes. Journal work like this gave an exposure to the practical and real life experience of the modern market.

Learning is the process, which stops with the life, my variance visits to plant & office of the company as filled our empty offers with enlightening knowledge, which will be the everlasting in our life. **“Experience enables you to recognize a mistake when you make it again.”**

Theories don’t teach unless accompanied by the working in original situation. This project report was carried out according to the course of MBA. All the valuable data are collected from reliable source of the country. Which is trust worthy. We will always remember my second year of MBA especially because it was privilege that I got opportunity in such a reputed country. An activity such a project report gives lot of pleasure to us, as we enjoy living practical life.

ACKNOWLEDGEMENT

We are really happy to present this global country report, First of all we want to present our special thankfulness to our honourable trustee Mr. N. R. Vekaria and our respected Director DR. Rajesh Patel who have give us opportunity to prepare this report.

We are also thankful to our head of the department Dr. N. M. Munsi Now we want to present our special thankfulness to Prof. C. D. Lakhlani & Prof. Rajendra Patodiya and all the faculties of our college who have guided us in this report every time.

And lastly we are very much thankful to all our friends who have helped us to prepare this report.

THANKING YOU……..

Place: - Junagadh. You're sincerely

Date: -

CONTENT

EXECUTIVE SUMMARY

Italy has made a number of improvements in policy affecting business but it faces stiff competition as a location for corporate headquarters from neighboring economies. With a population of almost 60 million, Italy is one of the largest and most affluent markets in the European Union. Given its size, there are significant opportunities for economies of scale. Its business environment is also extremely sophisticated, producing goods high on the value chain.

Some of the downsides often cited include political instability, complexities of the legal and regulatory systems, a relatively high tax burden and inadequate infrastructure. In the recent World Economic Forum (WEF) Global Competitiveness Index for 2010-11, Italy ranked 48th, which is lower than any other G7 member country.

Italy's economy has passed the deep recession triggered by the global crisis and seems set for a gradual recovery. The strength of this recovery is uncertain: it would be wise to plan for no more than the rather sluggish growth seen in the decade prior to the crisis. Hence, the priority remains structural reforms to increase growth potential, while maintaining a stable fiscal framework oriented towards consolidation, as appropriately pursued during the crisis. Such a policy can sustain confidence in Italian public finances in the face of the large stock of government debt, in turn helping to support the financial system whose health is crucial for the recovery.

PART – I ECONOMIC OVERVIEW OF THE ITALY

PART – I ECONOMIC OVERVIEW OF THE ITALY

ECONOMIC OVERVIEW OF THE ITALY

Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south, with high unemployment. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family owned. Italy also has a sizable underground economy, which by some estimates accounts for as much as 17% of GDP. These activities are most common within the agriculture, construction, and service sectors. Italy is the third-largest economy in the euro-zone, but exceptionally high public debt burdens and structural impediments to growth have rendered it vulnerable to scrutiny by financial markets. Public debt has increased steadily since 2007, reaching 120% of GDP in 2011, and borrowing costs on sovereign government debt have risen to record levels. During the second half of 2011 the government passed a series of three austerity packages to balance its budget by 2013 and decrease its public debt burden. These measures included a hike in the value-added tax, pension reforms, and cuts to public administration. The government also faces pressure from investors and European partners to address Italy's long-standing structural impediments to growth, such as an inflexible labor market and widespread tax evasion. The international financial crisis worsened conditions in Italy''s labor market, with unemployment rising from 6.2% in 2007 to 8.4% in 2011, but in the longer-term Italy''s low fertility rate and quota-driven immigration policies will increasingly strain its economy. The euro-zone crisis along with Italian austerity measures have reduced exports and domestic demand, slowing Italy''s recovery. Italy''s GDP is still 5% below its 2007 pre-crisis level.

- **GDP (purchasing power parity):**

    $1.847 trillion (2011.)

- **GDP (official exchange rate):**

    $2.164 trillion (2011.)

- **GDP - real growth rate:**

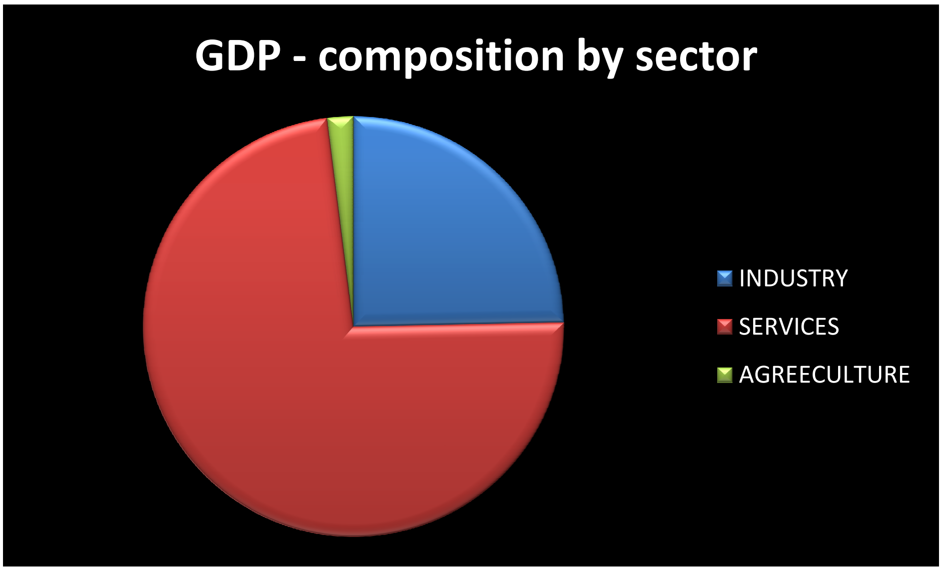
    0.4% (2011)

- **GDP - per capita (PPP):**

    $30,500 (2011)

- **GDP - composition by sector:** (2011)

Agriculture	2%
Industry	24.7%
Services	73.4%

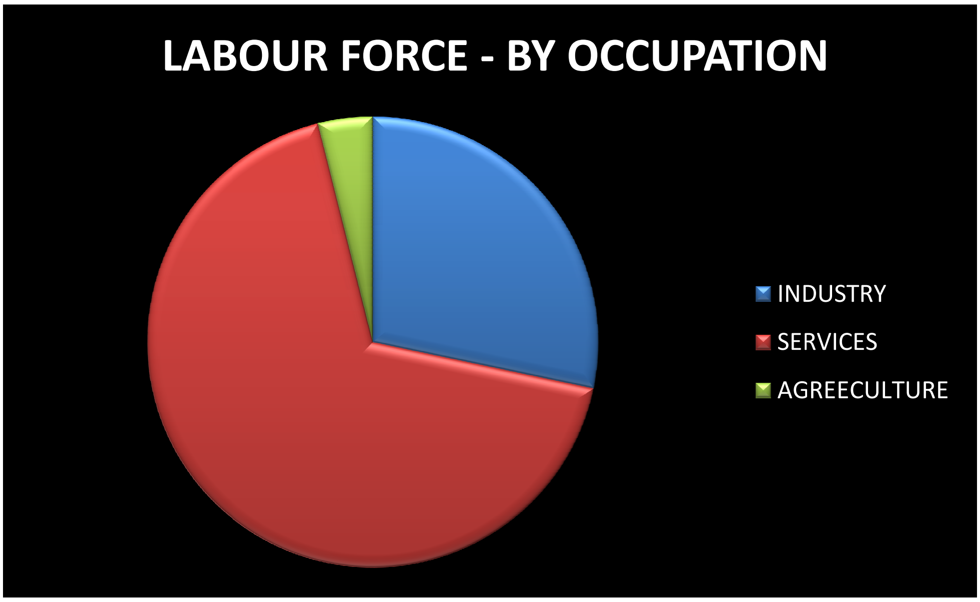


- **Labor force:**

25.08 million (2011)

- **Labor force - by occupation:**

Agriculture	3.9%
Industry	28.3%
Services	69.8%



- **Unemployment rate:**

8.4% (2011)

- **Budget:**

revenues: $1.025 trillion

expenditures: $1.111 trillion

- **Public debt:**

120.1% of GDP (2011)

- **Agriculture - products:**

  Fruits, vegetables, grapes, potatoes, sugar beets, soybeans, grain, olives; beef, dairy products; fish

- **Industries:**

  Tourism, machinery, iron and steel, chemicals, food processing, textiles, motor vehicles, clothing, footwear, ceramics

- **Industrial production growth rate:**

  0.2% (2011)

- **Exports:**

- $524.9 billion (2011.)

- **Exports - commodities:**

  Engineering products
  Textiles and clothing
  Production machinery
  Motor vehicles
  Transport equipment
  Chemicals; food
  Beverages and tobacco
  Minerals
  Nonferrous metals

- **Exports - partners:**

  Germany 13.3%
  France 11.8%
  US 5.9%
  Spain 5.4%
  Switzerland 5.4%

UK 4.7% (2011)

- **Imports:**

$549.6 billion (2011 est.)

- **Imports - commodities:**

Engineering products,
Chemicals, transport
Equipment,
Energy products,
Minerals and nonferrous metals,
Textiles and clothing;
Food, beverages and
Tobacco

- **Imports - partners:**

Germany 16.5%,
France 8.8%,
China 7.7%,
Netherlands 5.5%,
Spain 4.7% (2011)

DEMOGRAPHIC PROFILE OF THE COUNTRY

Alcide De Gasperi, first republican Prime Minister of Italy and one of the Founding Fathers of European Union.

The name *Italia* originally applied only to a part of what is now Southern Italy – according to Antiochus of Syracuse, the southern portion of the Bruttium peninsula (modern Calabria: province of Reggio, and part of the provinces of Catanzaro and Vibo Valentia).

But by his time Oenotria and Italy had become synonymous, and the name also applied to most of Lucania as well. The Greeks gradually came to apply the name "Italia" to a larger region, but it was during the reign of Emperor Augustus (end of the first century BC) that the term was expanded to cover the entire peninsula until the Alps.

Italy officially the Italian Republic is a unitary parliamentary republic in South-Central Europe. To the north, it borders France, Switzerland, Austria, and Slovenia along the Alps. To the south, it consists of the entirety of the Italian Peninsula, Sicily, Sardinia–the two largest islands in the Mediterranean Sea–and many other smaller islands. The independent states of San Marino and the Vatican City are enclaves within Italy, while Campion d'Italia is an Italian exclave in Switzerland. The territory of Italy covers some 301,338 km^2 (116,347 sq mi) and is influenced by a temperate seasonal climate. With 60.8 million inhabitants, it is the fifth most populous country in Europe, and the 23rd most populous in the world.

Rome, the capital of Italy, has for centuries been a political and religious centre of Western civilization as the capital of the Roman Empire and site of the Holy See. After the decline of the Roman Empire, Italy endured numerous invasions by foreign peoples, from Germanic tribes such as the Lombard’s and Ostrogoths, to the Byzantines and later, the Normans, among others. Centuries later, Italy became the birthplace of Maritime republics and the Renaissance. Through much of its post-Roman history, Italy was fragmented into numerous city and regional states (such as the Republic of Venice and the Church State), but was unified in 1861. In the late 19th century, through World War I, and to World War II, Italy possessed a colonial empire.

Modern Italy is a democratic republic. It has been ranked as the world's 24th most-developed country and its Quality-of-life Index has been ranked in the world's top ten in 2005. Italy enjoys a very high standard of living, and has a high GDP per capita.

Italy needs to address by looking to the future as well as at the past. Indeed, the current state of affairs is the product of previous trends. In decades gone by, there was a surplus of births over deaths and a negative migration balance, but today that situation has been reversed. Thus, enquiring into how things were as well as how they are likely to be in the future is helpful for shaping policies to deal with demographic changes which, it was noted, have turned out to be very different from those forecast by the UN itself no less than ten years ago.

Migration flow management cannot, on its own, provide the key to reversing the processes underway. Immigration plays an extremely important role, including in terms of labor supply, but it would take 690 thousand new arrivals a year to reverse the current trends. That would be difficult to sustain, particularly considering the global fall in migration. However, what could make a real difference are measures aimed at increasing the fertility rate (which is fixed at 1.4 births per woman and is lower than that in other countries), at overhauling personal care and health policies, and at encouraging young people aged between 25 and 30 to stay in the country. Indeed, in respect of the latter, the participants pointed to statistics showing that the number of Italians in that age group moving abroad exceeds the number of young immigrants arriving in Italy.

It was stressed that in the absence of targeted policies, Italy will be confronted with three questions in the future. The first of these relates to birth and fertility rates. The country has been below the generational replacement level (that is, fewer than two births per woman) since 1977, and immigrants have not succeeded in making a significant contribution to reversing this trend, because their birth rate is increasingly approaching that of Italians, and because, as evidenced by massive remittance flows, they harbor a desire to return to their countries of origin. Today, there are around 80 thousand births a year amongst the immigrant population, but in four years, the fertility rate of non-native women has fallen to Italian levels. It was noted that in advanced economies, there is a positive correlation between female employment ratios and fertility rates. Thus, more needs to be done to facilitate the entry of women into the labor market, particularly by adopting support mechanisms for SMEs.

The second issue relates to optimizing the country's stock of human capital. In this regard, the participants highlighted that young people in Italy are finding it difficult to leave the family home (which prevents them from assuming full adult responsibilities) or they are leaving the country. Finally, the third question concerns the aging of the population. The number of great-grandparents is overtaking the number of great-grandchildren, and in addition to an increase in the number of people over 65, Italy is also seeing a rise in over-80-year-olds. It is this gradual growth in the number of people within the elderly age brackets that is posing some of the more difficult challenges. Whilst the pension system is now sustainable thanks to recent reforms, there is still a need to better integrate the country's tax and social security systems.

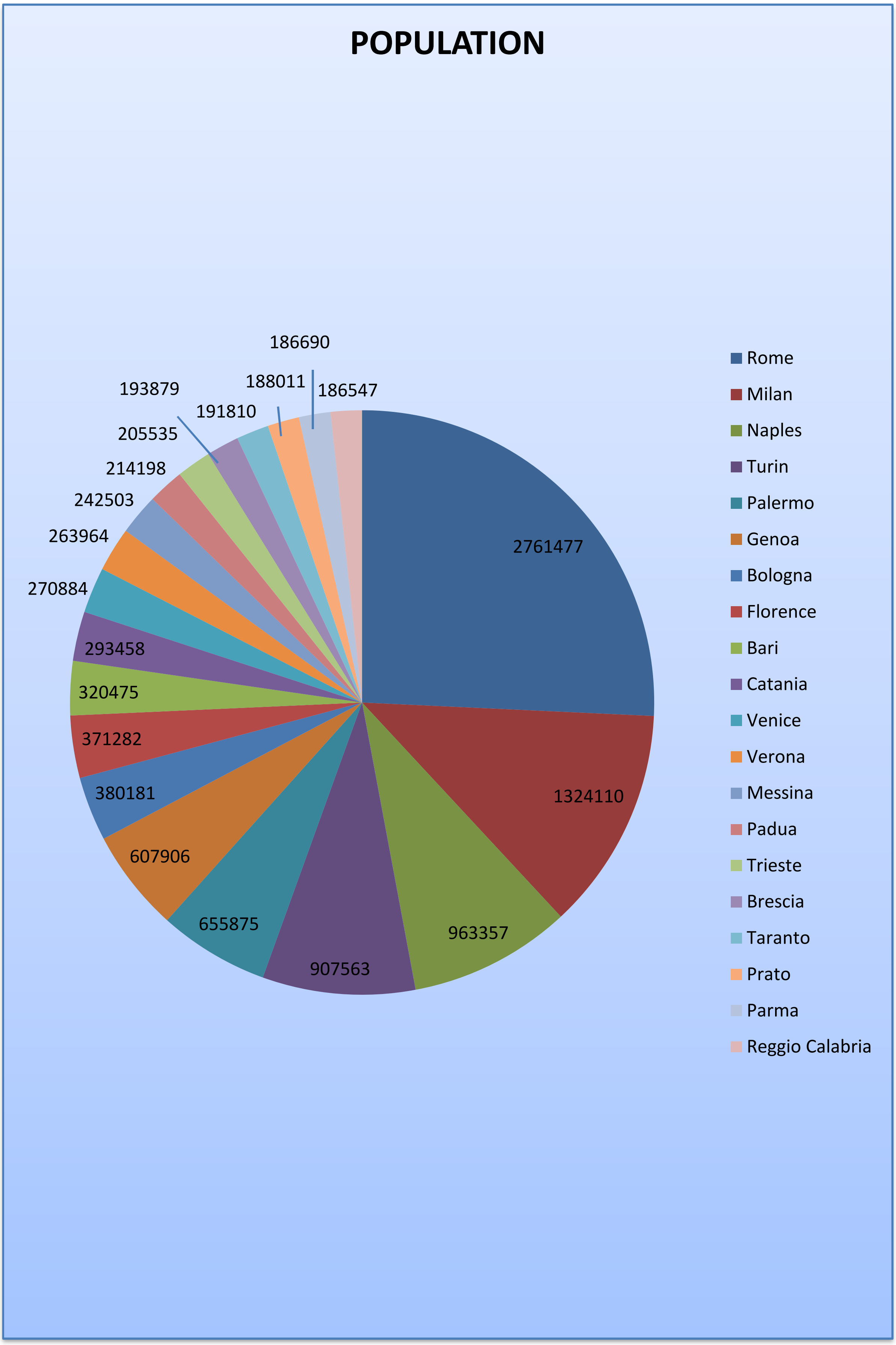
Turning to the area of health and personal care services, the participants felt that this sector requires special attention, also taking into consideration the older population's propensity to save. The growth in the number of single-person households, particularly amongst the elderly, results in greater vulnerability and a loss of the family support network. Attention was drawn to the necessity of considering the proportion of voters that are over 65 and over 80, and the consequences that this might have on the kind of policies capable of generating social consensus.

Over-65-year-olds may already have or develop several chronic conditions, for which hospitalization is not the best treatment option. It is with the aim of reducing hospitalization rates and encouraging treatment centered on the individual that the structure of healthcare provision is moving towards the large hospital model. Technology will also need to provide a means of ensuring that people in older age brackets are better able to contribute to productivity, a necessary prerequisite, along with savings, for the pursuit of constant economic growth. Finally, in order to reverse or at least reduce the erosion of savings associated with aging, the participants stressed the need for policies that encourage people to take out supplementary health and – in the case of young people – pension cover.

Following are some figures of the population of Italy in 2011

LARGEST CITIES OF ITALY

SR NO.	CITY NAME	REGION	POPULATION
1	Rome	Lazio	2761477
2	Milan	Lombardy	1324110
3	Naples	Campania	963357
4	Turin	Piedmont	907563
5	Palermo	Sicily	655875
6	Genoa	Liguria	607906
7	Bologna	Emilia-Romagna	380181
8	Florence	Tuscany	371282
9	Bari	Apulia	320475
10	Catania	Sicily	293458
11	Venice	Veneto	270884
12	Verona	Veneto	263964
13	Messina	Sicily	242503
14	Padua	Veneto	214198
15	Trieste	Friuli-Veneziagiulia	205535
16	Brescia	Lombardy	193879
17	Taranto	Apulia	191810
18	Prato	Tuscany	188011
19	Parma	Emilia-Romagna	186690
20	Reggio Calabria	Calabria	186547


POPULATION
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Rome
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Naples
Turin
Palermo
Genoa
Bologna
Florence
Bari
Catania
Venice
Verona
Messina
Padua
Trieste
Brescia
Taranto
Prato
Parma
Reggio Calabria

OVER VIEW OF INDUSTRY TRADE AND COMMERCE IN ITALY

More specifically, Italian economy is weakened by the lack of infrastructure development, market reforms and research investment, and also high public deficit.In the Index of Economic Freedom 2011, the country ranked only 87th in the world, in particular due to the high rate of corruption, an excessive state interventionism, and a strong labor law. In addition, the most recent data show that Italy's spending in R&D in 2011 was equal to 1.1% of GDP (12th in the world by expenditures), below the European average of 1.7% and the Lisbon Strategy target of devoting 3% of GDP to research and development activities.

Italy has a smaller number of global multinational corporations than other economies of comparable size, but there is a large number of small and medium-sized enterprises, as in the Northern "industrial triangle" (Milan-Turin-Genoa), where there is an area of intense industrial and machinery production, notably in their several industrial districts, which are the backbone of the Italian industry. This has produced a manufacturing sector often focused on the export of niche market and luxury products, that if on one side is less capable to compete on the quantity, on the other side is more capable of facing the competition from emerging economies based on lower labor costs, with higher quality products.

The country was the world's 7th largest exporter in 2009.Italy's major exports and companies by sector are motor vehicles (Fiat, Aprilia, Ducati, Piaggio, Iveco); tyre manufacturing (Pirelli); chemicals and petrochemicals (Eni); energy and electrical engineering (Enel, Edison); home appliances (Candy, Indesit); aerospace and defense technologies (Finmeccanica, Alenia Aeronautica, AgustaWestland, Oto Melara); firearms (Beretta, Benelli); fashion (Armani, Valentino, Versace, Dolce & Gabbana, Roberto Cavalli, Benetton, Prada, Luxottica); food processing (Ferrero, Barilla Group, Martini & Rossi, Campari, Parmalat); sport and luxury vehicles (Ferrari, Maserati, Lamborghini, Pagani); yachts (Ferretti, Azimut). Italy's closest trade ties are with the other countries of the European Union, with whom it conducts about 59% of its total trade. Its largest EU trade partners, in order of market share, are Germany (12.9%), France (11.4%), and Spain (7.4%).

OVER VIEW OF DIFFERENT ECONOMIC SECTOR OF THE ITALY

Commerce is the whole system of an economy that constitutes an environment for business. The system includes legal, economic, political, social, cultural, and technological systems that are in operation in any country. Thus, commerce is a system or an environment that affects the business prospects of an economy or a nation-state. We can also define it as a second component of business which includes all activities, functions and institutions involved in transferring goods from producers to consumer.

- **Energy, wind power and Nuclear Sector**

Italy has few natural resources. There are no substantial deposits of iron, coal, or oil. Proven natural gas reserves, mainly in the Po Valley and offshore Adriatic, have grown in recent years and constitute the country's most important mineral resource. Most raw materials needed for manufacturing and more than 80% of the country's energy sources are imported. Also in Italy, we can find that of more development of winf farm sector also.

However, in the last decade, Italy has became one of the world's largest producers of renewable energy, ranking as the world's fifth largest solar energy producer in 2009 and the sixth largest producer of wind power in 2008.

Italy has managed four nuclear reactors until the 1980s, but in 1987, after the Chernobyl disaster, a large majority of Italians passed a referendum opting for phasing out nuclear power. The government responded by closing existing nuclear power plants and stopping work on projects underway, completely putting a halt to the national nuclear program. Currently, the majority of Italian electricity is produced gas, oil, coal, and hydro. Due to its reliance on expensive fossil fuels and imports, Italians pay approximately 45% more than the EU average for electricity.

- ***Vegetable and Fruits***

The northern part of Italy produces primarily corn, rice, sugar beets, soybeans, meat, fruits and dairy products, while the South specializes in wheat and citrus fruits. Italy is the first or the second largest producer of wine in the world, and one of the leading in olive oil, fruits (apples, oranges, lemons, pears, apricots, peaches, cherries, strawberries, kiwi), flowers and vegetables.

- **Transportation**

In 2004 the transport sector in Italy generated a turnover of about 119.4 billion euros, employing 935,700 persons in 153,700 enterprises. Regarding to the national road network, in 2002 there were 668,721 km (415,612 mi) of serviceable roads in Italy, including 6,487 km (4,031 mi) of motorways, state-owned but privately operated by Atlantia company. In 2005, about 34,667,000 passenger cars (equal to 590 cars per 1,000 people) and 4,015,000 road good vehicles circulated on the national road network.

The railway network in Italy totaled 16,862 kilometers (2008) of which 69% are electrified and on which 4,937 locomotives and railcars circulate. It is the 15th largest in the world, and is operated by Ferro vie dello Stato. High speed trains include ETR-class trains, with the ETR 500 reaching 300 km/h (190 mph). The rail tracks and infrastructure are managed by Rete Ferroviaria Italiana.

- ***Banking***

Banking in Italy has, as of the 11th October 2008, an average assets/liabilities ratio of 12 - 1, while the bank's short-term liabilities are equal to 86% of the Italian GDP or 43% of the Italian national debt This is a list of the top 10 Italian banks ranked by market capitalization.

OVER VIEW OF BUSINESS AND TRADE AT INTERNATIONAL LEVEL

Italy had experienced a lower growth than the European average, and it was severely affected by the global crisis, its economy reduced to -5% in 2009. However, it benefited from the revival in global demand and the return of confidence. The exports and investments recovered in 2010, providing a growth rate evaluated at 1% of the GDP. According to the forecast, the growth rate should remain weak in 2011.

The government has launched different social measures in order to try to help those who are in the most unfavorable conditions, which had a direct consequence on increasing dramatically the public expenditures of a country that has one of the highest public debts in the world (more than 100% of the GDP). The government has, then, adopted a rigorous plan of EUR 24 billions in three years, it has frozen salaries and increased taxes with the purpose of attempting to bring the public deficit to 2.7% in 2012 and reducing its debt/GDP ratio. The priority is also given to the fight against tax avoidance in this country where the black economy is very significant.

The unemployment rate has risen to about 8.7%. Regional inequity is very pronounced, specially between the north, which is very industrialized and dynamic, and the rural and poor regions of Mezzogiorno in the south.

FDI in Figures

In relation to its European neighbors, Italy does not attract but a small amount of foreign direct investment (FDI). After their fall in 2008, under the effect of the global crisis, the FDI flows started to revive in 2009. The privatization program led by the country, the liberalization of the energy and the markets of telecommunications offer interesting opportunities to investors. However, a strict labor law, high taxes, inefficient public services, corruption and the activities linked to organized crime are some of the hindrances to investment.

FDI Government Measures

There is hardly any assistance in Italy for promoting foreign investment. This trend is reinforced by the European Union which wants Italy to harmonize its tax incentives with the Community regulations. Italy only promotes the development of its regions which are in difficulty, in order to facilitate SME activity and job creation. The defense sector and other sectors likely to compromise public safety are not open To oreign investors.

The Italian Institute for Foreign Trade lists and makes available a guide to aids for setting up business in Italy. Italy is amongst the top 10 trade countries in the world and trade represents almost 60% of the GDP. Manufactured goods account for more than 90% of the country's exports. The country shows a deficit in trade and its balance got worse after the rise in oil prices in 2008 (the country imports 80% of its energy resources), and the appreciation of the euro. Despite its recent improvement, the trade balance should continue to deteriorate in the next coming years. The main trade partners of Italy are the European Union (Germany, France, Spain, Netherlands, United Kingdom), China, the United States, Switzerland and Russia.

PRESENT TRADE RELATION AND BUSINESS VOLUME OF DIFFERENT PRODUCTS WITH INDIA/GUJARAT

From last few decades Italy has done great relation ship of doing business with India. Following are of some good examples that defines that now a days also they are maintaining good relationship for trading with INDIA.

India-Italy Bilateral Relations

Economic and commercial relations between India and Italy have been growing steadily. Italy is India's 5th largest trading partner in the EU (21st globally) and the 12th largest investor in India.

Trade

The last few years have seen substantial growth in trade relations between the two countries. The balance of trade has been in India's favour since the early eighties. Bilateral trade has been impacted negatively as a result of the financial/economic crisis of 2008-09. The trade which was showing signs of healthy growth (it grew by 68% during the period 2005-07), contracted by 12% in 2009, but registered a volume of US$ 8.80 billion (+ 21.27% y-o-y growth) for 2010. The percentage share of India in Italy's trade has been increasing steadily, though it still hovers around 1%, showing immense potential for development.

Today there are around 400 Italian firms present in India, as compared to 330 firms in 2008, operating especially in the textile and automobile sectors. Italy is India's fifth largest trading partner in the EU. Italy is the 12th largest foreign investor in India

The Indo-Italian bilateral trend has been constantly increasing at high rates in last nine years and only due to the global economic recession, in 2009 the trend has registered a negative growth. The bilateral trade crossed for the first time 7 billion Euro in 2010 and 8 billion Euro in 2011.

INDIA-ITALY BILATERAL RELATIONS(US$ BILLION)

Year	India's Exports to Italy	Growth %	India's Imports from Italy	Growth%	Total Trade	% Growth
2006-2007	3.58		2.67		6.26	
2007-2008	3.91	9.19	3.9	45.99	7.82	24.92
2008-2009	3.82	-2.29	4.42	13.35	8.25	5.52
2009-2010	3.4	-11.09	3.86	-12.78	7.26	-12
2010-2011	4.55	33.85	4.25	10.2	8.8	21.27

India's Exports to Italy

Year	Value (in Euro Million)	% change over previous year
2003	1,682.4	+6.02
2004	2,025.8	+20.45
2005	2,200.2	+8.57
2006	2,984.2	+35.61
2007	3,393.9	+14.06
2008	3,429.0	+1.22
2009	2,906.9	-15.23
2010	3,823.5	+31.64
2011	4,781.6	+25.06

INDIA'S IMPORTS FROM ITALY

Year	Value (In Euro million)	% change over previous year
2003	1,099.3	+6.30
2004	1,273.2	+16.09
2005	1,679.1	+31.86
2006	2,170.1	+29.28
2007	3,009.6	+38.93
2008	3,091.1	+3.20
2009	2,750.2	-10.99
2010	3,386.7	+23.14
2011	3,740.1	+10.44

(Source:http://www.ice.gov.it/paesi/asia/india/upload/182/International%20Trade_23%20Oct%20for%20ICE.pdf)

- **NOV 2012 :-**

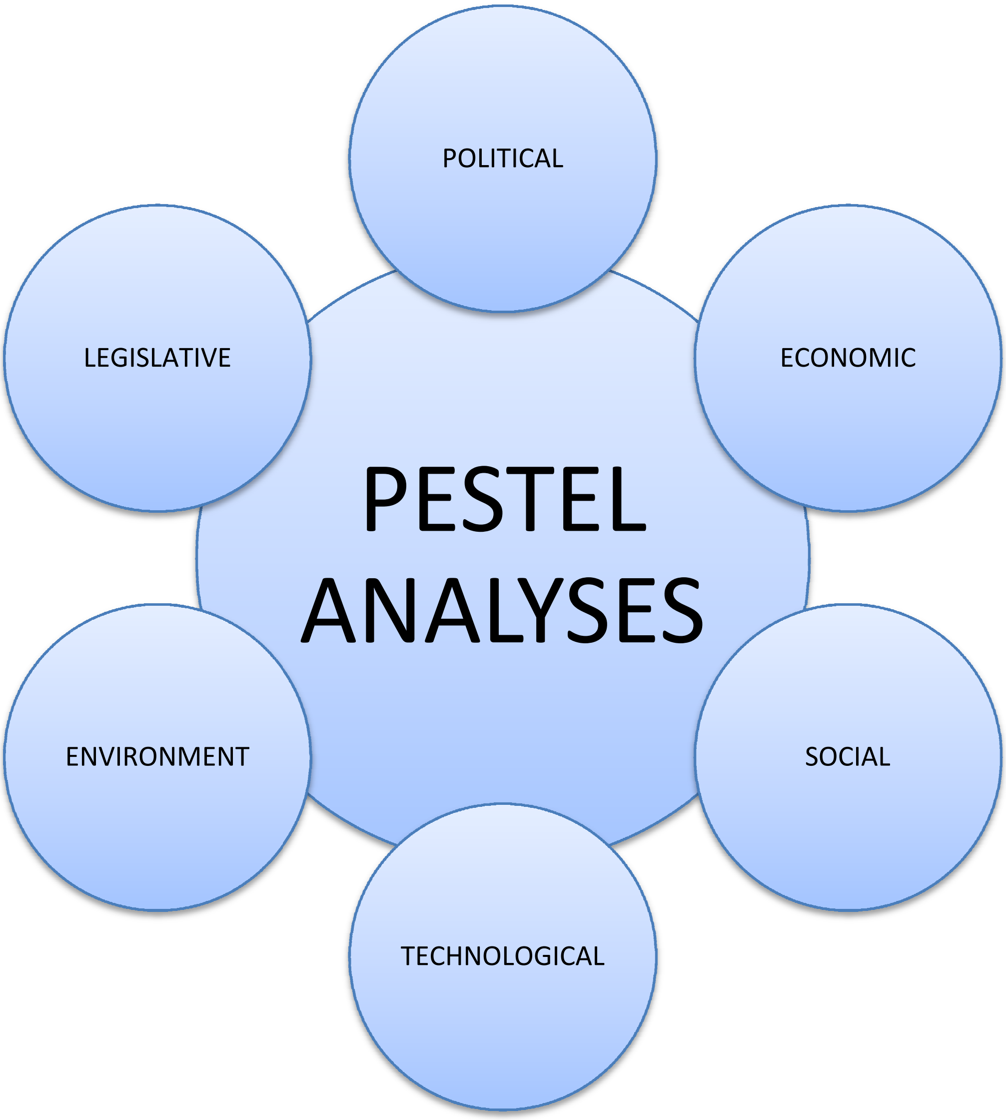
Mahindra has launched the XUV500 crossover in Italy, the first European market to get the flagship crossover from the Indian car and utility vehicle major. The XUV500 that will be sold in Italy comes at an introductory price of 22,932 Euros, which translates to about 15.6 Lakh Indian Rupees. The XUV500 that is sold in Italy will be offered in two versions, a front wheel drive model and an all wheel drive model. The all wheel drive model of the XUV500 will be priced a tad higher, at Euro 24,983. In order to increase car buyer confidence in the XUV500, Mahindra is offering a 5 year-100,000 kilometer warranty on the Euro-spec XUV500.

Italian auto components maker Magneti Marelli has opened a new automobile exhaust systems manufacturing plant in Manesar, near Gurgaon, India. The new production plant is built on a surface of 8,000mt² by SKH Magneti Marelli Exhaust Systems, a joint venture between Magneti Marelli and SKH Metals. About 4,500mt² of the new plant will be used for the manufacturing of Hot End components (catalytic converters) and Cold End Components (mufflers).

At the new plant, the company will produce about 400,000 Cold End components and 150,000 Hot End systems a year. According to the company, the new Indian plant will expand the product portfolio to include cold end systems and ensuring more room for production activities.

The foreign investment proposal by Italian jewellery brand Damiani to set up a 51:49 joint venture with Mehta's Pvt Ltd got the government's approval, sources said. The proposals were cleared by the Foreign Investment Promotion Board (FIPB) headed by Economic Affairs Secretary Arvind Mayaram. The government also cleared three FDI proposals worth Rs 106 crore in single-brand retail, including that of America's oldest clothing retailer Brooks Brothers and UK's footwear chain Pavers England. Sources said the footwear retailer plans set to invest Rs 100 crore. After the meeting, Mayaram said that the proposal of Pavers England has been cleared.

PESTEL ANALYSIS



PESTEL stands for political, economic, social, technological, environmental and legal factors that affect the business and it is considered to be an effective tool for analysing external environment for the business. Each of the factors presented below has to be critically analysed by the management of Jamie's Italian Sydney in order to identify new potentials for creating competitive edge for the company.

The Italy Country Analysis Report analyzes the political, economic, social, technological, legal and environmental (PESTLE) structure of Italy. The report provides a holistic view of the country from historical, current and future perspectives. Insightful analysis on critical current and future issues is presented through detailed SCPT (strengths, challenges, prospects and threats/risks) analysis for each of the PESTLE segments. In addition, the PESTLE segments are supplemented with relevant quantitative data to support trend analysis.

1. ***Political :***

   Section provides understanding about the political system and key figures relevant to business in the country and governance indicators.

2. ***Economic :***

   Section deals with the economic story of a country that provides a balanced assessment of significant macro-economic issues.

3. ***Social :***

   Section enables understanding of customer demographics through income distribution, rural-urban segmentation and centres of affluence, healthcare and educational scenario.

4. ***Technological :***

   Section provides strategic information on technology and telecom, technological laws and policies, technological gaps, patents and opportunity sectors in the country.

5. ***Legal :***

   Section provides information about the legal structure, corporate laws, laws to start a new business and the tax regime.

6. ***Environmental :***

   Section provides information on the country's performance on environmental indicators and policies.

TECHNOLOGICAL SECTOR OF ITALY

HISTORICAL BACKGROUND ABOUT ITALY

Italy became a nation-state belatedly - in 1861 when the city-states of the peninsula, along with Sardinia and Sicily, were united under King Victor EMMANUEL. An era of parliamentary government came to a close in the early 1920s when Benito MUSSOLINI established a Fascist dictatorship. His disastrous alliance with Nazi Germany led to Italy's defeat in World War II.

A democratic republic replaced the monarchy in 1946 and economic revival followed. Italy was a charter member of NATO and the European Economic Community (EEC). It has been at the forefront of European economic and political unification, joining the European Monetary Union in 1999.

Persistent problems include illegal immigration, the ravages of organized crime, corruption, high unemployment, and the low incomes and technical standards of southern Italy compared with the more prosperous north.

Notwithstanding this cultural supremacy, Italy remained under the heel of foreigners. Under Garibaldi and his redshirts, it was finally reunited in 1861 - when the United States was in the throes of the Civil War. Established as a kingdom under King Victor Emmanuel, who abdicated after World War Two, Italy has existed as a nation for not much more than 130 years.

Today Italy is prosperous. Industry thrives in the triangle formed by Milan, Turin, and Genoa. Craftsmen and artists throughout the land produce the "Italian look" that has become a yardstick of excellence and good taste both in consumer and industrial goods. Tourism booms everywhere, from the northernmost Alps to the southern shores of Sicily. Italy's storied sites await discovery by more than thirty million tourists each year. Italian food is popular

HISTORICAL BACKGROUND ABOUT TECHNOLOGICAL SECTOR OF ITALY

Unified Italy lost ground compared with other European countries for more than 20 years after 1861. Its first long period of rapid economic growth since the seventeenth century occurred during 1900-1913, roughly coinciding with the Giolittian period. This period of growth occurred only after a regime change both in the economic and political spheres in the second half of the 1890s. This shift is regarded as allowing the preconditions for Italy to join the expansionary international cycle, but also to start catching up with more advanced economies

The innovation activity undertaken by Italian firms in this phase was mainly fed by inward FDI, investment in foreign-made equipment, and patent applications in Italy by foreigners and licensing agreements

The military-industrial complex, a major contributor to Industrialisation and, in most countries a source of technical progress, imported most of the modern technology in the Italian case

Also in the electro-technical industry Italy depended on foreign innovation. Equipment and material characterised by a high technological content was of foreign origin, particularly from Germany, until the WWI, and increasingly from Switzerland. Three out of the top five patenting firms in Italy were German

Only between 1909 and 1914 did two Italian corporations, CGS and Richard-Ginori, appear in the top eight patenting firms. However, these firms manufactured less technologically advanced products such as electricity meters and insulators

Italy took the lead from France in the early 19th century and kept it for a century, introducing a long list of innovations that were implemented on domestically built machines. fifteen years later 73 out of 75 Italian reeling firms used only domestically built machinery. But the weaknesses of the Italian machine tool industry were such that the industry could not provide for the expanding textile sector, which depended on foreign machinery. This also meant building their own repair shops or relying on foreign suppliers and technicians, Textile manufacturers had little choice but to buy abroad since foreign machines were technically superior and less expensive.

Italian firms were quite proficient in adapting foreign machinery and in combining machines of different provenance and vintage - this skill was less developed in heavy industries. Italian engineers played an important role in this respect. They were able to deal with a variety of technologies and use them creatively due to a strong broad education in engineering rather than a specialised one

Recent work has provided a complex picture concerning the introduction of new technologies in industry in the interwar years. Overall Italian industry seems heavily dependent on foreign technology, but was able to adapt it to the Italian market. Import and imitation of technologies from abroad characterised the textile and steel industries, whereas mechanical engineering and chemical sectors saw significant investment in autonomous domestic innovation activities

INNOVATION, ECONOMIC GROWTH, AND INTERNATIONAL TECHNOLOGY TRANSFER

The major role of innovation, be it technological or associated organisational change, in economic growth and rising living standards is almost unanimously recognised

Innovation necessarily provides the foundation for economic growth, since it consists of building new domains of value creation, which therefore expand the stream of values that are distributed and exchanged through the circular flow of income. The regular circular flow of income, which is the focus of most traditional analysis of markets or exchange processes in modern economics, is thereby continuously disturbed and disrupted through the establishment of new fields of value creation or production.

Building new areas of value creation – relies on the localised development of technological or social capability, through problem-solving or learning activities principally within firms

The development of new products and processes is the outcome of a path dependent building upon established capabilities and achievements, by the critical revision of emergent new products or methods and the search for novelty of a kind that is relevant to addressing in new ways producer problems or user needs

Hence, innovation must be understood as a continuous learning process in firms supported by other institutions, and not as a discrete event, whether an exogenous shock that gives rise to a monopoly or a flash of entrepreneurial alertness which requires no resources, nor as the implementation of a fully defined and foreseen strategy. Innovation is a problem-solving search that creates and continually renews technological or social capability within firms, and is not a search for positions of market power as such.

In an international context, technological differences have come to be studied as prime causes of differences in GDP per capita across countries in the technology-gap literature

E.g. Ames and Rosenberg (1963) and Dosi, Pavitt and Soete (1990). Gerschenkron (1962) had pointed out that “backward countries” are presented with an opportunity for great “industrial upswing.” Countries that begin behind have the potential to access more advanced technologies from existing leaders Yet backwardness, also in technological terms, is not just an opportunity, but one that has to confront major limiting factors, institutional, financial andsocio-economic.

It is fact that the transfer of technology to a new location always involves resource costs associated with the adaptation and implementation of technology in a different context, it becomes clear that these costs are often considerable if its return is positive.

The transmission of technology across countries therefore takes a wide variety of organisational or administrative forms, which have evolved over time. Foreign technology can be embodied in imported intermediate inputs, capital goods, or skilled migration. It can be channelled through FDI through patents registered in the host country by foreigners. It can be purchased in disembodied form or it can spread by imitation and reverse engineering.

The form of international technology transfer in any given contexts depends upon local industrial conditions including the levels of capabilities already built and acquired by indigenous firms, and local institutional conventions and structures. These factors affect both the likely resource costs of alternative modes of technology transfer, and the potential for supportive capability building in the local recipient units that establish connections with those foreign holders of more advanced technology.

THE IMPORT OF FOREIGN TECHNOLOGIES

In this section we explore the inflow of foreign technology to Italy through different channels, through the production of new empirical evidence on the international transmission of technology over the period 1861-2011. We gathered data and build time series of: imports of capital goods, differentiated by type and country of origin; inward foreign direct investment; patent applications in Italy by foreigners; payments for the purchase by Italian firms of foreign disembodied technology.

IMPORTS OF CAPITAL GOODS

If investment in new machinery has generally represented in the 20th century one of the main channels for the introduction of new technologies for the most part of the industrialized countries, this was especially true for Italy through investment in foreign produced machinery for a relevant part of its 150 years since Unification.18 Thanks to the new Italian import and export database, and relying on different modern national and international sources, we are now able to build long time series on machinery imports in Italy.

New data show that machinery imports have a higher and increasing weight as a ratio on national investments in machinery (as well as on GDP and on industry value added), during the Giolittian phase in respect to the 1920s and 1930s. Also in the first period the weight of machinery imports appears, *mutatis mutandis*, higher than the one prevailing after WWII, when taking into account the 1950s opening of the domestic market with European integration and international commercial liberalizations, as well as the new scale of intra-industry trade characterizing the second half of the 20th century.

The increasing share of machinery imports on total manufactured products imports since 1890s –18% reached in 1908 – highlights the investment effort in foreign machinery of Italian firms during the Giolittian era. The imports of specialized machinery, other than agricultural machines, became relevant since late 19th century as an amount and a share of total machinery imports. Interestingly the imports of machine tools, the machines needed to make machines, started to grow since 1920s, reaching a significant amount and almost 30% of machinery imports at the end of 1930s.

Even in the second catch-up phase the ability to adopt external foreign knowledge depended initially on imports of foreign machinery. In the first two decades after WWII, however, a process of quantitative and qualitative growth of the rising Italian machinery industry was set in motion as a result of the tremendous increase of foreign capital goods purchases of early 1950s and 1960s, when machinery accounted for historically high 25% of all Italian manufactured goods imports. Subsequently this percentage in fact fell over time down to only 10% in recent years, Italian machinery exports grew strongly in the long run and the balance of specific commercial trade in capital goods was positive from 1965 onwards.

INTRODUCTION TO TECH TRANSFER AND KNOWLEDGE TRANSFER IN THE 21ST CENTURY

Humans are, according to the zoologists, animals. Like other animals, we need to eat, find shelter, and met our other physical needs to survive. All things being equal, completing the work needed to survive more quickly, more efficiently, and more effectively is a desirable outcome. It is even better to survive and thrive, happy and healthy. This fundamental evolutionary dynamic is one of two major motivations sourcing our drive for knowledge and technology transfer. The second driving motivation is money. When scientific and engineering knowledge are embedded in a physical form (an article, a machine, a piece of software, a picture) assets are created. Comparable to any asset, knowledge or technology (embodied knowledge) can be used to generate revenues.

Because these assets are derived from ideas, they are then referred to as intellectual assets. One special type of intellectual asset is technology. Technology is a methodology or tool for manipulating the world, or a specific material, component, or system resulting from such manipulation. In general, technologies that provide users with better performance and ease-of-use at lower prices than current market values have a higher likelihood of achieving market success. Therefore, if there is a trick to successful technology transfer, it is to seek to license or spin-out technologies that have sustainable competitive advantages.

Commercialization is the process of moving a technology from its genesis as someone's idea to that of a good sold in a market or an enabler used to produce goods for sale in a market.

There are significant economic impacts from technology transfer. During the past 40 years in the US alone; universities, research hospitals, nonprofits research institutes, and federal laboratories conducting US Government funded R&D invented 153 new Food and Drug Administration approved drugs, vaccines, or new indications for existing drugs, including 93 small-molecule drugs, 36 biologic agents, vaccines, eight in-vivo diagnostic materials, and one over-the-counter drug therapy. That total equals 9.3 of all new drugs approved in the US during this four decade period. The study also suggested that these

Federally-funded inventions have a disproportionately important clinical significance.3 Sales and licensing of patents and patent portfolios is now a regular feature included in the business press. We are also seeing a surge in articles depicting who is suing whom and the type of rulings courts are making; all of which leads us to no longer view or treat intellectual property as *Rembrandts in the Attic*. Today, it is an everyday item of commerce. Of course, not all technology can or will be commercialized.

Some forms of intellectual property does not lead to or provide products or services with better performance, better ease-of-use, or lower prices. Others do not result in the minimum level of revenues to justify efforts required to commercialize them. Unfortunately, today, most of the new technologies emerging from universities, research hospitals, government labs, not-for-profit institutions, and probably companies are not commercialized. Even when they are, the amounts they garner are usually small. It is a rule of thumb for university, hospital, and government and non-profit laboratories that of all technologies actually licensed, less than 50% will generate revenues greater than US$10,000. Most institutions that have significant licensing revenues make their money from a select few big hits.

INWARD FOREIGN DIRECT INVESTMENTS

We also produced new time series on FDI inward in Italy in the past 150 years, working on data from various historical and contemporary sources.20 From these new estimates we see:

- ✓ In the first half of the 20th century a relatively high weight of FDI on GDP during the Giolittian phase;
- ✓ After WWII, a FDI ratio increasing only until mid-1970s – from the historically low levels reached at the end of the fascist period;
- ✓ Since 1990s with the new globalised environment, a shifting of inward FDI to levels of a higher scale.

In order to evaluate recent Italian FDI figures, we looked at data for different advanced countries for the last three decades. While until the 1980s the Italian experience as an FDI recipient was not so different in a international comparison, since 1990 – notwithstanding the sharp rise of the FDI/GDP index – Italian inward FDI remains anchored at much lower levels than its main trading partners, as especially relative to France, Spain and the UK, but also in respect to Germany.

PATENT APPLICATIONS IN ITALY BY FOREIGNERS

Another relevant indicator of foreign technology influx in Italian technological set is the number of patents applied by foreigners at the Italian Ufficio dei brevetti.21 The number of foreign patents per unit of Italian industry value added increases since 1880s, reaching at the end of the Giolittian phase its historically highest values. It is notable that the ratio of foreigners' patents on the share of Italy's GDP (as well as foreigners' share of domestic total patents) has been mostly higher than other countries' ones (US, France, Germany and Spain) for most of the time up to the 1930s, again quite high in the 1950s-1960s, while it decreased to lower than average levels in the 1970s

FOREIGN TECHNICAL ASSISTANCE AND THE MARSHALL PLAN AFTER WWII

The European Recovery Program (ERP) – or Marshall Plan , a milestone in the history of Europe after the WWII – is particularly relevant to this paper in that it was an important channel for transferring American technology to European countries.22 Funds made available under the Marshall Plan came in the form of grants, loans and conditional aid, with this last type of aid intended to support trade within Europe and facilitate the operation of the European Payment Union. Grants and loans were to be used to import goods and services procured mostly in the US that would be sold in the country of destination. The funds raised by selling the products would constitute the counter-part fund.23 In this context, we want to focus in particular on the composition of goods and services transferred to Italy.

The appearance of “technicians, designers and patents” in 1950, indicates the inception of the Technical Assistance and Productivity Program (TAP). The TAP was introduced in the ERP in 1949 as the productivity gap between the US and Western Europe was perceived as widening. Italy benefited of 26 mlm US Dollars of US funds committed to the Technical Assistance Program, as the third major worldwide recipient, after France and Germany with 29 and 28 millions respectively. The TAP involved the lending of US specialists to Europe and study visits to the US of European teams. Over the period 1949-1969 the average number of industrial trainees per year that visited the United States from Italy was 63, less than half those sent by France and Germany, and ranked only eight over all countries.

The counterpart funds represented an important reserve of domestic currency and could be used either for modernization of economic sectors or for some other goals; various countries decided to use them in various ways. Interestingly, Italy used a relevant share of its counterpart funds – and much more than other countries – to promote domestic production of machinery, making this its third more relevant destination of funds A significant amount of money, and more than Germany and France, was also devoted to sustain Technical Assistance programs.

THE PURCHASE OF FOREIGN DISEMBODIED TECHNOLOGY

We collected data on the transactions in the Italian Technology Balance of Payments (TBP) since 1956 from Italian official sources so as to build time series of Italian purchases of disembodied technological knowledge developed abroad.25 The purchases by Italian firms of not-incorporated foreign technological knowledge appear to be significant since mid-1950s (when national data become available) and have experienced a dramatic increase during the early 1960s Italian economic boom. Until mid-1980s,

Italian technological acquisition registered in the TBP experienced a sustained growth, reaching a value equal to 0.35% of GDP. Up to early 1990s, Italy's effort to purchase technology abroad stands out among OECD countries. When we consider that the national R&D/GDP ratio was under 1% for the most part of the period, it is then clear that the disembodied foreign technology imported was a crucial input of Italian innovative activity over the second half of the 20th century, during the Golden Age era and beyond. Since the beginning of the new millennium instead, the investment in disembodied foreign technology as a share of GDP dropped to the levels prevailing at the beginning of the 1960s, without signs of any significant "technological emancipation" on the receipts side of the TBP.

ABSORPTIVE CAPABILITY AND DOMESTIC INNOVATIVE CAPACITY

We then collected data and built time series of four set of variables able to illustrate the building process of the national absorptive capacity – i.e. the capability to adapt and adopt foreign technologies – and the development of a domestic innovative system: technical human capital; R&D expenditures; sales abroad of disembodied technological knowledge; domestic production of industrial machinery.

TECHNICAL HUMAN CAPITAL

In Italian universities over the past 150 years to proxy the accumulation of higher technical skills from the new time series of the number of enrolled engineers as a percentage of university students since 1862 – built accessing different historical and contemporary official sources – three main results emerge

- the remarkable growth and weight reached by the share of engineers on total university students during the Giolittian phase until 1920;
- the subsequent dramatic decline, following Gentile's reform of the fascist period;
- the not so impressive growth of engineering students in the post-WWII period that result after having subtracted – as almost never is done – the students enrolled in engineering universities but following architectural studies.

Only prior and during the first Italian catch-up, the Italian educational system made a significant selective investment in science-based educated technical human capital yet at the middle of the 20th century Italy had accumulated an adequate stock of high technical human capital as a result of its post-Unification investments in engineering graduate studies. After the Golden Age mild growth of the investment in engineering education, the 1970s and 1990s engineers' enrollment relative retrenching has probably been increasingly hurting in recent years.30 We then looked at the evolution of the intermediate technical skills endowment as proxies by the number of technicians educated in Italian schools over the long run. From the new time series on students enrolled in technical schools since 1861 interesting results emerge.

Firstly, the early and significant growth of the share of students enrolled in industrial lower secondary schools was not matched by a similar investment in intermediate technical education. The students enrolled in technical high schools lagged behind and started to grow significantly only in the first decade of the 20th century, when the Giolittian catch-up was already well in motion, becoming a relevant share of secondary education only in the 1920s and for a brief period. Moreover technical high schools of the Giolittian phase were more focused on commercial professions' education than on industrial production needs. Interestingly, a small but qualified part of industrial lower secondary schools, often sponsored by local firms and business institutions, resulted a key element in the development of local endowments of manufacturing skills in scattered areas of North and Centre Italy regions.

Secondly, following the establishment of Gentile's new educational system, a decline of all kind of technical education prevailed. Thirdly, strong and continuous growth of a new technical high school education, with a broader and deeper epistemic base and more focused on business production needs, marked the second half of the 20th century.

After WWII structural change in Italy was accompanied on a much lesser scale by a general increase in the investment in human capital with respect to other industrialized countries, as well as relative to the investment in physical capital. In early 1950s, Italian workforce had low levels of human capital acquired by means of formal training and education, not only with respect to the US, but also to many European countries and Japan. Italy had a qualitatively good supply of engineers and a trained on-the-job workforce. The average level of education rose dramatically during the fifty years after WWII, but the most significant quantitative progress took place since mid-1950s for what pertains high school education, only since late 1960s in terms of university education.

Prior and during the second Italian catch-up a relevant investment was done in intermediate technical human capital. The increased investment in the technical secondary education was important in this phase for the development of the national absorptive capacity. In this period Italian industry and the mechanical sector in particular, benefited from the new relative abundance of technicians educated and trained. This educated human capital, endowed with good structured technical skills with some epistemic base, fruitfully matched the industry's internal development of skilled labor, and was pivotal to develop and successfully exploit technological innovations along vertical manufacturing fillers.

However at mid-1960s, after two decades of dramatic growth, the industrial technical high schools – driving force and core component of the new technical education – stopped gaining weight within total technical education; the decline of the share of students enrolled in industrial technical high schools, evident since mid-1970s, combined with an increasingly damaging quality loss, brought the industrial section of higher technical education to progressively lose its leading role. In the 1990s the ratio of industrial high schools students on industry's employees started to retrench. The need for a new technical high school was recognized since 1970s, but for decades the institutional answer was not able to meet this need, never going beyond the project stage.

RESEARCH AND DEVELOPMENT INVESTMENT

The statistical data on R&D expenditures – available for Italy as well as for other main industrialized countries only since early 1960s – confirm that in Italy both the public sector and above all the business sector historically invested few resources in research activities. The overall volume of Italian R&D expenditure (gross domestic expenditure on R&D or GERD), starting from a rather modest figure, increased both in absolute terms and relative to GDP in the 1960s and 1980s in particular, due to a higher R&D activity taking place both in the business and the public sector: R&D passed from 0.6% of GDP in 1963, compared to an average 1.9% for the six main OECD countries, to 0.8% in the mid-1970s to a record 1.3 in the early 1990s, compared to an average international value of 2.0% and 2.3% respectively. Since the 1990s instead the gap between Italy and the other major OECD countries widened with Italy down to 1.2% in 2008, when the international counterpart recorded 2.4%. The gap to the other main industrialized countries is still considerable and the R&D/GDP ratio remains anchored at rather low levels, incompatible with Italy's economic position on the international scene. The extreme character of these figures suggests that, in Italy in particular, R&D expenditures cover only a limited part of the production of technological knowledge useful for industrial innovation.

Such expenditures reflect in fact a kind of behavior and operational criteria typical of large firms active in sectors with a strong scientific base, with laboratories and scientific staff quite rare in the Italian industrial landscape. Most of Italian industry is characterized – increasingly since 1970s – by a completely different kind of firms, more often small to medium, active in traditional and technologically intermediate sectors. The particular dimensional structure of the Italian industrial system is, in fact, the main determinant of the low-level of R&D activity; the original specialization model, biased towards traditional sectors, being the second major determinant of the low involvement of domestic firms in R&D activity.

The investment effort of Italian private enterprises has a crucial part in explaining the long run evolution of Italian R&D. The weight of business enterprise sector R&D expenditure (BERD), notwithstanding the initial long upward trend, remained relatively modest in comparison to the other most industrialized countries. While in the phase of closing the gap, the corporate system acted as the driving force of R&D growth, with a particularly relevant role of state enterprises in the 1980s, the re-opening of the gap since early 1990s had much to do with the weakening of R&D investment of Italian private and privatized business sector, as well as with the shrinking of the corporate part of it. The evolution of the pattern of R&D expenditure by sector reveals some interesting trends: while the 1960s and 1970s were characterized by the growth of R&D in sectors at the technological frontier; since the 1980s there has been a relative fall in research activity in high-tech industries and an intensification in intermediate technological industries (automotive industry, machinery, electrical appliances).

In the long run, the mechanical industry, in particular, made up ground and machine tools and robotics were among the very few Italian industries showing R&D/turnover ratios in line with foreign competitors.

DOMESTIC MACHINERY INDUSTRY

After 80 years in which Italian industry (and agriculture) depended decisively on machinery and equipments imported from abroad, innovation and structural change after WWII fulfilled the opportunity to develop a domestic machinery industry, crucial in the emerging Italian innovation system. Since mid-1950s domestic production started to overcome internal investment in machinery and equipments. If in the first phase of Italian post-WWII catch-up a significant part of investment passed through the purchase of capital goods produced abroad, imported machinery, while allowing the access to external foreign knowledge, provided an important impulse and was an important input in the process of imitation, creative adoption and technological innovation for investing Italian industries as well as for domestic producers of capital goods. A part in this process was probably also played by the significant foreign direct investments in the machinery and equipments sector Increasingly, investing industrial firms targeted domestically produced machines. It was with the economic boom of early 1960s that internal demand for capital goods exerted decisive pressure on domestic industry: the strong and prolonged growth of investment, while initially finding the domestic productive structure unprepared and inadequate, set off significant up-grading,

Innovation and development of the sector as can be seen from the data, since 1965 domestic production of capital goods exceeded significantly internal absorption and the balance of specific commercial trade in capital goods turned structurally positive. Exports grew strongly in the long run and Italy gained in this sector a new significant and long-lasting competitive advantage. Machinery industry has become one of the main contributor of Italian trade surplus: its weight on total manufactured goods exports passed from 3% at the eve at the WWII, to 15% in the 1950s and to over 30% in the 2000s.

The emergence of a domestic machinery industry competitive in developing specialized machinery, tailored on the needs of the users, resulted a crucial competitive factor for Italian industry in the second half of the 20th century.

Through creative adoption, increasingly reshaping foreign technologies so as to enhance their technological congruence with respect to the needs and characteristics of the industrial domestic users, the development of the Italian capital goods industry resulted in fact in a reduction in the price of capital goods, feeding capital deepening, in a decisive boost to the diffusion of technological innovation and to productivity growth in important domestic manufacturing sectors.

Starting in the 1960s, domestic demand for investment goods increasingly concerned more specialized and technologically sophisticated machinery, stimulating and feeding innovations by the national suppliers, shaped through interaction processes with the industrial users. The impulse of the demand of the growing Italian consumer durables industries (white goods, cars, motorcycles, typewriters, etc.), was important, stimulating more formalized innovative activity, through the purchase of licenses abroad and the formation of joint research centers. In the 1970s, the Italian machine tool industry entered a new and important phase of growth, with the development of the production of automated numerically controlled machines. In a few years, was increased the spectrum of manufacturing processes where the use of numerically controlled machine tools was efficient. In particular, numerically controlled machines became attractive for small and differentiated production batches, helping the search for productive flexibility. These technological and productive developments of the machine tool sector favored the spread of decentralization and articulation of manufacturing industry's productive processes across different production units. During the 1980s, Italian producers were increasingly competitive in adapting and applying the new technology to their typically specialized and customized machinery for traditional industries, thanks to the relationships linking producers, users and suppliers of components.49 Also, since the 1970s the reliance of mechanical industry on foreign licenses decreased and sales of know-how and technical assistance increased; at the end of the 1990s, the machinery sector accounted for a significant share of Italian international patenting activity, R&D and sales abroad of not incorporated technology.

The innovations incorporated in machinery contributed significantly to increase productivity, to improve quality and to widen the variety of products in the downstream manufacturing sectors. In particular, the innovative capacity of the Italian machinery industry made a significant contribution to the competitiveness of the country's traditional rejuvenated manufacturing sectors.50 As a result, the machinery sector played a central role in post-WWII Italian industry innovative dynamics, as a growing advanced branch of Italy's productive system, as a supplier of goods, vector of technological change, and as a lever for technological and organizational innovation in users industries. Machinery industry resulted crucial for the diffusion of foreign and indigenous technological innovation through the domestic industrial fabric in the second half of the 20th century. Most recent globalization trends may have weakened machinery centered innovation and diffusion processes, as the small size of firms, on the one hand, makes it difficult to recreate at an international level, in a global production structure, those mechanisms of virtuous interaction between users and producers; on the other hand, does not allow to increase investment in formal research and human capital.

EXPORTS OF DISEMBODIED TECHNOLOGY AND TECHNOLOGICAL RECOMBINATION:

Tracking exports of disembodied technology and the balance of the Technology Balance of Payments since 1950s, we are also able to study the evolution of the Italian relative degree of “technological dependence” and the process of technology recombination.

The TBP was constantly negative until 2005 as imports exceeded markedly exports throughout the whole second half of the 20th century. The TBP shows a increasing deficit until 1973, after which date the deficit decreased partly due to an increase in exports of disembodied technology and partly due to a slowdown in the purchase of foreign technology. Since mid- 1970s Italy was increasingly integrated within the system of international technological exchange also as a technology supplier. Italian exports of disembodied technology almost reached imports and a value of 0.3% of GDP in the second half of 1990s, starting from less than 0.07% in 1972.The balance turned for the first time positive in recent years more as result of a weakening of Italy’s disembodied technology transactions – in a dramatically enlarging international market for technologies – than for a truly increased role as provider of disembodied technology, as receipts of TBP were again down to 0.2% of Italian GDP.

If we compare the two sides of the TBP, a marked difference in the way not-incorporated technology was purchased and transferred in the post-WWII era emerges: 75% of total expenses for patents and licenses in 1972-1988 *vis-à-vis* 48% of total receipts from technical assistance and designs on average in the same period. This contrast reflected, together with the weakness of domestic research activity and industry’s peculiar specialization, the original post-WWII emergent Italian innovation system: the relevance of technical assistance and know-how as a form of transfer of technology signaled the country’s strength in intermediate technologies (mechanics in particular), in rejuvenated traditional technologies and the importance of specific and localized learning in industrial innovation processes. The weakness of Italian industry in exporting codified not-incorporated knowledge was evident, and ancillary to the limited multinational growth of Italian firms, the relatively small amount of resources devoted by Italian firms to direct investment abroad, notwithstanding the huge internationalization efforts and remarkable accomplishments reflected in export flows. Also the TBP geographical pattern prevailing until early 1990s – together with the technical pattern – revealed Italy’s positioning as an economy which made a heavy and systematic use of recombination as the main process to generate new technological knowledge.

Italy bought technology from the more industrialized countries in the form of greater relative value (patents and licenses) and sold specific and tacit relationship-based technological knowledge (technical assistance, know-how, and designs) to less developed countries (45% of receipts). In the 50 years after WWII Italian firms made, in fact, a considerable effort of creative adoption: they acquired codified/scientific foreign technological knowledge and used it in processes of technology recombination, which allowed adaptation and adoption of imported technology and valorization of specific knowledge result of localised learning. Since mid-1990s a different – and still shaping – phase opened: both the geographical and technical pattern of the two sides of the TBP converged. In 2009 Italian international technological exchanges appear much more concentrated on EU partners and industrialized countries than in the previous decades both for payments and for receipts. Even the differences of the technical pattern of the two sides of the TBP lessened.

Looking at TBP sector distribution after the Golden Age a marked concentration of technology purchases emerges in the field of electronics (29% in the 1972-1988 period) and of sales in the field of chemicals (25%) and mechanics (13%). Since the end of the 1980s the traditional sectors of “made in Italy” and since mid-1990s transportation equipments gained ground too as sellers of technology. During the first decade of the new millennium mechanics became – alongside the transportation equipment industry – the main contributor of the receipts side of the TBP (around 15%), exhibiting a steady positive balance, machinery performance being particularly relevant. Chemicals, instead, since mid-1990s dropped markedly as exporter of technology (below 10%), joining ICT as main net buyer of foreign technology. As a result, while mechanics in its many forms has become the keystone of Italian technological system, and the chemical industry represents the challenge partly won but partly abandoned, electronics is confirmed the Italian technology Achilles’ heel.

Finally, to gauge the evolving degree of Italian reliance on foreign technological sources in the last fifty years, we build a ratio of TBP payments on R&D expenditures. The relatively high values of the index TBP payments/R&D for the Italian economy until the end of the 1990s, more than 30%, recall that the import of foreign disembodied technologies was in post-WWII era and until recent years, an integral and crucial part of the national innovative effort, a complementary factor to R&D, an important input of Italian industry localized innovation processes. At the same time, they point to a hard-won tendency to balance domestic and foreign sources of technological knowledge, suggesting that the Italian process of “technological emancipation” and the formation of solid autonomous innovative capacity were incomplete. Even the drastic decrease showed by the ratio in the past decade, as it is mostly explained by the retrenchment of Italian expenses for foreign technologies and marginally by the modest increase in domestic R&D investment, signals a not so encouraging tendency towards a weaker investment both in the production at home and acquisition from abroad of codified technological knowledge.

Part II
Introduction of Gucci

INTRODUCTION

The House of Gucci or simply Gucci is one of the more established premium fashion brands in the world. Its success worldwide has depended largely on its effective marketing strategies and a wide product range.

Founded in Florence in 1921, Gucci as a leading luxury brand has been created assiduously over a period of many years. Helping in this brand positioning are its core values: unequalled craftsmanship, outstanding quality and “Made in Italy” (with one exception of watches, which are produced in Switzerland) tag. This high profile luxury range portfolio includes the premier flagship brands: Gucci, Bottega Veneta, and Yves Saint Laurent.

It ranks 46th in Business Week’s Top 100 Brands with a revenue of € 3,389 million in 2008. It has 560 stores worldwide and a number of franchisees and high-end department stores that display the brands. The total no. of employees at end of year 2008 was 11,484.

HISTORY AND DEVELOPMENT

In 1921 on the via del Parione in Florence, **Guccio Gucci** opened a store dedicated to luxury leather goods for horseback riding. These accessories, inspired by a refined esthetic particular to the British aristocracy, became widely popular allowing **Guccio Gucci** to open two new boutiques in 1938, one of which was on via Condotti in Rome.

Throughout the 1950s, **Gucci** relied on the equestrian world that initially established him as a notable designer. Drawing inspiration from horse saddle straps, the designer matched contrasting colors in his collections, establishing**Gucci**'s iconic green-red-green stripe, which immediately went down well with customers. With the opening of new stores in Milan in 1949, and New York City and Paris in 1963, the fashion house gained prestige and visibility in the international fashion business.

When **Guccio Gucci** died in 1953, the designer's sons **Aldo**, **Ugo**, **Vasco**, and **Rodolfo** followed in their father's footsteps at the head of the company. Branded with a new logo paying homage to the company's founder—the double G (GG)—the fashion house continued to release iconic pieces throughout the 1960's: the bamboo bag, the hobo bag, horse bit moccasins , and the*Flora* scarf designed by **Vittoro Accornero** on **Rodolfo Gucci**'s personal request for Princess **Grace Kelly**. Quickly renowned for its timeless collections, the **Gucci** fashion house obtained a wide clientele of celebrities from both Cinecittà and Hollywood such as **Jackie Kennedy**, **ElizabethTaylor**, **Peter Sellers** and **Samuel Beckett**.

The 1970s were marked by the fashion house's entry into the Far East market. Boutiques were opened in Tokyo and Hong Kong and a new line was created at the heart of the company: ready-to-wear. In 1994, **TomFord** was named as creative director. For the next ten years, he built into the company's traditional image a provocative and bold style that immediately echoed throughout the world of fashion. Pointed heels and low-cut dresses in jersey with metal detailing instantly became the symbol of **Tom Ford**'s seductive and glamorous vision.

After **Tom Ford**'s departure from the fashion house in 2004, former director of the brand's accessory line **Frida Giannini** was promoted to the company's sole creative director in 2006. The designer reinterpreted the heritage that her predecessors established creating a vfusion of past and present, of history and modernity.

STRUCTURE AND FUNCTION OF GUCCI

Gucci Group, an Italian company with a Dutch address that sells French fashion, does quite well in Japan, too. The fashion house makes and markets upscale handbags and other leather goods, shoes, ready-to-wear clothing, cosmetics, fragrances, skin care, jewelry, and watches. In addition to the Gucci brand, the company sells products under such major premium brands as Bottega Veneta and Yves Saint Laurent. Gucci operates more than 680 boutiques worldwide and wholesales its products through franchisees and high-end department stores. French retailer PPR has purchased almost all of the remaining shares in the company, taking its interest up to 99.9% in 2010.

The House of Gucci	
GUCCI	
Type	Subsidiary of PPR
Industry	Consumer Goods
Founded	1921
Headquarters	Florence, Italy
Key people	Guccio Gucci Founder Patrizio di Marco, President & CEO, Frida Giannini, Creative director
Products	Clothing, watches, jewelry, shoes, leather goods
Revenue	€ 4.2 billion (31 December 2009)
Parent	PPR
Website	gucci.com

BOARD OF DIRECTORS

- François Pinault - Honorary Chairman
- François-Henri Pinault - Chairman and CEO
- Jean-François Palus- Deputy CEO, CFO
- Patricia Barbizet -Vice-Chair of the Board of Directors
- Baudouin Prot- Director
- Philippe Lagayette - Director
- Caroline Puel – Director

Amongst whom the Independent Directors are :

- Aditya Mittal
- Luca Cordero di Montezemolo
- Jean-Philippe Thierry
- Jean-Pierre Denis
- Laurence Boone
- Yseulys Costes

Executive Committee

- François-Henri Pinault – Chairman and CEO
- Jean-François Palus – Group Managing Director
- Jean-Marc Duplaix – CFO
- Alexis Babeau – Managing Director, PPR Luxury division
- Alexandre Bompard – Chairman and CEO, Fnac
- Jean-Michel Noir – Chairman and CEO, Redcats
- Jochen Zeitz – CEO of PPR's Sport & Lifestyle division - Executive chairman of Puma SE- PPR's Chief Sustainability Officer
- Belén Essioux Trujillo – Senior Vice-President Human Resources, PPR
- Patrizio di Marco – Chief Executive Officer of Gucci
- Marco Bizarri – President and Chief Executive Officer of Bottega Veneta
- Franz Koch – Chief Executive Officer Puma SE
- Louise Beveridge – Head of Corporate Communication

BRANDS OF GUCCI

- The Gucci Group owns 7 different brands which are focused on women:
  - Alexander McQueen
  - Balenciaga
  - Bottega Veneta
  - Boucheron
  - Sergio Rossi
  - Stella McCartney
  - Yves Saint Laurent

Gucci's unique positioning is built on three key principals: creativity, exclusivity and the culture of Italian craftsmanship. Constant creativity and innovation are its key drivers. Its growth strategy is based on three areas: distribution, product offering and brand positioning.

Gucci maintains several brands in its portfolio. The group's portfolio i.e. breakdown of 2008 revenue by brand is provided below:

Gucci	Bottega Vveneta	Yves Saint Laurant	Others brands
65.3%	11.9%	15.0%	11.9%

GUCCI AND THEIR BRAND POSITION

- BRANDS:

  - ✓ Core brand: Gucci
  - ✓ Next to the core brand: YSL (Yves Saint Laurent)
  - ✓ Upcoming brands: Boucheron; Sergio Rossi; Bottega Venetta; Bedat & Co.
  - ✓ Promising designer brands: Stella McCartney; Alexander McQueen; Balenciaga

- POSITION:

  - ✓ Soft goods: Leading industry position
  - ✓ Hard goods: Development of jewellery and watch

PRODUCTS OF GUCCI

- ✓ Handbags

- ✓ Clutches

- ✓ Shoes

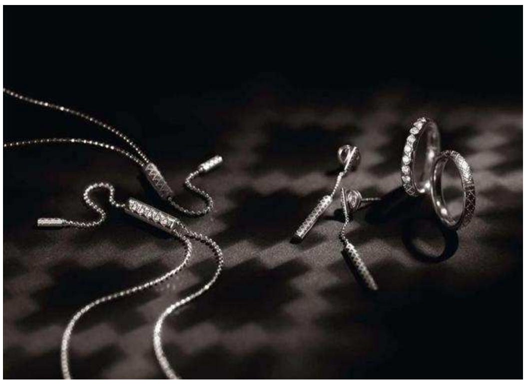
- ✓ Wallets

- ✓ Belts

✓ Watches

✓ Fine jewellery

✓ Silver & other jewellery



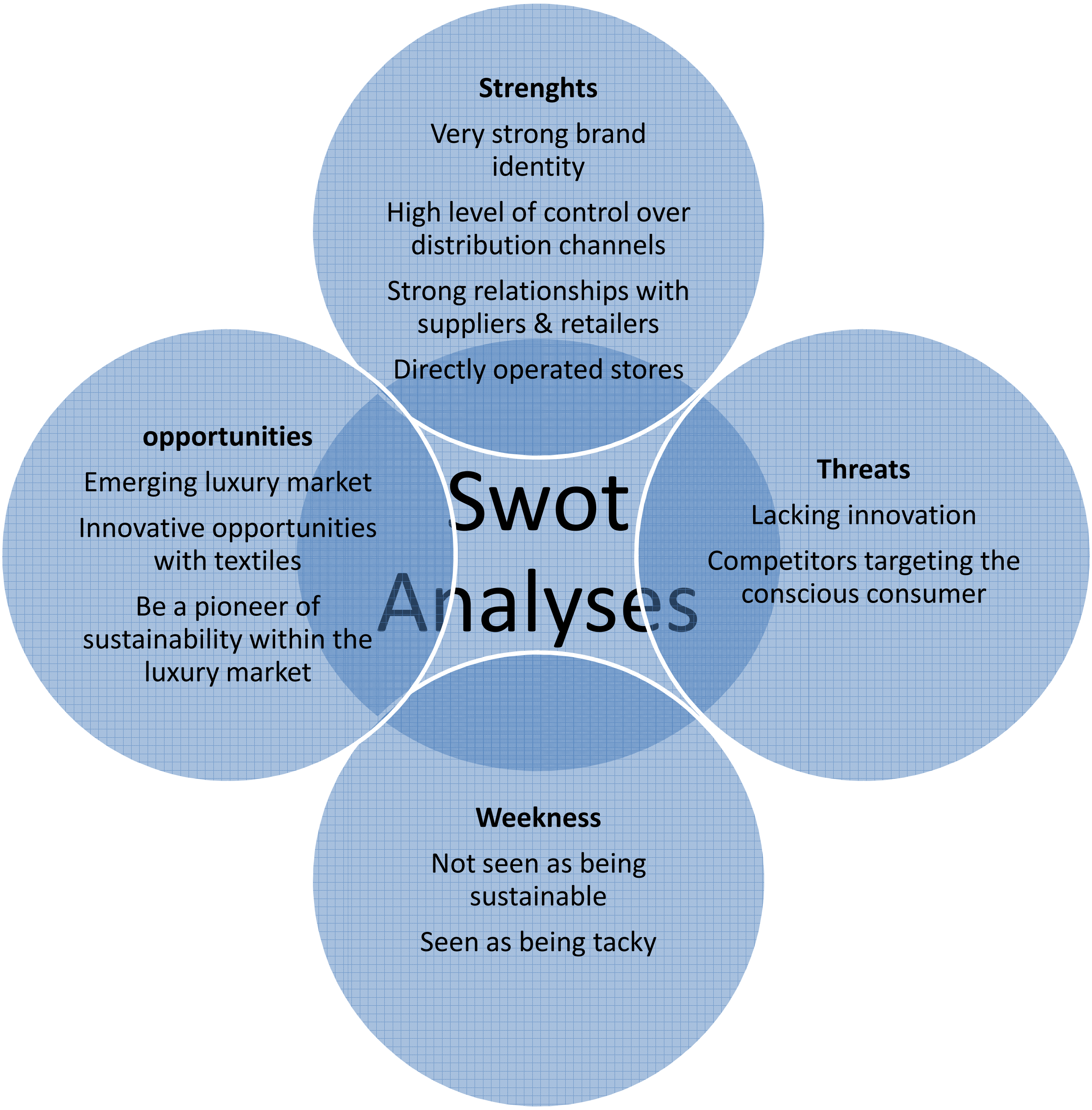
- ✓ Hats

- ✓ Sunglasses

- ✓ Fragranc

- ✓ Ties

SWOT ANALYSES OF GUCCI




GUCCI
GUCCI

GUCCI- INDIA STORY

However, Gucci's Indian story so far has been far from encouraging. It had entered Indian market three years ago but since then has parted ways with its Indian franchisee Vijay Murjani of the Murjani groupThe Murjani group started as an apparel maker and grew up to launch several brands in India and abroad, retailing premium products line. It has also been distributors of Calvin Klein, Tommy Hilfiger and French Connection brands in India, yet, it couldn't make the desired effect with Gucci brand name in the country. Presently, Gucci has entered an agreement with investment banker Ashok Wadhwa's Luxury Goods Retail, set up by I- Bank Ambit Corp and is in the process of converting it into a 51: 49 joint venture.

Luxury Goods Retail has now bought over Gucci's franchisee rights as well as three operation stores in Delhi and Mumbai from the Murjani Group. In its new makeover, Gucci will follow many other international brands such as Marks & Spencer, and Mother care to move from franchisee model to ownership model. The latter usually offers brands better control over operations and the flexibility to chart an independent course in the market whenever it finds a favourable business ambience. Understandably, Gucci wants to ensure that the re-emergence with Luxury Goods Retail gets all the push it needs, not only because it wants to be successful the second time, but also in view of the vast opportunity India provides in the luxury goods retail space.

(Source: Economic Times 25 September, 2009).

COMPARATIVE STUDY OF GUCCI WITH THREE LEADING BRANDS IN WORLD

	Gucci	Louis Vuitton	Vertu
Established	1921	1854	2000
Sector	Fashion and Design	Luxury Goods	Luxury Communication
Products	Men and Women's Wear, Shoes, Jewellery, Watches, Perfumes, Eyewear, Home goods, Luggage/Handbags, Baby Wear.	Leather goods, ready-to-wear, shoes, watches, jewellery, textiles, writing instruments & accessories. Famous for its handbags.	Signature Collection Stainless Steel Collection Duo Stainless Steel Bordeaux Stainless Steel
Average Pricing	€800 (Handbag)	$600 – $2,000 (Handbag)	€6,000
Typical Locations	Florence, Rome, Paris, New York, London, Palm Beach, Tokyo and Hong Kong.	Paris, New York, Tokyo, Dubai, Las Vegas, Los Angeles. 300 Store Locations	Paris, New York, Hong Kong, Singapore, London.
Retail Environment	Provocative window displays, model like salespeople dressed in all black, free flow layout and rich décor.	Products prominently displayed. Stores vary in product stocked. Uses concessions in department stores such as Harrods and Selfridges. Very contemporary in design and feel.	"Gallery like" feel to store, architectural display cases, limestone floors, warm lighting, clean black and white colours and artwork on display. Salespeople have expert product knowledge.
Business Strategies	Locate on high street, directly operated stores, online purchasing, backward integration for	Located in high street locations or exclusive shopping malls with other designer	Located on high street, directly operated stores, along with leading department stores, fine

	watch business and expansion of brand.	brands. Online purchasing in the US only. Have used Uma Thurman and Jennifer Lopez in ad campaigns.	jewellers, client suites and online purchasing. Partnerships with jewellers.

India's Export of Leather and Leather products to Italy(in usd)

Products	2004-05	2005-06	2006-07	2007-08	2008-09
Finished leather	48.65	62.93	88.33	102.52	72.56
Footwear	75.65	98.08	135.86	167.76	161.37
Leather Garments	38.12	34.57	38.42	42.81	51.2
Leather Goods and Accessories	24.78	33.82	37.05	41.58	49.28
Other lather goods	1.32	2.04	2.07	3.58	2.5

Source: Leather News India, Edition March 2010- Monthly Magazine of CLE

Leading Brands Available in Domestic Market

MNC	Indian
Aldo, Bally, Clarks, Ecco, Florshiem, Ferragammo, Hush Puppies, Lee cooper, Lloyd, Marks & Spencer, Nike, Nine West, New Balance, Reebok, Rockport, Stacy Adams, Gucci	Red Tape, Bata, Liberty, Khadims, Lakhani, Metro, Action

India's Export of Leather Goods & Accessories – Country-wise – 5 Years

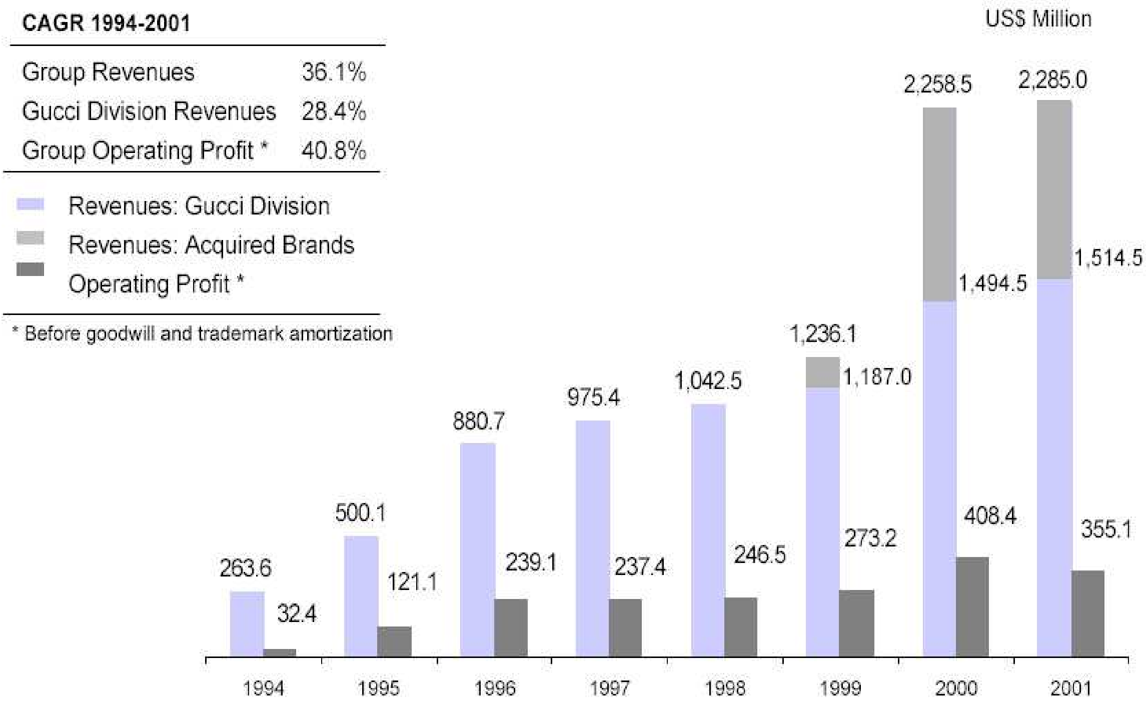
(Value in Million US$)

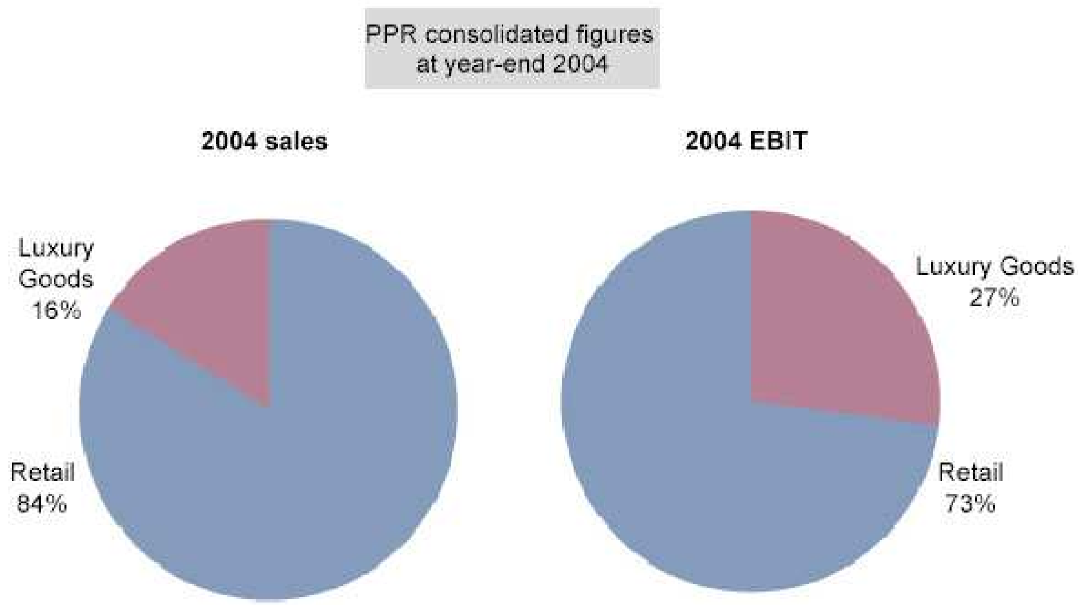
Countries	2007-08	2008-09	2009-10	2010-11	2011-12
Germany	122.65	132.08	117.75	135.34	171.96
USA	123.86	155.02	137.97	162.90	196.47
UK	133.92	125.77	123.08	131.74	137.20
Italy	56.96	67.51	44.82	46.57	66.99
France	36.07	45.04	38.90	48.16	59.68
Hong Kong	3.37	4.22	5.77	8.71	11.45
Spain	59.93	52.33	51.47	62.82	79.05
Russia	1.02	1.01	0.57	0.97	2.46
Netherlands	36.51	41.91	38.12	40.86	48.90
Australia	28.48	32.72	26.00	26.27	34.11
New Zealand	2.25	2.02	1.56	2.35	3.34
Denmark	15.20	17.02	16.16	18.91	27.80

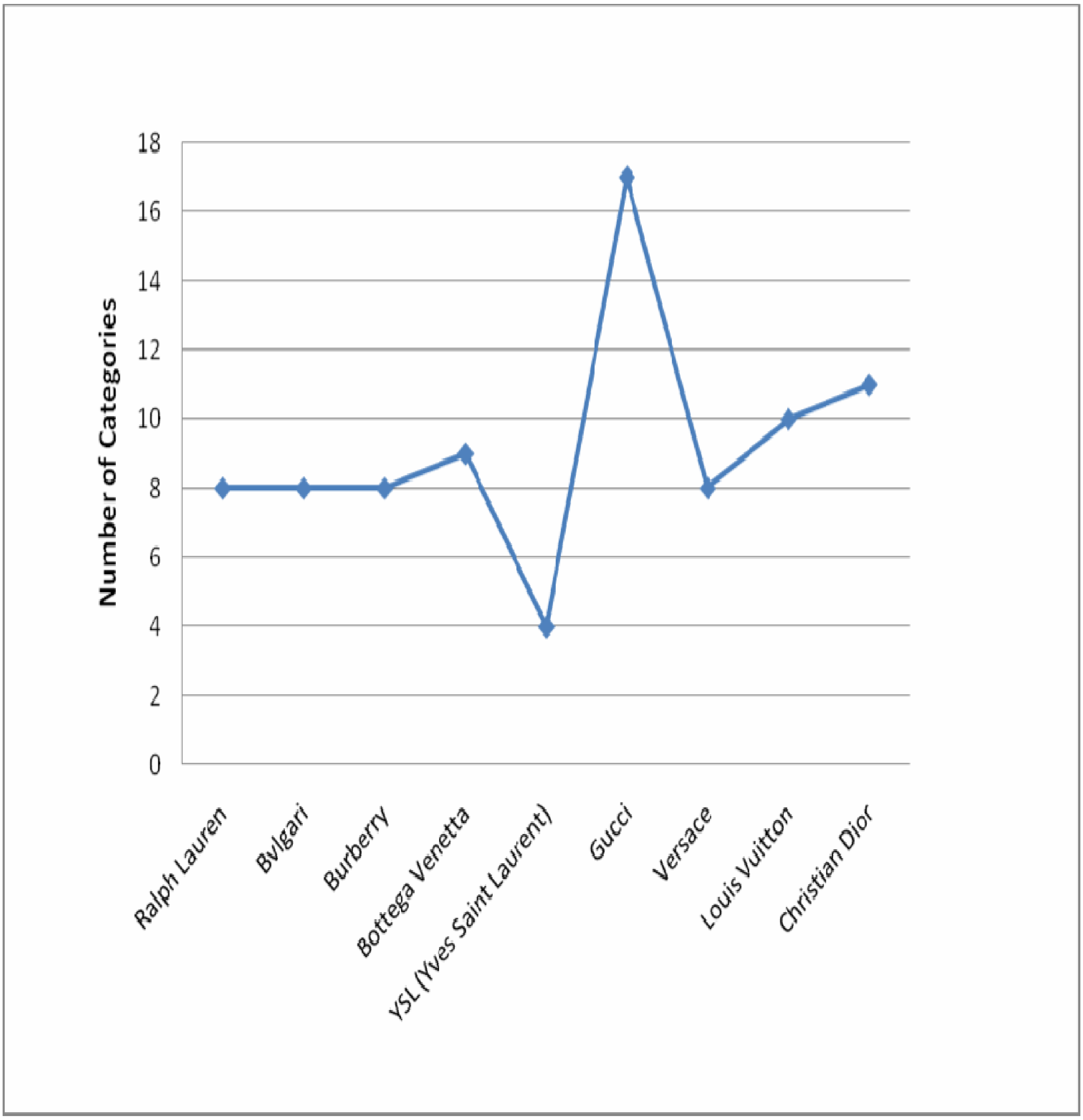
Indo Italy Trade in Leather and Tanning (Value in Million Euro)

	2007	2008	2009
Total Indian Import	811.640	991.150	1087.100
Total Import from Italy	73.170	91.750	89.040
Percentage Share of Italian Imports	9.0%	9.3%	8.2%

REVENUE OF GUCCI AND OTHER BRAND WORLDWIDE







Number of Categories
18
16
14
12
10
8
6
4
2
0
Ralph Lauren
Bvlgari
Burberry
Bottega Venetta
YSL (Yves Saint Laurent)
Gucci
Versace
Louis Vuitton
Christian Dior

RESENT POSITION OF GUCCI IN INDIA

To evaluate Gucci's prospect of re-emergence in India, it is important to look carefully at the country's expanding luxury goods market. Fashion trends in India are being increasingly adopted from the Western styles of clothing and other fashion accessories and widely expected to witness high growth in upcoming years. In recent years, the Indian fashion industry has started showcasing its work in ramp shows such as the many India Fashion Weeks and promotes Indian haute couture in the domestic as well as international markets, thanks to an ever increasing numbers of Indian Diasporas abroad. The luxury goods market in India is one of the world's most diverse and exciting – and a challenging one for brands seeking to gain a presence there. Brands – and retailers – that want to capture a share of this fast-paced industry need to learn its ropes and adapt to the market conditions, or risk missing the bus in one of the greatest untapped business opportunities in the country.

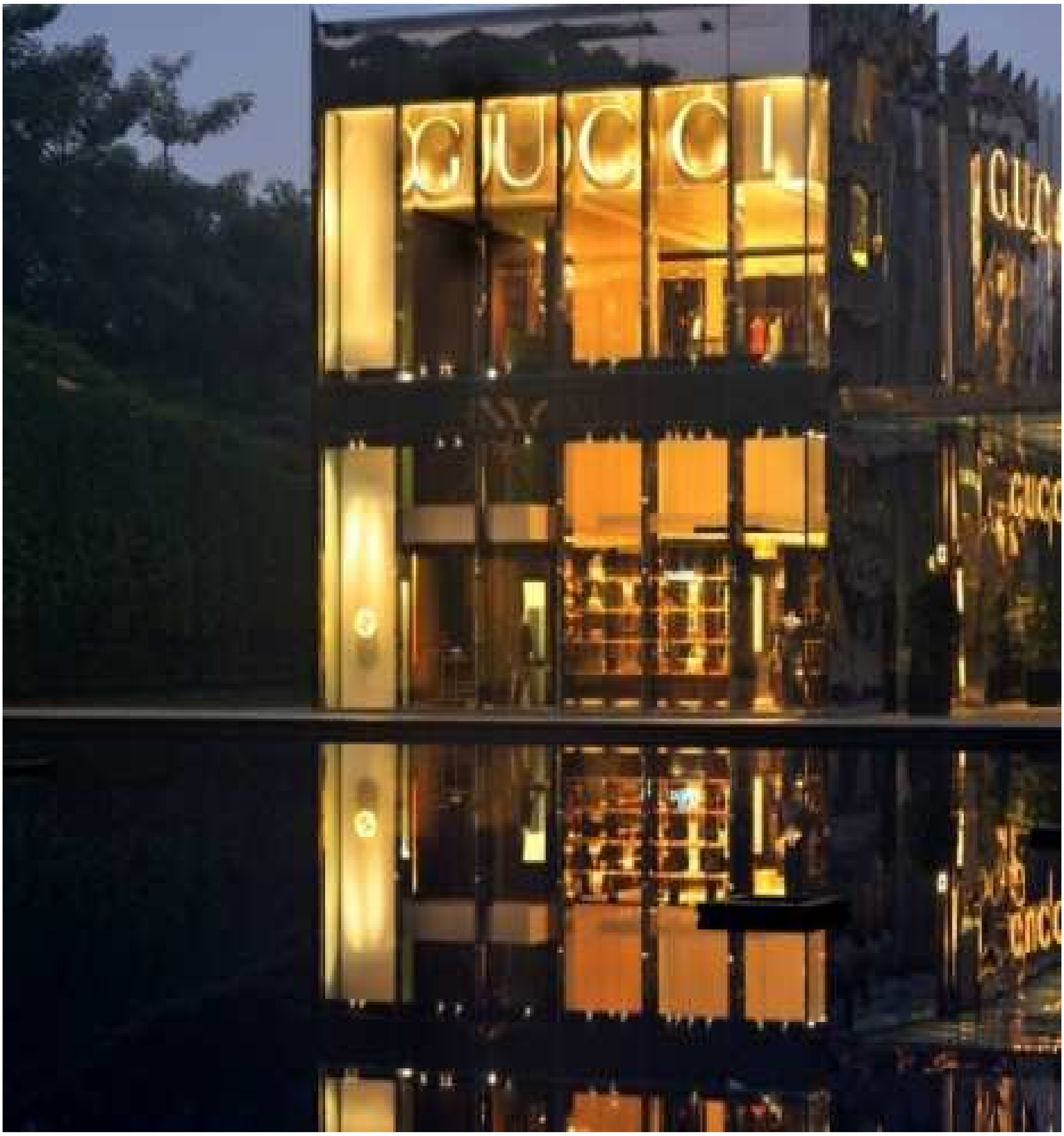
The Indian retail market is also evolving rapidly with requirement of more product lines of fashion and luxury goods. The organized retailing is also developing at a breakneck speed. It is amicable to all that fashion is a vital part of both the retail industry as well as the brands. In fact, fashion has led the retail industry boom to a great extent and it has sustained its dominance in every malls, markets and stores and revolutionized the merchandising system in retail industry. Brands in apparel, textiles, jewellery, accessories, footwear, cosmetics and salons raised the business to more than ₹40,000 crore.

In this scenario, India is still a virgin market for global high end luxury players. Companies like Louis Vuitton Moet Hennessey (LVMH), Swatch Group and Chanel are the only ones represented, in a limited way. Others, like Aigner, Montblanc and Cartier, are present through licensee agreements in lifestyle store. But despite the immaturity of the market, there are already clear trends developing – particularly in the penetration rates of luxury brands into the men's and women's sectors. There also exists a dichotomy - while luxury clothing, fragrances, premium brands of footwear, home electronics and high-end watches have achieved good penetration among male Indian consumers, items such as cufflinks, belts, wallets, luxury wines,champagnes and cigars still rate low on the wish-lists of many Indian men seeking luxury brands.

Among women, jewellery, cosmetics and skincare can already boast high levels of awareness, followed by categories such as underwear, handbags and mobile phones, but lifestyle items that have yet to make an impact include gourmet food, tableware and imported furniture even in the widely travelled consumer groups.

For consumers who are brand-savvy, luxury brand names come under one of two distinct titles: classic brands and high fashion brands. Classic names include Chanel, Gucci, Versace, Salvatore Ferragamo, Balenciaga, Christian Dior, Louis vuitton and Prada – names that suggest enduring value. Among the high fashion brands or brands in the luxury market that command consumers' attention are names like Armani, D&G, Moschino, Calvin Klein, Hugo Boss and Ralph Lauren.

The new Indian consumer's earning has increased manifold and she is aware of internationally reputed brands, with increased foreign travels. In final analysis, more and more Indians are pursuing a lifestyle based on ostentation and consumerism, impressing others with wealth and power, owning exclusive items – and owning them fast.


GUCCI

PRICES IN INDIAN MARKET

The indicative prices of luxury items in the Indian market are provided below. The JV of Gucci with Luxury Goods Retail will compete in the same product range where they are likely to find a ready market. Gucci is of the opinion that given their global brand image and product exclusivity they would be able to price their products 50% higher than these prices.

Women's	Price Range ₹	Men's	Price Range ₹
Women's Ready to Wear	3800 +	Men's Shoes	3000 +
Handbags	2300 +	Small Accessories	1100 +
Women's Shoes	2600 +	Wallets	1700 - 2500
Fragrance	2600 +	Belts	1300 +
Sunglasses	5500 – 25000	Ties	1700 +
Fine Jewellery	7000 +	Silver Jewellery	12500 +
Others			
Fine Jewellery	7000 +	Silver Jewellery	12500 +
Watches	7000 – 1,00,000	Scarves	1500 +
Hats	1500- 2500		

PRESENT POSITION OF TRADE AND BUSINESS WITH GUCCI

Following are some figures which may guide us for the present position of Gucci in India. Luxury Product Market in India for the study of Gucci have reveal a phenomenal growth:

2006	2010	2012
$ 500 million	$ 1220 million	$ 2550 million
(₹2,500 cr)	(₹ 6,100 cr)	(₹12,750 cr)

Source: India Luxury Review, 2012. The Economic Times.

The table below gives an indication of consumer expenditure on clothing and footwear of year 2006, 2010 and 2012Clothing includes: clothing material, garments and other clothing items.

₹ Billions	2006	2010	2012
Clothing	983.3	1,080.1	1,143.2
Footwear	113.6	128.6	134.1
TOTAL	1,096.8	1,208.7	1,277.2

POLICIES AND NORMS OF ITALY FOR CEMENT INDUSTRY

➢ **<u>Licensing & taxation policy</u>**

- ✓ Italy has been part of the European Union (EU) since 1958, the World Trade Organization (WTO), the Organization for Economic Co-operation and Development (OECD), the Organization for Security and Co-operation in Europe (OSCE) and the North Atlantic Treaty Organization (NATO), and applies the international agreements signed by these bodies.
- ✓ The EU forms a customs union and a large unified market having free trade among the member states. It levies a common tariff on imported products coming from non-EU countries such as the United States, Japan, and Canada.
- ✓ As all members of the European Union, Italy adapts a common trade policy. The EU has a liberal import regime where import licensing is not common. Import licenses are issued with due consideration for the provisions of relevant European Union trade agreements and the needs of the specific importing country.
- ✓ Under the EU <u>New Approach to Technical Harmonization</u>, certain products are required to meet specific quality standards. The directive applies to toy safety, machinery, electromagnetic compatibility (EMC), telecommunications terminal equipment, active implantable medical devices, medical devices, non-automatic weighing equipment, construction products, explosion proof electrical equipment, low voltage electrical equipment, simple pressure vessels, personal protection equipment and gas appliances. Qualified products must carry a CE mark to show its compatibility, fixed onto the product by a manufacturer or importer as self-declaration of compliance.
- ✓ Traders must pay attention to the EU product liability law, which covers all liability regarding defects not ordinarily expected by a consumer. Both the seller and the manufacturer in the EU are liable under the law.
- ✓ **Import duties into EU countries are subject to import tariffs (normally applied on the import c.i.f. value) plus the value-added tax (VAT) which**

varies according to different importing countries. The standard rates for Italy is 21%

- ✓ The EU announced developments in the EU's Eco-labels scheme to 219 products, particularly footwear, textiles and personal computer. Exporters trading with the scheme member country will need to get their suppliers adhering to strict production methods in order to comply with the label award. Canadian exporters may have to ensure that the concerned production methods comply with the labeling criteria prior to the EU. For more information on the list of product groups involved in the Eco-labeling scheme.
- ✓ Environment Protection, Directive on Packaging and Packaging waste, sets out common waste recovery and recycling standards. Manufacturers and exporters should minimize the packaging of their products exported to the EU.

❖ ***General Overview***

Conformity to European standards and "CE" marking

- ✓ Products governed by these regulations must adhere to certain European standards at the point when they are imported. The "CE" sign of compliance must be on the product, either when the product is imported or when it is sold. **Since the list of products is growing, the following is merely indicative:**

- toys
- agricultural machinery, industrial machinery
- tractors
- gasoline-powered materials and equipment
- sports and recreational personal protection equipment
- construction products
- pleasure craft
- medical apparatus
- electrical and electronic equipment
- equipment pertaining to the telephone network
- Basic labelling requirements in Italy:
- name of products (physical condition or specific treatment)
- name/address of manufacturer, packer, seller or importer in the Italian language

- country and place of origin
- ingredients in descending order of weight
- metric weight and volume
- additives by category name
- special storage conditions
- minimum shelf life date
- expiry date
- lot number
- indication of allergens
- indication of maximum limits of fats for meat based products
- net quantity in volume for liquids and in mass units for all other products
- instructions for use, if necessary

➢ ***Tariffs***

✓ Italy applies customs duties to all imported products. Rates can vary considerably, depending on whether the imported product is bulk unprocessed or ready for consumption in retail packages.

✓ VAT, must be added to the cost, insurance and freight (CIF) value of the import. The most common rate is 20%, but a reduced rate of 4% applies to essential items.

✓ Specific information on tariffs applied by the EU can be found on the official EU site on TARIFF codes.

✓ The EU TARIC CODE Database Online (Source EU Portal)

✓ This Database is one of the EU'S online tools for international exporters. The Commission develops and operates several databases in conjunction with Member States' Customs and Taxation Services. The databases are parts of the information systems of Taxation and Customs Union.

POLICIES AND NORMS OF INDIA FOR ENTERING IN TO RETAIL

Each country has its own sets of policies and regulations on the modes of entry which need to be complied with before accessing the market. In India too, foreign companies need to adopt one of the following methods to participate in its burgeoning

- ***Mergers & Acquisitions- most common.***

  This may result in foreign majors looking to make strategic investment in existing Indian companies to leverage their presence in India and simultaneously by combining the local company's expertise with greater understanding of Indian sensibilities.

- ***Distribution***

  Foreign brands entering in India through distribution channel wherein the foreign company sets up local distribution office and supplies products to Indian retailers. Swarovski, Hugo Boss etc. have chosen to enter the Indian market through distribution channels. Some Indian companies that are in the process of entering into distribution agreement with foreign brands include Thanks, Vama, Escape, Murjani Group etc.

- ***Franchising***

  Another mode which is also widely used by several global brands to enter Indian market is by engaging franchisees. This model provides benefits of owning a business without any significant risk.

- ***Joint Ventures***

  Since the partial relaxation of the policy allowing FDI up to 51 per cent in single brand retail, several luxury brands such as Louis Vuitton Moet Hennessey (LVMH), Christian Dior and Hermes have converted their franchise agreements into joint ventures. This is big news for fashion lovers in India, where business from out of the country has been restricted for so long market.

GOVERNMENT POLICIES IN SUPPORT OF THE LATHER INDUSTRY

• The entire leather sector is now de-licensed and de-reserved, paving way for expansion on modern lines with state-of-the art machinery and equipment

• 100% Foreign Direct Investment and Joint Ventures permitted through the automatic route

• 100% repatriation of profit and dividends, if investments made in convertible foreign currency. Only declaration to this effect to the Reserve Bank is required.

• Promotion of industrial parks (one leather park in Andhra Pradesh, one leather goods park in West Bengal, one footwear park in Tamil Nadu and one footwear components park in Chennai).

• Funding support for modernizing manufacturing facilities

• Funding support for establishing design studios

• Duty free import of raw materials (namely raw skins, hides, semifinished leather and finished leather) and of embellishments and components under specific scheme

• Concessional duty on import of specified machinery for use in leather sector

• Duty neutralization / remission scheme

PRESENT TRADE BARRIERS FOR IMPORT AND EXPORT

Apart from competition, any brand entering the Indian market has to take into account several constraints and limitations that the market condition poses.

- ***Lack of high-caliber workforce:***

The demand for skilled workforce for the luxury sector is increasing, however the supply is limited. While the number of luxury brands prevalent in the country is increasing there is an insufficient pool of high- caliber sales associates to cater to the growing demand. To broaden the resource pool of retailing professionals in the country, many retailing institutes have emerged in the country such as Indian Retail School, with many other retailers setting up in-house training programmes and training institutes.

- ***Lack of suitable infrastructure:***

The rentals are steep and choice is limited for luxury stores which are typically limited to five start hotels. The high real estate cost drives the rental pricing and it does not get offset by the actual sale figure and therefore it will be few years before retailing bears fruit. Vacant spaces in the luxury corridor such as Taj Mahal Palace & Towers , Mumbai, The Oberoi Hotel or DLF Emporia mall at Vasant Kunj, New Delhi where the fashion brands put up their outlets in 1200 to 2000 sq ft area, the rentals hover around ₹800- ₹1200 per sq ft.

- ***Confusion for setting destination***

Even as organized retailing growth is taking place at a fast clip, luxury brands often find it difficult to locate the desired destination for luxury brands. These brands need presence at high streets, which is typically the global norm. But in India, high street concepts have yet to catch up at right locations. Though shopping malls have proliferated, luxury brands need to be extremely choosey about the location and be conscious about other tenants which form the complexion of a mall. High end malls in India are scarce and the ones marked for completion have been delayed owing to various problems like costs and labour. Many brands make big errors in their estimate for the intrinsic nature of the country. They rarely crossed $500 per square feet / year sale against an expected minimum of $1,000. Fendi, Girad Perregaux and Burberry have pulled out after partnership failed to click and business calculations went wrong.

Major Cost Component:

- **Rent:**

  The rental costs are skyrocketing. Typically rent is 8- 10% of sales in matured luxury markets whereas, in India it constitutes 25- 30% whether they are stand-alone store or located in a shopping mall.

- **Marketing and Sales:**

  Retailers spend approximately 3- 4% of turnover to promote the brands and create awareness.

- **Capital expenditure:**

  Usually capital expenditure for setting up a luxury brand retail store in the range of US $ 400- 600 per sq ft while for premium brands it usually ranges from US $ 80-100 per sq ft.

- **Inventory cost:**

  Retailers typically maintain inventory from 2 months to as high as 6 months. In the case of apparels there is a lot of dead stock each season owing to the fast changing nature of fashion. This entails substantial working capital financing requirement and the capacity to absorb dead stock.

- **Duties:**

  Given India's high tax and duty structure, many brands are absorbing some of the hit in an attempt to keep prices parallel to other markets. However, this is severely affecting their competitive spirit. For example watches attract excise duty of 16% and customs duty of maximum 20%. The landed cost of watch imported to Mumbai turns out to be 50- 60% over and above the CIF value. If variable costs such as sales tax, octroi are added, it totals to 88%.

CHALLENGES IN LEATHER PRODUCT SECTOR

- Varying levels of technology in the factories depends on the size of the factories
- Low quality of shoes – threat of shift in production to other areas or countries where wages levels are low if the quality is maintained at same level
- Most companies work on subcontract basis – design, component selection and methods of production are given by the buyers and do not provide their own fashion collections, however companies are able to make prototypes based on ideas provided by the buyer
- Strong requirement to increase quality as well as quantity
- Availability of right raw material (finished leather) at right time
- Under developed designs for footwear components sector
- Absence of own collections and poor development of footwear components, particularly for women's footwear – Market size of women's footwear in the world is 63% of total footwear market, but the share of women's footwear exports out of India's total footwear is only 34%
- Meeting manpower requirement under the state of affairs of rapid industrialization

POTENTIAL FOR IMPORT AND EXPORT IN INDIA

World's leading luxury goods maker Gucci is looking to multiplying its presence in the country by 2010 as it plans to develop India as a key global market. The company forayed India late last year. Today, it has two stores in the country. Gucci’s plan is to end the year with four stores. And, in three years, it may double the number. “We are quiet interested in India, which is an emerging market with a gifting culture and a lot of awareness among the sophisticated customers. Step by step, we intend to build India a key market. By 2008-end, Gucci will have four stores in India," Gucci CEO Mark Lee said. He also said that, besides the two existing outlets (one in Mumbai and the other in Delhi), the company in partnership with the Mumbai-based Murjani Group will open a third store in Delhi and a fourth one in Bangalore this year itself.

Murjani Group, the master franchisee of Gucci in India, will be opening the other two stores. "The plan is to double the number of stores that we will be having in 2008.” Asked about the investments, Murjani, without disclosing specific details, said, "There is a substantial amount of investment, which has already been made and will be made in future. But, it will be less than $ 100 million (approximately Rs 400 million)" He said that there will be, by 2010, at least eight Gucci outlets housing collections of men's and women's ready-to-wear, handbags, shoes, watches, sunglasses, jewellery, small leather goods, gifting items and other accessories in major metros.

Globally, the Gucci brand, which is associated with handbags and watches, sells high-quality luxury goods through directly operated stores, franchised stores, boutiques, duty-free shops and departmental stores. The Murjani group, headquartered in New York, has been instrumental in developing and launching some of the most well-recognised international designer lifestyle brands like Tommy Hilfiger and Gloria Vanderbilt. The Group will focus primarily on creating a multi-brand platform in India.

There was a time when people had to travel abroad if they had to buy a Gucci or an Armani. However, the scenario has changed over the past few years, as we are witnessing a plethora of luxury brands entering into the Indian market. Today, international luxury brands are just a walk away.

Luxury retail is growing at 40-50 per cent per annum and seems to grow further in the coming times. International luxury brands are making way to set up their base in India. The past few months have seen the entry of various international luxury brands like Porsche and Vac heron Constantine while Versace and Gucci opened their flagship stores in the country. The demand of the consumers is rising, as people are open to make their purchases from these stores. It is because of the fashion conscious and globally aware consumers that the sales of the luxury brands are picking up.

Future prospects:

Luxury retail in India has the potential to grow at 60-70 per cent in the near future. With growth expectations so high, we will definitely see the entry of more luxury brands on the Indian shores in the coming years. And surely it would be a great journey for the Gucci in India by serving his luxury products in India.

BUSINESS OPPORTUNITIES IN FUTURE FOR GUCCI

The scenario

Post recession period, luxury labels are witnessing a rise in their sales as the revenues and footfalls at the luxury retail have also increased. Emporium Mall which houses luxury brands has witnessed a 35 per cent increase in the footfalls in the last six months. According to the industry experts, the luxury market has doubled in India in the last two years.

Malls preferred location

Malls like Emporium and the year old Palladium are the most preferred retail destinations for the international players. These destinations attract the right kind of potential consumers which luxury brands need for the growth of their business. These malls are visited by about 80 per cent of potential consumers who visit the stores with the thought of making a purchase. Emporium houses 74 International luxury brands while Palladium has 65 high-end brands. Mall owners are working with the retailers to chalk out effective rental plans to bring together the best for their consumers. Hotels are the next preferred destination for the opening of luxury stores.

Manufacturing facilities

Luxury brands are not only opening stores in India, but are also looking at the opportunities to set up their own manufacturing units in India as well. Many of the international brands have already begun sourcing from India. India in the coming years will become a manufacturing hub for international brands.

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Some other opportunities:

- Emerging luxury market
- Innovative opportunities with textiles
- Be a pioneer of sustainability within the luxury market
- Try to attract the middle class people
- Getting advantage of FDI in retail
- Rising potential in the domestic market
- Growing fashion consciousness globally
- Use of information technology and decision support software to help eliminate the length of the production cycle for different products
- Use of e-commerce in direct marketing
- Etc...

CONCLUSION AND SUGGESTION

The formula used by Gucci in the marketing of its luxury goods has remained unchanged for the better part of fifty years. The focus still remains on the customer and the loyalty he has towards the Gucci product. Because the luxury goods market falls well outside the normal boundaries of hierarchical needs, the product range find itself in the sector of non economic influences. Gucci has come to terms with this in the very early stages of development, and has marketed the prestige and expensive way of life that Gucci has to offer.

The product design, quality and brand name has become synonymous with the elite, and will continue to do so because of the well maintained distribution of its products throughout the world.

The Gucci Company should primarily look at the market development and concentrate on new development within existing markets or possibly new markets that carry the status and appeal suitable to the Gucci brand. The Asian Luxury goods market is a definite new market to consider, and definite growth can come from the new stores recently opened in Japan. We Got calculated that although there are several designers providing product but GUCCI Must take more innovative steps to be at the top rank.“DESIGNERS WORK AS THE WAY THE YARE......

- The Market Expansion step is that period when a company assesses current markets, identifies untapped markets, and seeks opportunities for revenue growth through new market opportunities. The market expansion step will result in estimates for delivering new capabilities to current markets, and potential new markets for existing products.

- Gucci has a strong brand image worldwide but it has not expanded yet into other markets mainly because for a couple of years of operations, it has focused in major markets in Europe and North America

- The step that the company can undertake is to capitalize on favourable opportunity Asian market. Asia, according to studies, is a fast growing economy worldwide. High net worth individuals are increasing in number in the region quite an opportunity for luxury good company like Gucci

- Gucci can also treat Asia as country by country region to identify and categorize more potential markets from the less ones. In that case, it will reduce cost in investments. Japan, China, Hong Kong, Korea, Singapore are top five most countries that are seen by most researchers that can be tapped by Gucci.

- Revitalize the virtuous cycle by a push strategy.

- Control distribution to have a scrupulous respect and coherence of the brand image".

- Increase sales by fully exploiting core segment and broadening its geographic reach.

- Increase profitability via excellence in operations.

At last we would like to conclude that Gucci can enjoy huge luxury market in India because of large population if Gucci will focus the enhancing the customer by giving them what they want they have really long potentiality in all luxurious lather and other accessories and goods.

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A

GLOBAL COUTRY STUDY REPORT ON

Automobile Industry of ITALY with reference to FIAT S.p.A.

Submitted to

Gujarat Technology University

IN PARTIAL FULFILLMENT OF THE

REQUIREMENT OF THE AWARD FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

In

Gujarat Technological University

UNDER THE GUIDANCE OF

Prof. C. D. Lakhlani

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MBA SEMSTER 4

N. R. Vekaria Institute Of Business Management studies, Junagadh

MBA PROGRAMME

Affiliated To Gujarat Technological University Ahmedabad

STUDENT DECLARTION

We enrollment no. student of MBA 3rd Sem. 117360592020, 117360592021, 117360592022, 117360592023, 117360592023, 117360592024, 117360592025 hereby declare that the report for Global/ Country Study Report entitled "Italy" are a result of our own work and indebtedness to other work publications, references, if any, have been duly acknowledged.

Date:

Place: Junagadh

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This is to certify that We are the Student of **M. B. A., Sem. - III** from N. R. Vekaria Intitute Of Business Management Studies, MBA college, Junagadh has carried out the project work (Global Country Report On Itlay) contained in this report under my supervision & guidance.

Date:

Place: Junagadh

AUTHORISED SIGNATORY:

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PREFACE

There is on ancient proverb practice makes man perfect. It indicates practice makes the person more practical and provides training and knowledge through which we can handle related situation.

Here in MBA we study the management and administration of business and its various operations. That is only a theoretical knowledge. when we are asked to put it in actual practice, most of us have realized that it is not the same infect theory is just the base to go into the practical field. Thus to have an exhaustive knowledge of anything there should be an ideal integration of theory and practice. It is said that theory without practice has no fruits and practice without theory has no root.

Here is given the project report on Italy country we tried our level best to collect information from it. We assured that all information is trusted and if any wrong information is there we sincerely sorry for that.

ACKNOWLEDGEMENT

Man's quest for knowledge never ends. Theory and practice are essential complementary to each other. We are thankful for the assistance received from various individuals in making this project report successfully.

Our acknowledgement remains incomplete without great thanking to respective member Dr. Rajesh Patel (director), We are thankful to our internal guide Prof. C. D. Lakhlani and Prof. Rajendra Patoliya; they helped us throughout our project report work as well as documentation. Our special thanks go to Prof. Bansi R. Shah for her valuable guidance and support.

PART-1
DEMOGRAPHY PROFILE

Weather in Italy

Weather in Italy is much diversified across different regions. Due to nearness with Seas and being a mountainous region it is very unpredictable for travelers to decide when to plan their vacation.

Italy exhibits extremely diverse weather conditions. The **weather in Italy** remains stable during summers but climatic conditions keep varying in the autumn, winter, and spring seasons.

During the afternoon and night hours in the summer season, the northern regions, face thunderstorms and grey rainy weather. The Italy weather varies from place to place. The inland northern areas of Italy experience continental climate, while the coastal areas of Liguria and the peninsula south of Florence experience the Mediterranean climate. The winters are mild and the summers are hot and dry. The climatic conditions of the coastal areas of the peninsula are quite different to that of the interior regions, especially in the winter months. The regions at higher altitudes experience a cold and wet climate and it frequently snows in these regions.

There is a notable difference between the temperature of the northern and southern regions, especially in winters. For example, if Milan experiences snow and temperature there falls by -2 ° C, then in Rome temperature might be +12°C and in Palermo it would be +18°C. Summers are moderately the same everywhere throughout Italy .

January is the coldest month and the 29 th , 30th, 31st of January are the coldest days. Thus, in the native language they are called "giornate Della merla" which means "days of the black bird". February is equally cold and freezing and Italians call it "corto e maledetto" which means "short and accursed".

March is the month of unpredictable weather. Italians call it "Marzo è pazzarello" which means "March is crazy". The weather is quite chilly, windy and rainy. The days get longer and spring creeps in from the 21 st of March. April with a warm climate is the month of tourist in Italy . Italians call it "Natale con i tuoi, Pasqua con chi vuoi" which means "Christmas with the family".

The month of May is warm with lovely roses blooming across Italy . June with the longest day 21 st of June experiences weather quite similar to that in May, but it gets extremely hot towards the end. Especially the southern areas experience great heat.

July and August are extremely hot. September is the finest time to visit Italy . The temperature starts falling and the weather becomes dry marking the beginning of autumn from September 23.

In October the days are bright and sunny and called "ottobrate romane" by the Italians. The temperature is often very low in the northern regions of Italy and the regions at higher altitudes, especially during the night.

November has short days and the weather usually is quite rainy though not very cold. December holds the shortest days of the year with temperature falling extremely.

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Sports in Italy

Main sports played in Italy are Soccer, Football, Skiing and Golf. Italy is also famous for its Winter Olympics.

The most popular sport in Italy is soccer. The national team of Italy has won the most prestigious World Cup four times in 1934, 1938, 1982 and 2006 respectively.

Italian football team is the current titleholder. The Italian national soccer team is popularly known by the name of Azzurri for their blue shirts. It is considered to be the second-most successful national football team in the world. Apart from this most of major Italian clubs get the opportunity to compete at a high level of soccer competitions.

Apart from soccer, water polo is another popular and one of the old Italy sport. The playground used for this game, is a rectangular swimming pool having 18mt breadth. The water should be deep enough. Every team contains 7 players. Among them 1 is goalkeeper, 3 players remain in the defensive position and there are 3 in forward. Players wear blue and black bonnets while the goalkeeper wears a red cap. This sport of water polo lasts for 28 minutes. The players of this sport should be physically strong. Along with it a skilled technical ability is needed.

Winter sports in Italy are also among the other most watched and enjoyed games. Italy is quite famous for its Winter Olympics. Skiing is probably one of the leisure interests of Italians. On Mount Etna Skiing is found. In 2006 Piemonte of Italy hosted the Winter Olympics.

The other recognized sports in Italy include Rugby, Cycling, Basketball, Running Auto racing etc. In recent times the team of rugby consists of 15 players. An oval shaped ball is used for this game. In Italy sports is also quite popular among disabled persons. The sports in Italy carry a great therapeutic value for the disabled Italians. Many physically challenged people are seen to be participating in the sports in Italy.

Health and Wellness

The World Health Organization defines health as a state of complete physical, mental, and social well-being and not merely the absence of disease or infirmity. Eating right, exercising, and sleeping well play an equal role in the prevention of infections and diseases.

Many of us are not in control of the factors that cause us to become ill whether they be genetic, environmental, or something else entirely. There are many avenues we can take to improving our health, which include the use of traditional and modern medicines when we are ill.

Moreover, a large proportion of the global population are disenfranchised because of poverty, geographic location, disability, or social stigma against those who are ill. In addition, sexual health continues to be a highly contentious issue around the world particularly with concern to the method of transmission of some of the world's deadliest diseases such as HIV/AIDS. Furthermore, one of the most pressing issues in terms of health and wellness is the education, prevention and treatment of HIV/AIDS. The Millennium Development

While people of all ages should maintain good health, young people face special challenges as they transition from childhood to adulthood. With the onset of puberty, the body changes to accommodate physical and emotional growth, but it also marks one of the most vulnerable stages in a young person's life. During this time, females tend to struggle more than males with body image and self-esteem issues which can lead to dangerous eating disorders and even death. On the other hand substance abuse, depression, self-mutilation and suicide have higher.

unemployment causes illness and premature death; social supports and supportive networks improve health; alcohol, drug and tobacco use are influenced by the social setting; healthy food is a political issue; and healthy transport means walking and cycling and good public transport. In 2002, Canadian researchers, policy-makers and community representatives gathered together at a conference entitled “. The conference produced “The Toronto Charter for a Healthy Canada” which identified ten key SDOH for Canadians as recognized in Health Canada and World Health Organization (WHO) documents. The ten determinants, in alphabetical order, include: early life

ITALIAN LANGUAGE:

Italian is Windsor’s third language… Italian is spoken at home by 6,075 people, which makes it the second most common language. Nearly half of the 12,640 Windsor-area people who say Italian is their mother tongue speak it at home. Most Italians speak regional dialects, and most often the language of communication among Italians of different regions and with their Canadian born children is English rather than standard Italian. (Walter Temelini, The Italian cultural presence in Windsor, 1920-1990.)

Italians have used their mother tongue in their ethnic community and especially in their families. The Canadian version of Italian is referred to in studies as an “ethnolect”. When the ethnolect and the primary, dominant language are in contact , the first one borrows words. The process is known by the term loanwords. This process had happened to the first generation of immigrants.

As they adapted to a new life, the social-cultural factors of the new environment resulted in a new way of speaking the language.

The vocabulary used by the family refers to everyday life. As this vocabulary is used throughout the community, adjustments are made to the pronunciation and the grammar. This process is called nativization

MUSIC AND ARTS:

Italians are very proud of their artistic heritage. The large majority of Italians are Roman Catholics, and this has its effect on their art and architecture. Museums and churches, plazas and statues, all over Italy, display the treasures of some of the famous artists. Opera is also an important part of Italian life. Many Italians know the operas composed by Rossini, Verdi, Puccini, and Donizetti and some enjoy singing them while they work.

The Italians who immigrated to Canada and brought the art and music with them strive to keep these elements of their culture alive in their new nation.

Education in Italy

Education in Italy is divided in 5 phases kindergarten, primary school, lower secondary school, upper secondary school and university.

Article 34 of the Italian constitution establishes the principle of the right of individual citizens to higher education, irrespective of financial means. Public education is free and compulsory from six to fifteen years of age in the country.

The education system in Italy is divided into five phases: kindergarten, primary school, lower secondary school, upper secondary school and university.

The education in Italy is compulsory at the primary level which starts at the age of six. However it can be preceded by three years of pre-school nursery training. In this system, students between the ages of six to eleven are provided free education and textbooks in the public schools. The students following such education in Italy are awarded the Diploma di Licenza della Scuola Elementare. The main subjects taught in the system include English, Italian, Mathematics, Biology, Geology, History, Geography, Social Studies, Physical Education and Visual and Musical Arts.

The secondary schools system is divided into two categories, lower secondary school and the upper secondary school. The lower secondary schools correspond to the Middle School grades, while the upper secondary school parallels the High School level. The subjects taught at the primary level are taught at a much advanced level with the addition of technology and natural sciences.

The university education in Italy is highly specialized and competitive. Italy has forty-two state universities, six private universities, three technical universities and twelve specialized university institutes. The universities in the country offer degrees at the bachelor's /masters/doctorate levels in various subjects such as: Agriculture, Architecture, Economics, Pharmacy, Law, Engineering, Humanities, Modern Languages and Education, Biomedicine, Medicine and Veterinary Medicine, Natural Sciences, Physics and Mathematics and Political Science.

PART -2
ECONOMIC OVERVIEW OF ITLAY

Italy Economy Profile 2012

Economy - overview

Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south, with high unemployment. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family owned. Italy also has a sizable underground economy, which by some estimates accounts for as much as 17% of GDP. These activities are most common within the agriculture, construction, and service sectors. Italy is the third-largest economy in the euro-zone, but exceptionally high public debt burdens and structural impediments to growth have rendered it vulnerable to scrutiny by financial markets. Public debt has increased steadily since 2007, reaching 120% of GDP in 2011, and borrowing costs on sovereign government debt have risen to record levels. During the second half of 2011 the government passed a series of three austerity packages to balance its budget by 2013 and decrease its public debt burden. These measures included a hike in the value-added tax, pension reforms, and cuts to public administration. The government also faces pressure from investors and European partners to address Italy's long-standing structural impediments to growth, such as an inflexible labor market and widespread tax evasion. The international financial crisis worsened conditions in Italy''s labor market, with unemployment rising from 6.2% in 2007 to 8.4% in 2011, but in the longer-term Italy''s low fertility rate and quota-driven immigration policies will increasingly strain its economy. The euro-zone crisis along with Italian austerity measures have reduced exports and domestic demand, slowing Italy''s recovery. Italy''s GDP is still 5% below its 2007 pre-crisis level.

GDP (purchasing power parity)

$1.822trillion(2011est.)
$1.814trillion(2010.)
$1.791trillion(2009est.)
note: data are in 2011 US dollars

GDP (official exchange rate)

$2.246 trillion (2011 est.)

GDP - real growth rate

0.4%(2011est.)
1.3%(2010est.)
-5.2% (2009 est.)

GDP - per capita (PPP)

$30,100(2011est.)
$30,100(2010est.)
$29,800(2009est.)
note: data are in 2011 US dollars

GDP - composition by sector

agriculture:2%
industry:24.7%
services: 73.4% (2011 est.)

Population below poverty line

NA%

Labor force

25.08 million (2011 est.)

Labor force - by occupation

agriculture:3.9%
industry:28.3%
services: 67.8% (2011)

Unemployment rate

8.4%(2011est.)
8.4% (2010 est.)

Unemployment, youth ages 15-24

total:25.4%
male:23.3%
female: 28.7% (2009)

Household income or consumption by percentage share

lowest10%:2.3%
highest 10%: 26.8% (2000)

Distribution of family income - Gini index

32(2006)
27.3 (1995)

Investment (gross fixed)

20.5% of GDP (2011 est.)

Budget

revenues:$1.025trillion
expenditures: $1.112 trillion (2011 est.)

Taxes and other revenues

46.4% of GDP (2011 est.)

Budget surplus (+) or deficit (-)

-3.6% of GDP (2011 est.)

Public debt

120.1%ofGDP(2011est.)
119.1%ofGDP(2010est.)
note: Italy reports its data on public debt according to guidelines set out in the Maastricht Treaty; general government gross debt is defined in the Maastricht Treaty as consolidated general government gross debt at nominal value, outstanding at the end of the year, in the following categories of government liabilities (as defined in ESA95): currency and deposits (AF.2), securities other than shares excluding financial derivatives (AF.3, excluding AF.34), and loans (AF.4); the general government sector comprises the central government, state government, local government and social security funds

Inflation rate (consumer prices)

2.8%(2011est.)
1.7% (2010)

Central bank discount rate

1.75%(31December2011)
1.75%(31December2010)
note: this is the European Central Bank's rate on the marginal lending facility, which offers overnight credit to banks in the euro area

Commercial bank prime lending rate

4.5%(31December2011est.)
4.032% (31 December 2010 est.)

Stock of narrow money

$1.265trillion(31December2011est.)
$1.205trillion(31December2010est.)
note: see entry for the European Union for money supply in the euro area; the European Central Bank (ECB) controls monetary policy for the 17 members of the Economic and Monetary Union (EMU); individual members of the EMU do not control the quantity of money circulating within their own borders

Stock of broad money

$2.269trillion(31December2011est.)
$2.065 trillion (31 December 2010 est.)

Stock of domestic credit

$3.469trillion(31December2011est.)
$3.221 trillion (31 December 2010 est.)

Market value of publicly traded shares

$318.1billion(31December2010)
$317.3billion(31December2009)
$520.9 billion (31 December 2008)

Agriculture - products

fruits, vegetables, grapes, potatoes, sugar beets, soybeans, grain, olives; beef, dairy products; fish

Industries

tourism, machinery, iron and steel, chemicals, food processing, textiles, motor vehicles, clothing, footwear, ceramics

Industrial production growth rate

0.2% (2011 est.)

Electricity - production

290.7 billion kWh (2010 est.)

Electricity - production by source

fossilfuel:78.6%
hydro:18.4%
nuclear: 0%
other: 3% (2001)

Electricity - consumption

309.9 billion kWh (2010 est.)

Electricity - exports

1.826 billion kWh (2010 est.)

Electricity - imports

4.599 billion kWh (2010 est.)

Oil - production

151,800 bbl/day (2010 est.)

Oil - consumption

1.528 million bbl/day (2010 est.)

Oil - exports

529,100 bbl/day (2009 est.)

Oil - imports

1.8 million bbl/day (2009 est.)

Oil - proved reserves

476.5 million bbl (1 January 2011 est.)

Natural gas - production

8.4 billion cu m (2011 est.)

Natural gas - consumption

77.8 billion cu m (2011 est.)

Natural gas - exports

139 million cu m (2010 est.)

Natural gas - imports

70.2 billion cu m (2011 est.)

Natural gas - proved reserves

63.57 billion cu m (1 January 2011 est.)

Current Account Balance

-$77.8billion(2011est.)
-$67.94 billion (2010 est.)

Exports

$522billion(2011est.)
$448.4 billion (2010 est.)

Exports - commodities

engineering products, textiles and clothing, production machinery, motor vehicles, transport equipment, chemicals; food, beverages and tobacco; minerals, and nonferrous metals

PART -3
OVERVIEW IF INDUSTRIES TRADE & COMMERCE

GOVERNMENT RULES AND REGULATION:

Government type: republic

Definition: This entry gives the basic form of government. Definitions of the major governmental terms are as follows. (Note that for some countries more than one definition applies.):
Anarchy - a condition of lawlessness or political disorder brought about by the absence of governmental

Authoritarian - a form of government in which state authority is imposed onto many aspects of citizens'

Communist - a system of government in which the state plans and controls the economy and a single - often authoritarian - party holds power; state controls are imposed with the elimination of private ownership of property or capital while claiming to make progress toward a higher social order in which all goods are equally shared by the people(i.e.,aclasslesssociety).

Confederacy (Confederation) - a union by compact or treaty between states, provinces, or territories, that creates a central government with limited powers; the constituent entities retain supreme authority over all matters except those delegated to thecentralgovernment.

Constitutional - a government by or operating under an authoritative document (constitution) that sets forth the system of fundamental laws and principles that determinesthenature,

Constitutional monarchy - a system of government in which a monarch is guided by a constitutionwherebyhis/herrights,duties,andresponsibilities..

Democracy - a form of government in which the supreme power is retained by the people, but which is usually exercised indirectly through a system of representation and delegatedauthorityperiodicallyrenewed.

Federal (Federation) - a form of government in which sovereign power is formally divided - usually by means of a constitution - between a central authority and a number of constituent regions (states, colonies, or provinces) so that each region retains some management of its internal affairs; differs from a confederacy in that the central government exerts influence directly upon both individuals as well as upon the regional units.

Federal republic - a state in which the powers of the central government are restricted and in which the component parts (states, colonies, or provinces) retain a degree of self-government; ultimate sovereign power rests with the voters who chose their governmental representatives.

Marxism - the political, economic, and social principles espoused by 19th century economist Karl Marx; he viewed the struggle of workers as a progression of historical forces that would proceed from a class struggle of the proletariat (workers) exploited by capitalists (business owners), to a socialist "dictatorship of the proletariat," to, finally, a classless society - Communism.

Marxism-Leninism - an expanded form of communism developed by Lenin from doctrines of Karl Marx; Lenin saw imperialism as the final stage of capitalism and shifted the focus of workers' struggle from developed to underdeveloped countries.

Monarchy - a government in which the supreme power is lodged in the hands of a monarch who reigns over a state or territory, usually for life and by hereditary right; the monarch may be either a sole absolute ruler or a sovereign - such as a king, queen, or prince - with constitutionally limited authority.

Totalitarian - a government that seeks to subordinate the individual to the state by controlling not only all political and economic matters, but also the attitudes, values, and beliefs of its population.

Technology and innovation

Many people see technology as a solution to some of the problems that exist on our planet. It's true that technology can be used for good, but with new developments come new challenges issues. The digital divide is one such issue, one that people are actively trying to overcome. Telecentres aim to bridge the digital divide by providing people access and knowledge about information technologies. A global telecentre movement is growing right now. Unfortunately, even where computer facilities are readily available, the digital divide persists—even in the world's most wealthy countries, access to the latest and most beneficial technologies is limited for those in rural areas and PEOPLE with disabilities.

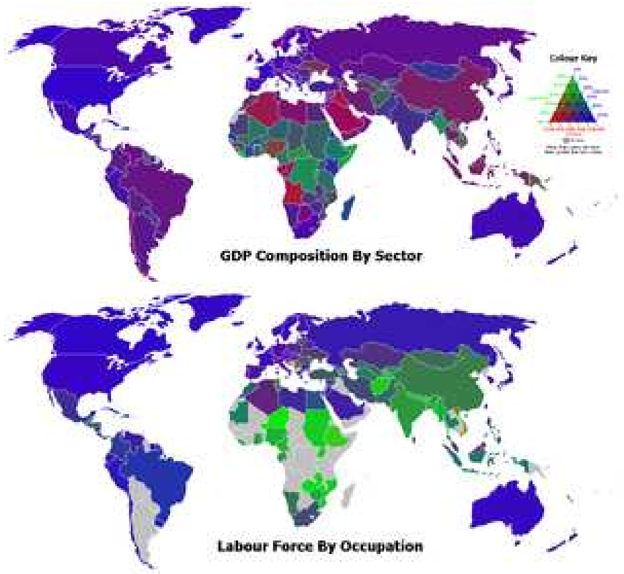
There are many other isssues to consider when talking about ICTs and their role in our lives, beyond the digital divide and universal accessibility. The internet has created new and innovative ways for people to shape and share their identity, and express themselves. However, to some people, the internet can appear to be a modern day "wild west," or something to fear.

The internet may looked uncontrolled; however, telecommunication companies and governments around the world own the infrastructure behind the internet, and different governments and companies are asserting that ownership in different ways
However, these are not the only observations to be made. Recently, many advances in mobile media and technology have been made, creating a new world of possibilities. Our challenge is to figure out how to use technology - both the existing and the emerging - for good, and how to assure its access and use in the most democratic way possible

PART - 4

OVERVIEW OF DIFFRENT ECONOMIC SECTOR OF ITLAY

Industry



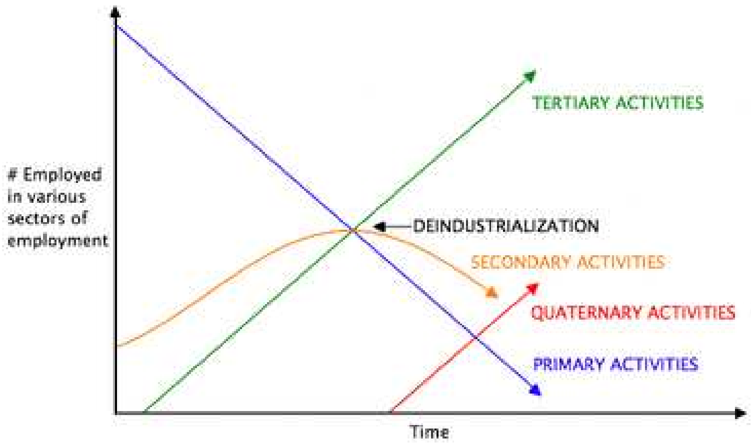
GDP composition of sector and labour force by occupation. The green, red, and blue components of the colors of the countries represent the percentages for the agriculture, industry, and services sectors, respectively.

Industry is the production of an economic good or service within an economy.[1]

Industrial sectors

Main article: Industrial organization

Further information: Industrial Loan Company



Clark's Sector Model

Industry is often classified into three sectors: primary or extractive, secondary or manufacturing, and tertiary or services. Some authors add quaternary (knowledge) or even quinary (culture and research) sectors.

Industries can be classified on the basis of raw materials, size and ownership.

- Raw Materials: Industries may be agriculture based, Marine based, Mineral based, Forest based....
- Size: It refers to the amount of capital invested, number of people employed and the volume of production.
- Ownership: Industries can be classified into private sector, state owned or public sector, joint sector and co-operative sector

Industry in the sense of manufacturing became a key sector of production and labour in European and North American countries during the Industrial Revolution, which upset previous mercantile and feudal economies through many successive rapid advances in technology, such as the steel and coal production. It is aided by technological advances, and has continued to develop into new types and sectors to this day. Industrial countries then assumed a capitalist economic policy. Railroads and steam-powered ships began speedily establishing links with previously unreachable world markets, enabling private companies to develop to then-unheard of size and wealth. Following the Industrial Revolution, perhaps a third of the world's economic output is derived from manufacturing industries—more than agriculture's share.

Many developed countries and many developing/semi-developed countries (People's Republic of China, India etc.) depend significantly on industry. Industries, the countries they reside in, and the economies of those countries are interlinked in a complex web of interdependence.

Industry is divided into four sectors. They are:

Sector	**Definition**
Primary	This involves the extraction of resources directly from the Earth, this includes farming, mining and logging. They do not process the products at all. They send it off to factories to make a profit.
Secondary	This group is involved in the processing products from primary industries. This includes all factories—those that refine metals, produce furniture, or pack farm products such as meat.

An italy source relates that the quinary sector in italy refers to domestic activities such as those performed by stay-at-home parents or homemakers. These activities are typically not measured by monetary amounts but it is important to recognize these activities in contribution to the economy. As a country develops people move away from the primary sector to secondary and then to tertiary.

There are many other different kinds of industries, and often organized into different classes or sectors by a variety of industrial classifications.

Industry classification systems used by the government[which?] commonly divide industry into three sectors: agriculture, manufacturing, and services. The primary sector of industry is agriculture, mining and raw material extraction. The secondary sector of industry is manufacturing. The tertiary sector of industry is service production. Sometimes, one talks about a quaternary sector of industry, consisting of intellectual services such as research and development (R&D).

Market-based classification systems such as the Global Industry Classification Standard and the Industry Classification Benchmark are used in finance and market research. These classification systems commonly divide industries according to similar functions and markets and identify businesses producing related products.

Industries can also be identified by product: chemical industry, petroleum industry, automotive industry, electronic industry, meatpacking industry, hospitality industry, food industry, fish industry, software industry, paper industry, entertainment industry, semiconductor industry, cultural industry, poverty industry

- labor-intensive industry - capital-intensive industry
- light industry - heavy industry

Industrial development

Main article: Outline of industry

The industrial revolution led to the development of factories for large-scale production, with consequent changes in society. Originally the factories were steam-powered, but later transitioned to electricity once an electrical grid was developed. The mechanized assembly line was introduced to assemble parts in a repeatable fashion, with individual workers performing specific steps during the process. This led to significant increases in efficiency, lowering the cost of the end process. Later automation was increasingly used to replace human operators. This process has accelerated with the development of the computer and the robot.

Declining industries

Main article: Deindustrialisation

Historically certain manufacturing industries have gone into a decline due to various economic factors, including the development of replacement technology or the loss of competitive advantage. An example of the former is the decline in carriage manufacturing when the automobile was mass-produced.

A recent trend has been the migration of prosperous, industrialized nations toward a post-industrial society. This is manifested by an increase in the service sector at the expense of manufacturing, and the development of an information-based economy, the so-called informational revolution. In a post-industrial society, manufacturing is relocated to economically more favorable locations through a process of off-shoring.

The major difficulty for people looking to measure manufacturing industries outputs and economic effect is finding a measurement which is stable historically. Traditionally, success has been measured in the number of jobs created. The lowering of employee numbers in the manufacturing sector has been assumed to be caused by a decline in the competitiveness of the sector although much has been caused by the introduction of the lean manufacturing process. Eventually, this will lead to competing product lines being managed by one of two people, as is already the case in the cigarette manufacturing industry.

Related to this change is the upgrading of the quality of the product being manufactured. While it is easy to produce a low tech, low skill product, the ability to manufacture high quality products is limited to companies with a high skilled staff.

Society

Main article: Industrial society

An industrial society can be defined in many ways. Today, industry is an important part of most societies and nations. A government must have some kind of industrial policy, regulating industrial placement, industrial pollution, financing and industrial labor.

Industrial labour

Main article: Industrial labour

Further information: industrial sociology, industrial and organizational psychology, industrial district, and industrial park

In an industrial society, industry employs a major part of the population. This occurs typically in the manufacturing sector. A labor union is an organization of workers who have banded together to achieve common goals in key areas such as wages, hours, and working conditions. The trade union, through its leadership, bargains with the

PART -5

OVERVIEW OF BUSINESS & TRADE AT INTERNATIONAL LEVEL

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- **BUSINESS OUTLINE FOR ITALY**

- MAIN INDUSTRY SECTORS

The agricultural sector contributes to about 2% of the Italian GDP. Italy is the biggest European producer of rice, fruits and vegetables, and also the world's biggest producer and exporter of wine. The country is one of the major agricultural powers in the European Union. However, Italy has limited natural resources. The country has to import most of the raw materials required for production and more than 80% of its energy resources.

Italy's fabrics industry is made up mostly of small and medium family businesses. More than 90% of the industrial companies have less than 100 employees. In this context, the country is suffering from a decline in global competitiveness. The manufacture of luxury goods (haute couture, cars, and delicatessen foods) represents a significant part of the Italian industry. The country is the prime exporter of luxury goods. Its main industries deal with precision machinery, motor vehicles, chemical products, pharmaceutical products, electrical items, fashion and clothing.

The services sector contributes to 70% of the GDP. Tourism plays a major role; Italy is the third most-visited European country, after France and Spain.

- ECONOMIC OVERVIEW

Italy had experienced a lower growth than the European average, and it was severely affected by the global crisis, its economy reduced to -5% in 2009. However, it benefited from the revival in global demand and the return of confidence. The exports and investments recovered in 2010, providing a growth rate evaluated at 1% of the GDP. According to the forecast, the growth rate should remain weak in 2011.

The government has launched different social measures in order to try to help those who are in the most unfavorable conditions, which had a direct consequence on increasing dramatically the public expenditures of a country that has one of the highest public debts in the world (more than 100% of the GDP). The government has, then, adopted a rigorous plan of EUR 24 billion in three years; it has frozen salaries and increased taxes with the purpose of attempting to bring the public deficit to 2.7% in 2012 and reducing its debt/GDP ratio. The priority is also given to the fight against tax avoidance in this country where the black economy is very significant.

The unemployment rate has risen to about 8.7%. Regional inequity is very pronounced, especially between the north, which is very industrialized and dynamic, and the rural and poor regions of Mezzogiorno in the south.

- FDI IN FIGURES

In relation to its European neighbors, Italy does not attract but a small amount of foreign direct investment (FDI). After their fall in 2008, under the effect of the global crisis, the FDI flows started to revive in 2009. The privatization program led by the country, the liberalization of the energy and the markets of telecommunications offer interesting opportunities to investors. However, a strict labor law, high taxes, inefficient public services, corruption and the activities linked to organized crime are some of the hindrances to investment.

- FDI GOVERNMENT MEASURES

There is hardly any assistance in Italy for promoting foreign investment. This trend is reinforced by the European Union, which wants Italy to harmonize its tax incentives with the Community regulations. Italy only promotes the development of its regions, which are in difficulty, in order to facilitate SME activity and job creation. The defense sector and other sectors likely to compromise public safety are not open to foreign investors.

The Italian Institute for Foreign Trade lists and makes available a guide to aids for setting up business in Italy.

PART-6
PESTAL ANALYSIS

❖ CORPORATE GOVERNANCE IN ITALY

- The recent amendments of the 2004 Italian Company law (the “Reform”), have introduced, inter alia, a number of interesting developments with reference to limited companies in Italy, in particular to the Italian S.R.L. companies (Società a responsabilitàlimitata), modifying the relevant provisions of the Italian civil code, and limiting them to those institutions with a more limited number of members,whilst the S.P.A. (società per azioni) better refers to wider company body.

- In fact, until this Reform came about, many “family” companies were structured as S.P.A., for little other reason than to create a stronger “public identity”, with weak legal motivation for such a choice. Now, however, the S.R.L. is reclaiming its position in corporate structuring, becoming the main point of reference for the major part of closely held Italian corporate realities, while the S.P.A. model is now more often reserved for “public traded companies”.

- New rules allow the S.R.L. quota holders to choose tailor-made by-laws to best suit their situation, structuring them either along the lines of a stock corporation or a partnership, according to the circumstances and the will of the quota holders.

- Thus, rather than stark black or white, many subtle intermediate shades are now offered to entrepreneurs who desire to establish a “custom designed” company.

- In light of the Reform, it is now possible to say that in Italy there are no standard S.R.L. company by-laws: the quota holders are allowed to establish tailor-made rules, referring to the Italian Civil Code only for those issues and topics not specifically addressed by the company’s by-laws.

- As far as S.R.L. corporate governance is concerned, new rules have been provided in order to enhance the freedom of self-government and the rights of quota holders as well as the relationships between members.

- For instance, S.R.L. corporate by-laws may establish that it is not necessary for the company to create a formal board of directors; in such a case, each quota holder would manage the company jointly or severally, according to the provisions of the by-laws.

- Therefore, unless otherwise specified, a sole director, or a board of directors (in this latter case jointly or severally) is appointed to manage the company: their decisions may also be taken “away from the table” at informal meetings, but must always recorded in writing.
- In addition, mixed forms of the two different systems may exist: for instance, several governance may be adopted for ordinary or current management issues,

whilst a joint system may be used for extraordinary management issues within the company.

- Furthermore, relating to the matter of corporate governance, Article 2468 of the Italian Civil Code permits the assignment to one or more quota holders of a number of special “administrative rights” in relation to company management and profit sharing.

- The vague definition of “administrative rights” has caused considerable doctrinal debate with regard to its precise meaning, and in particular, whether voting rights should be included in above-mentioned provision, assigning additional administrative rights, of Article 2468 of the Italian Civil Code.

- In light of the strong links between quota holders, for instance, S.R.L. by-laws can provide limitations to quota transfers and to pre-emption rights in the event a partner wishes to transfer his quote.

- To the same extent, it has been said that providing a quota holder with special voting rights (for instance veto rights in relation to specific resolutions) would not conform to the provisions of Article 2479 of the Italian Civil Code, which provides that voting rights are to be in proportion to quota held.

  - The right to appoint one, or more than one, director;
  - The right to vote in quota holders’ meetings without regard to the proportion of contribution to company’s capital; and
  - the right to veto or to express prior approval to a motion or any other managing act (with the sole exemptions being those set forth in art.2475, last comma, of the Italian Civil Code, i.e. approval of the yearly financial statements).

- Thus, it is clear that these provisions provide effective guidance for the governance of the Italian S.R.L. company, allowing corporations to grant certain quota holders differing powers and special rights in relation to, for example, their positions in a family company (father/son) or particular skills they may have with regard to the core business of the company.

❖ <u>The New Italian Corporate Governance Code</u>

- On December 5, 2011, the Committee for Corporate Governance published a revised code of Corporate Governance for listed companies (the New Code).
- The New Code updates the previous Corporate Governance Code published in March 2006, as partially amended in 2010 with the substitution of Article 7 with respect to the compensation of directors.
- The New Code, informed by the experiences of other major economies, provides Italian listed companies(Issuers) with best practices on corporate governance. As in the previous edition, implementation of the New Code's recommendations is left to the discretion of the Issuers according to the principle of "comply or explain", in which Issuers that do not implement, or only partially implement, one or more of the provisions of the New Code must disclose their reasoning to their shareholders and the market. Such disclosure is provided in the annual report on corporate governance (the Report on Corporate Governance mandated by Article 123-bis of Legislative Decree No. 58 of February 24, 1998) (the Single Financial Act). The New Code comprises 10 articles dedicated to:
    - The role of the Board of Directors (Article 1);
    - The composition of the Board of Directors (Article 2);
    -
    - Independent directors (Article 3);
    - The institution and functions of Board of Directors committees (Article 4);
    - Procedures regarding the nomination of directors (Article 5);
    - Compensation of directors (Article 6);

- Internal audit and risk management (Article 7);
- Statutory auditors (Article 8);
- Shareholder relations (Article 9); and
- Dual and singular management control systems (Article 10).

1) Internal systems of control and risk management

- This Alert discusses the principal changes introduced by the New Code

- **BOARD OF DIRECTORS**

  - ✓ **Composition**

- The New Code recommends that Issuers provide appropriate disclosure in the Report on Corporate Governance on the composition of the Board of Directors, by indicating each member's status of executive, non-executive or independent director, its respective role within the Board of Directors, as well as the member's professional experience and duration of the office 4.
- In addition, the New Code recommends that the Chairman of the Board of Directors set up and implement procedures to provide directors and statutory auditors with adequate knowledge of the business sector(s) in which the Issuer operates, market conditions and regulatory framework so that they can efficiently perform their functions5.
- The New Code introduces specific recommendations addressed to Issuers included in the FTSE-Mib index, the benchmark stock market index for BorsaItaliana (the Italian Stock Exchange) consisting of the 40 most-traded stock classes. Benefitting such premium securities, the New Code recommends that FTSE-Mib Issuers undertake changes to their Boards of Directors such that at least one-third of their directors are independent directors6, whereas for all other Issuers, the New Code suggests at least two independent
- An additional reform introduced in the New Code in order to prevent conflicts of interests is a recommendation against the proliferation of cross directorships. This bars the Chief Executive Officer of an Issuer from serving as a directorof another Issuer not part of the sameeconomic group and of which therelevant Chief Executive Officer is adirector of the first Issuer.

- Furthermore, the New Code suggests that Issuers adopt, for some or all members of the Board of Directors, a staggered board or classified board in which only a fraction of the board members are elected each time. The New Code commentary suggests that this feature promotes such continuity and the efficiency of the management to the extent that such boards do not adversely affect shareholders

❖ ROLE AND FUNCTIONING OF THE BOARD OF DIRECTORS

- According to Principle 1.P.2 of the New Code, the role of the Board of Directors is to pursue the "priority target" of the creation of medium-to-long term value for shareholders, whereas in the previous version, while creating value for shareholders was always identified as a goal of the Board of Directors, the medium-to-long term horizon was not specified. Because of this recommendation, the New Code establishes that certain issues should be the exclusive reserve to the Board of Directors, which the Board of Directors should not delegate to management or any other body.
- Among others, the New Code revises and strengthens the recommendation regarding self-evaluation of the Board of Director's performance and its internal committees, to be conducted at least annually. This self-evaluation includes an examination of their respective size and composition with respect to their ability to carry out their functions. In particular, the New Code recommends that the Board of Directors consider whether it has an adequate representation of the various Board of Directors' constituencies (executive, non-executive, independent) and of the different professional and managerial competences, including experience in international markets. The New Code highlights that certain advantages may flow from diverse Boards of Directors, in relation to gender, age and seniority of the office12.
- The New Code has also introduced specific recommendations to guarantee timeliness and completeness of the information given to directors and statutory

auditors prior to and during the Board of Directors meetings. With reference to the information provided to the members of the Board of Directors before each meeting, the New Code recommends that the Chairman of the Board take all necessary action to the agenda and other relevant documentation to the attention of the directors and statutory auditors before the meeting, while still observing any non-disclosure and data protection provisions.

- In the case of documentation that is lengthy and complex, the members of the Board of Directors can be provided with summaries that synthesize the most relevant issues included in the items on the agenda, with the caveat that such summary cannot in any case substitute the complete documentation to be sent to the directors. Moreover, the

❖ CORPORATE GOVERNANCE IN ITALY

✓ **<u>INTRODUCTION</u>**

- <u>GENERAL OVERWIEV OF ITALIAN COMPANIES</u>

- The ownership structure of listed companies is highly concentrated, and public companies with dispersed ownership are rare.
- Most of the time, a majority share holder (a family*, a company or the government) controls a relevant stake of voting rights and exercises full control of the company.
- It follows that the typical agency conflict is not between managers and share holders, as in the United States or the United Kingdom, but between majority and minority shareholders.
- In Italy is also common to communicate to the market periodical price sensitive announcement.

- **FIAT, AN ITALIAN EXAMPLE**

- Families that holda huge stock of the company's share can be seen as an additional control mechanism, because they have a great influence on the strategic decision taken by the management. A proper example is Fiat Group, in fact the 30% of its share is held by Exor corp., whose president is John Elkann (grandson on Gianni Agnelli, the founder of Fiat).

- **CORPORATE GOVERNANCE CODES**

- GOVERNMENT PROVISIONS

The corporate governance regulation of Italian stock companies is mainly based on the Consolidated Law on Financial Intermediation (TESTO UNICO DELLA FINANZA, 58°/1998), and the Consolidated Law on Banking (Legislative Decree No. 385 of 1 September 1993).

Compliance with this code is mandatory.

- LISTING ON THE STOCK EXCHANGE

In October 1999, a Corporate Governance Committee appointed by the Italian Stock Exchange (BORSA ITALIANA) approved a Code of Conduct, with the aim of consolidating best practice principles and improving investors' confidence in the domestic financial market.

Compliance is on a voluntary basis, but listed companies are required to disclose their level of adoption of the code and to justify why they are not fully compliant (the 'comply or explain' principle).

- ✓ **Financial Governance**

Appointment of the Board of Directors, endorsement of the budget and annual report, modification of the company's charter, responsibility actions versus the Board of Directors etc.

- ✓ **Management**

Direct and manage the company in terms of making the strategic, industrial and financial plans necessary for development, coherently with the corporate purpose and with the objective of maximizing value for all stakeholders

- ✓ **Control**

Within the board of directors, and appointed by the same, a committee is formed to supervise management.

FUNCTION AND DISCRIPTION

- ✓ **Financial Governance**

Appointment of the Board of Directors, modification of company's charter, responsibility action versus the Board of Directors.

- ✓ **Control**

Ensure that laws and by□laws are observed, respecting the principles of good practice as well as the adequacy and functions of the adopted methods of organization, administration and accounting. Integrated with some specific duties assigned by the assembly like the appointment of the board of directors and the endorsement of the annual report.

- ✓ **Management**

Direct and manage the company in terms of making the strategic, industrial and financial plans necessary for development, coherently with the corporate purpose and with the objective of maximizing value for all stakeholder

A.THE TRADITIONAL SYSTEM (DUALISTIC HORIZONTAL

- ✓ **Financial Governance**

Appointment of the Board of Directors and of the Board of Auditors, endorsement of the budget and annual report, etc.

- ✓ **Management**

Direct and manage the company in terms of making the strategic, industrial and financial plans necessary for development, coherently with the corporate purpose and with the objective of maximizing value for all stakeholders

- ✓ **Control**

Ensure that laws and by□laws are observed, respecting the principles of good practice as well as the adequacy and functions of the adopted methods of organization, administration and accounting.

- ✓ **EXECUTIVE REMUNERATION**

- The remuneration of directors shall be established in a sufficient amount to attract, maintain and motivate directors endowed with the professional skills necessary for managing the issuer successfully.

(ART7, CODICE DI AUTODISCIPLINA, 2006)

- The Code provides that the board of directors shall form a committee on remunerations plans. This committee is to be made up of a majority of non□executive directors, and shall submit proposals to the board for the remuneration of the managing directors and of those directors who are appointed to specific positions. Meetings convened to review remuneration proposals concerning managing directors shall be held in the absence of the persons directly concerned.

Population

61,261,254 (July 2011 est.)

Age structure

0-14years:13.8%(male4,315,292/female4,124,624)
15-64years:65.9%(male19,888,901/female20,330,495)
65 years and over 20.3% (male 5,248,418/female 7,109,074) (2011 est.)

Median age

total:43.5years
male:42.4years
female: 44.7 years (2011 est.)

Population growth rate

0.38% (2011 est.)

Birth rate

9.06 births/1,000 population (2011 est.)

Death rate

9.93 deaths/1,000 population (July 2011 est.)

Net migration rate

4.67 migrant(s)/1,000 population (2011 est.)

Sex ratio

atbirth:1.06male(s)/female
under15years:1.05male(s)/female
15-64years:0.98male(s)/female
65yearsandover:0.74male(s)/female
total population: 0.93 male(s)/female (2011 est.)

Infant mortality rate

total:3.36deaths/1,000livebirths
male:3.56deaths/1,000livebirths
female: 3.14 deaths/1,000 live births (2011 est.)

Life expectancy at birth

totalpopulation:81.86years
male:79.24years
female: 84.63 years (2011 est.)

Total fertility rate

1.4 children born/woman (2011 est.)

HIV/AIDS - adult prevalence rate

0.3% (2009 est.)

HIV/AIDS - people living with HIV/AIDS

140,000 (2009 est.)

HIV/AIDS - deaths

fewer than 1,000 (2009 est.)

Nationality
adjective: Italian

Ethnic groups

Italian (includes small clusters of German-, French-, and Slovene-Italians in the north and Albanian-Italians and Greek-Italians in the south)

Religions

Christian 80% (overwhelming Roman Catholic with very small groups of Jehova Witnesses and Protestants), Muslims NEGL (about 700,000 but growing), Atheists and Agnostics 20%

Languages

Italian (official), German (parts of Trentino-Alto Adige region are predominantly German speaking), French (small French-speaking minority in Valle d'Aosta region), Slovene (Slovene-speaking minority in the Trieste-Gorizia area)

Education expenditures

4.3% of GDP (2007)

Maternal mortality rate

5 deaths/100,000 live births (2008)

Health expenditures

5.1% of GDP (2009)

Physicians density

4.242 physicians/1,000 population (2008)

Hospital bed density

3.7 beds/1,000 population (2008)

Obesity - adult prevalence rate

9.8% (2005)

Related Data From the International Monetary Fund

Variable: Population

Note: For census purposes, the total population of the country consists of all persons falling within the scope of the census. In the broadest sense, the total may comprise either all usual residents of the country or all persons present in the country at the time of the census. [Principles and Recommendations for Population and Housing Censuses, Revision 1, paragraph 2.42]

Units: Persons

Scale: Millions

Country-specific Note: Source: National Statistical Office Latest actual data: 2010 Primary domestic currency: Euros Data last updated: 09/2011

RATIO OF GIRLS TO BOYS IN PRIMARY AND SECONDARY EDUCATION (%) IN ITALY

The Ratio of girls to boys in primary and secondary education (%) in Italy was last reported at 98.64 in 2010, according to a World Bank report published in 2012. Ratio of girls to boys in primary and secondary education is the percentage of girls to boys enrolled at primary and secondary levels in public and private schools.This page includes a historical data chart, news and forecasts for Ratio of girls to boys in primary and secondary education (%) in Italy. Italy is a member of the G8 group of leading industrialized countries. Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south, with high unemployment. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises.

Education in Italy

Education in Italy

Ministero dell'istruzione, dell'università e della ricerca

Minister of Education	Francesco Profumo
National education budget **(2005)**	
Budget	€66 billion
General details	
Primary languages	Italian
System type	Public
Compulsory primary education	1859
Literacy **(2007)**	
Total	98.9
Male	98.9
Female	98.9
Post secondary	386,000

Education in Italy is compulsory from 6 to 16 years of age, and is divided into five stages: kindergarten (scuola dell'infanzia), primary school (scuola primaria), lower secondary school (scuola secondaria di primo grado), upper secondary school (scuola secondaria di secondo grado) and university (università). Italy has both public and private education systems. In Italy a state-born school system, or Education System has existed since 1859, when the Legge Casati (Casati Act) mandated educational responsibilities for the forthcoming Italian state (Italian unification took place in 1861). The Casati Act made primary education compulsory, and had the goal of reducing illiteracy. This law gave control of primary education to the single towns, of secondary education to the provincie (counties), and the universities were managed by the State. Even with the Casati Act and compulsory education, in rural (and southern) areas children often were not sent to school (the rate of children enrolled in primary education would reach 90% only after 70 years) and the illiteracy rate (which was near 80% in 1861) took more than 50 years to halve.

intended during the Fascist era as the peak of secondary education, with the goal of forming the future upper classes), and created the Technical, Commercial and Industrial institutes and also the Liceo Scientifico. The Liceo Classico was the only secondary school that gave access to all types of university, until 1968. The influence of Gentile's Idealism was great, and he considered the Catholic religion to be the "fundament and crowning" of education.

Primary education

An elementary school in Aosta Valley, with the name both in Italian and French

Scuola primaria (primary school), also known as scuola elementare, is commonly preceded by three years of non-compulsory nursery school (or kindergarten). Scuola elementare lasts five years. Until middle school, the educational curriculum is the same for all pupils: although one can attend a private or state-funded school, the subjects studied are the same (with the exception of special schools for the blind or the hearing-impaired). The students are given a basic education in Italian, English, mathematics, natural sciences, history, geography, social studies, physical education and visual and musical arts.

Secondary education

Secondary education is divided in two stages: Scuola secondaria di primo grado (Lower secondary school), also known as Scuola media, which corresponds to the Middle School grades, and Scuola secondaria di secondo grado (Upper secondary school), which corresponds to the high-school level.

Scuola secondaria di primo grado

Scuola secondaria di primo grado lasts three years (roughly from age 11 to 13), and provides further education on the subjects studied at scuola primaria, with the addition of Technology and a language other than English (typically French, Spanish or German). The curriculum is the same for all schools. At the end of the third year students sit an exam which enables them to continue their education. Until the Moratti reform it was called "Scuola media di primo grado".

Scuola secondaria di secondo grado

Culture of Italy

From antiquity until the late 16th century, Italy was considered as the central place of Western culture, the starting point of worldwide phenomena such as the Roman Empire, the Roman Catholic Church, Humanism and the Renaissance. Italian painters, sculptors, composers, and architects also dominated the Baroque movement that began near the end of the Renaissance and ended in the 1700s.

Italy did not exist as a political state until its unification in 1861. Due to this comparatively late unification, and the historical autonomy of the regions that comprise the Italian peninsula, many traditions and customs that are now recognized as distinctly Italian can be identified by their regions of origin. Despite the political and social isolation of these regions, Italy's contributions to the cultural and historical heritage of Europe remain immense.

Traditional Italian Foods :

Italy has many traditional foods, dishes and recipes. Here is a short "glossary" of the most common ones.
'Nduja: a very hot kind of sausage/salami with red peppers. Tipycal of Calabria

Baccalà: dried and salted Codfish. Tipical of some Northern and Southern marine Regions

Bruschetta: A slice of Grilled Bread, usually with Olive oil, garlic and often Tomato.

Focaccia: a flat bread, often seasoned with Olive Oil and Herbs, tipycal of Liguria but very common everywhere.

Frisella:

Fusilli: a kind

of Pasta. Twirly and Curly

Gnocchi: dumplings, a kind of Pasta, usually like small balls, made with potatoes and wheat. Different kinds (with potatoes, ricotta, durum wheat, bread) are found in almost every part of Italy

Mozzarella:

Orecchiette: a kind of pasta, like a small ear (hence their name). Tipycal of Apulia

Mortadella: a kind of salami, made from different parts of pork

Panzerotti:

Porchetta:
Ricotta:

Scamorza: a kind of cheese

Tortellino - Tortellone:

Trippa:

ITALIAN TREDITION:

Family

Family is very important for Italians. The adjustments that the first generation of immigrants made sometimes had devastating results. They became neither Italian nor Canadian. The second generation combined the aspects of both cultures and lifestyles. The third and the fourth generations became more Canadian than Italian.

Visiting

Visiting friends and relatives is very popular among the Italians. Intricate networks of friendship and fellowship are developed as they share their joys and their sorrows.

To learn more about the italian culture, visit "traveletiquette" which offers essentiel etiquette advice and information for worldwide travel.

Language

The first difficulty that the Italian immigrants faced in Canada was the inability to understand or speak the English language. Of course, they did not feel the need of

English when they lived inside Little Italies. Those who went outside the community needed knowledge of the English language. In order to bridge the gap between Italian and English, the new immigrants developed a language called *Italiese,* which gave Italian structure to the English language.

Food and Wine

Italy has 20 regions, and each region has its own traditional food and wine. Italian food does not consist of only pizza and spaghetti, and the menu is as varied as the Italian regions. Italians use a variety of vegetables, such as tomatoes, eggplants, onions, garlic, peas, pepper in their cuisine. Italian food and wine are well known in Canada and North America.

Music

Italians love music. Music is part of their lives. They enjoy it at holidays, family celebrations, and special occasions. Opera, an Italian tradition, is popular among Italians and they continued this musical tradition when they immigrated to Canada.

Religion

The majority of Italians are Roman Catholics. When they immigrated, they brought their religious traditions to Canada with them. They began to build churches, where they would pray to God, but the churches also served as a place where they could meet, help each other and share their traditions. They held Italian classes inside the churches' halls, where their children could learn and preserve the language. Italians set up the Catholic schools too, where the Italian children would learn their religion and their culture.

Wedding and Baptism Ceremonies

The Italians make a wonderful celebration of their weddings and baptism ceremonies. They usually rent a hall, have music, dancing, special pastries, cordials, and wines. A church ceremony is usually followed by a reception. Christening ceremonies are very special, as well, usually followed by receptions held in halls or at home.

Funerals

The Italian funerals, as the final act of love provided for those that pass away, are particularly moving. Candles remain lit throughout the wake. Relatives and friends participate in the wake, say prayers in front of the casket and offer condolences to the family. Preparation for the burial usually includes a church Mass attended by family and friends who afterwards accompany the deceased to his final resting place.

SPORTS

Sports do not merely reflect or enhance the manliness of the individual, the sturdiness of a group or race, or the role of a nation; they are activities that can encourage understanding among all human beings and nations.

Prior to the 1920s, sports activities in Windsor (at least according to the records) were mainly the domain of the Anglo-Saxons, the Sons of England and the Sons of Scotland. Prior to the athletic association and curling, card playing (euchre) seemed to be the most popular pastime. By the end of World War I, lawn bowling, basketball, soccer, and later golf, and rifle shooting clubs were initiated in the city.

. A Social Performance Analysis of Italian Microfinance

This paper aims to analyse Italian MFIs social performance according to the core set of common indicators and framework developed by the Social Performance Task Force using data collected by Fondazione Giordano Dell'Amore and Fondazione Risorsa Donna in 2008 for the European Microfinance Network (EMN) Survey 2006-2007. Key features and client profiles of Italian leading MFIs are also identified with respect to their social performance indicators. The methodology adopted in the current social performance analysis follows the reference framework specified in Social Performance Standard Reports. It examines the whole process of translating MFIs mission into social impact and includes the analysis of several connected dimensions of the social performance pathway corresponding to areas covered by the indicators: the intent of the MFI, the effectiveness of the internal system and activities in achieving its targets, MFI outputs and eventually its capacity to positively affect clients life and achieve social goals.

TECHNOLOGICAL DEVLOPMENT

The development and status of Information technology in Italy is a complex question. Italians seem to be stuck with one foot on the shores of a technological oasis and the other in the quagmire of bureaucracy, suspicion and history. Perhaps this was not so noticeable until now because, historically technology has advanced at a slower pace, therefore the juxtaposition between the old and the new was not so apparent. Whereas, now technology is changing at lightening speed making Italy's precarious position more obvious and its next steps increasingly important. At present, Italy is just beginning to adapt to Internet technology while on the other hand the use of a cellular phone is already in a mature state.

The intent of this project is to examine Italian information technology in its early developmental stages, its current reality and its potential growth. We will highlight numerous topics from basic telecommunication infrastructure to electronic commerce and government policies. After extensive information searches and analysis, we have developed a mosaic of information that will assist in defining the impacts of the Italian information technology environment on business

THE ORGANISATION

ENEA is the name for **Italian National Agency for New Technologies, Energy and Sustainable Economic Development**.

The Agency’s main research issues are identified as follows:

- **Energy Efficiency**
- **Renewable Energy Sources**
- **Nuclear Energy**
- **Climate and the Environment**
- **Safety and Health**
- **New Technologies**
- **Electric System Research.**

Specifically, the Agency’s activities are devoted to:

- basic, *mission-oriented*, and industrial research exploiting wide-ranging expertise as well as experimental facilities, specialized laboratories, advanced equipment;
- new technologies and advanced applications;
- dissemination and transfer of research results, thus promoting their exploitation for production purposes;
- provide public and private bodies with high-tech services, studies, measurements, tests and assessments;
- training and information activities aimed at broadening sector expertise and public knowledge and awareness.

The Agency’s multidisciplinary competences and great expertise in managing complex research projects are put at the disposal of the Country system.

Science and technology in Italy:

By the first century AD, Rome had become the biggest and most advanced city in the world. The ancient Romans came up with new technologies to improve the city's sanitation systems, roads, and buildings. They developed a system of aqueducts that piped freshwater into the city, and they built sewers that removed the city's waste. The wealthiest Romans lived in large houses with gardens. Most of the population, however, lived in apartment buildings made of stone, concrete, or limestone. The Romans developed new techniques and used materials such as volcanic soil from Pozzuoli, a village near Naples, to make their cement harder and stronger. This concrete allowed them to build large apartment buildings called *insulae*.

Italy had a scientific "golden age" during the Renaissance. Leonardo da Vinci, was trained to be a painter, but his interests and achievements spread into an astonishing variety of fields that are now considered scientific specialties. He conceived of ideas vastly ahead of his time. Notably, he invented concepts for the helicopter, a tank, the use of concentrated solar power, the calculator, a rudimentary theory of plate tectonics, the double hull, and many others. In addition, he greatly advanced the fields of knowledge in anatomy, astronomy, civil engineering, optics, and hydrodynamics.

BUSINESS ETINIQUETTES ITALY

Relationships&Communication

Italians prefer to do business with people they know and trust.. A third party introduction will go a long way in providing an initial platform from which to work. . Italians much prefer face-to-face contact, so it is important to spend time in Italy developing the relationship. . Your business colleagues will be eager to know something about you as a person before conducting business with you. . Demeanour is important as Italians judge people on appearances and the first impression you make will be a lasting one. . Italians are intuitive. Therefore, make an effort to ensure that your Italians colleagues like and trust you. . Networking can be an almost full-time occupation in Italy. Personal contacts allow people to get ahead. . Take the time to ask questions about your business colleagues family and personal interests, as this helps build the relationship. Italians are extremely expressive communicators. They tend to be wordy, eloquent, emotional, and demonstrative, often using facial and hand gestures to prove their point.

BusinessMeetingEtiquette

Appointments are mandatory and should be made in writing (in Italian) 2 to 3 weeks in advance.. Reconfirm the meeting by telephone or fax (again in Italian). . Many companies are closed in August, and if they are open many Italians take vacations at this time, so it is best not to try to schedule meetings then.. In the north, punctuality is viewed as a virtue and your business associates will most likely be on time. . The goal of the initial meeting is to develop a sense of respect and trust with your Italian business colleagues. . Have all your printed material available in both English and Italian. . Hire an interpreter if you are not fluent in Italian. . It is common to be interrupted while speaking or for several people to speak at once. . People often raise their voice to be heard over other speakers, not because they are angry. . Although written agendas are frequently provided, they may not be followed. They serve as a jumping off point for further

BusinessNegotiation

In the north, people are direct, see time as money, and get down to business after only a brief period of social talk. . In the south, people take a more leisurely approach to life and want to get to know the people with whom they do business. . Allow your Italian business colleagues to set the pace for your negotiations. Follow their lead as to when it is appropriate to move from social to business discussions. . Italians prefer to do business with high-ranking people. . Hierarchy is the cornerstone of Italian business. Italians respect power and age. . Negotiations are often protracted. . Never use high-pressure sales tactics. . Always adhere to your verbal agreements. Failing to follow through on a commitment will destroy a business relationship. . Heated debates and arguments often erupt in meetings. This is simply a function of the free-flow of ideas. . Haggling over price and delivery date is common. .

Decisions are often based more on how you are viewed by the other party than on concrete business objectives.

Etiquette & Customs in Italy

MeetingEtiquette

Greetings are enthusiastic yet rather formal. The usual handshake with direct eye contact and a smile suffices between strangers.. Once a relationship develops, air-kissing on both cheeks, starting with the left is often added as well as a pat on the back between men. Wait until invited to move to a first name basis. Italians are guided by first impressions, so it is important that you demonstrate propriety and respect when greeting people, especially when meeting them for the first time Many Italians use calling cards in social situations. These are slightly larger than traditional business cards and include the person's name, address, title or academic honours, and their telephone number. If you are staying in Italy for an extended period of time, it is a good idea to have calling cards made. Never give your business card in lieu of a calling card in a social situation.

GiftGivingEtiquette

Do not give chrysanthemums as they are used at funerals. Do not give red flowers as they indicate secrecy. Do not give yellow flowers as they indicate jealousy. If you bring wine, make sure it is a good vintage. Quality, rather than quantity, is important. Do not wrap gifts in black, as is traditionally a mourning colour. Do not wrap gifts in purple, as it is a symbol of bad luck. . Gifts are usually opened when received.

DiningEtiquette

If invited to an Italian house: If an invitation says the dress is informal, wear stylish clothes that are still rather formal, i.e., jacket and tie for men and an elegant dress for women. . Punctuality is not mandatory. You may arrive between 15 minutes late if invited to dinner and up to 30 minutes late if invited to a party. . If you are invited to a meal, bring gift-wrapped such as wine or chocolates. . If you are invited for dinner and want to send flowers, have them delivered that day.

Tablemanners

Remain standing until invited to sit down. You may be shown to a particular. Table manners are Continental -- the fork is held in the left hand and the knife in the right while eating. . Follow the lead of the hostess - she sits at the table first, starts eating first, and is the first to get up at the end of the meal. . The host gives the first toast. An honoured guest should return the toast later in the meal. Women may offer a toast. Always take a small amount at first so you can be cajoled into accepting a second helping. . Do not keep your hands in your lap during the meal; however, do not rest your elbows on the table either. It is acceptable to leave a small amount of food on your plate. Pick up cheese with your knife rather than your fingers. If you do not want more wine, leave your wineglass nearly full.

SOCIAL ENVIRONMENTAL PERFORMANCE REVIEW OF ITALY

Italy has a large economy and a population of 57 million, concentrated on a relatively small territory. High densities lead to strong environmental pressures which, together with the diversity and sensitivity of Italy's natural patrimony and its important cultural heritage, have made environmental protection a matter of serious public concern. Priority environmental issues include urban air pollution, soil and water management, waste management, nature and landscape conservation, climate change, transport management, and protection of coastal areas and the marine environment. Measures to cope with hydro-geological risks (flooding, landslides and earthquakes) imply large central budget outlays. With its strong regional disparities, and the largest share of population over65 years among OECD countries, Italy must find ways to achieve nationally balanced economic, environmental and social development. As a member of the European Union, itmust comply with the high standards set out in EU environmental legislation. As a G-7country, it must contribute to raising awareness of global environmental problems.To meet this challenge, Italy will need to:

1, improve its environmental infrastructure(e.g. for water supply, waste water treatment and waste treatment) and the efficiency of itsenvironmental policies;

2. integrate further environmental concerns into economic andsocial decisions; and

3. reinforce its international environmental co-operation. This reportexamines progress made by Italy since the previous OECD environmental performancereview in 1994, and the extent to which Italy's domestic objectives and internationalcommitments are being met. It also reviews the country's progress in the context of theOECD Environmental Strategy**Some 64 recommendations are made that could helpstrengthen Italy's environmental performance in a context of sustainable development.

Much environmental progress was achieved…

In the last ten years, Italy has met or almost met a number of its domestic objectives international commitments (e.g. SO2, heavy metals and POPs emissions, separate waste collection, nature protection, agree-environmental progress). It has also considerably strengthened its national environmental institutions, issued new environmental legislation,and further devolved environmental responsibilities to regional and local authorities while keeping responsibility for strategic planning and legal co-ordination at the central level. The human and budgetary resources of the Ministry of the Environment and Land Protection (MATT) have been increased very significantly; new directorates deal with sustainable development and protection from flooding, landslides and other natural disasters. The National Environmental Protection Agency (ANPA), which provides MATT with scientific and technical support, has been growing. There has been important progress on environmental legislation (e.g. water, waste reforms), mainly prompted by EU environmental directives. The competence of regions and local authorities with respect to environmental and land management has been strengthened during the devolution process (1997 Bassanini Act). Regional Environmental Protection Agencies (ARPAs) are being established to perform inspection and enforcement on request from regions. Some regions have begun to introduce integrated permitting for existing plants. Enforcement of environmental policies benefits from the actions of the Operational Unit for Environmental Protection of the Carabineers, placed at the disposal of MATT

There has been a relatively low level of investment in environmental infrastructure, possibly linked to delayed decisions associated with the devolution process and low spending capacity in the case of allocated funds. 2006, has indicated its intention to further increase its ODA to 1.0% of GNP at a later date.

Progress towards sustainable development…

Italy has continued to make good progress in decoupling environmental pressures from economic growth, through low energy intensity and reduction of SOx and NOx emissions as well as through reduction of phosphate fertiliser and pesticide use. Progress in environmental planning is being achieved through preparation of the Environmental Strategy for Sustainable Development. Strategic Environmental Assessment has been developed as a tool to promote sustainable development (e.g. General Transport Plan). Market-based integration continues to rely on high energy prices (due to taxes and historically high pre-tax energy utility prices), **… needs to be buttressed by improved institutional and economic practices.**

Nonetheless, further efforts are needed to decouple municipal waste generation from economic growth. While institutional integration has improved, co-ordination among different administrations is not very well established, particularly at the technical level. Involvement of the Inter-Ministerial Committee for Economic Planning (CIPE) in environmental and sustainable development issues is to be encouraged. Economic analyses (e.g. cost-benefit analysis) carried out are insufficient to ensure cost-effective achievement of environmental objectives. Taxes and charges are not well targeted with respect to emission impacts, and there are many exemptions. Environmentally related taxes have had a low incidence. Some environmental charges are difficult to enforce, while some (e.g. a plastic bag fee) have been abandoned. Water prices are still low; they fall well short of overall operating costs, let alone providing financing for urgently needed capital expenditure. Water for agricultural use is priced extremely low, and groundwater resources are often abstracted illegally.

Positive developments in international cooperation…

As a G7 member, a founder of the EU and a Mediterranean country, Italy has continued to support international environmental co-operation very actively, ratifying most agreements and enacting most EU directives, including for climate change and air pollution commitments. It is to be commended for its low energy intensity, its clear GHG emission reduction targets, and its precise estimates of the environmental impacts of the national climate programme. In the 1990s Italy's performance in meeting international commitments to reduce air emissions was most satisfactory, with major reductions of SOx and certain heavy metals as well as dioxins and furans. This progress will serve as encouragement inview of the further ambitious commitments being made (e.g. under the Gothenburg Protocol, to be ratified). With respect to marine issues, developments in the late 1990s have been positive for oil spill prevention, emergency response and ship safety, with quite significant equipment improvements, enforcement and commitments. Environmental co-operation with neighbouring countries has developed: Italy, France and Monaco have created a 100 000 km 2 sanctuary for protection of marine mammals, especially cetaceans, whose international status would be strengthened by UN recognition. Italy's official development assistance has fallen to a very modest 0.13% of GNP. This ODA level does not seem commensurate with Italy's international role or with the size of its economy.

However, the Italian government, which is committed to the EU goal of 0.33% of GNP by 2006, has indicated its intention to further increase its ODA to 1.0% of GNP at a later date

Social Environment and Responsibility:

Social change is when the people in the community adjust their attitudes to way they live. Businesses will need to adjust their products to meet these changes, e.g. taking sugar out of children's drinks, because parents feel their children are having too much sugar in their diets.

The business also needs to be aware of their social responsibilities. These are the way they act towards the different parts of society that they come into contact with.

Legislation covers a number of the areas of responsibility that a business has with its customers, employees and other businesses.

It is also important to consider the effects a business can have on the local community. These are known as the **social benefits** and **social costs.**

A social benefit is where a business action leads to benefits above and beyond the direct benefits to the business and/or customer. For example, the building of an attractive new factory provides employment opportunities to the local community.

A social cost is where the action has the reverse effect – there are costs imposed on the rest of society, for instance pollution.

These extra benefits and costs are distinguished from the private benefits and costs directly attributable to the business. These extra cost and benefits are known as externalities – external costs and benefits.

Governments encourage social benefits through the use of subsidies and grants (e.g. regional assistance for undeveloped areas). They also discourage social costs with fines, taxes and legislation.

Pressure groups will also discourage social costs.

PART-7
FIAT COMPANY

INTRODUCTION TO AUTOMOBILE INDUSTRY

The SPEED of Trust Industry Trust-At-A-Glance examines consumer trust messaging about top companies in the **Automobile Industry**. Using new technologies in linguistics and statistics, FranklinCovey Global Speed of Trust Practice can extract trust messaging on websites, blogs, news sites, and many other sites including social media sites -- “chatter” across the entire Internet about your company and your competition. What makes a company credible with clients, suppliers, distributors, investors, consumers, and other stakeholders? The SPEED of Trust Industry Trust-At-A-Glance goes to the heart of “web chatter” about the companies in your industry. The quantification of language allows unbiased examination of consumer “chat” about your company, your competition and the industry.

Integrity generally focuses on truth and honesty which drives Character issues – which is a strength area for the automobile industry. Negative trust perceptions regarding Intent focus on not getting what the customer intended to get which in this case is generally on reliability and dependability. Capabilities focused on the owners ability to make payments. And Results generally focused on performance regarding gas use. The industry should focus on improved perceptions of car performance and straight talk about gas

The U.S. auto industry is considered to be part of the U.S. retail industry because U.S. automakers not only manufacture automobiles, they also sell their products for a retail price directly to the end user. Find facts, statistics, trends, analysis, history, trivia and research about the largest and best retail automobile companies in the U.S. in this U.S. Automobile Industry Index.

INTRODUCTION OF FIAT

Introduction of FIAT

Fiat (or Fabbrica Italian Automobile Torino) was founded in 1899 by a group of investors including Giovanni Agnelli and is based in Turin in the Piedmont region. As of 2009, it is Italy's largest and the world's ninth largest car maker.

The Fiat Group has operations in over 190 countries with 203 plants, 118 research centers, 633 companies and more than 198,000 employees. The Fiat Group owns six car brands namely Fiat, Lancia, Alfa Romeo, Abarth, Maserati and Ferrari.

Fiat-based cars are constructed all around the world, with the largest number produced outside Italy being built in Brazil, where they are best-sellers. It also has factories in Argentina and Poland. Joint venture operations are found in Italy, France, Turkey, India, Pakistan, China, Serbia and Russia. As of 2010, Fiat also owns a 25% stake in the "New Chrysler" which it obtained in 2009 as part of Chrysler's bankruptcy proceeding.

Fiat has been in India since 1944 through its licensing agreement with Premier Automobiles Limited (PAL). PAL produced models like Fiat 500 and Fiat 1100 until 1973 when it started to use the Premier name on its cars. The Premier Padmini was based on the Fiat 1100 whilst the Premier 118 & Premier 138D were based on the Fiat 124.

Fiat India Automobiles Limited (FIAL) is a 50-50 Industrial Joint Venture between Fiat Group Automobiles S. p. A. and Tata Motors Limited. The company employs about 2775 blue & white collar employees .The board of directors for this company comprises of five nominees each from Fiat and Tata.

Its assembly plant is at Ranjangaon, Maharashtra, which was built with an initial investment of Euros 650 million has an installed capacity of 200,000 cars and 300,000 engines. This plant is among the largest power train manufacturing plants of Fiat anywhere in the world. Apart from producing Fiat and Tata cars, it will also export engines to other Fiat facilities across Europe. The plant currently rolls out Linea, Punto and Palio for Fiat as well as Indica and Indigo Manza for Tata Motors. The company plans to double the production capacity for both the car units and engines in the next few years.

Fiat was the inventor of the Multijet Diesel Engine and is known for its diesel technology. A large percentage of the cars in India run on Fiat diesel technology.

Fiat cars in India are sold and serviced through Tata Motors dealers. The company has 150 dealer outlets in 106 cities

Company History

Established in 1899, Fiat is one of the world's major industrial groups. With operations in over 190 countries, the Group has 203 plants, 118 research centers, 633 companies and more than 198,000 employees. One of the founders of the global automotive industry, right from inception Fiat pursued a two-pronged development strategy: penetration into foreign markets and focus on innovation. This focus on innovation is evidenced by the technical quality of its products and the adoption of cutting-edge industrial and organizational systems.

The Group's business is carried out through several operating Sectors: Fiat Group Automobiles (Fiat, Lancia, Alfa Romeo and Abarth brands), Maserati and Ferrari (luxury sports cars), CNH (agricultural and construction equipment), Iveco (trucks and commercial vehicles), Fiat Powertrain Technologies (engines and transmissions), Magneti Marelli (automotive components), Teksid (engine blocks, cylinder heads and other components), Comau (automated production systems) and Itedi (publishing & communications)

Company Founder(s)

On 11 July 1899, a group of people got together and founded "Societa Anonima Fabbrica Italiana Automobili Torino." This company produced automobiles. Giovanni Agnelli was one of the founding members of Fiat. In 1902 he became the Managing Director of the company.

Agnelli was the son of Edoardo Agnelli and Aniceta Frisetti and he was born in Villar Perosa, near Piedmont. Agnelli studied at the Collegio San Giuseppe in Turin and became a mayor in 1895. In 1898, he met Emanuele Bricherasio di Cacherano of Turin, who was looking for investors for his project. Agnelli was on the founding team of Fiat and a year later, he became the managing director and then the chairman in 1920.

The company started selling shares on the Milan stock exchange. Agnelli bought many of the shares and he also started going to the Ford factory and adopted various practices that he observed. He was with FIAT at the start of the Second World War and died after the war ended in 1945. Agnelli was born in 1866 and was Italian by origin.

Company Milestones

- **1899**: At Palazzo Bricherasio, the company charter of "Società Anonima Fabbrica Italiana Automobili Torino" was signed.
- **1900**: The first factory was opened in Corso Dante.
- **1902**: The first real competition car, a 24 HP driven by Vincenzo Lancia, won the Sassi-Superga uphill race.
- **1934** and **1936**: Two cars were produced: the "Balilla", also called "Tariffa minima" which had a low consumption of fuel, and the "Topolino", the smallest utilitarian car in the world.
- **1945**: This was the year in which Senator Giovanni Agnelli died and the presidency of the Fiat was awarded to Vittorio Valletta.
- **1951**: The first Italian jet aircraft came into being, the G80.
- **1953**: The first Fiat> diesel engine vehicle was manufactured, the 1400 diesel.
- **1971**: After Fiat 850, a new popular utilitarian car, the 127, made its debut.
- **1979**: Fiat Auto S.p.A., came into being, which included the brands such as Fiat, Lancia, Autobianchi, Abarth, Ferrari.
- **1989**: The Tipo, was voted "Car of the year" for its cutting-edge technical solutions.
- **1993**: Fiat Punto (named "Car of the Year" in 1995) and Fiat Coupé, with bodywork designed by Pininfarina and Centro Stile Fiat.
- **2006**: The New Doblò and Sedici, the 4x4xTUTTI for city and off-road driving, and the official car of the 2006 Olympic Winter Games.
- **2007**: The Bravo was launched preceded by the first ever institutional Fiat blog. Bravo is the first car to sport the new Fiat logo as a tangible sign of the company's turnaround. The new Bravo is a successful blend of beauty and substance, destined to become a benchmark for the segment

Production systems

Production systems are made mainly through Comau S.p.A. (now Comau Systems), which bought the American Pico, Renault Automation and Sciaky and produces industrial automation systems. In the 1970s and 1980s, the company became a pioneer in the use of industrial robotics for the assembly of motor vehicles. Fiat assembly plants are among the best automated and advanced in the world.

Services

An insurance company, Toro Assicurazioni, allowed Fiat to control a relevant part of this market (also with minor companies like Lloyd Italico) and to interact with some associated banks. Toro Assicurazioni was acquired by the giant insurance company Assicurazioni Generali and is no longer related to the Fiat Group. Fiat still retains control of Augusta assicurazioni.

Construction

Ingest Facility and Fiat Engineering work in various fields of construction, while IPI is a mediation company that also deals with the management of real estate properties.

Information technology

Fiat Group is present in IT fields and in communications with ICT — Information & Communication Technology, Global Value, TeleClient, London and Atlanet

Publishing and communication

Fiat group also owns important editorial brands, like La Stampa (created in 1926 for the famous newspaper), Itedi, and Italiana Edizioni. Some national and local newspapers are owned or otherwise controlled by the different companies. A specialised advertising space reseller is Publikompass, supported by the Consorzio Fiat Media Center. Fiat is also one of the largest shareholders in the RCS MediaGroup.

Fiat in India

Fiat India Automobiles Private Limited (FIAPL) is a joint venture between Fiat and Mumbai based Tata Motors, founded in 1997. Fiat builds the Palio Stile, Linea and Punto.The Fiat plant is situated in Ranjangaon near Pune in Maharashtra and also manufactures the Tata Indica.

Although not a subsidiary of Fiat, Premier Automobiles of Mumbai was licensed to manufacture versions of the Fiat 500 for the Indian market. This was followed by the Fiat 1100 in 1954. In 1973, the Fiat label was replaced with the Premier name.

History

Fiat India Automobiles Limited (FIAL) was originally incorporated on 2 January 1997. The company presently employs about 2600 employees and is located at Ranjangaon in the Pune District of Maharashtra. The definitive agreement of the Joint Venture between Fiat S.p.A (Italy) and Tata was signed on 19 October 2007. The board of directors for this company comprises five nominees each from Fiat and Tata. Earlier, Fiat used to sell the 1100, 124 and Uno in India, manufactured under licence by Premier Automobiles Limited.

Manufacturing facilities

FIAL has a manufacturing plant at Ranjangaon, Maharashtra, which has an installed capacity to produce 100,000 cars and 200,000 engines, besides aggregates and components. The company plans to double the production capacity for both car units and engines in the next few years.

Vision, Mission & Objectives

Vision FIAT

- To instill entrepreneurial attributes for agro-based industry in the development of the first class human capital.
- Leaders in instilling science and technology with entrepreneurship for the development of first class human capital.

Mission FIAT

- To provide knowledge and high quality expertise in agro-based industry.
- To carry out research and its commercialization in ensuring sustainability for mankind and to support country economic development.
- To provide services and collaborative networks to fulfil social responsibility.

With the objectives

- To bring out great quality human capital to be the driving force of nation's development through infrastructure, delivery system and world class.

Objectives FIAT

- To incorporate the theoretical of applied science knowledge with the technology which eventually leads to the entrepreneurship supported by high core and well verse English undergraduates.
- To produce undergraduates that excel in agro techno entrepreneurship, who love nature and can strictly protect, appreciate and valued biodiversity.
- To support high performance goals of faculty with appropriate structures, processes and resources.
- To develop a professional visionary human capitals with the capabilities to contribute to the faculty development effectively.
- To facilitate the organization of cross-disciplinary groups in the key thematic areas of researches such as being a part of ECER cluster development.

Awards & Recognition

The following are the list of awards won by Fiat India in 2010:

- NDTV profit car & bike awards 2010 - Mid size car of the year - Fiat Linea.
- CNBC TV18 Overdrive awards 2010 - Storyboard auto commercial of the year - Fiat Linea (Father & Son)
- The Golden Steering Wheel 2010 (Auto Bild) - Readers choice car of the year - Fiat Linea.
- Bloomberg UTV Autocar awards 2010 - Car advertisement of the year - Fiat Linea (Father & Son)
- Carwale awards 2010 - Car of the year (Editors Choice) - Fiat Linea.
- Bloomberg UTV Autocar awards 2010 - Best Design & Styling - Fiat Grande Punto.
- Economic Times - Zigwheels car of the year award 2009 - Premium Hatchback of the year - Fiat Grande Punto.

Awards won by Fiat India in 2011:

- Top gear award for most improved car of the year - Fiat Linea T Jet.
-

Future Plans

In 2011, Fiat plans to launch the Future Panda, the Punto EVO MY, the Fiat L0 5-seater, the Fiat L0 7-seater, the Linea FL, the New Fiat I segment, the Futura Ypsilon, the New Sedan – D Seg, the Cabrio – D Seg, the New L2 Segment, the New E segment, the Future Panda Van, the Scudo MY, the Ducato MY, the Strada FL.

Fiat also plans to introduce the City Car by 2013, a new version of the Punto EVO by 2013, the Entry level B car by 2012, the MPV 5 seater version and MPV 7 seater version by 2012**.**

The company is planning to add the higher-end variant of Linea in 2011. This car will be smaller than the Punto and will be powered by a 1.0 litre engine. The dealer network is expected to grow to 200 dealers across the country, and the localization of Punto and Linea will go up from 85 percent to 90 per cent.

COMPARATIVE POSITION OF FIAT & PRESENT POSITION

Comparative position of Fiat in India:

The market share of Fiat India is currently at 0.3 per cent with total sales of 203 units. Reportedly, these figures are not due to the underperformance of Fiat brand, but inadequate service and marketing efforts from the company's end. Enrico Atanasio, Managing Director (MD) for Fiat India admits to have made mistakes that reflect in current sales figures.Fiat India plans to garner 1 per cent of market share by 2013 end.

Though Fiat has been doing well by sourcing its engines to 75 per cent of Indian passenger vehicles, it is their own cars such as Grande Punto and Linea that have sold much below par. Other key players of the market like Maruti Suzuki, General Motors and Tata Motors are already using the Fiat's engine on popular cars such as Swift DZire, Chevrolet Sail sedan and Indigo Manza, among others. On 1st April 2013, Fiat plans to take the number of its fully owned dealerships to 57 across the length and breadth of the country with an aim to attract more customers towards the brand.

The company wishes to target fast growing segments such as Sports Utility Vehicles (SUVs) along with sports cars and not delve further into the crowded small car market. In collaboration with Chrysler, Fiat would bring in various variants of the Jeep brand during 2013 and may also consider bringing out a small car version of Jeep during 2015. The higher end of the hatchback market will be targeted with models such as Abarth and a sporty variant of Fiat 500. A Punto-based crossover could also be seen in 2014. In addition, Linea and Punto facelifts are expected to be launched on 3rd April 2013. Deepesh Rathore, MD of leading automotive consulting firm IHS Automotive says, “I think Fiat's focus is on launching a couple of niche products and rebuilding the customer experience. It's painful but it's the time to tell the customer that Fiat is different from the image he or she has had in mind."

Industry experts agree that the Italian major certainly faces an uphill task going by the company's current brand image in India, but it may just work. The reason for cautious optimism is that the current Indian automotive market is pegged at 2.6 million vehicles, which would leap up to 6.9 million by 2017.

Present Trend of business in India

Automobile Industry in India

Introduction:

The Indian automotive industry has emerged as a 'sunrise sector' in the Indian economy. India is emerging as one of the world's fastest growing passenger car markets and second largest two wheeler manufacturer. It is also home for the largest motor cycle manufacturer and fifth largest commercial vehicle manufacturer.

India is emerging as an export hub for sports utility vehicles (SUVs). The global automobile majors are looking to leverage India's cost-competitive manufacturing practices and are assessing opportunities to export SUVs to Europe, South Africa and Southeast Asia. India can emerge as a supply hub to feed the world demand for SUVs.

India also has the largest base to export compact cars to Europe. Moreover, hybrid and electronic vehicles are new developments on the automobile canvas and India is one of the key markets for them. Global and Indian manufacturers are focussing their efforts to develop innovative products, technologies and supply chains.

The automotive plants of global automakers in India rank among the top across the world in terms of their productivity and quality. Top auto multinational companies

•

(MNCs) like Hyundai, Toyota and Suzuki rank their Indian production facilities right on top of their global pecking order.

Key Statistics:

The amount of cumulative foreign direct investment (FDI) inflow into the automobile industry during April 2000 to January 2013 was worth US$ 7,653 million, amounting to 4 per cent of the total FDI inflows (in terms of US$), as per data published by Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce.

The Indian small and light commercial vehicle segment is expected to more than double by 2015-16 and grow at 18.5 per cent compound annual growth rate (CAGR) for the next five years, according to a report titled, 'Strategic Assessment of Small and Light Commercial Vehicles Market in India' by Frost & Sullivan.

The light commercial vehicles (LCV) market - both passenger and goods carrier is estimated to register a sales growth of around 20 per cent during FY 2012-FY 2015, as per a RNCOS report titled, "India LCV Market Outlook".

India is the world's second-largest heavy commercial vehicle market. The RNCOS report, "India MCV and HCV Market Outlook", observed that infrastructure boom and emergence of hub and spoke model, among other factors have given a new dimension to the medium and heavy goods carrier commercial vehicles' sector in India. It is anticipated that the sales of medium and heavy commercial (M&HC) goods carriers will increase at a CAGR of more than 10.5 per cent during 2011-12 to 2014-15.

In another RNCOS research report, "Indian Automobile Sector Analysis", the production of passenger vehicle is forecast to grow at a CAGR of around 11 per cent from 2009-10 to 2012-13, and domestic volume sales at a CAGR growth of around 12 per cent.

Major Developments & Investments:

- Yamaha Motor Co (YMC) has announced to set up its fifth global research and development (R&D) centre at its Greater Noida facility

- Honda Cars India Ltd (HCIL) plans to invest Rs 2,500 crore (US$ 462.11 million) at its Tapukara plant in Rajasthan. The company plans to set up a new assembly line for car with an installed annual capacity of 120,000 units
- Isuzu Motors plans to set up its greenfield manufacturing facility in Andhra Pradesh (AP), for pickup trucks or LCV and SUV, with an investment of Rs 1,500 crore (US$ 277.26 million) over 5-7 years
- Volvo plans to expand car operations in India. The company looks to drive in new models in the market apart from increasing its sales network
- Global ultra-luxury car maker, Rolls-Royce Motor Cars, plans to launch exclusive 'India Edition' cars in 2013. The car maker would come up with a customised edition of its Phantom and Ghost models for Indian buyers
- Escorts Ltd has inked a partnership with Italy-based BCS SpA to distribute and sell the speciality Ferrari brand of tractors in India
- TVS Motor and BMW AG's motorcycle division have announced a deal to jointly develop bikes that would give the Indian automaker access to BMW technology. TVS Motor and BMW will develop motorcycles in the sub 500 cc segment
- Bajaj Auto and Kawasaki Heavy Industries plan to take their partnership to Indonesia, under which select Bajaj products will be assembled at the Kawasaki facility and distributed through its network

Bajaj Auto also plans to become the first Indian automobile company to manufacture a street bike, with a made in India motorcycle tag, in the US. The Indian company will manufacture this product for its partner KTM AG

Government Initiatives:

The Government of India allows 100 per cent FDI in the automotive industry through automatic route.

Some of the highlights of the Union Budget 2012-13:

- The auto industry is encouraged by 5 years extension of 200 per cent weighted deduction of R&D expenditure under Income Tax Act and also introduced the weighted deduction of 150 per cent for expenditure on skills development. These measures will help the industry improve its products and performance
- The increase in customs duty on cars and multi-utility vehicles (MUVs) valued above US$ 40,000 from 60 per cent to 75 per cent seems to be a step to encourage local manufacturing, value addition and employment
- Also, the concessional import duty on specified parts of hybrid vehicles has been extended to lithium ion batteries and other parts of Hybrid vehicles. This will help the industry to achieve better cost efficiency

The Government of India plans to push the supply of vehicles powered by electricity over the next eight years. It is expected that there will be a demand of 5-7 million electricity-operated vehicles by 2020. The Government also plans to introduce fuel-efficiency ratings for automobiles to encourage sale of cars that consume less petrol or diesel, as per Mr Veerappa Moily, Union Minister for Petroleum and Natural Gas.

The rapid improvement in infrastructure, huge domestic market, increasing purchasing power, established financial market and stable corporate governance framework have made the country a favourable destination for investment by global majors in the auto industry, as per Automotive Mission Plan (AMP) (2006-16). The AMP aims at doubling the contribution of automotive sector in gross domestic product (GDP) by taking the turnover to US$ 145 billion in 2016 with special emphasis on export of small cars, MUVs, two & three wheelers and auto components.

Fiat India automobile

Fiat India Automobiles Limited (FIAL) was originally incorporated on 2 January 1997. The company presently employs about 2600 employees and is located at Ranjangaon in the Pune District of Maharashtra. The definitive agreement of the Joint Venture between Fiat S.p.A (Italy) and Tata was signed on 19 October 2007. The board of directors for this company comprises five nominees each from Fiat and Tata.[1] Earlier, Fiat used to sell the 1100, 124 and Uno in India, manufactured under licence by Premier Automobiles Limited.

Manufacturing facilities:

FIAL has a manufacturing plant at Ranjangaon, Maharashtra, which has an installed capacity to produce 100,000 cars and 200,000 engines, besides aggregates and components. The company plans to double the production capacity for both car units and engines in the next few years.

Fiat Linea T Jet in India

Fiat Grande Punto

Current Launched In India:

Name of Car	Launched (Year)
Linea	2012
Fiat Linea T-Jet	2012
Fiat Grande Punto Sport	2012
Fiat Grande Punto 2012	2012

Discontinued:

Name Of Car	Discontinued (year)
Fiat Uno	2001
Fiat Siena	2003
Fiat Palio	2010
Fiat Nuova	2010

Sales performance

1. FIAL sold 23,551 vehicles in 2009[3] and registered an increase of 241% compared to the previous year sales which stood at 6,897 vehicles. It plans to sell 130,000 cars annually in India by 2014.[4][5]
2. Fiat India Automobiles Ltd on Tuesday announced a growth of 78% in sales for the month of February 2010 over February 2009. The company's total sales (including exports) of Fiat branded vehicles in February 2010 stood at 2,335 as compared to 1,309 vehicles sold in February 2009.
3. The company's cumulative sales (including exports) for the fiscal currently stands at 23,551 vehicles as against 6,897 vehicles sold last year. With these impressive numbers, Fiat India has witnessed a 241% growth in fiscal sales for the year 2009-10 as against 2008-09.
4. Fiat India is making waves all over the news and that too for all the wrong reasons. First it was Fiat India’s website being hacked and now the sales reports

for the month of October at just 622 units, despite Fiat's aggressive promotions in India, take things to a whole new level.

5. The first blow to Fiat India in the previous month came when Fiat India's website was compromised by Pakistan based hackers. The hackers had allegedly added a new page to the news section of the website (screenshot below) which seems to have been fixed as of now.
6. And with the sales reports for the month of October, 2011 just in at a mere 622 units, Fiat India have a lot of catching up to do if they want to see the figures go north. Sales for the month of October have dropped 25% compared to last month and a whopping 70% fall from last October. To get things clear, Fiat India has a decent lineup of cars in India with the Fiat Linea and Grande Punto very attractive buys at reasonable prices. Both these cars are built like tanks, handle like on rails, have frugal and reliable diesel engines and look like a million dollars.
7. The problem for Fiat India lies in the slowly dying TATA – Fiat joint dealerships. The recent announcement of the break up of the partnership between the two has prompted existing Tata-Fiat dealers to simply drop the Italian brand, a factor which is clearly affecting sales. Now unless Fiat India decides to do something drastic about this, things will get more worse for Fiat in India.

Total Sales of Fiat cars in India from January 2009 to March 2012:

Car Name	**No. of Car Sales**
Fiat Linea	28,822
Fiat Punto	36,919
Fiat 500 (now Discontinued)	68
Fiat Palio Stile (now Discontinued)	841
Total Sales	**66,650**

Present Position of Fiat

Fiat Group Automobiles India Pvt. Ltd will now independently control all commercial activities, which includes marketing, sales, distribution and after-sales services, it said in a statement.

The companies ended a six-year sales and distribution joint venture last May after the venture underperformed expectations.

Fiat has established 51 dealerships and workshops in the past one year, said **Enrico Atanasio**, director of Fiat India, which will double by the end of the current fiscal year.

In December, the company announced bringing models from the **Chrysler** stable to India. It has also established a national sales company as an independent entity within Fiat Chrysler India operations and set up a warehouse that can stock 6,000 different parts at any given point.

Fiat and its US unit Chrysler plans to launch Jeep vehicles in India in the third quarter of 2013, the company had said in December. It would be yet another effort by the Italian firm to reboot itself in India as it prepares to enter into the country’s fast-growing sports utility vehicle segment.

In the year ended March, Fiat’s sales dropped 57% to 6,933 units, lobby group Society of Indian Automobile Association data show.

Import export Policies of Italy

Italian trade is dominated by automobiles and machinery. The country is challenged by mountainous terrain where cultivation of agriculture isn't possible. For the same reason, Italian trade depends on the manufacturing sector.

Around the world, Italy's famous brands such as Armani, valentine, Versace, Benetton, Prada, FIAT, lancia, Alfa Romeo, maserati and Lamborghini have created a niche in the global marketplace where there is a demand for high quality and superior goods.

Italy trade: Exports

The 2008 recession decreased italy's global trade volumes significantly. Its export volumes decreased from $546.9 billion in 2008 to $369 billion in 2010. However the country's economy remained relatively strong and ranked 8th in the world for export volumes.

The main exported commodities include:

- Engineering product

- Textiles and clothing
- Transport equipment
- Chemical
- Food
- Beverages and tobacco
- Minerals and nonferrous metal

Italy's main export Partners

Germany

France

Us

Uk

The graph below shows how the different partners contributed to the total volume (in percentages):

Italy Trade: Imports

Italy's imports dipped as well following the 2008 recession. The figures dropped from $546.9 billion in 2008 to $358.7 billion in 2010.

Italy imports the following commodities:

Engineering products, Chemicals ,Transport equipment

Energy products Beverages and tobacco,Minerals and nonferrous metals,Food ,Textiles ,and clothing

FIAT for Import Export including licensing, Permission, Taxation:

Italy—Italy's government Saturday vowed to help Fiat SpA become more competitive in exporting cars outside Europe after the auto maker reiterated its intention to stay in the country, dismissing fears of factory closures and mass layoffs.After an almost four-hour meeting between Italian Prime Minister Mario Monti and Fiat Chief Executive Sergio Marchionne, the government said it would set up a task force in the coming weeks.

"The government and Fiat have agreed to work together...to strengthen the company's competitiveness," it said in a joint statement. No reference was made to whether an exceptional extension of wage subsidies would be given to Fiat's thousands of furloughed workers. It is also unclear what Italy's technocrat government—which is already struggling to find ways to cut spending in order to fulfill a pledge to balance its budget by next year—can do in material terms to help Fiat.

"Fiat intends to reorient its business model in Italy towards privileging the export [of cars], in particular outside of Europe," it said.

Fiat's unprofitable European car-making division is highly reliant on Italy, where sales have plummeted amid the recession. Unlike Germany, France, Spain and the U.K., the country has for years imported more cars than it exports. That has stoked fear that Fiat, which controls Chrysler Group LLC, would finally desert its home base.

"Fiat's executives have expressed their commitment to keep the group's industrial presence in Italy," the government said.

The government also said Fiat would work on new models in preparation for the time when the market in Europe begins to recover from a crisis that has decimated its sales.Mr. Marchionne has said rivals that invested in developing new products had wasted their money given weak demand for nonpremium vehicles.Mr. Monti called the meeting after a growing number of labor and political leaders called on Fiat to come clean on its intentions after it scrapped plans to invest billions of euros to double car production at its Italian factories.

After spending a little more than €2 billion ($2.61 billion) of €20 billion destined for its car and truck factories, it stopped everything due to the darkening economic picture in Europe.

"A great industrial country cannot go without a great car industry," Giorgio Squinzi, head of the Confindustria business lobby, told a parliamentary meeting last Thursday, voicing the fear of a diminished presence of the country's biggest employer that also supports local suppliers.

Mr. Marchionne, who marshals Fiat's namesake brand as well as Lancia, a local brand and once-legendary Alfa Romeo, has warned he may instead have to cut production capacity in Italy.

But the Fiat boss made it clear he has no plans to drastically downsize Fiat's domestic footprint, a minister at the meeting said. "It was a good meeting, and Fiat isn't Planing to leave the country," a minister said.

Mr. Marchionne has previously suggested that Fiat make cars for export to the U.S., where demand is recovering.

If achieved, such an outcome would placate Italian fears that Fiat isn't deriving enough benefits from its partnership with Chrysler, which it bought out of bankruptcy with the help of the U.S. government and is beginning to pile up cash.

Mr. Marchionne recently said Fiat would post an operating loss of €700 million in Europe this year. While the group expects to earn more than €3.5 billion of operating profit thanks to its strong Brazilian franchise and Chrysler's results, it cannot legally tap Chrysler's cash flow.

Fiat, which declined to comment on the meeting, intends to disclose the full details of a new plan for Italy and Europe on Oct. 30, when it publishes third-quarter results.

Meanwhile, many of Fiat's Italian workers are home on reduced pay as a result of the dismal sales outlook and decision to postpone the launch of new models.

It is a delicate subject, since they agreed to change their labor contract in exchange for those billions of euros of investment to revamp their factories and double Fiat's Italian production to 1.4 million units.

To be certain that they accepted the contractual changes, Mr. Marchionne threatened to shift production abroad if he didn't get what he wanted. He insisted the changes were necessary to make the factories more productive in the face of fierce competition in the global market.

To show that he was serious, Mr. Marchionne sent the 500L to be built in Serbia. The new family car that went on sale in Italy on Saturday.

It aims to sell 500L in more than 100 countries, including the U.S. in 2013."If Fiat makes this in Italy, it doesn't make much of a margin. If it makes it in Serbia, it will have a good margin," said Tony Fassina, a dealer who showed off the car at his showroom in Milan this past week.

In a newspaper interview, Mr. Marchionne said the base price for the car in Europe would be €14,500.

Serbia is one of the plants Fiat has in central and Eastern Europe to take advantage of their lower production costs.

Perhaps the secret could be found in looking at how well various Fiat Group models do in the broader European market. When I compared European sales by brand and model through July (the latest month for which I have all the data) with the Italian July sales of the same vehicles, I found:

Car	% Sold Outside Italy	Car	% Sold Outside Italy
Alfa Romeo Giulietta	51%	Fiat Freemont	41%
Alfa Romeo MiTo	56%	Fiat Punto	41%
Fiat 500	32%	Fiat Qubo	33%
Fiat Bravo	35%	Lancia Musa	7%
Fiat Panda	37%	Lancia Ypison	20%

Import export Policies of India

Import Tax in India

The import tax in India, also referred to as import duty, is imposed by the Central Board of Excise & Customs, Department of Revenue of the Union Finance Ministry. It is an indirect tax. There are 4 major types of import duties - basic import taxes, true countervailing taxes, additional customs taxes, and anti-dumping duty.

Basic import Taxes in India

These taxes are levied on almost all the goods and products that are brought within the national borders of India. The rates of these taxes vary from 5 to 45 percent on the basis of quantity and type of the product.

Additional Customs Taxes

The additional customs duties are similar to the central excise duties that are imposed on products that are produced in India. If the import of a particular product is regarded as its manufacture as per the guidelines mentioned in the Central Excise Act 1944, it will be subjected to these taxes.

The tax is imposed on the base value of the imported good. This is inclusive of the landing charges and relevant customs duties.

True Countervailing taxes

The true countervailing duties are imposed on products imported from outside India to make sure that the domestic products have a fair playing ground. This is done to make sure that the Indian products, which are subjected to high excise taxes, do not become costlier than the imported products.

Anti-Dumping Duty

Anti-dumping duty is also known as Safeguard Duty and the main aim behind creating this tax is to protect the indigenous industries. The tax is primarily levied on products that are supposed to cause imbalance or damage to the local markets.

This duty is not applicable for goods which have been imported by organizations that solely focus on export. Companies operating in Free Trade Zones and Special Economic Zones are exempt from these taxes as well.

Import Duties Procedure

Following are the various steps followed for filing the import taxes:

The taxpayer will require a Bill of Entry that specifies the goods that have been imported. Tax payers are provided access to the Green Channel Facility if they are the leading names in their industry and import substantial number of goods on a regular basis. This facility makes the whole process of import a quicker one. As part the Facility, large volumes of a product can be imported by a company without every unit being checked individually. However, this facility is only allowed if there is no suspicion about the products quantity or quality.

If the tax payer has used the Electronic Data Interchange process to maintain a documentation of the import process then that entity need not provide a Bill of Entry.

Export Tax in India

(This section was last amended incorporating necessary changes referred in <u>Custom Notification No. 132/2000 dtd. 17th October, 2000</u>)

GENERAL EXPLANATORY NOTE

The abbreviation '%' in any column of this Schedule, in relation to the rate of duty, indicates that duty on the goods to which the entry relates shall be charged on the basis of the value of the goods as defined in section 14 of the Customs Act, 1962 (52 of 1962), the duty being equal to such percentage
e of the value as is indicated in that column.

Heading No.	Description of article	Rate of duty
1.	Coffee	Rs. 2200 per quintal
2.	Black pepper	Rs. 5 per kilogram
3.	De-oiled groundnut oil cakes	Rs. 125 per tone
4.	De-oiled groundnut meal (solvent extracted variety)	Rs. 125 per tone
5.	Tobacco unmanufactured	75 paise per kilogram or 20% whichever is lower
6.	Sillimanite	20%
7.	Kyanite	Rs. 40 per tone
8.	Mica, including fabricated mica	40%
9.	Steatite (Talc)	20%
10.	Manganese ore	Rs. 20 per tone
11.	Iron ore, all sorts	10% plus Rs. 50 per tone
12.	The following chromite ore and concentrates, namely :- i. High grade fines and concentrates	10%

	with Cr2O3 content 47% and above ii. Medium grade fines and concentrates with Cr2O3 content 35% and above but below 47% iii. Lumpy ore with Cr2O3 content 35% and above but below 42% iv. Low grade lumpy ore or fines or concentrates with Cr2O3 content below 35% and FeO content above 23%	
13.	Automobile industry	24% to 70%
14.	Hides, Skins and leathers, tanned and untanned, all sorts, but not including manufactures of leather	60% Rate changed vide Notification <u>Custom Notification No. 132/2000 dtd. 17th October, 2000</u>) *<u>Details</u>*
15.	Raw wool	25%
16.	Raw cotton	Rs. 2500 per tone
17.	Cotton waste, all sorts	40%
18.	Jute manufactures (including manufactures of Bimlipatam Jute or of Mesta Fibre) when not in actual use as covering, receptacles or bindings, for other goods – 1. Not elsewhere specified 2. Hessian Cloth and Bags – i. Carpet Backing	Rs. 150 per tonne Rs. 700 per tonne Rs. 1000 per tonne Rs. 200 per tonne Rs. 150 per tonne

	ii. Other hessian cloth (including narrow Backing Cloth) and Bags 1. Jute canvas, jute webbings, jute tarpaulin cloth and manufactures thereof 2. Sacking (cloth, bags, twist, yarn, rope and twine)	
19.	Coir Yarn	15%
20.	Groundnut – i. Groundnut kernel ii. Groundnut in shell	Rs. 1500 per tonne Rs. 1125 per tonne
21.	Animal Feed	Rs. 125 per tone
22.	Cardamom	Rs. 50 per kilogram
23.	Tea	Rs. 5 per kilogram
24.	Barytes	Rs. 50 per tone
25.	Turmeric i. in powder form ii. in any other form	Rs. 1500 per tonne Rs. 2000 per tone
26.	Granite (including black granite), porphyry and basalt, all sorts	15%

India Italy Trade Relations

Indian Italy Trade Relations have shown an overall growth over the years. The figures of export and imports in between both the countries showed a positive trend till 2008, which declined to certain extent in 2009.

Overview of India-Italy Trade Relations

Indian exports Italy

Italy comes in the fifth position in the EU when it comes to trade with India and also with regards to investment; Italy is on the 13th position. Bilateral trade between India and Italy has registered an increase over the last many years; but unfortunately the recession in the economy on a global basis in 2009 resulted in a downfall in the trade between two countries.

- Bilateral Trade figures have touched Euro 5,657.1 million. While the export figures reached Euro 2,906.9 million but in comparison to 2008, there has been a decrease of 15.23% in 2009.

- As of 2009, the imports from Italy showed a decrease of 10.99% in comparison to 2008 and the figures stood at Euro 2,750.2 million. Bilateral trade balance over all remained in India’s favour.
- India's exports to Italy deal mainly in textiles, including cotton and synthetic yarns and fabrics, readymade garments, motor vehicles, footwear, iron and steel, leather and leather goods and many other items.

- General and special purpose machinery, chemical products, auto components, pharmaceutical and medicinal products, general hardware, plastic and many other products are imported from Italy by India.

Trade between India-Italy

- Figures of trade between both the nations has increased over the years till 2008 when it registered a total turn over of 6,520.1 Euro million which reduced to 5, 657, 1 Euro million in 2009.

- Balance of trade between the two nations remained 337.9 Euro million till 2008 which showed a decline in 2009 and was recorded as 156.7 Euro million.

- Total Italian exports till 2009 has accounted to Euro 290,112 million of which India has a share of 0.95%

Figures of India's exports to Italy Over the years

- **2006**- The value of exports to Italy came out to be 2,984.2 Euro million
- **2007**- It was recorded to be 3,393.9 Euro million
- **2008**- Export was recorded to be 3,429.0 Euro million
- **2009**- Global recession led to a decrease in the exports to Italy and it came out to be 2,906.9 Euro million.

Export of items between India and Italy

Some of the Commodities exported to Italy and their value in Euro million have been listed below:

- **Wearing apparel**: 389.3 Euro million
- **Motor Vehicles**: 335.8 Euro million
- **Basic Chemical Products**: 236.3 Euro million
- **Basic iron and steel and Ferro-alloys**: 193.6 Euro million
- **Footwear**: 164.6 Euro million
- **Textile Products n.e.c**: 129.4 Euro million
- **Refined Petroleum Products**: 128.4 Euro million
- **General purpose machinery**: 95.8 Euro million
- **Textile yarn and thread**: 91.4 Euro million

- **Leather and leather products**: 85.0 Euro million
- **Parts and accessories for motor vehicles and their engines**: 83.1 Euro million
- **Products of permanent crops**:82.5 Euro million
- **Processed and preserved fish and fish products**: 63.9 Euro million
- **Other metal products n.e.c**: 59.0 Euro million
- **Textile fabrics**: 56.6 Euro million
- **Jewellery and related articles**: 52.3 Euro million
- **Basic Pharmaceutical Products**: 48.5 Euro million
- **Sand and clay**: 45.4 Euro million

Items imported from Italy by India

Find the list of the items imported by India and their value in Euro million-

- **Special Purpose Machinery n.e.c**: 496.1 Euro million
- **General purpose machinery**: 316.5 Euro million
- **Other general machinery n.e.c.**: 216.9 Euro million
- **Other metal products n.e.c.**: 152.5 Euro million
- **Basic chemical products**: 145.9 Euro million
- **Parts and accessories for motor vehicles and their engines**: 121.5 Euro million
- **Machine tools**: 113.9 Euro million
- **Tubes and related accessories**: 90.3 Euro million
- **Instruments and appliances for checking, testing and navigating**: 87.0 Euro million
- **Electric motors, generators and transformers; electricity distribution and control apparatus**: 82.2 Euro million
- **Basic iron and steel and ferro-alloys**: 60.8 Euro million
- **Leather and leather products**: 90.3 Euro million

- **Apparatus for TLC**: 87.0 Euro million
- **Other chemical products n.e.c.** 41.4 Euro million
- **Pulp, paper and paperboard**: 39.1 Euro million
- **Aircraft and spacecraft**: 36.9 Euro million
- **Pharmaceuticals and medicinal products**: 35.3 Euro million
- **Basic precious metals and other non-ferrous metals, nuclear fuels**: 34.6 Euro million
- **Cutlery, tools and general hardware**: 34.5 Euro million
- **Plastic products**: 31.3 Euro million

Figures of Indian imports from Italy

There has been a considerable growth in imports from Italy over the last couple of years which reduced to a certain percentage in 2009 due to economic slowdown globally.

- **2006**- The import figures stood at 2,170.1 Euro million
- **2007**- It increased to 3,009.6 Euro million in the next year
- **2008**- A positive trend followed the very next year and the figure reached at 3,091.1 Euro million
- **2009**- Global recession led to a decrease in the imports and it retarded to reach 2,750.2 Euro million

Trade fairs in Italy and India

Indian Chamber of Commerce in Italy: The ICCI organizes several trade fairs both in India and Italy:

Trade Fairs

For expansion of trade globally, India Trade Promotion Organization (ITPO) was initiated by the Government of India almost three decades ago. Earlier it was known as Trade Fair Authority of India and Trade Development Authority. Its main objective is to promote trade between India and other nations all across the world by organizing different events, fairs, in India and abroad, Buyer-Seller Meets, Contact Promotion Programs, Product Promotion Programs, Promotion through Overseas Department Stores, Market Surveys and Information Dissemination. India Trade Promotion Organization (ITPO) will be organizing AF-L Artigiano in Fiera, in Milan (Italy) from December 4-12, 2011 which will showcase Indian handicraft products.

The other groups organizing Indian event in Italy are:

- Chemtech Foundation
- India Label Show
- Indina International Garment Fair
- Tafcon Group

Services offered by ICCI: ICCI offers various kinds of support services to the companies of Italy and India who want to take international trade to a higher level and eventually result in the development of the world's economy. The services are given at a reasonable cost to the companies who participate in the fairs and other events and meetings. The services include guiding the companies in organizing meetings, seminars, presentations, organizing business trips and other activities.

Trade Barriers

Any restriction imposed on the free flow of trade is a trade barrier. Trade barriers can either be tariff barriers (the levy of ordinary negotiated customs duties in accordance with Article II of the GATT) or non-tariff barriers, which are any trade barriers other than tariff barriers.

Import Licensing

One of the most common non-tariff barriers is the prohibition or restrictions on imports maintained through import licensing requirements. Though India has eliminated its import licensing requirements for most consumer goods, certain products face licensing related trade barriers. For example, the Indian government requires a special import license for motorcycles and vehicles that is very restrictive. Import licenses for motorcycles are provided to only foreign nationals permanently residing in India, working in India for foreign firms that hold greater than 30 percent equity or to foreign nations working at embassies and foreign missions. Some domestic importers are allowed to import vehicles without a license provided the imports are counterbalanced by exports attributable to the same importer.

Standards, testing, labeling & certification

The Indian government has identified 109 commodities that must be certified by its National Standards body, the Bureau of Indian Standards (BIS). The idea behind these certifications is to ensure the quality of goods seeking access into the market, but many countries use them as protectionist measures. For more on how this relates to labeling requirements, please see the section on Labeling and Marking Requirements in this chapter.

Anti-dumping and countervailing measures

Anti-dumping and countervailing measures are permitted by the WTO Agreements in specified situations to protect the domestic industry from serious injury arising from dumped or subsidized imports. India imposes these from time-to-time to protect domestic manufacturers from dumping. India's implementation of its antidumping policy has, in some cases, raised concerns regarding transparency and due process. In recent years, India seems to have aggressively increased its application of the antidumping law. In the first half of the calendar year 2006 India topped the list of countries initiating new anti-dumping investigations with 20 new initiations.

Export subsidies and domestic support

Several export subsidies and other domestic support is provided to several industries to make them competitive internationally. Export earnings are exempt from taxes and exporters are not subject to local manufacturing tax. While export subsidies tend to displace exports from other countries into third country markets, the domestic support acts as a direct barrier against access to the domestic market.

Procurement

The Indian government allows a price preference for local suppliers in government contracts and generally discriminates against foreign suppliers. In international purchases and International Competitive Bids (ICB's) domestic companies gets a price preference in government contract and purchases.

Service barriers

Services in which there are restrictions include: insurance, banking, securities, motion pictures, accounting, construction, architecture and engineering, retailing, legal services, express delivery services and telecommunication.

Other barriers

Equity restrictions and other trade-related investment measures are in place to give an unfair advantage to domestic companies. The GOI continues to limit or prohibit FDI in sensitive sectors such as retail trade and agriculture.

Potential for India market

Italian automaker Fiat plans to use its India facility as a global hub for right-hand drive (RHD) markets in the coming years.

"If you look at our RHD markets around the world, we are doing very well in Australia, where we have doubled our share over the last 14-18 months. We are also reasonably strong in South Africa," Mike Manley, Chief Operating Officer for Asia (Fiat-Chrysler), told *Business Line*.

This is where the company's plant in Ranjangaon, near Pune, will come in handy to ship out cars and components to these countries in the near future. The UK, another important RHD market for Fiat, is going through a tough phase but is expected to recover gradually.

"We have a world-class manufacturing facility here which is truly phenomenal. It has great expansion potential and we intend working very closely with the Tatas to maximise that," Manley said. Fiat has been around for decades but has achieved precious little in terms of market share. The Ranjangaon facility's potential has been better optimised to make diesel engines for Maruti and Premie

While this business will continue to be important in the coming years, Fiat will now focus aggressively on a product range that comprises compact cars and SUVs. With Chrysler now part of its portfolio, it will leverage the Jeep brand's potential to attract younger buyers.

"Today, it is about Fiat and Chrysler jointly developing the Asian market. From our perspective, it helps to have a balanced portfolio across the world because each region could be in a different growth space," Manley said. This is particularly true at this point given the crisis in Europe, which has caused the shift in focus to China and India.

In an earlier interview with this newspaper, Enrico Atanasio, Managing Director of Fiat's Indian operations, had reiterated that the engineers at the Chrysler R&D centre in Chennai constituted the "biggest thinking group" worldwide.

R&D centres:

"We have five R&D centres in the Asia-Pacific, of which the biggest is in Chennai with over 1,200 engineers. The second is in Ranjangaon near Pune, which employs 35 engineers. These people are the most important group in the Fiat world," he had said.

Engineers here develop projects for Fiat in North/Latin America, Europe, West Asia and Africa.

Business opportunities

Fiat India announced its intent to increase focus on exports . As part of its new focus on exports, the company has already started exports of Fiat Linea to Sri Lanka.

Speed Italia will take charge of the company’s dealership in Sri Lanka and the inauguration has been set for September 29. The first batch of cars which is set for the export comprises of 72 cars of which 50 cars have been allotted to the Sri Lankan Air Force officials on delivery at the time of the inauguration.

Growth opportunities

As part of this strategy, Fiat has also begun testing new growth opportunities overseas with sharp focus on countries such as Bhutan and Australia as well which are both right hand drive countries.

The car market size in Sri Lanka is around 20,000 units a year. “We have targeted to achieve five per cent in the first year itself,” the company said in a statement.

The company commenced its exports to South Africa now, and early this year commenced exports to Nepal. The exported batch of Linea is similar to the one driven on Indian roads.

Speaking on the initiative, Mr Rajeev Kapoor, CEO, Fiat India Automobiles Ltd said, “The exports of the Linea to Sri Lanka play a significant role in reaching out to the international markets and establishing our presence globally.

“We are confident that we will be able to procreate the success of this car overseas as well and thereby expand our footprint and brand identity across markets. This is a step in the direction of reaffirming our position as an international auto giant.”

CONCLUSION

Fiat has been in India since 1944 through its licensing agreement with Premier Automobiles Limited (PAL). PAL produced models like Fiat 500 and Fiat 1100 until 1973 when it started to use the Premier name on its cars. The Premier Padmini was based on the Fiat 1100 whilst the Premier 118 & Premier 138D were based on the Fiat 124

The Group's business is carried out through several operating Sectors: Fiat Group Automobiles (Fiat, Lancia, Alfa Romeo and Abarth brands), Maserati and Ferrari (luxury sports cars), CNH (agricultural and construction equipment), Iveco (trucks and commercial vehicles), Fiat Powertrain Technologies (engines and transmissions), Magneti Marelli (automotive components), Teksid (engine blocks, cylinder heads and other components), Comau (automated production systems) and Itedi (publishing & communications).

The import tax in India, also referred to as import duty, is imposed by the Central Board of Excise & Customs, Department of Revenue of the Union Finance Ministry. It is an indirect tax. There are 4 major types of import duties - basic import taxes, true countervailing taxes, additional customs taxes, and anti-dumping duty.

Indian Italy Trade Relations have shown an overall growth over the years. The figures of export and imports in between both the countries showed a positive trend till 2008, which declined to certain extent in 2009.

Italy comes in the fifth position in the EU when it comes to trade with India and also with regards to investment; Italy is on the 13th position. Bilateral trade between India and Italy has registered an increase over the last many years; but unfortunately the recession in the economy on a global basis in 2009 resulted in a downfall in the trade between two countries.

Italian automaker Fiat plans to use its India facility as a global hub for right-hand drive (RHD) markets in the coming years.

SUGGESION

- the government of India should provide subsidiaries to supplier on import- export.
- Maintain relation between India and Italy.
- Company should also try to increase quality of Fiat company product
- company should increase the product at global level. So, it can achive many opportunities in future.
- While this business will continue to be important in the coming years, Fiat should focus aggressively on a product range that comprises compact cars and SUVs
- Italian automaker Fiat should make plans to use its India facility as a global hub for right-hand drive (RHD) markets in future.
- Italy comes in the fifth position in the EU when it comes to trade with India and also with regards to investment; Italy is on the 13th position. So, Italy must try to increase the position in the trade market.

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A

Global Country Report on

Italy

<u>SUBMITTED TO</u>

Gujarat Technological University

In the partial fulfillment of the requirement of the award for the degree of MBA in Gujarat Technological University

<u>Under the Guidance of</u>

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This is to Certified that GLOBAL COUNTRY PROJECT on ITALY is the bonafide work of Khokar Mehul, Mandanaka Haresh, Akhiya Deepak respectively, who carried out the reserch under my supervision. I also certify further, that to the best of my knowledge the work reported herein does not from part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

Director
Dr. Rajesh Patel ________________ Prof. Jagrut vasavada_______________

Prof. Dinkar Morvadiya_______________

Students' Decleration

We, all the below stated student hereby declare that the report for Global Country project Report upon ITALY is a result of our own work and our indebetedness to other work publication, references, if any , have been duly acknowledged.

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Italy is soon to join the 148-l\.4embers organization, the World Trade Organization (WTO). The WTO agreements encompass the rules of trade in goods, services, and intellectual properties in chorus under one blanket a({reement. Furthermore, in the WTO era, the ltaly construction firms will have to operate within the GATS Framework of Liberalization (GFOL)'

This repori identifies and describes the twenty-three relevant features of the GFOL to assess the potential environmental changes for the ltaly construction firms. Additionally, this study looks at lhe currenI status of the large ltaly construction firms in terms of the twenty-six internal factors in order to assess the contemporary areas of strengths and weaknesses that need to be addressecl. This is achieved through analysis of data obiained from questionnaire suryeys of construction professionals in the ltaly construction industry. This study shows thal innovation in services global operations' R&D activities, stralegic planning, training/retraining activiiies, joint ventures' lT utilization, and information systems and knowledge acquisitions in the ltaly construction firms are low and constitute major weaknesses The results ofthe survey were reevaluated within the context of SWOT analysis to draw strategic framework Jor the ltaly construction firms.

EXECUTIVE SUMMARY

Effective financial systems depend on safe and etficient payment systems. A well-rnanaged payment system minimizes the economic disturbances that could otherwise Lrnsettle domestic and international financial rnarkets. As pad of the international financial community's efforts to strengthen the global flnancial infrastructure, the Committee on Payment and Setilement Systems of the central banks of the G10 countries ("CPSS") published the Core Principles far Systemically lmportant Payrnent Systems ("Core Principies") in January 2001.1 The Core Principles serve as guidelines for the design and operation of safer and more efficient systemically impodant payment systems by suggesting the key characteristics that these systems should have.

The Board of Governors of the Federal Reserve System recently adopted revisions to its Policy on Payments System Risk thai establish an expectation that systemically important systems publicly disclose self assessments of compliance with the Core Principles.2 The Board believes such a self assessment can assisi users of the system and oiher interested persons in identifying, evaluating and managing the risks and costs of using the system's services while fufthering globalfinancial stability.

CLS Bank International ("CLS Bank") was established by the private sector as a payment versus paynrent ("PvP") system io eliminate settlement risk associated with two currency paymeni jnsiructjons reJating to foreign exchange ("FX") transactions3 and, to date, does so in 15 clirrencies. CLS Bank extended its service to sjngle currency paynrent instructions relating to non-deliverable fcrward ("NDF') transactions and derivatjve lr'ansactions (specjfically over-thecounter ("OTC") credit derivative transactions) in 2007, and is i1'r the process of extending its service to FX oplion premium iransaclions in 2008, as well as addiiional currencies such as the lsraeli shekel (iLS) and l\,4exican peso (MXN) in 2008.4 CLS is a systemically important system for settiing payment instructions relating to certain types of underlying financial transactions (i.e., FX contracts, NDF contracts and OTC credit deivative contracts) in specifically authorized currencies. Accordingly, the CLS system must meet or exceed the current international standards for such systems. ln addition, CLS must cornply with applicable po'icies of indivjdual central banks whose currencies are settled by CLS Bank.

Overall, the CLS system obseryes each of the applicable Core Principles. As a system that seilles payment instructions in reliance on central bank funds, the CLS system meets ihe minimum standards for the finality of settlement and funding. The laws in each of the relevant jurisdictions provide a well-esiablished legal foundation for setllement and funding finality. Access t! the CLS system is .rere,'nine.l h)r f bjectiv-^ f ,ihli.l'1 di-<closed .rit-'ria The CLS system's rules and procedures are clear. pernrit its Lrsers io undersiand the financial risks associated wilh padicipaiion r CLS Bank and provide incentives to partjcipants to manage any remaining risk. The CLS system operates effeciively and etficiently, providing secure, reliable and practical seryices lo its users. Finally, the CLS system's governance arrangements are effective, accountable and transparent. CLS Bank also complies with applicable policies of individual ceniral banks whose currencies are settled by CLS Bank.

GENERAL BACKGROUND

The CLS Bank settlement sen/ice enables its members to have payment instructions relating to certain types of underlying transaciions directly processed for settlement in reliance on central bank funds wjth finality. members must be shareholders of CLS Group Holdings AG ("CLS Group Holdings"), the ultimate Swiss parent holding company of CLS Bank.

The CLS system consisis ol hardware and software that process for settlement these payment instructions, subject to the satisfaction of certain risk managernent tests, and provides realtime informaiion to ihe l\,4embers on the status of their respective payment jnstruclions. All informaiion is exchanged and authenticaied between the CLS system and the l\ilembers and central banks (and/or their RTGS systems) using highly secure, resilient and available network connections and strong encryption.

Brief History

Beginning jn the mid-1990s, central banks became increasingly concerned that the high level of settlement risk in existing practices, coupied with an unexpected event or failure, could trjgger a serious disruption of the global FX markets and financial system liquidity. Settlement risk is the risk that one pariy to an FX transaction pays out lhe currency it sold but does not receive the currency it boughi. The exposure to a single counterparty, even jf for a short, limited time, can be very large relative to the capjtal of the pariies io the transaciion. One of the key recornmendations in the Allsopp Reporl prepared by the CPSS and published by the Bank for lnternational Settlements ("BlS") in 1996 was for indusiry groups to develop an FX selilemenL risx-reduc;ng mu.ti-CullenCy ServtLe. .

Late in 1994, a group of major financial institutions, the "Group of Twenty" ("G20"), joined forces to consider how the private sector might develop just such a solution to the problem of FX settlement risk. The G20 conducted a one-year study of alternative approaches. The result of this study was the continuous linked settlement concept (CLS), a simultaneous exchange, PvP, of each of the two legs of an FX transaction which eliminates settlement risk.

ln June 1997, the G20 formed CLS Services Ltd. (later renamed CLS UK lntermediate Holdings Ltd. (’’CLS UK Holdings") to develop and build a new multi-currency simultaneous settlemenl service. The development of the CLS Group was given further support in September 2000 when the Chairman of ihe CPSS emphasized the imporiance of such private sector iniiiatives.

At the end of 1997, CLS UK Holdjnqs acqujred both ECHO anJ N4ultinet in ord-or to consolidate lhe providers of FX Drocessing services.6 ln spring 1998, other major financial inslituiions were asked io join CLS UK Holdings resulting in 61 shareholders by ihe end of 1998. CLS Bank was established as an Edge corporation in November 1999 following approval by the Board of Governors of ihe Federal Reserve System.

ln April 2000, the CLS Group completed a corporate reorganizatjon in order to create an optimal group structure from a financial and governance perspective and to deliver a new corporate model more suited to the live commercial operation of the-CLS Bank settlemeni service. CLS 5 See also "Progress in Reducing Foreign Exchange Seiilement Risk: Consultative Report", CPSS (July 2007) ("BlS July 2007 Consultative Report").

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PART –I FINANCIAL OVERVIEW OF ITALY

FINANCIL &
MARKETING

FINANCIL & MARKETING

INTRODUCTION

The evolution of financial markets has been particularly significant in the last decades with regard to intermediaries, capital markets and financial instrument. Strument. Structure change have mainly involved the more traditional financial operation in banking, but have also involved investment firms and insurance companies.

Regulatory arrangernenis have aiso been the objeci of significant chanoe. Such dinamicslre at the centre of attention at international venues. A itne uniteo states, ihe united Kinsdom' Australia and japan)are in factpresently radically umber of changing tneir regulatory sysiems I ln other European countries evolLtionaa tlend" are roving ir the same direction. Moreover, with the starl of Phase lll of the EMU, the responsibility inr-rnn"t"ry policy in ihe Euro zone has been assigned to the European central Bank, whle banking and financial supervision tasks have been left to domestic agencies. A relevint novelty in Europe is then "the abandonment of ine loinclolnce between the area oi jurisdiction of monetary policy and the ui"n -ot- iuri"Oiction of banking supervision‘’2. The ‘’double seperation" (geographical and functional) between central banking and banklng supervision and the absence of dny explicit reference to ‘’who takes care of financial stability’’ in Europe did casi some doubts about r'e efficdcy or the current regulatory arrangements in preventing and managing financial crisis and are culrently at the centre of a lively debate.

The objective of the present work is to set up a proposal for the reorganization of regulatory arrangement and Juperviiory agencies in financial rnarkets both in ltaly and the European Union.

The essay opens with a section investjgating objectives and lheoretical modeis for the regulatiorl of ihe financial system3.

We then describe recent evoluiionary dynanlics in financial rnarkets' intermediaries and instrument. We focus first on the ltalian situatlon Here' we highlight some proper to the current regulatory system Hence' we present a n,lo,rsa for a new conliquralion for "uoervisin the domestice financial markek through the assignment of diiferent objectives or ‘’financial’’ to different authorities. This perspective would thus entrusi the attainment of the three objective of supervision on the entire financial market – stabilitytransparency and inveslor proiection, competition - to ihree distinctauthorities regardless of the subjective nature of the intermediaries, whether they be in banking, finance or insurance. This scheme would innovate, current arrengement.

II. MODELS FOR FINANCIAL MARKET REGULATION AND SUPERVISION.

II,1 FINANCIAL IVARKET REGULATION.

The theoretical underpinning for publjc intervention jn economic matters is traditionalJy based on the need io coffect market jmperfecticns and unfair distribution of ihe resources. Three more general objectives of public intervention derive thereby: the pursuit of stabiliiy, equity in the distribution of resources and the efficient use of those resources. The reguiation of the financial system can be viewed as a particularly impodant case of public control over the economy. The accumulaiion of capital and the allocation of financial resources constitule an essentiai aspect ln the process of the economic development of a nation. The peculiarities of financial intermediaiion and of the operaiors who perlorm this function justify the existence of a broader system of conirols with respect to other forms of economic activily.

Various intermediaries. theoretical motivations have been advanced to support the opporiunity of a particularly stringeni regulation lor banks and other financial intermediaries. Such rnotivations are based on the existence of particular forms of market failure in the credit and financial sectors6. Ihe obieclives of financial market regulation.

The deiinition of the term Tinancial market' has traditionally inciuded ihe banking, financial and insurance segments. The bounds dividing'n siitutions, instruments and markets were clear-cut, so thai furiher distinciions were drawn within the different ciasses of intermediaries (with banks specialized in shorl or medium/long term maiuriijes, functional/commerciai operations, deposits and investn ents, with financial intermediaries handiing broker-dealer negotiaiions, asset manaqement and advisory Functions, and with insurance companies dealing in life and other insurance policies). ln this essay, as ihe bounds dividing the various types of financial institutions are becorning increasjngl blurred (Corrigan, 1987), we shall refer to ihe financiai market as an economrc space wherein operators of various kinds .' banks, financial intermediaries, mutual funds, insurance companies, pension funds - offer financial instrumenis and servjces.

A primary objective of financial market regulation is the pursuit of macroeconomic and microeconomic stability. Sefeguarding of the stability of the syslem translates il'rto macrocontrols over the financial exchanges, clearing houses and securitjes seillement systems. Measures pertAining to the microstabiljty of the intermediaries can be subdivided into iwo caiegories: general rules on the stability of all business enterprises and entrepreneurial activities, such as the legally required amount of capital, borrowing limits and integrity requirements; and nrore specific rules due to the special nature of financiai intermediation. such as risk based capiial ratios, limiis to poffolio investments and the regulation of oif baiance activities.

A second objective of financial regulation is transparency in the market and in iniermediaries and lnvestor prorirciion. This is linked to ihe more general objective of equily in the distribuiion of the available resources and may be rnapped inio the seafch for equity in ihe ciislribullon of inforll]airDn as a precious good" among cperators./ At the macro level, transparency rules impcse

II,2 FINANCIAL MARKET SUPERVISORY IVIODFtS,

There js neiiher a unique theoretical model nor just one practical approach to the regulation and supervjsion of financial markets. Signifjcant differences are found in the literature in terms of both definition and classification of regulatory models and technjques.

We identify four approaches for financiaJ market supervision and regulaiion: "institutional supervision", "supervision by objectives", "functional supervision" and "single-reguJator supenr'ision".

Institutional superyision,

In the more traditional "institutional approach" (also known as "sectjonal" or "by subjects" or "by markets"), supervision is peformed over each single category of financial operator and js assigned to a distinct agency for the entire complex of activities. ln this regulatory model, which follows the traditional segmentation of the financial system into three markets, we thus have three supervisory authorities acting as watchdogs over, respectively, banks, financlal intermediaries and mutual funds, and insurarrce cotnpanies (and the information: a look at reality in fact shows ihat while transaction costs and asymmetric information have greatly decreased, the activity of intermediation has considerably jncreased. Financial markets seem to be more and more markets for interrnediaries than for investors or fiims.

The nature of all financial intermediaries (not oniy banks, but also mutual funds, financial interrnediaries, financial firms, pension funds) seems to be that of operators who perform risk management activities on behalf of third parties and decrease ihe "costs of pafticipation" in the financial marketi these two aspects have not yet been the object of in-depth analysis by intermedjation theorists. These same two rnotivations are thought to contribute to the buildjng of iong{erm reJationships between intermediaries and customers

Supervision by objectives.

The supervisory model by objectives (or by finalities) postulates that all intermediaries and markets be subjected to the control of more than one authoriiy, each single auihority being responsible for one objective of regulation regardless of both the legal form of the intermediaries and of the lunctions or activities they pedorm. According to this scheme, an authority is to watch over both market stability and the solvency of each intermediary, whether in banking, finance or insurance; another authorjty wiil be responsible for the transparency of financial markets and will control the behavior of banks, financial intermediaries and insurance companies toward custorners; a third authority will guarantee and safeguard competition over the entire financial nrarket anC among intermediaries.

The basic advantage of this regulatory model lies in the fact that it is particulariy effective in highly-integrated market context" and in the presence of poJifunctional operators, conglomerates and groups operating in a variety of different blrsrness sectors. Ai the same iime, ii cioes rrot require an excessi\,e i 'or;lerdl" 1of conlrol rr'rils.

The most attractive feature of this scheme js that ii provides uniform regulation for the different subjects engaged in the same activities. Compa.ed to the "institutional" model, a regulatory framework organized by objectives may produce a certain degree of multiplication of the controls. And sometimes ii could lead to a lack of certain controls. Indeed, the specific assignment of competencies with respect to the objectives of regulation is not necessarily univocal and all-inclusive in practice. In such a model; each intermedrary is subject to the control of more than one authority, and this may be more costly. The intermediaries might in fact be required to produce several reports relating to supervision, often containing identical or similar information. At the same time, the intermediaries rnay have to justify the same action to a whole set ol authorities contemporaneously, even though for different reasons.

Vice versa, a deficjt of controls miqht occur whenever the exact areas of responsibility are not clearly identifiable in specific cases.

II.3 IS THERE AN OPTJMAL MODEL FOR SUPERVISION?

Our preseniation of the main regulatory models of the financial system should have made clear how hard it is to establish which alternative offers a decisively superior arrangement. In real life we find a prevalence of "mixed" approaches which borrow in heterogeneous fashion elements that are proper to more than just one model.

The jnsiitutjonal model could be considered a good candidate only in a context with rigidly separated financial segments, and where no global players. are at stake. Nowadays, we think that this picture does not apply to the major advanced countries, where we do observe high integration in financial markets and intermediaries and a strong presence of polifunctional groups and conglomerates.

The most evjdent problems with regard to the funciional superuisory model are the following:

i) it mighi call for too many regulators, corresponding to lhe numerous functions and activities that the intermediaries perform;

ii) it does not explicitly address questions regarding the stability (possible failures) of the single instituiions.

Hence, we think that modern financial systems should rely on either a single regulator or independent agencies, each one responsible for one of the three objectives of regulation.

However, we are pariicularly concerned with ihe possible conflict of interest in pursuing different objectives when these are assigned to the same agency. Clearly, the "single-regulator" model is truly affected by the possible incompatjbility among the superuisory objectives. In the credit sector, for instance, we find a clear trade-off between competition and stability (at least in the 18 Nloreover, the single- regulator model could also lead to excessive concentration of regulatonr'powers. 11 short run). The need lo safeguard slability led. particularJy in moments of economic and financial tension, to the use of insiruments designed io tinrit compeiition, such as instiluiiofai ilerriers to entry in the market, or to the legal imposition of limits io operative activities. In financial systems [/here banks are prevalent but not efficienl enough to compete cross-border, the oblectjve of competition is usually sacrificed more easjly than that of macroeconomic stabjlity. The consequence is a ,,stable,, environment in terms of the number and identity of the intermediaries.

But this is obtajned by altering ihe free play of competition through measures that prevent exit of jnefficient actors from the market. Another r:ase is that of the possible conflict between the objectives of stabitity and transparency. Again with regard to ihe banking sector, scarce transparency in fund gathering activities (e.g., in ihe issue of securities) might allow the application of interest rates below market rates. Such behavjor couJd be considered functjonal to the strengthening of the stability of banks. but jt would result in djreci injury to jnvestors.

The most immediate response to this jmportant problem might be to attribute to different authorities different objectives of supervision, ihat is to adopt the regulatory model by objectives as the benchmark for advanced financial systems. This solution could be designed so as to avoid an excessive proliferation of authorities and thus limit the increase in both direct and indirect costs of regulationlg.. In what follows, we will present a proposal 9f rgfofm of the regulatory framework curren y in place in ltaly which is inspired by this model. We will also argue thai such model could 6e usefully adopted at the Euro level.

III. REGULATORY ARRANGEMENTS IN THE IN THE ITALIAN FINANCIAL SYSTEM

III,1 INTEGMTION AMONG INTERMEDIARIES, MARKETS AND INSTRUMENTS

As already mentioned, banking, securities and insurance segments are becominq increasinqly intectrated in terms of markets, intermediaries and financial instruments. The boundaries separatinq bankinq, securities and insurance activities are in fact on their way out in most developed financial systems because of the sirong process of technological, geographical and functional integration among these three sectors; and as a consequence of the de-specialization of the intermedjaries. The "reserved activities" that charccletized financial operators by type are constantly decreasing at both the normative and operative leveJ. As a matier of fact the traditional iripadite division of the financial market failed to take into consideration that the creation and allocation of savings among '19 The literature available to date on both fronts is noi vast. An important contribution is Goodhart (l9BB). Attention is aiso called to a recent empirical work by Franks, Schaefer and Staunton (1997) on the direct and indirect costs of the regulation of financial markets, which among other ihjngs evidences the aiJsence of research on the benefits of regulation. sectors wjth a cash surplus and sectors with a cash deficit were basically unitary phenomena: hence, a unitary view of financial intermediatjon and its regulation should be adopted.

In the case of ltaly, the processes of integralion within the financial market have come about in a rather adiculated fashion. As regards the intermediaries, ownership integration has been acceniuated, coming aboLrt mainly through lhe transfer of capital shares among institutions, or among controlling and controlled firms20 Another form of integration among intermediarjes may be detected in the transformaijon of their legal status, even when continuing to pedorm basically the same intermediation actlvities as before. This occured in particuiar with lnvestmeni firms (SlN,4 - societd di interrnediaz'one mobiliare) which have been Jegally transforrned into banks, even ihough they have not as their primary objective the issue of deposits or the provision of loans. The reasons for this "arbitrage" among legally diverse fornrs are multiple: access io credit of last resod and to the interbank liquidity market; possjbility of directly managing customers' Iiquidity; concerns about a sounder image ("too bank to fail"); differing modalities for crisis management; different regulatory costs, different supervisory authorities to have to deal with. As regards the markets, considerable integration has taken place bet!r'veen the banking/insurance markets and the securities markets. This occurred by virtue of the issue and quotation on either the Stock Exchange or other markets of securities (equities and bonds) of both banks and insurance companies. The Italian financial market is thus e\periencing a progressive coincldence behr',/een issuers and financial intermediaries.2l This feature is likely to develop even fudher. These intermediaries have in fact become. with the ''privatization'' process of the Stock

Exchange and of the lvlTs (lhe VVholesale Governmeft Bonds ivlarkei), owners and managers in the same regulated financial nrarkets, which have been transformed into corporations. Recentiy, some banks have also stai1ed to manage directly alternative trading systerns (as the TLX, by Unicredito Italiano). As regards the integration among financjal instruments, we obseTVe ihat many of these, while keepjng thejr legal status, have rapicJly changed their economic function. This is due to both exogenous factors -- such as fiscal considerations, or different regulations applied to similar financial tools _ and io endogenous factors -- such as the different behavjor of sellers and buyers (here we refer in particular to certjficates of deoosit and bonds issue.l by banks, and io certain types of life 2O For a detailed and analy,tical description ofthe issues in Subsectjons llll e llJ2, see Di Noia e piatti ('1998). 21 This phenomenon seems to be peculiar to ltaly. Daia on siock exchange capitalization indicate that the wejghi of the financial sectors in the ltalian stock market is much higher in 1998 (42.4.k of markei capitalization) than jn other advanced countries (18.2% in the US, 26.4ok in France, 33.7o/a in Germany, 26.9% in the UK, 18.2% in Japan). See lRS, Rapporto sul Mercato Azjonario 1999. insurance policies).

The role of insurance companies as financial intermediaries is also constantly increasingly, thanks to contracts involvino life insurance and capitalization, whose services are ciirectly tied to investient Funds or to stock exchange or other financjal indjces (so-called unjt-linked or indexlinked coniracts).22 Nowadays, the inclusion of the iife insurance segment among those actjvities subject to financial reguJation is something ac;epted in the major financial systems. Over the last few years, market changes have actually lessened ihe distinctiveness of some schemes of ljfe insurance compared to other fjnancial products. ln the English system, for jnstance, long-term life insurance contracts are included in the notjon of investment (financial instruments) as provided by the Fjnanciai Services Act of 1986. This law and iis implementjng rules reguiate the selling of long-term business (life and pensions, see also Boleat, 1998). lnsurance companjes have the same treatment of unjt irusts in terms of thejr selling activity. The recent establishment of the FSA will fudher reduce the distinctiveness of insurance companies by applying a common requlation to all financial insiitutjons.

ln the U.S. system, variable annuities and variable life insurance contracts whose yieJd is tied to "separate accounts,,23 fall under the Invesiment Company Act of 1940, which provicles the general guiclelines relative to investment activiiies, reinvestmeni, and the butjng and selling of financial securities. Besides, as contract owners assume certain investment risks under variable contracts, the contracts are securities under the Securitjes Aci of 1933. In ltaly, on the contrary, insurance companies are excluded from ihe sei of rules that apply to banks and to oiher financial intermediaries. The exemption from such rules derives from the fact that life insurance policies are not considered financial instruments (see Article 1 of the Finance Law) and that insurance companies are not authorised to peform investment services. Although there is an increasjng tendency to re;ognse the high degree of contiguity between cedain insurance produits and typical financial products, the regulatory differences in the ltalian sysiem rcmain significant. ltaiian insurance cornpanjes are supervisecl and controlled by only one supervisory authorjty, the lsvap (lstituto di VigiJanza sulle Assicurazioni Private).

III.2 THE REGULATORY MODEL.

Financial markets regulation in ltaly has been obviously atfected by the structure and ihe evolution of lhe financiai system. lt was traditionally focused on banking intermediaries, The major 22 Whenever an insurance company oflers ihese kinds of financial products, it unquestionably falls into the category of subjecis engaged in the activity of fjnancial intermediation, as it is linking econornic seciors in surplus with those in deficit. 23 In such coniracts, the value of what ihe owner may receive during the pay-in (and sometimes the pay-out) period depends upon the investment performance of the separate account into which his or her payments have been invested. changes in the past three decades have come about under the pressure of both the European directives and of;ncreasing cross-botder financial rnarket integration. Such changes have been grafted onto a reguiatory system whose basic approach was to carye a three-way division of the financial market into banking, securities and insurance sectors. This division was reflected in a threeway division of the intermediaries and a corresponding division of the regulatory authorities: Banca d'ltalia, Consob (Commissione Nazionale per le Societa e ia Borsa) and lsvap. New regulations were frequently lntroduced and in a rather uncoordinated fashion. The final outcome is a structure of controls which is difficult to classify into any one of the theoretical models previously illustrated. The distribution of competencies among the different supervisory authorities is in fact characterized by a "mixed" approach.

As for insurance companjes, the insiitutional model is followed. The instjtutional model is parily used also for banks. They are supervised by Banca d'ltalia for stability and transparency in all typical banking activities (deposjts and loans), as well as for tho3e aspects regarding competition (Law 287l1990 excludes the Antitrust Authority frorn havinq prjmary control over banks).

Then, ihere is the case of pension funds where a mjxed institutional-functional approach is used. Here an activity, the payout of private pensions, is reserved to well-specified financial intermediaries while at the same time being an exclusive object comjng under the control of Covip (Commissione di Vigilanza sui Fondi Pensione). Neverlheless, the ministry of Labor issues general directives in the matter of the supervision of pension funds (with the N,4inistry of the Treasury), and supervises the Covip. The ministry of Labour does also authorize the exercise of this activity, while the Ministry of the Treasury, after hearing the Comrnission's opinion, issues regulations setting limits and criteria ;n the matter of investments, and the ruJes to be observed in the case of conflicts of interest.

The model by objectives formally characterizes the regulation of entities officially authorized to perform investmeni services, with regard to such activities: banks, investment firms, investment management firms, mutual funds and Sicav (Societd di lnvestimento a Capitale Variabile). These intermediaries are supervised by Consob insofar as transparency and investor protection and by Banca d'ltalia insofar as "limitation of risk and financial stabilty" (Adicle 5. Paragraphs 2-3, Finance Law). l\4oreover, the Antitrust t.Authority has exclusive competence for the rules on competition for all authorized subjects with the excepiion of banks.

A supervisory rnodel by objectives seems io ernerge with respect to the entire securities market, and noi just to ihe interrllediaries. The recent evolution of the normative framework assigns to the Consob all the powers jn the field of iransparency in the market (secondary regulation of the solicitation of public saving, of insider trading, of takeovers and publjc offers, etc.). Simiiarly, Banca d'ltalia might be considered responsible jn the matter of stability (regulation -- not necessarily exclusive - of compensation, liquidation, clearing houses, wholesale securities markeis, central depository, seitlement systems, etc.). The Antitrusi Authority miqht be considered responsible for guaranteeing competition among different exchanges.

III.3 CURRENT REGULATORY PROBLEMS.

Our previous descriptjon of the regulatory framework adopted in the Italian financiai sysiem should have already indicaied the presence of some rather peculiar features. ln this paragraph we want to undedine those peculiarities that we view as regulatory problems.

Many of these problems derive from the dominant role traditionalJy pefformed by banks in the ltalian financial system, and hence from their reguJator, the central bank. A premise is necessary: for a long time the Bank of ltaly has been representing a relevant and positive exception in the ltalian public administration sector. However, a logically incoherent asslgnment io the same instituiion of muiually conflicting tasks might still be dangerous and lead to an inefficient functioning of ihe financial system. This is true with regard to the regulatory objectives as well as to the policy instruments ihat can be activated in order to reach the former.

A first problem is that of having banking supervision conducted ;n a regime of monopoly by the central bank24. This feature is unjque among G-7 countries. Even ihough we will not discuss it here, we want to underline that the problem has only partially been solved with the start of the EMU and the assignment to the ECB of full responsibility for monetary policy in the Euro area. As a matter of fact ihe national central-bank governors participate to formulate the rnonetary policy strategies and decisions and are responsible for their irnplementation in the domestic econorny.

Hence, so far there is no complete separation of tasks. A striking anomaly, which is unique in the Euro area, is represented by the assignment to the Bank of ltaly of the task of preserving cofipetition in the banking sector. We do not think that there is any motivation nowadays to give such a responsibility to an lnstitution different frcm the one (the Antitrust Auihority) that supervises this feature in all other economic sectors. The rationale of this regulation is to be found in the fact that the Antitrust Authority was established only recently in ltaly (1990). In absence of such an lnstitution, ihe possibility that dominant coalitions and excessive market power could arise in the banking secior was considered too dangerous and justif'ed the assignment of the task of preserving cornpetition in ihe market to the already existing lnstitution controiling the banking system for prudential supervision. Today. however, no reason remains to assign the sanre objective of regulation to different lnstitutions in different seciors.

Moreover, it is logicaily incoherent to assign responsibility for competition in one sector to the same lnsiitution that is responslble Jor the stability of the same seclor. As already stressed, at]east in the short run, an obvious confllcl emerges between the two objectives of stabiiily and compelition. And, as a n]atter of fact, in many of the l\,4&A operatjons in the ltaljan banking sector, the opinions of the Antitrust Authority (which are not compelling) and those of the Bank of Italy have been opposjte (Cafagna and Sciolli, 1996). A competitive market is by nature unsteady, in the sense that allows for the entry of new firms and the exit of the inefficient ones. In recent periods there were examples of this peculiar role of the Bank which stopped some takeovers of some banks 24 See Di Noia and Di Giorgio (1999) for an updated discussion of the pros and cons of_separatjng monetary policy over other banks because they were hostile. Beside, the Bank stated thal it is necessary for the Bank to know in advance any intention to launch a takeover: but in the event of iisied banks, reasons of investor protection woLlld make necessary ihat any price-sensitive news should be disclosed to the markei, or at Jeast to the market authorjty.

The Authoriiy which is responsible for the stability of the system could indeed have a regulatory bias for the protection of firms that should be left to exit the market. The usualmotivaiion of the risk of contagion and of investors protection would be advocated.

However, we think that the risk of contagion js not necessarily and inevitably linked to all single bank crisis. Moreover, this risk could be countered with other instruments, including more transparency and information diffusion in the markei.

We also think that there is no clear argument to protect the interest of investors other than bank depositors. Why should the bond and equity holders of a bank be more protected than those of a non financialfirm? ln addition, we should also notice that the "srnall and naive" depositors are already protected by an explicit deposit insurance system.

Another anomaly in ihe ltaljan flnancial system is that the Bank of ltaly owns relevant shares and equities of either banks or other flnancial instituiions controlling banks. The Bank of ltaly invests in equities both pad of its ordinary reseryes and part of the contributions of the employees' pensjon fund.25 Quite obviously, monetary policy decisions jn terms of interest rates (previous to the stad of the EMU) and the supervisory and regulatory decisions have such a relevant effect on ihe profjtability conditions of the supervised entities that the Central Bank should be not allowed to be a shareholder of the same eniitles. At lea'st, its equity investments should be decided and managed by one or more totally independent and autonomous financiai manager.

Another problem stems from ihe different reguiation given to life insurance firms, panjcuiarly when they act purely as financial intermediaries. The life insurance industry, throughout contracts such as unit and index-ljnked schemes, has been gradually losing its distinctiveness. We think it should no Ionger be regulated as a different function flom bankjng and financjal investment, nor having its own regulator. A step in this direction may be represented by a recent decree approved by the ltalian Parliament (February 2000) on the fiscal treatments of pension funds, which establishes equivalent fiscal regimes tor mutual funds and unit and index-linked short term coniracts. responsibilities from the ones for banking supervis on and regulaiion. See also Goodhart and Shoenmaker (1992).25 Some data: by the end of 1999, the Bank of ltaiy ownecj shares higher than 27o of the company capital in i 0 listed firms, includjng a bank (ltalfondiario, B%), a financial holdlng corrpany (lFl) and many insurance companies (Alleat,za, Generall, lNA, La Fondiaria), thatin turn were either involved in the control of' or controlled by, other ltalian banks, whose supervisor is Bank of ltaly itself

III.4 PROSPECiS.FOR REGULATORY REFORM OF THE ITALIAN FINANCIAL SYSTEM

In this subsection, we shall present the basic lines of our operat;ve proPosal for a regulatory reform of the ltalian financial system With the Finance Law, llalian legislators have already begun to reorder compeiencies among the various sllpervisory authorities. We thlnk that lt would be wise to go further' Regulatory arrangements in the lialian financial system should be organized according to a clear division of competencies stricily in line with the by objective' model The object of such a regulatory change should be the entire securiiies' bankinq and life insurance market.

The auihoriiy responsible for (micro) siability should supervise the stability of the entiie financial market and of single financial intermediaries whether in banking, securities or insurance (authorizations; professional reglstersl superuisio"n in lhe area of information' regulations and inlipeotiolrs of int-ermediaries and conglomerates; other matters regardlng stability; crises management). We think that this authority should also manage deposit lnsurance and the investor compensation scheme. ln fact, the ctlrrent agencies (the FITD- Fondo interbancario di Tutela dei Depositi, and the F6ndo Nazionale di Garanzla) have no regulatory and supervisory powers at all. These agencies simply act as the cash management departmeni of other regulaiing inititutions when reimboursing depositors and investors .There are ctJady cist reductions that couid be achieved by their elimination As regards macroeconomic stab;lity, this authority should only cooperate with the central bank in supervising security settlement and payment systems and clearing houses; but it could be charged with supervision over financial instruments ln wholesale markets, with paficular regard to governrnent bonds and derivatives.

The authority responsible for transparency and investor protection sl'rould supervise disclosure requiremenis and the proper behavior of intermediaiies and the orcleriy conduct of trading in all financial intermediation activities pedormed by banking, securities, and llfe insurafce interrnediaries (including discipline ind control in ihe area of transparency in contracis)' ir,tor"ouui, this authority would be assigned powerc in the area of misLeading advertising by financial intermediaries Finally, it should coniroi macro-traisparency in financial markets (including the discipline of insider trading, takeovers and public offers)

The authority for competitjon should guarantee fair competition, and should avoid abuses of dominant posiiion and limit dangerous concentrations in banking, security and lnsurance sectors

1) To create a financial supervision by Italy lvigiianzal ano new lnstitution (Financial Supervision Authorlty) responslble for separating the Banking Supervision Department of the Bank of merqinq it wlih the deposii insurarrce funri (FITD)

2) To asslqn to the Financial Supervision Authoriiy responslbililjes ln terms of microeconomic stability of all financial intermediaries, including. banks, invesiment firms, insiitutional investors, life insurance companies and pension funds. Macr oeconomic stability and controls over securlty setllement and payment systems should be ieft under the responsibility of the Bank of ltaly.

3) To subtraci any responsibility in terms of cornpetiiion in the banking and insurance sectors to either the Bank of ltaly or the ISVAP and assign ihem only to the Antitrust Authority.

4) To assign to the CONSOB all powers and responsibilities in terms of transparency, disclosure requirements, investor protection and misleading advertising in all financial markets.

5) Covip should be abolished; ISVAP would be responsible only for the ' aciivities of the insurance companies which are not alike those of other financial iirtermediaries (ramo danni).

IV. FINANCIAL STABILITY AND REGULATION IN EUROPE

In the recently established Euro-area, and given the increasing integration among EuroPean finaicial markets, it could seern quite useless to present proposals of in.titrtionut reforms for financial market regulation that are limited io single countries. tn this section, we will argue lhai a natural extension to the financial syatem at the Euro level of the iegulatory rnodel by objectives could be i6nliO"r.o a good candidate io solve some problemaiic issues regarding financial stability and the need for more coordinated transparency and invesior protection rules. These topics are currently at the centre of a lively Jebate (see Padoa Schioppa, 1999, Lannoo, 1999; Vives, 1999) .

We start by observing that in ihe European lvlonetary.Union (EMU)' the principle of separating monetary policy and banking . supervision responsibilities has been clearly established in the statute of the European Central Bank (FCB). The latter empowers the ECB to set out and conduct monetary potlcy in ihe Euro area' but leaves the responsibillty for banking "up"iui.ion to ihe national aulhorities. lt coulcl be argued that a problem of institutional separation between monelary policy and banking supervision agencies does not exisi any longer in the Euro area28 ' even though in countries where the national central bank (NCB) is a monopolist in banking supervision, the separation is not compiete as the NCB Governor does also padicipate to the definition of the general strategies of European monetary policy which are set out in the ECB Governing Council

However, as argued above, the term banking supervlsion should be replaced by that of financial supervision The stability of the financial system could not be so much at risk because of the loan/deposit activities peformed by banks. lnstead, financial instability could be lnduced by activiiies linked to portfolio management, which are typicly of nvestme'lt bank and securities firmsin fact ‘’even in counlries whete rhe compeLe'rl auLl-or'l/ lor bdnk:rg lup"-"tn is the central bank, by definition this authority.is, functionally speking no longer a central bank' as it lacks the key central banking task of autonomously controlling money creation" (Padoa Schioppa, 1999) 29 A well known recent example of a serious threat to financial stabiliiy is the LTCM case. Here, a non b'ank institution was rescued thanks to the moral suasion of the FED, that is not responsible for the supervision of hedge The real prohlem io tackle should then be ihat of who takes care of financlal regulation and supervision in the EMU. At the moment there is no clear assignment of roles ani responsioilities agreed upon at EU level However' we think thal there is no poini in having a Common monetary policy and aiming at an always more integrated financial system in the Euro area while keeping different financial iugiuiion" nnO supervising rules in each member country' As a matter of fact' thise institutional differences are an impoftant barrier to fudher flnancial integration. In this field, the principle of minimum harmonizatiorl and mutual recognition, that was originally thought to be able to naturally induce over time a convergennce of regulatory behaviour and more rules clearly did not work. moreover, theie is a concrete risk that competition ln th s area will not even genelate the more efficient outcome: on one side there ex;sts an obvioLl incentive to promote less demanding domeslic financial regulations "nO tup"ti"ion in oider to let the own country become nlole allract ve iol iunning tin"n"iaf business; wl"rile on the other side it is nct clear who will pay in" ."it" "t potential insoivency follawing excessi're rlsk takirrq beha'/ior and financial misconduct in a member couniry (see below) Finally, with increasing international banking activities ancl a European real time gross settlement system in place (Target), the argument that domestic regulators and supervisors have bettei knowledge and can exercise more efflcient conirol becomes day by day less effective (See Prati and Schinasi, 1999)'

Another important point is that no cear tool nor any respons'bility to counter and/or manage the risk of financial instability and crisis has been established in Europe. The Treaty is silent on this topic lt is not even evident that ihe role of lender of lasi resod will be performed by ihe ECB, as ii would Oe OesiraOle being an essentialfunction of a central bank ln fact, this solution wit proOaOly occui only in the case of a widely spread liquidity crisis affecting tn" *notu iuro ur"". But what will follow a liquidity crisis located in a single country? And what a solvency crisis? Suppose we face a situation in,which a iingle iinancial institution locited in a member country is in trouble What kind of i"ntervention, if any, is currently allowed? One of the typical forms of public intervention seems iost, and probabiy ihe most natural, that of central bank last resori loans. The ECB will not interyene in favour of a single institution' especially if its finanaial links are mostly domestic Also because it could always assign some of ihe responsibility for the crisis io the domestic financial reguiator-su-pervisor. The domestic central bank can not intervene by prJvicling funds without an explicIt authorizat on by the ECB In this case' it will have"to convince the latter that the institution is facing a liquidity and not a solvency crisis, according to ihe Bagehot's doctrine funds (1873), and / or that the risk of poteniial spread and contagion of the crisis is high

This requires time and resources The other two traditional instruments' bail out through a safety net provided by the banking system or through the government Suoget wiit ultimately shift the burden on the shoulders of iomestic taxpaye-rs, especiaily in the framework established in the Stability and GroMh Pact. Given the current level of taxes in Europe, thls is hardly an opiimal solution.

We think that a much higher degree of co-ordination ln the field of financial regulation and prudential supervision is both desirable and needed in the EN4U. 6ur view is not llmited io the banking system but embtaces all financial inlermediaries. A somehow good example of international cooperation llan already be found in the banking supervision, with the Basle Committee workinq on a wide range of topics with no formal by-laws, but a very strong leadership. On the contrary, the securiiies supervision.has not succeeded in establishing a similar long record of international rulemaking

ln a world of complete mobility of capital and financial services, where institutions and markets operate without frontiers' supervision should operate at the same level, that is to say, it must be structured internationally3'l Moreover, following the view we adopted on the national base' we think that the European suIervisory system would gain both in consislency and efiectiveness if all stability oriented rules, all transparency oriented ruies and all competition oriented rules for a I types of financial institutions were either Lsued or (may be better) coordjnaled by distinct independent agencies at the Euro area. Of course. we are aware that it is not easy to sttucture and create sucn an integrateO system of rules and lnstitutions jn the EU, that ii will require time,-resources and a widesptead co iaboralive attiiu(ie hence' v"e list not one but three posslble paths of institutional changes thai can re ntroduce the {unction ol lenoing of iast icsof in the Euro zone and at lhe same time allow for a sounder scenario in case of a financial crisis. The last solution is the one we prefer, inspired by the same logic we used for our proposal of reform of the lialian financial system. However, we view also the other two following ways as better solutions with respect to the current situation.

1) A firsi possibiliiy is io assign supervisory powers and responsibilites in the banking sector to ihe ECB. However, even leaving aside the arguments against the solution of merging banking supervjsion and monetary poljcy, this arrangement would stjll be not satisfactory and would require other instiiutional changes, as it would be certainJy desirable to have a common supervisor for all financial intermediaries. The l\,4aastricht Treaty would then have to be amended, as it explicjtly 30 See Freixas et al. (1999), Bruni and de Boisseu (1999), and De Cecco (1999). 31 This does not necessariiy lead to the creation of a European SEC (see Lannoo 1999a, Karmei 1999), even though such hypoihesis could become realistic in the medium run. forbids that supervisory powers regarding insurance firms be assiqned to the ECB.

2) A new European Sysiem of Financial Regulation (ESFR), structured simllariy to the ESCB, could be established. A European Financial Regulaiion Authority (EFRA) shouJd be at the centre of the system. The EFRA should be formaily separated by the ECB,

both in order to avoid excessive concentration of powers as well as for other arguments ln a fitst stage (3 years?), the EFRA would harmonize and coordinate financial regulation in member countries, design common principles and guidelines for prudential supervision and set out appropriate disclosure jnsiruments and requirements. This central agency should sponsor the necessary lnstilutional change at domestic level leading io merging and re-organization of supervisory and regulatory powers in ihe financial sector of each member country. At the end of the process, in each country there will be just one natlonal agency, similar in structure to ihe Financial Servjce Authorjty recently established jn the UK. This national agency will participate to the definition of the general strategies and principles of financial reguiation in the area, becoming a member of the ESFR. lt will be responsible for the implementation in the domestic country of both the rules and the supervisory dutjes agreed upon at the Euro level.33 ln each single country, this agency will be the sole responsible for financial stabjlity and correct disclosure of aiJ financial intermediaries - being in charge of banks, secufities firms, rnutual. pension and hedge funds, life insurances - and of all securities markets

3) Establish two new different European Agencies, one responsible lor ihe microeconomic stability ("European Financial Supervision Authorjty") and one for the transparency, investor proiection and djsclosure requirements ("European Authority for l\,4arket Transparency") of all financial intermediaries. The two centra, agencies should co,ordinate the different domestic agenctes in each member country. ln this solution, we will then have two difFerent European systems of financial regulators, according to the prlnciples that suggest io replace "instjtutional" regulatjon by 'functional regulalion" (or by objective). Under both 2 and 3, no antitrusl power will be given to any mernber of the ESFS. so as to avoid ihe trade-off behreen competition on one side and stability and transparency on the other. l\loreover, agencies responsible for supervising market competition do exjst at both Furo and domeslic levels. We ihrnk that it woul.i be wise lo lransforn't in a th rct separate and independent See Di Noia and Di Giorgio (1999). Another relevant issue rs "who pays fcr financial supervision and hoy/ rnuch it costs". An attribution to ihe ECB of these functions could be less transparent given that they may be confused in the monetary policy ones (thus inducing lower accountabjlity)

Both the national and the central European levels of financial supervisors should exist, given the current level of harmonization in the financial market legislation, which is far from complete, in particular with respect to taxation,lccounting rules and banking crises management central agency the EU Antitrust DG. This will ihen coordinate and promoie the nlrmonizeo activities of domestic Antitrust agencies ln each member state' the national Antitrust agency will safeguard competition in all economic sectors.

A special Committee (and desk) for the lending of last resod function could be established at the ECB, with the padicipation (only for informalion and communication purposes) of members of the (one or two) ESFS The ESFS (or the one responsible for "supervision") will promoie the participation of inteimediaries. in each country, to a limjted insurance fund that could provide good quality collateral to institutions facing liquidity problems in order io Oe a6te to qualify for central bank financing. The national agency will manage the fund and assess whether an institution is just illiquid or insolvent ln the- latter case, provision of collateral should be denied The domestic government could still decide whether to bail out the institution or not' being responsible and (politically) accountable for the decision.

V. CONCLUSIONS

In this paper we argued that financial market regulation should be re-designed and harmonized in Europe according io a regulatory model by "objectives" or "fjnalities". We have first analyzed the case of ltaiy and sketched a comprehensive proposal for the reform of its financial system regulation. This would call for assigning to three distinct and lndependent agencies (separated by, but coordinated with the central bank) all supervisory powers and regulatory responsibilities in financial markets and on financial intermediaries, rectardless of these being insurance companies, banks or investment firms. One agency should be responsible for financial microstability, another for transparency and disclosure requirements, and the third for protection of competitive features in the markets.

In view of ihe criticism addressed to the current assignment of financjal regulatory and supervisory powers in the EU, we think that the previous scheme could be extended and nested into a wider context as the Euro area. ln particular, we are in favour of the establishment of two new European financial regulation agencies, each formally separated by the ECB. These agencies should be responsible for the comprehensive co-ordination of both legislation and execution of regulation in financial markets: the first European agency should be responsible for the microeconomic stability of all intermediaries, while the second for transparency and disclosure requirements. The third objeciive of guaranteeing competition in financial (and nonfinancial) markets is already safeguarded by having the Antiirust General Direction of the European Commission plus the domestic agencies lt would be wise to transform in a central and independent European agency the EU Antitrust General Direction.

The latter and ihe two newly created central agencies will be at the centre of three European Systems of Financial ReguJators, each one structured similarly and working in connection to the ESCB, ihereby requiring active padicipation of national agencies in member countries. A 4 - peak regulatory model "by objective" would be in place in the Euro Area as well as in each member country.

Money Market &Capital Market

The value oi the ltalian iira has been volatile over the last 30 years and is generally considered a weak currency by comparison with other major currencies. Historically, the weakness of the ltalian lira has been both a crse and a blessing for the country. On the one hand, ltaly had to pay for energy resources and supplies in hard.

Exchange rates:

ltaly euros per US$1

Jan2001 1.0659

2000 1.0854

1999 0.93B6

1998 1,736.2

1997 1.703.1

1996 1,542.5

Notei Rates prior to '1999 are in ltalian lire per US dollar.

SOURCE: CIA World Factbook 2001 IONLINEI. .

currency (U.S. dollars), and imported goods were expensive. On the other hand, a weak currency contributed to makjng high-quality lialian expods very appealing due to their relatively low prjces, and the foreign markels were duly conquered. Moreover, high production costs were offset by relatively cheap labor.

Italy's pafticjpation in the European Economic Community (EEC) failed to stem the currency's volatility. and the Jira was twlce forced to withdraw from the fixed exchange rates thai had been established among the member states. Foliowing the last withdrawal in 1992, the government devalued the currency in order to boost exports at the heighi of the economic recessjon when the lira was under tremendous speculative pressure. The calculated gamble of devaluation paid off, part'cularly as regards exports to ihe United States, where U.S. consumers were ready to enjoy their country's econornic boom.

Since the launch of the euro, the lira has found a previously unknown stab'lity. The exchange raie js fixed, and in January 2002, Ihe lira will be replaced by the euro, which wiil become the currency that competes againsl the U.S. dollar, and other currencies in the global market. Public opinion tn Italy, unlike that of certain other countries such as the Unjted Kjngdom, welcomes the introduction of the ne\,v currency and dnes not seem to mind abandoning the tradilional lira.

The ltalian Stock Exchange (lSE), jocated in Milan, was founded in 1808, but until the mid-1980s il played a comparalively insignificant roie in the naiional economy. Many businesses were suspicious of the siock exchange and chose to remain unlisted. However, since 1998. the ISE has grown inlo a dynamic force as a result of privatization, a new generation of progressive rnanagers, and the requirements of the new economy. The public, too, is increasjngly interesied in stocks and shares and, as in the United States and elsewhere, a greater number of people are playing the market. Consequently, the ISE has expanded, and at ihe end of 1998 there were 223 lisled companies. During 1997 and 1998, the volume of tradjng increased continuously, achieving and sustajning record levels. Privatization has certainly contributed to enhancing the quaJitaiive level of listed companies and attracted a wider public. While Milan is by no neans as important as London or Paris to European share dealing, it is becoming increasingly impoflant to the ltalian economy.

Spain and Italy in bond market crosshairs

NEW YORK (CNNN,4oney) -- Smoldering worries aboui the debt crisis in Europe have flared up again in global financial markets with Spain and Italy feeling the heat.

The price Spain must pay to borrow money from investors for 10 years briefly rose above 6% this week, marking its highest point since iate November

Italy has also seen its borrowing costs increase, with yields on '1o-year bonds holding near 5.5%, rJp from about 4.5% in early march.

"The periphery is coming under attack again," sajd Suki mann, credit strategist at Societe Generale, in a note to cljents. "Bui this time it is Spain, and Italy to a lesser extent, jn the firing Jine with bond yields on the rise."

YieJds eased Wednesday after a European Central Bank official suggested the bank could resume its bond rnatket interventions. "We have an instrument, the securities markets program, which hasn't been used recently but it still exists," ECB executive board member Benoit Coeure repoftedly told attendees at a conference in Paris.

The recent rise in Spanish and Italian rates follows a period of calm in eurozone sovereign debt markets, heiped by the ECB'S aggressive moves, which funneled some €'1 trillion into the banking system since December. Europe's still a lhorn, but 'oui of crisis mode'

But the lull appears to coming to an end as investors question whether eurozone governments will take advantage of imoroved market conditions to address deeper economic and fiscal problems, said Julian Jessop, an economist at Capiiai Economrcs.

"There are still huge uncertainties over whether politicians have the ability and inclination to do so" he said. "The markets are understandably reluctant io give them the benefii of the doubt."

However, some experts argue ihat European Union otfjcials would likely take steps to restore confidence if the market spjra,s out of control.

"The last few months have shown that. if they want to, the ECB and Europe's instiiutions can get the crisis under control," economists at Berenberg Capital l\larkets wrote in a research report published Tuesday. Benoit's commenis certainly seemed to back that up.

Spain rattled investors last month after ihe government reported a 2011 budget gap of 8.5%, compared with a planned 6% shortfall. The larger{han-expected deficit raised worries about Spain's ability to follow ihrough on a €27 billion austerity package this year.

Last week, Spain was forced to pay hiqher yields to auction €2.6 billion worth bf bonds.

Yields on Spanish debt continued to rise this week even after Prime Minister l\,4ariano Rajoy announced heajth and education reforms ajrrted at savjng €10 billion.

lnvestors have also been worried about Spain's troubled bankjng secior, which is still recovering froF] a major bust in the property markel.

Bank of Spain governor miguel Fernandez Ordonez said Tuesday that banks have made progress, but he suggested that more needs to be done to suppori economic groMh. "We are unlikely to see a prompt recovery in the Spanish economy,', said Ordonez.

ECB: Gloomy on economy, upbeat on euro

meanwhile, italy has been pressured by concerns that the European Union's financiai firewall is still not large enough to rescue both ltaly and Spd n.

Eurozone finance ministers agreed late last month to boost their cnsis resources to €700 billion from €500 bjllion by combining an existing bailout fund with one that comes lnto effect in July.

Despite the increase, analysts doubt thai the funds wjil be sufficient if Italy, the eurozone's ihird-largest economX needs io be rescued.

"Thc cupbcaid Joes Icik pretty baie if ltaiio.it itackages end up being required for boih Spain and llaly," said Grant Lewis, head of economic research at Daiwa Capital markels.

Italian Prime minister mario monti has taken steps to restore confidence in ltaly's finances, includjng key labor market reformb. But analysts warn the recent uptick in yields could stoke fears about ltaly's ability to refinance maturing debt and slifle its reform effofts.

"The longer this risk aversion persjsts, of course, the greaier the risk that the trend becomes self-perpetuating, as it did at the end of last year, particularly ln the absence of an effective policy response," Lewis wrote in a note to investors. To top of page

Capital Markets Group Joins White & Case in Italy

New York, February 13, 2001 ... Noted ltalian capital markets lawyer Andrea Ughijoined the milan otfice of Studio Legale White & Case Varrenti e Associati as partner, the firm announced today. The addition of N,4r. Ughi and two associates significantly expands the capital markets capability of White & Case's recently established ltaljan offices.

Senior associates Alessandra Guercia and Claudia Pazani are both experienced in sophisticated capital markets and related transactions. All three iawyers were formerly with the milan office of Grimaldi Clifford Chance.

At a tinre when ltalian corporations are increasingly looking to laise capiial in ltaly, Europe and the United States, the foundation of a core group of high-caliber cabital markets lawyers in ltaly is a logical move for White & Case. Over the past 12 months, White & Case has invested heavily in suppoft of its core finance and corporate law clients across the mature.markets of Western Europe.

Alessandro Vanenti, Co-Executive Panner, ltaly, said: "We are pleased that our venture is proving to be such an atiractive proposition to the ltalian legal market. We hope thai with Andrea and these associates on board we will be able to attract fudher hgh-caliber recruits to our burgeoning capitai markets practice in the near future."

The addition of Andrea Ughi, Alessandra Guercia and Claudia Parzani brings the number of law)/ers in the firm's milan and Rome offices to nearly 30. On January 1, 2001, White & Case and Varrenti e Associatj announced their combination in ltaly under the leadership of Executive Padner Alessandro Varrenti.

On January 25, 2001, the firm announced the incorporation of leading inteliectual property boutique, Sludio Legale Attolico.

milan based Pariner, Andrea Ughi has a well-respecied finance and corporate law practice, wjth experience in capital markets. He has acted extensively for major domestic and international issuers and unden,r'riters in the full range of debt and equity capital markets transactions. He joins the firn) from the N,4ilan office of Grimaldi Clifford Chance. Andrea studied at the University of Nlilan and at Cornell Universiiy.

Capital market

From Wikipedia, the free encyclopedia

Jump io: navigation, search

One Churchill Place, Barclays'HQ in Canary Wharf, London. Barclays is a maior player in the worlds capitai markets.

Capital markets provide for the buying and selling of long term debt or equity backed securities. When they work weil, the capital markets channel the weaiih of savers to those who can put it to iong term productive use, such as companies or governments making long term investments. Financial regulators. such as the UK's Financial Services Authority (FSA) or the U.S. Securities and Exchange Commission (SEC), oversee the capital markets in their designated jurisdictions to ensure that investors are protected against fraud, among other duties.

21st centuri capital markets are almost invariably hosted on computer based Elecironic trading systems; most can be accessed only by entities within the financial sector or the treasury depadments of governments and corporations, but some can be accessed directly by the public. There are many thousands of such systems, most only serving only small paris of the overali capital markets. Fntities hostjng the systems include stock exchanges, investmeni banks, and government departments. Physically ihe systems are hosted ail over ihe wodd, though they tend io be concentrated in financial centers like London, New York, and Hong Kong. Capital markets are defined as markets in which money is provided for periods longer than a year.

A key division within the capital rnarkets ls between the primary markets and secondary markets. In prirnary markets, new stock or bond issues are sold to investors, often via a mechanlsm known as underwriting. The main entities seeking to raise long term funds on the primary capital markets are governments (which may be muficipal, local or national) and business enterprises (companies). Governments tend to issue only bonds, whereas companies often issue either equity or bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment ba!.tks trading on their own behaif. ln the secondary markets, existing securities are sold and bought among investors or traders, usually on a securities exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the wi{lingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their invesiments if the need arises.

A second imptrtant division falls between ihe stock markets (for equity secLlrities, also known as shares, where invesiors acquire ownership of conpanies) and the bond markets (where investors become crediiors).

Difference between Money Markels and Gapital Markets

The money markets are used for the raising of shoft term finance, sometimes for loans that are expected to be paid back as early as overnight. Whereas the Capital markets are used for the raising of long term finance, such as the purchase of shares, or for loans that are not expected to be fully paid back for at least a year.

Funds borrowed from the money markets are iypically used for general operating expenses, to cover brief periods of illiquidity. For example a company may have inbound payments from customers that have not yet cleared, but may wish to immediately pay out cash for its payroll. When a company borrows from the primary capital markets, often ihe purpose is to invest in additional physical capital goods, which will be used to help increase its income. It can take rnany months or years before the investment generaies sufficient return to pay back its cost, and hence the finance is long term.

Together, money markets and capital markets form the financial markets as the term is narrowly underslood.

Difference between regular bank lending and capital markets

Regular bank lending is not usually classed as a capital market transaction. A key difference is that with a regular bank Joan, the lending is nct securitized (i.e. it doesn't take the form of resalabJe security like a share or bond that can be traded on the markets). A second difference is that lending from banks and similar institutions is more heavily regulated than capitai market lending. A third difference is that bank depositors and shareholders tend to be more risk averse than capital market invesiors. The previous three differences all act to ljmit institutional lending as a source of finance. Two additional differences that favor banks is thai they are more accessible for small and medium companies, and that ihey have the ability to create money as they lend. In the 20th ceniury, rnost company finance apart from share issues was raised by bank loans. But sjnce about 1980 there has been an ongoing trend for disiniermediation, where large and credit wofthy companies have found they effectiveiy have to pay out less in interest if they borrow from the capitai markets rather than banks. The tendency for companies to borrow from capital .markets instead of banks has been especially strong in the US. According to the Lena Komileva writing for Tbe Financial Times, Capital fularkets overtook bank lending as the leading source of long term finance in 2009 - this reflects the additional risk aversion and regulalion of banks following the 2008 financial crisis.

Examples of Capital market transactions

A company raising money on the primary markets.

When a company wants to raise money for long term investment, one of its firsi decisions is whether to do so by issuing bonds or shares. If it chooses shares, it avoids Increasing its debt, and in some cases the new shareholders may also provide non monetary help, such as expertise or useful contacts. On ihe other hand, a new issue of shares can dilute the ownership rights of the existing shareholders, and if they gain a controlling interest, the new shareholders may even replace senior managers. From an investofs point of view, shares offer the potential for higher returns and capital gains if the company does well. Conversely, bonds are safer if the company does poorly, as they are less prone to severe Jalls in price, and in the event of bankruptcy, bond owners are usually paid before shareholders.

When a company raises finance flom ihe primary market, the process is more likely lo involve face{o-face meetings than other capiial market transactions. Whether they choose to issue bonds or shares, companies wjll typically enlist the services of an jnvestment bank to mediate between themselves and the market. A team from ihe inveslment bank ofien meets with the company's senior managers to ensure their plans are sound. The bank then acts as an underwriter, and will arrange for a network of broker(s) to seli the bonds or shares to investors. Thls second stage is usually done mostly through computerized systems, though brokers will often phone up their favored clients to advise them of the opportunity. Companies can avoid paying fees to investment banks by using a direct public offering, though this is not a comrnon practice as ii incurs other legal costs and can take up considerable management time.

A government raising money on the primary markets

When a government wants to raise long term finance it will often sell bonds to the capital markets. In the 20th and early 21st century, many governrnents would use jnvestment banks to organize the sale of their bonds. The leading bank would underwrite tbe bonds, and would often head up a syndicate of brokers, some of whom might be based in other investment banks. The syndicate would then sell to various investors. For developing countries, a multilaieral deveiopment bank would sometimes provide an additionai layer of underwriting, resulting in risk being shared between the investment bank(s), the multilateral organizaiion, and the end investors. However, since 1997 it has been increasingly common for qovernments of the larger nations to bypass investment banks by making thejr bonds directly available for purchase over the lnternet. many govcrnmenis now sell most of their bonds by computerized auction. Typically large volumes are put up for sale in one go; a government may only hold a small number of auctions each year. Some governments will also sell a continuous stream of bonds through other channels. The biggest single seller of debt is the US Governmenti ihere are usually several transaciions for such sales every second, which corresponds to the contjnuous updating of the US real time debt clock.

Trading on the secondary markets

An Electronic trading platform being used at the Deutsche Bdrse. lvlost capital market iransactions are executed eJectronically, sometmes a human operator is involved, and sometimes unattended computer systems execute the transactions, as happens in algorithmic trading.

most capital market transactions take place on.the secondary market. On the primary market, each securjty can be sold oniy once, and the process to create batches of new shares or bonds is often lengthy due to regulatory requirements. On the secondary markets, there is no limit on the number of times a security can be traded, and the process is usually very qujck. With the rise of strategies such as high frequency tradjng, a single securiiy could in theory be traded thousands of times within a single hour.[13] Transactions on the secondary market don't directly help raise finance, but they do make it easier for companies and governments to rajse finance on ihe primary market, as investors know if they want to get their money back in a hurry, they will usually be easily able to re-sell their securities. Sometimes however secondary capital markei transactions can have a negative effect on the primary borrowers - for example, if a large propoftion of investors try to sell their bonds, this can push up the yields for future issues from the same entity. An exireme example occurred shorlly afler Presiclent Clinton began his firsl term as president; Clinton was forced to abandon some of the spending increases he'd promised in his eJeciion campaign due to pressure from tl-re bond markets. In the 21st century, several governments have tried to lock in as much as possible of their borrowing into long dated bonds, so they are less vulnerable to pressure from the markets.

A variety of ditferent players are active in the secondary markets. Reqular individuals accouni for a srnail proportion of trading, though their share has slightly increased; in the 20th century it was mostly only a few wealthy individuals who could afford an account with a broker, but accounts are now much cheaper and accessible over the internet. There are now numerous smalltraders who can buy and sell on the secondary markets using platforms provided by brokers which are accessible with web browsers. When such an individual trades on the capital markets, it will often involve a two stage transaction. First they place an order with their broker, then the broker executes the trade. lf the trade can be done on an exchange, the process will often be fully automated. lf a dealer needs to manually intervene, this will often mean a larqer fee. Traders in investment banks will often make deals on their bank's behalf, as well as executing trades for their clients. lnvestment banks will ofien have a department called Capital markets: staff in this depariment try to keep aware of the various opportunities in both the primary and secondary n rkets, and will advise major clients accordingly. Pension and Sovereign wealth funds tend to have the iargest holdings, though they tend to buy only lhe highest grade (safest) types of bonds and shares, and often don't trade all that frequently. According to a 2012 Financial Tjmes article, hedge funds are increasingly making most of the short term trades in large seitions of the capital market (like the UK and US stock exchanges), which is making it harder for ihem to maintain their historically high returns, as they are increasingly finding themselves trading with each other rather than with less sophisticated investors.

There are several ways to invest in the secondary market without directly buying shares or bonds. A common method is to invest in mutual funds or exchange traded funds. It's also possible to buy and sell derivatives that are based on the secondary market;"one of the most cornmon being contract for dillerence - these can provide rapd profits, but can also cause buyers to lose more money ihan they originally invested.l8l

Capital controls

Main article: Capital control

Capital controls are measures imposed by a state's government aimed at managing capital account transaclions - in other $/ords, capital market transactions where one of the cou nter-pa rtiesl1 6] involved is in a foreign country. Whereas domestic regulatory authorities try to ensure that capital market particlpants trade fairly with each other, and sometimes to ensure institutions Jike banks don't take excessive risks, capital controls aim to ensure that the macro economic effects of the capiial markets don't have a net negative impact on the nation in question. l\,4ost advanced nations Iike to use capitai controls sparingly if at all, as in theory allowing markets freedom is a win-win situation Jor all involved: investors are free to seek maximum returns, and couniries can benefit from investments that will develop iheir industry and infrastructure. However sometimes capital market transactions can have a net negative effect - for example, in a financial crisis, there can be a mass withdrawal of capital, leaving a nation w'thout sufficient foreign currency to pay for needed imports. On the other hand, if too much capiial is flowing into a country, it can push up inflation and the value of ihe nation's currency, making its expods uncompetitive. Some naiions such as lndia have also used capital controls to ensure that their citizen's money is invested at home, rather than a broad.

Italian Venture and Equ'ty Capital market (by Anna Gervasoni ... - Presentation Transcript

- 1999 - Venture Capital and Prlvate Equity in ltaly A.l.F.l. ltalian Venture Capital and Private Equity Association

A.l.F.l. members A.l.F.l. 55 5B 69

lnvestment activity by number, companies and amount +88 % A.l.F.l.

Average invested amount (Euro mln) A.l.F.l.

'1999 - Stage disiribution of investments A.l.F.l.

1999 - Stage distribution by % of amount invested A.l.F.l.

1999 - Venture Capital vs Private Equity A.l.F.l.

1999 - % of amount invested by number of employees A.l. F. L

1998 - 1999: Sectoral distribution of investments by number High Tech Low Tech A.l.F.l.

% of amount and number of investments in the high tech sectors. *High tech sectors: computer reJated, communications, oiher electronics reiated, medical/health related; biotechnoJoqy. A.l.F.l.

1999 - Sectoral distribution of amount invested in high tech A.l.F.l.

1999 - Geographical distribution by 7o of number and amount invested A.l.F.t.

1999 - ltaly: geographical distributlon by % of amount and number of investments A.l.F.l.

1999-lraly: regional di.l'ibu'ronbv ' rnberol ,.eslm'-rls A lF.l. Syndication by % of nun1ber of investments A.l.F.l.

Number of investments by iype of investors A.l.F.l.

Amount invested by type of investors (Euro mln) A.l.F.l.

1999 - ltalian Private Equity lndustry Concentration A.l.F.l.

1999 - Stage djstdbution of investments by type of investors A.I.F.l.

Divestment aciivjty by nurnber, and amount (at cosl) +72,1% A.l.F .l.

1999 - Distribution of divestments by number and amount A.l.F.l.

1999 - Distributjon of divestments by % of number and amount A.l.F.l.

The EYVB lndex (Ernst&Young Venture Backed lndex) 01-ott_g9 22-mar0A A.I.F.l.

Number of divestments by type of investors A.l.F.l.

1999 - Stage distribution of divestments by iype of investors A.l.F.l.

Portfolio by number and amount (at cost) A.l.F.l.

New funds raised (Euro mtn) +11oo/a A.I.F.l.

1999 - Sources of new funds by % A.l. F. L

1999 - Sources of new funds raised on the market by % A.l.F. L

1999 - Fund raising targets 21% 42% 36% jo/a A).F.l.

1999 - Geographical breakdown of toiai funds raised A.l.F.l.

1999 - Geographical breakdown offunds raised from the market A.l.F.l.

The industry performance: the sample 1990-199S 1989-19S8 1986-1996 N' of operators jn the sarnple 35 25 i4 N" of operators aciively investing in period 25 16 12 Total number of considered lnvestments 202 .172 '100 Total cash out (Euro mln) 576 461 2SO Average lnvestment size (Euro mln) 2,8 2,6 2,5 Total cash in (Euro mJn) j.607 1.140 622 KpMc Corporate Finance A.l.F.l.

Italian structured finance market and Capital markets

The ltalian capjtaj markets are experjencjng substantial groMh in securities transactjons. These transactions have generated a record $1S.4 billion at the end of the third quarter 200j. (Recent statistjcs indicate that, among European couniries, ltaly has the secondJargest securjtization market, iagging onJy behind the UK with respect to asset value, securities issued and the volume of such transactjons.) During this tjrne, the ltalian market also experienced sharp increases in bond jssuances and warrants as well as in unit-linked policies (a hybrid investment, ljfe insurance tool). These siatistics appear remarkable to some analysts, given that securitizatjon is a linancial tool typjcally associated with highly sophisticaied banking markets. However, ltaly's capital markets are rapidly maiuring and therefore providing companics wjth jnnovatjve and profitable oppoftunitjes in the securities market.

Securitization in ltaly

Securitization is a funding technique whjch consists of the pooling of a group of largely non-performing receivallles, the sale of ihese asseis to a special purpose vehicle (SpV), and the issuance by the SpV of marketabte securities. The payment of interest and principal on the securiires ts dependent on ihe cashflow arising from the underlying pooJed assets. -fhis process transforms private debt jnto marketable securities with the consequence of generatjng liqujdity for the receivables, orjgjnating entity ancl increasjng the transparency of previously obscure debt structures. 'nparticular, structured securitization produces the following benefits to originators:

Flexible financing: originators can vary the requisiie jevel of funding in accordance with their n6eds and availability of assets,

Diversification of funding: securitjzaiion represents an attractive way to diversify originators' funding options, as compared with traditional banking finance;

Creation of liquidity: non-liquid assets may be readily converted into capital. In addition, proceeds from the sale of receivables may be used to repay outstanding debt, thereby reducing financial leverage. This leverage reduction frees capital to suppoft new asset groMh;

Tax relief on the transfer of c.edits: for accounling ancl iax purposes, the originaior can either deduct 20% ot Ihe loss (and carry any excess loss to the next four operating years in four equai instalmenis), or ciassily ihe lcsses as expenditures in the tax perjod in which they were incurred:

Balance-sheel treaiment: the transferred receivables are removed from the originator's balance sheet, thereby improving its financjal statements;

Limitation of risk: the risk of underperforming or out-of-existence assets is effectively shifted to investorsi and access to a broader investor base and less expensive transaction costs: securities jssued by Spvs will generally have a good credit rating, which is important to investors. The lower transaction cosis enhance securities' ratings, although this js dependent upon credit spreads in market-rating classes.

Securitjzation transactions increased sharply after the introduction of the law on Securitisation of Receivables (Law 30 April 1999, no. 130) whjch filled an jmportant gap in the ltalian financial system. The law introduced a system which facjlitates the structure and jmplementation of securitization transactions. -Ihe law allows companies to adopt either the Anglo-Saxon securitization technjque or the French technique. The Anglo-Saxon approach requires the incorporation of an SPV in order to purchase the assets of the origjnator and to issue asset-backed securities. The French approach, by contrast, requires securitization transactjons to be performed throuqh investment funds. Although the law recognises these two options, all securitizalion structures carried out thus far in ltaly have used the Anglo-Saxon SPV approach. It is wofth noting the relevant aspects of the law that contributed to increase securitization activity:

Types of receivables

. Under the law. the new regulation applies to securitization transactions executed by transfer of any type of receivable, both exisiing and future, whether performing or non-performing. In the case of a securitization transaction involving a number of receivables, these receivables must be identified in bulk through a distingujshing common element.

Special purpose vehicle

The law allows SPVS (whose corporate purpose must be restricted exclusiveiy to undenaking securitizations) to implement more than one transaciion, provided that the receivables relating io each specific transaction remain segregated from both the assets of the SpV and the assets of the other securitization transactions. ln padicular, as a result cf this asset segregation, ali claims aoncerning a specific securiiization may only be brought against the assets reiated to that operaijon.

This provision shields SPVs from the provisions of Article 2740 of the Italian Civil Code, according to wlrich a debior j! iiairie ior aii !ir iga,rioir: vv;ih both present and future assets. in fact, an SPV's liability is limiied to the value of the underlying receivables and correlative warranlies.

The law expressly provides that certajn provisions of the Consolidated Banking Act, do not apply to Spvs. Accordjng to these provisjons, a company operating in the financial market must have a minjmum stock capjtal not less than five times (ie €S00,000) greater than the minimum stock capital required for incorporaiing a jojnlstock company (je €100,000). Though such companies are required by law to be enrolled in the register of financial jntermediaries kept by the ltaljan Exchange Office under the provjsjons of Articles '106 of the ConsoJidated Bankjng Act, the law also permits a thin capjialization of the SPVs - in the minimum amount of €100,000 or €10,000 it SPVS are incorporated, respectively, as a joint-stock company (SpA) or linrited paltnership (Sapa), o'l olle lland, arrd ljrrriLed liabiljly uorrrpany (Srl), on the other.

Furthermore, transactions implemented by ltalian SpVs are no longer subject to the limit set out under Arlicle 2410 of the ltalian Civji Code, by which tho issLranc€ of securitieE may not exceed an amrjunt equill to the issuer's fully paid-up capital, as indjcated in the nrost recenily approved balance sheet.

ln the past, this ljmii has made the use of ltalian SVP (with the consequent use of foreign vehicles) virtually impossible, given the high corporate qapital required.

But now an ltalian SpV may purchase the recejvables clirectly from an originator, without the need of a highly capjtalized foreiqn financial intermediary. This grea y simplifies the process, ancl, from a rating perspective, removes the need to analyse the credit profile of the intermediary.

Perfection of receivables assignment

The law makes the process of assjgning receivables easter by inlroducing an an'lendment to the general princjples provjdecj by Artjcle 1264 of the ltalian Civil Code, whereby notice of assjgnrneni must be sent to each debtor according to a specific procedure. in fact, under the law, the step needed to implement the transactjon, vis,e_vis both the original debtors and any third parties, js that the assignor,s assignment notice may be publisl.red in the Official Gazette of the ltalian Republic.

Servicing

The law provides that either banks or financial jntermediaries, duly enroiled in the special register kept by the Bank of italy under Article 107 01 the Consolidated Banking Act, may act as servicers with the ability to provide servjces reiatjng to the collection and paymenl of iransfen ed recetvables

The significant growth jn the ltalian securjtizatjon market, as a resujt of the law, has been cited by several financjal analysts, one of which js Morgan Stanley. The reports, together with the enthusiasm shown by investors iowards asset-backecl securiijes ijsted on the lialian Stock Exchange, suggest that the groMh wjll continue, and ihereby confjrm ltaly,s posjtion as one of the leaders of the European securitization market.

Swap agreements

These are nuil and void if the financial jntermediary company is not entered in the special regjster kept by Consob

With judgment no. 375312001. the Supre,ne Court faced the issue relating to the valjdity of swap agreements entered jnto by a financial intermediary company not enrolled with the specjal register kept by ihe ttalian National Commission for Ljsted Companjes and the Stoctk Exchange.

Given that the jnvalidity of a swap js not specjfically addressed in the law, the Supreme Courl siatecj ihat the eiement cha raclerizing the vatiJity of a contract is the proteciion of general interesis such as fairness and stabiliiy of social relatjons, regardless of the protection of the contracting party,s interest.

The Supreme Court held that "swaps entereci jnto by a financjal intermediary company not enrolled jn ihe Regjster are null and void,,. lt derived its statement from a combination of the ltarian civir code, ,.mhich provides that "the contract is null and void also in other cases provided by the iaw" and iaw 1/1991, ruling that the perforrnance of financjal intern]ediation activities is excrusivery carried out by authorised firms enrolred with the Regisier. The principle remains confirmed by Legislative Decree 5Bl.tgg8 which repealed law 1/1991

The Supreme Couft p,'otect the general jnterests publjc savings, as well as protection of the market fromnoied also that the provisjons af taw 1/1991 of not only the investor uti sjnguli but also the the stability of the financial system and the unlaMul investment actjvjty.

The Supreme Court fudher noted ihat, since the compuisory registration with the Register is related io the assessment of specific requirements, the interests protected by the Jaw through such registration are to be considered "general interesis". On this basis, anJ due to thJfact ihat tne present case was considered a case of non-cornpJiance with mandatory rules, the Supreme Coud conclucled lhat any conlract entered into by a financial intermediary company not enrolled with the Regjster is nuil and void.

Unit-linked policies: the new ISVAP regulations

Unjt-linked policies are life insurance policies characterjzed by their complex financial content: they are a combinatjon of an investment fund and a life insurance policy. Since the ltalian market experienced a sjgnificant groMh in unit-linked policies, ISVAP (the supervisory authority for insurance companies) reieased on February 21 2002 the Circular Letter no. 474/D. concerning new regulations for Issuers.

The customer's capital (the premium paid by the insured) is invested by the insurance company in open-end investment companies, generally quoted in investment units which are ljnked to specific funds. This technique allows the subscriber to defjne the underlyjng type of investment by choosing from a wide range of open-end jnvestment companies differentjated by types of investment (shares, bonds, etc) and geogmphic area (ie Europe, US, Canada, Asia Pacific or emerging countries). The investmeni can usually be modifjed over time.

The customer can, even with modest means with create a personal investment plan protected by insurance poljcy to at least guarantee the an initial capital in the event of losses.

The investment is not subject to attachment since it js a iife insurance policy. In fact, article 1923 of the italian civil Code is applicabte; jt establishes that execution cannot be levied on cash benefits due by the inourer to the contracting party or to the beneficiary, nor can such sums be subjected to provisional remedies. Nevertheless. the provisions concerning revocatjon of acts prejudicial to the interests of creditors, and those concerning coliatjon, imputatron or reduction of gifts apply with respect to the premiums already paid.

lf the death of the insured person oocurs while the contract is in force, the insurance company pays a cash benefit to the person ot- persons named as beneficiaries. ln this case the sum paid is nol sLrbject io inheritance iax.

New risk retention method could save CLOs

Revised Reg AB data excesses sei 10 qenerate new US indusirv

Web seminars

The trillion dolJar ambiiion: Indian Infrastructure

November 27, 2012 – 2.00 pm GMT Supplements

indonesia Annual Review 20-i2

The 2012 cuide to Competitjon and Antitrust

Latin America guide 2012

Private equity and venture capiial guide 2012

Structured finance & securitisation guide 2012

* Political showdown spurs fears over ltaly,s debt burden

* Focus on Rome keeps dollar access tight for euro banks

* Banks seen looking to ECB for dollar liquidity backstop

* Jefferies says cut trading positions in euro zone debt

By Richard Leong

NEW YORK, Nov 7 (Reuters) - Worries about ltaly,s unsustainable debt load fueied jitters about the euro zone's future on Monday ancl [ept U.S. investors away from buying short{erm securities from the region,s banks.

Italy -- the euro zone's thircj biggest economy __ faces -a vote on public finance in parlian]ent on Tuesday and the center-left oppositjon sajd it was preparing a motion of no-confjdence in the government that woulcl bring prime Minister Silvio Berlusconi down even if he should survive the vote.

Rome and ltajian banks,borrowing cosis rose in the open market on growing doubts over ltaly's ability io cut public spendjng and repay its debi.

"We are stjll in the rnidst of trying to fjgure out how Europe js going to get out of its debt sjtuaiion," said Kathy Jones, fixed incon.te strategisi at Charies Schwab in New york, which has $1.65 trillion in client assets.

"ls Berlusconi in or out?" she asked. "Wjll ltaly make any fiscal changes so their bond yields will go down?"

Italian 1O-year government note yields rose to a 14,year high, touching 6.70 percent -- more than three tjmes the yields on 1O-year German Buncls and 10-year U.S. Treasuries .

three-month borrowing cost in the repurchase markei for banks usjng ltalian sovereign debi as collateraJ was bid at around j.5 percent, quadruple what it costs banks using German government debt.

The political showdown in Rome will come after Greek prime l\,4inister George Papandreou survived his own confidence vote on Saturcjay. Papandreou, who will step down, agreed on a deal wjth the opposition party to implement steep spending cuts required by a 1 30_biljion_eu ro rescue package.

The spike in ltaly's borrowjng costs did not ripple Into the dollar funding market becausc U.S investore drastically cut their exposure to Italian, greek and other peripheral euro zone debt ihis summer. analvsts said

major U.S. money market funds had no Jtaiian bank paper at the end of August, according to Fiich Ratings. Jefferies croup lnc. said on t4onday it halved its trading positions jn ltalian and peripheral euro zone debt. The investment bank has been trying to disiance itself from [,4F Global Holdinqs Ltd. which filed for bankrupicy a week ago because of soured bets on European sovereign debt.

While nervousness about ltaly did not materially worsen the dollar funding situatjon for euro zone banks, it will likely force them to rely on the European Central Bank and its swap line with the U.S. Federal Reserve as ihe backstop for doilar liquidity, analysis said.

For now, investors wilJ at least refrajn from raising their holdings of Italian and other euro zone bank paper even if thdy yield more than U.S. Treasury bills and repurchase agreements.

"lt's too early to tell, and it's a revolving situatjon," sald Colin Lundgren, head of fixed income al Columbia l\,4anaoement in l\,4inneaDolis, which oversees about $'170 billion.

"There is no toierance for losses. lt doesn't pay to take the extra risk when investors are focused on the return of principal not the return on prjncipal."

The U.S. Treasury Departmeni on L4onday scld a combjned $56 billion jn three-month and six-month llills to strong demand at interest rates close to zero.(Additional reporting by Kirsten Donovan in London; Eiliting by padraic Cassidy)

Financial and monetary policy

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Lessons for monetary policy from the recent crisis

Speech by Lorenzo Bini Smaghi, Member of ihe Execulive Board of the ECB, at the roundtable "L'euro e la crisi internazionale,, organised by University of Chicago Alumni Club of ttaly and Bocconi Alumni Association, Milan, 19 January 2011

Introduction

The financial crisis has been a very challengjng period for policy-makers worldwide, not least for monetary authoriiiei. beniral banks have lowered interest rates to levels close to zero and implemented a broad range of LInprecedented non-siandard policy measures.

The recent experience offers, lthink, fjve lessons from which monetary policy-makers can learn. Let me ljst them upfront, before turning to each of thery) - in that order - in my remarks today.

- Central bank independence remajns critical to deljvering prjce stabiliiy, particularly durinq crises. .

- A ciearly defined objective of prjce stabiljty is esseniial to firmly anchor jnflation expectations, which can act as an automatjc stabjliser durino a crrsis
.
- monetary policy should be oriented to Lhe rlledium term. lrying to fine-tune monetary policy on the basis of indicators, such as'ouiput gaps and measures of core inflation, which are either subject to ex post i'evisions or are misleading, may - and often cloes, induce an excess short-termism and entail serious risks.
- Monetary and financial variables should be a key jnput jn the assessment of medium to long-run risks to price stabjliiy, particularly during financial crises.
- Finally, price stability and financjal stabitity are comptementary. The new macro-prudential function and monetary policy reinforce each olher.

1. Central bank independence remains critical

The value of central bank independence js the first, lastjng lesson. Of course, central bank jndependence is a s/re qoa no, of effective monetary policy, at all times and under all possible circumstances. If a cenlral bank is not independent, policy-makers from other quarters have strong inceniives to pass on to the bank problems and responsibiJities for whjch they. in fact, are to lle held accountable. This - always leads to a blurring of responsibilities and potentially to a loss of trust, which ultimately undermjnes the effectiveness of monetary policy.

But in times of crisjs the value of independence rises even further. In perturbed market conditjons central banks may have to implement exiraordinary measures, both in terms of reducing poljcy rates to unprecedented levels, and in terms of unconventional liquidity measures. lf these measures - untesled as they are - are to be expected to exert any impact on economic decisions, they have to be seen by market participants as the resuit of an autonomous decision by the central bank. They ought to be seen as being consisteni with its overall policy framework, rather than the result of pressures from the fiscal authorities. The reason is sjmple. lf a central bank comes under pressLtre in times of crisis, and succumbs to thai pressure, it is unlikeiy to behave differently in good times. Therefore, if the central bank is externally constrajned to take exceptional measures during a crisjs, ji will not be able to resist the same pressures when the crisis ends. This may disanchor jnflation expectations and thus undermine the eflecliveress of tl-e measures ,molernerted duting ll-p crjsic.

The ECB has made no exception The linancial crisis that has shaken the global economy for two full years has meant that we had io eiplore new avenues of monetary policy interuentjon. We all had to experiment with new tools, as conventional instruments had been blunted and damaged to some extent by the financial collapse. True, ihe aciivation of new tools sometimes has brought us closer to the lines that separate the different spheres of policy-makjng responsjbilities from each other - lines we previously considerecl as remote.

However, the fact that during a crisis the central bank broadens its range of tools does not imply that it is compromisjng its objective and its independence in pursuit of its mandate. In the case of the ECB, the instiiutional framework for the single monetary policy establishes the ECB's independence in choosing the instruments necessary to achieve its mandate of price stability. We cannot modify our mandate. But we can choose the instruments which, from tirne to time, we consjder most efficient in atiaining our objective. This is the essence of "instrument independence , a fundamental cornerstone of the contemporary theory and practjce of central banking, and a critical preconditicn for central banks' success in iaming inflation and keeping ii low and stable over the last 30 years.

Because of the crucial role of banks in the real economy of the euro area, in the autumn of 2008 we siarted to provide liquidity in unlimited vo umes and with longer maturities to banks. In June 2009 we launched a programme to purchase euro-denoni inated covered bonds issued by euro area resident banks. The ajm was to iump-sta{t'this nrarket, which represents the bright side of sccuriiisatior, and yei lrad sLr,'€r-ed considerabiy in tlte crisis. By fulay 2010 persistenl and excessrve government borrowing and accounting frauds had unleashed a debt rLtn on Greece. N4arket uncedajnties had spread to other issuers and a locaiised ioss of confidence-had soon developed into a generalised market paralysis: a vjrtual sejzing-up of the market for government paper, for any signature excepi the most credible.

In these conditions, the ECB decjded to intervene again, through a new Securities Markets Programrne. The purpose of these interventions was _ and still is - genuinely a monetary policy one. The market for government paper plays a central role in the fjnancial system of any developed economy, and constitutes a crucjal link in the upstream podion of the transmtssion mechanjsm that channels monetary policy jmpulses to the real economy. Thjs is due to the power of collateral 'n the contemporary financial world. The presence or absence of collateral in money market transactions, and the quality of the coliateral used io secure rnoney rnarket transactions determine whether the transmission mechanism starts to function or is blocked, whether it is foreseeable and dependable, or uncedain ancl unreliable. The percejved quality of collateral jnfiuences the scale of market spreads over and above the overnight rate at which the central bank lends to banks. And money market spreads are the first asset prices whose orderly adjustment is so imporlani in ensurjng that the monetary policy intentions of a central bank are conveyed to the broad economy. ln addition, one shoulcl not neglect the fact that government securities provide the basis on which alJ prjvate debt instruments are priced.

I would take the argument one step further. I suggest that the central bank should use jts independence to remind the other main policy actors at all times, even during crises, of their responsibiljties. lt should not act in a way which may create disincentives for the other authorities. The fiscaj and supervisory authorities arc key .players. When implementing an accommodative policy in response to a potential seizing_up of financial markets, the central bank should not shy away from calling on the fjscal authority to irnplemeni a credibJe medium-term budgetary adjuatment. lwoulcl even consider this to be a pre-condltion for the central bank to enact such a policy. Otherwjse the unceftainties surrounding the fiscal framework may contaminate monetary policy

On a more general note, an accommodative liqujdjty policy entajling alypically low interest rates needs rejnforcing safeguards. On the one hand. it needs io be accompanied by a healthy fiscal framewerk: such a framework removes one prjme source of instability and _ where instabiljty persists nonetheless - it broadens the scope of action open to central banks.

This has been a key point for the ECB especially over the last 12 nronths and will continLle to be in 2011. We have emphasjsed several times that it is ihe task of the political authorities to ensure a credjble fiscai framework, composed of appropriate national budgetary programmes, a rigorous surveillance lramework at the euro area level and a stabie safety net underpinning the stability of the euro area econonty.

The ECB has also repeatedly called on ihe governments of the Member States to make a leap forward in improving the institutional lramework underlying the euro area. We have made concrete proposals over the last few months on ways lo improve the fiscal and macroeconomic surveillance underlying the Stability and GroMh pact and to address crises. if they occur. A iot has been done but there ls a need to complete this work, as we have stalecl recently, to protect the system againsi market instability. We have also repeatedly called for a timely consolidation of public finances in contrast to some cofimeniators and acaden.had this consoJidation started earlier, rather than under ll-te pressure of the markels, it would have been less palnful.

The same pressure ne€ds to be exerted on the supervjsory and fiscal authorities in charge of ensuring the solvency of financial institutions. An unconditional supply of liquidity by the central bank to address systemjc problems may create disincentives to recapitalise and restructure the fraqile parts of the system, and thus delay the recovery. The provision of liquidity should thus be conducted in a way ihat maintains the incentives for financial institutions and supervisors to take alj the necessary measures to restore normality as quickJy as possibie. Thjs is why extraordinary measures have to be implemented within a framework which foresees a timely exit when conditions allow.

2. A clearly defined objective of price stability is essential

The second lesson taught by the crisis is that a clearly defined objective of price stabiljty can act as an automatic stabiliser when uncedainly becomes destabilising. This is always true, in both good iimes and bad. ln fact, well-anchored expectations in the euro area were instrumental in avoiding large interesi rate hjkes before the crisis, when commodity prices rose sharply. At the heighi of the crisis, however, they became a policy insirument jn thejr own right. Thanks to well-anchored inflation expeitations we were able to avoid deflationary spirals and reduce real interest rates in landem with nominal rates. Noie that if inflation expectations are well . anchored. and impervious to lransient shocks io actual infiation. there rs no need to manipulate key parameters of the monetary policy frameworks, i.e. no need to increase the inflation target or to move to price level targeting in order to resist deflatjonary risks in tjmes of macroeconomjc djstress. Opportunistic manipulations of the moneiary policy framework of course damage the foundations on wh;ch that framework rests. So, being able to rely on the rebalancing etfect of inflation expectations is a superior option But fjrmly anchored inflation expectations also make policy commitntents unnecessary. These commitrnents concerning the future course of the policy rate are viewed as providing one effective instrument for introducing a stimulus when the room for reducing the nominal interest rate is exhausted. But they come at a price. Policy commitmenis cannot be effective unless they materlally constrain future options. Again, being abie to rely on firm inflation expectations offers a way to reduce real rates and provjde a stimulus without incurring the lirnitations of policy commitments.

3. Monetary policy should be oriented lo the medium term

The third lesson concerns the risks associated with a monetary policy aimed at fine-tuning shortlerm objectives. Experience, especialiy prior to the crisis, has revealed the risks of designing policy on indjcaiors and variables whjch are not sufficiently robust. Let me give a couple of examples, stafting with the output gap. As the literature has clearly shown, the empirical proxies used to capture the output gap are subjeci to constant revisions. There is evidence that for th e petiad 2OO2-2A04 the output gap estimates in the United States were ex post significantly smaller than the real-time estjrnates. Policy-makers who base their decisions mainly on such assessments of the cyclical posiiion can be seriously led astray. The Great lnflation of the 1970s was, for instance, to a large extent due to measurement errors in ihe realtime esiimates of the output qap combined with an overreaction to output gap measures when assessing the state of the economy. The same applies to the low interest rates implemented for a prolonged period in the middle of the last decade.

Core inflation measures are another exampJe. l-hese can gtve misleading signals in the event of persistent changes to relative prices. This is not so much a lesson that we can learn from the crisis, but a phenomenon that the crisis has exposed as one of the main factors of the pre-crisis Greai lModeration. Examples abound. For example, technological innovations concentrated in the production of the goods inciuded in the core jnflation basket can persistently push down selected prices. There is also evidence that globaljsatjon has been depressjng prices for core CPI procjucts due to increased glob?l con]petition in the tradable goods sector, while at the same tjrne prices for,energy and food products have been pushed up by the demand of those emerging eoonomies that were opening up to the global economy. In these conditions, too much emphasis on core inflation can djstort policy inference. Core inflation can provide policy-makers with a downwardly biased assessment of overall price pressures and - mistakenly - suggest a pro-cyclical po.'cy course.

In a globalised world, the destabilisinq mechanisms that such distortions of perspective can activate are manifold. Today increased trade and capital flows make monetary policy decisions in systemically imporiant countries tighily interact. in fact, monetary polcy decisions rn industrialised countries find in the exchange raie arrangements of imporiant emerging market economles a potentially poteni multiplier. For example, the currenily accommodative monetary policy of industrialised countries qenerates more liquidity at the global level than if emerqjnq market economies' currenctes were free to float. Limits to the sterilisation of international capjtal inflows under currency pegs lead to generalised liquidity spillovers on a giobal scale. At the same tirne the accumulation of foreign reserves by emerging market economies jeads to downward pressure on long{erm interesi rates in global economies. Thjs, in turn, intensifies the trends in asset and commodity pflces, thus potentially leading tc further imbalances and global lnflation When setting their policies, rnonetary policy-makers in industrialised countries should iake this dimenston into account.

Monetary policies aimed at fine{uning short-tenn objectives also run a serious risk lhal they wiil induce 1oo much poiicy forbearance lor too tong. Exiting an extraordinarily accommodative mode too late can sow the seeds of future imbalances. As the econorny recovers from an exceptionally deep recession, realtime output gap estimates and estimates of structural unemploymeni or the non-accelerating inflation rate of unemployment (NAIRU) are particularly uncedain. Siructural unemployment is likely to have significantly risen because of the mismatch between the skjlls of workers that lose their jobs in sectors that are downsizing, and the skills of workers required in the expanding sectors of the economy. While emphasis on output gap measures can instil the conviction that unemploymeni could be reduced by monetary rneans, it becomes an illusion if the problem is due to a structural mismatch of skills or labour market imperfections. Structural policies are the only policy instrument that can address structural unemployment.

4. Monetary and financial variables are a key input in the assessment of price stability

The fourth lesson that I draw from these difficult times is that this crisis has certainly proved that the conventional wisdom of the last decade - that money does not matter, even for monetary policy - is wrong. I guess I do not need to emphasise this to alumnifrom the University oJ Chicagol

money and credit aggregates do coniain jmportant information that allows policy-rnakers to overconre ihe pitfalls related to some econornic indicators. When inftation is rendered dormant by a sequence of favourable supply side shocks, this creates an environment in which central banks might find it extrenrely difficult to raise interest rates, even if such a tesponse were justified by bullish financial markets and by signs of econornic overheating. In these conditions, incorporating rnonetary and financial imbalances in the policy process - whether jn the form of a monetary pillar or in the form of a leaning-against.the-wind aititude can help support a pre-emptive policy even jn the face of subdued or falling inflation. The reason is simple. monetary and credit imbalances wl'rich form alongside and - I would say - in symbiosis wiih an asset price trend indicate that price stabiiity might be endangered over the rnedium term. Reacting to the monetary side of this syn'lbiosis may prevent larger problems from occurring subsequently.

In addition, monitoring credit groMh can also be useful to identify other sources of unsustainable credit developments, even if some of them cannot necessarily be eliminated by monetary policy toois, and would instead require action of a macro-prudential nature. After years of torgetfulness, macroeconomic iheory seems to have caught up with reality and shifted attention io credit and ieverage as critical parameters that a ceniral bank should consult regularly to measure the pulse of the economy.

The ECB consistently used these parameters even when they were derided as relics of a defunct monetary doctrine. They proved useful. They gave information about financing conditions and the financial structure, as well as about the condition and behaviour of banks, when these sources of information were critical to the assessment of the health of the transmission mechanism and, more broadly, the siate of the business cycle And ihis dimension of monetary analysis has proved pariicularly valuable in shap ng the ECB'S response to the financial crisis. There is indeed evidence for the euro areq.that withoLit duly taking the monetary analysis into account, inflation in the euro area would have been distinctly higher at times of financial exuberance and woLlld have fallen deep into neqative territory in the wake of the financial market collapse, starting in the autumn of 2008. The oconomy as a whole would have been more volatile.

On a more general note, by inclu{ng monetary analysis in their monetary strategy, central banks can ensure ihat important information stemming from money and credit, typically neglected in conventional cyciicai forecasting models of the economy, is considered in ihe formulation of monetary policy decisions. There is compelling empirjcal evidence showing that at low frequencies, that is over medium to Jongerlerm horizons, inflation shows a robust positive association with moneiary growth

5. Complementarity between price stability and financial stability

The fifth lesson from the financial crisis is that ensuring price stability is not sufficientfu financial stability. To be sure, the conventional wisdom prevailing before the crisis was iwofold. First, stabjlising infiation would do the job. As inflation is - according to the pre-crisis consensus - a summary statistic for the state of the economy, for demand pressures, then any exuberance in financial markets would not be policy-relevant unless it exefts upward pressures on inflation. Second, and partly as a consequence, ceniral banks should only pick up the pieces afier the bubble has burst, and the costs of doing ihis relative to a policy of resisting the bubble while it is forming would not be large.

Both these prescriptions have turned oui to be major mistakes. For one thing, inflation and financial exuberance are ofien negatively - noi positively - correlated, so that concentrating a central bank on inflation oniy rneans biasing the assessment of the risks to the macro-economy from a ionger-term perspeciive. And, cleaning up the economy in the wake of a financial coilapse can be exceedingly costly. This raises the question of whether central banks should be given the task of ensuring both prIce stabjliiy ard financial stability, and possibly qiven additional tools to do so.

The interlifkages bet\r'r'een financial stability and price stability and between rnonetary policy and prudential supervision have become more evident as a result of the crisis. monetary policy can affect systemic risk via a number of channels. First, being mandated to a price stability objective, a central bank sets in piace the l]ecessary cond itions for financial stability Economic history tells us that without price stabilrty financial stability is ceftainly absent. Either inflation hedgrng might lahe lhe most improvised and destabilising forms, or the central bank itself - golng through cycles of go-stop poiicies - might become an independent source of macroeconomic instability and ihus financiai volatility. We all remember that a l6ng span of time of unanchored inflation expectations and poor inflation records encouraged all sorts of self-made strategies of inflation hedging in the 1970s in many industrialised countries. ltaly's housing market, for example, received a formidallle boost from ltalians' aiiempt to insure against susiained losses in purchasing power. But as soon as monetary policy in the 1980s changed paths and embarked on decisive stabilisation. and inflation risl(s subsided, house prices staried to plummet, makiirg the disinflaiionary recessiorl more painful. So, lack of price stability generates financiai volatllity and financial volatility aggravates macroeconomic uncedainty.

A second channel through whlclr mofetary' policy can contribute to financiaj stability is through its lencler of-laslresort iLlnction. when financial markets become dysfunctional and lire monetary lransmission channels are no longer working propedy, monetary policy has a role to play in supporting the liqujdity conditions of solvent and iiliquid banks. I mentioned this before - when ldescribed the ECB's reaction to the crisis.

Third, more recent analysis has drawn attention to a channel through which monetary policy mighi also - unintentionally - influence the percepljon of risk by financial markets and thus, ultjmately, the assumption of risk by financial agents: the so-called riskmakjng channel. Financial jnstitutions apparently increase their leverage during booms and reduce it during recessions. Thus, contrary to common assumptions, financial inslitutions' leverage is pro-cyclical; the expansion and contraction of balance sheets amplifies, rather than counteracts, the credit cycle. Protracted loose monetary conditions can foster excessive riskmaking and, consequentially, produce a build-up of financial jmbaJances. lf not accurately controlled, this channel can add io the pro-cyclicality of financial markeis.

Now, you have two ways to counter financial pro-cyclicality. The first is through a monetary policy regime that is not centred exclusively on inflation, but leans against the wind ot iinanciai imbalances. What does thls mean? lt rneans, for example, implementing a tighter policy in the face of financiai exuberance than would be justified by the same inflation outlook ln more tranquil market conditions. it means iolerating a dolvndrift in inflation in exchange for some more insurance against greater and more disruptive rlsks to price and financial stability in the longer run.

The second way to counter financial pro-cyclicality is through macro-prudential supervision, a new perspective of macroeconomic control. l\,4acro-prudential supervision ajms to support the stability of the financial system as such and seeks to dampen its pro-cyclicality by eliciiing regulatory and supervisory instruments. From the central bank's perspective, this implies that rnacro-prudential supervision is relevant to the extent that it has an irnpact on the functioning of the transrnission mechanism through which a central bank seeks to influence the outlook for price stabiljty.

It is clear that the two policies are.complementary. But, does one of ihem make the other redundant? I don't think so. Let me advance my own view about the correct way to organise the interaction between the trr'r'o. A leaning-against{he-wind approach in monetary policy prevents a risk-less interest rate - the floor to all borrowing costs in ihe economy - from becoming pro-cyclical. Macro-prudentiai policies rnake sure that the leverage that the economy creates at that {loor rnterest rate and the spreads that are paid by risky borrowers over and above the floor jnterest rate set by the central bank do not become an additional pro-cyclical source of volatility for the financial system dnd the cconomy as a rhole

How about the other dimension of superuision: micro-prudential policies? Note, first, the difference between macro and rnrcro. macro-prudential supervision ainrs at limiting the likelihood of fai ure of significant portions of the financial sysiem. or systemic risk. lt follows that the macro-prudeniial supervision siresses the possibility thai aclions llrat fiay seem desirable or reasonable from the perspective of individuai inslitutions rnay result in unwelcome system outcomes.micro-prudential supervision, instead, aims at limiting the likelihood of failure of individual instjtutions. While the h/vo policies have clearly a ditferent scope, ultimately the micro-prudential sphere provides the instruments that can be activated in response io macro-prudential risks.

An issue which has attracted attention in ihe past is whether central banks should be entrusted with supervisory powers - the instrumenis - or whether those powers should remain within a separate body. My take on this dispute is the following. The experience of the crisis tends to suggesi that having ihe micro and macro-prudential instruments well integrated among other functions within the central bank might be desirable.

Why? Because it always makes good sense to coordinate objectlves with instruments. And it looks to me natural thai such coordination might best be pedormed by ihe ceniral bank. lndependent bodies are better able to deal with the necessary exchange of informaiion behteen the monetary and supervisory functions, and can build any Chinese wall between the two that rrray be needed to avold cotlflicts of interest. Progress has been made since the eruption of the crisis in several countdes, with the supervisory powers being iransferred from a separate institution, which in many cases was insufficienily independent from ihe political authorities, to the central bank

But orqanising ihe coordinating role in the euro area context remains a complex undertaking. This is due not only to the fact that, national supervisory authorities are sometines pad of ihe national central banks, while in other cases they are separate instilutions. lt is a complex environment because' even in a hypothetical situaiion in which all supervisory authorities were integrated in the central banks, this function would still be exercised at the level of the national jurisdiction. ln other words, in a monetary union the need for coordination is h/vofold: coordlnation beh/veen the macro and the micro functions, and coordination between the authorities exetcising the micro functjon locally.

Some progress has been aahieved with the creation of the three European supervisory authorities and the European Systemia Risk Board, which comprises the central banks and the three European agencies The ESRB will be able to make recommendations, whjle implementation remains the responsibility of the national authorities.

6. THE TRANSMISSION OF MONETARY POLICY IN NORMAL TIMES

Monetary policy aflects prlces and the economy more broadly through several channels(see Chart 1). To put it simply' changes in thekey policy nterest rate of the central bank affeci rates relevant for households and fi rms,intJuding rates on bank lending and deposits' and, hence, consumption' saving ani investment decisions ln turn, these decisions info uenc;ggregate ciemand and, ultimately, price-setting behaviour and the formatiJn- oi inflntion expectations ln the euro area, ihis channel' usually referred to as the interest rate channel, has been found to have the most leverage on theeconomy.3 Other channels through which monetary pollcy can affect "prices and real activlty inclucle the exchange rate channel and the asset price channel.

ln general, the functioning of the money market plays a critical roie in the operation of the inieresi rate channel.

Determinants of Monetary Policy in France, The Federai Republic of Germany, ltaly and the United Kingdom; A Comparative Analysis

Donald R. Hodgman and Robert W Resek* This paper is motivated by interest in the actual decision processes and observed behavior of national monetary authorities in vjew of ihe importance of natlonal monetary policies boih foriomestic economic performance and for iniernational monetary and economic cooperation. in this paper we present and interprei policy reaction funciions for ine monetary authorities of France' the Federal Republlc of Germany, ltaly, and the United Kingdom These functions for partlcular countriei have been developed with due attention to specific. national characteristics of the rnonetary policy decision process, to ihe setting provided lly national financial institutions and markets, and to the seiection of policy instruments, or proxies for these, appropriate to the praciices of specific national n'ronetary authorities.

We have had to omit much of this relevant background material from this oaoer owinq to limitatlons of space We hope this omission will be compensatecl in"some degrde.by nraterials presented in papers devoted to individual coLntries in this .or'eron.-

Moreover, it seems clear that such a formalized view of the rnonetary authorities' decision process departs from reality boih in its emphasis on the precision of the auti'rorities' preference patlerns and the certainty of their knowledge of their own economy and its relations with the rest of the world'

In our view the actual decjsion process is surrounded by uncertainty and thus involves reliance on judEment and application of standard proce-

* Donald R. Hodgman and Robert W. Resek are both Professors of Economics at the Univ;rsity of llllnois at LJrbana-Charnpaign The atrthors wjsh to express their appreclatlon for the excellent tesearcl'l assistance provlded by Urs Kienberger, Karen lvokaie and Shin-Pey Yuan.

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Duress which are altered only if policy results are c,eady unsatisfactory when judged by the auihorities' custornary criteria. Thus, we present poiicy reaction functions as a step in the search for quantjfiabie patterns of monetary policy behavior. The quantified policy reactiof functions thus may serve as a check on more qualitative descriptions of the monetary policy decision process ancl may help to focus the search lor factors-socio-political' economic and international--that account for the differences in monetary policy behavior over time and between countries.

Each of the next four sections of this paper presents and discusses one or more policy reaction functions for the monetary authorities of a specific country. A concluding section offers some cross-country comparisons. brief commenls on the phenomenon of regime changes and some observations on the international implications of national behavior patterns.

France

In France monetary policy decisions take place within a system of national economlc management in which the central government plays an exceptionally strong role. Control over financial flows by means of monetary and credit policies. budgeiary policies, direct adminisirative conirols on the activities of financial institutions and markets, and foreign exchange controls are among the principal means ernployed by government minisiries and the Banque de France to manage the French economy Direct controls by the Banque de France and the relevant government ministries often are used to regulate both the quantiiy of credit flowing through various financlal institutions and rnarkets and the interest rates paid or charged. l\4any interesi rates are regulated so that they move little, if at all, in response io market forces. The French financial systcm is segmented by regulations and administraiive controls in order to limit the effect that pressures generated in one market by government policy and private behavior will have in other markets. Access to the capital market is controlied by il.re N,4inistry of Finance

Three primary concerns have dominated F[ench monetary policy during the years 1964-81 covered in this study The first is the development and restructuring of the French economy, especially industry. The second is the desire to malntain a level of domestic prices and interest rates that would contribute to the international competitiveness of French firms and the stability of the Frencl.r banking system. The third is management of the French baiance of payments and the foreign exchange value of the franc without jeopardizing domesiic interest rate, credit allocation and money stock objectives.

The French monetary authorities, defined to include lhe N,linistries of Finance and of the Economy as well as the Banque de France' have a wide variety of policy instruments at their disposa'. We have chosen to concentrate on tlvo instruments: the control exercised by the Banque de Ftance over shon-term money market rates and iis power to set ceiling raies for

sector objectives of the halance of payments and the franc exchange rate. Ceilings on bank credjt expanslon have been used prifilafijy to contrl:ri the banking system's contribution to groMh oJ the money stock ,hile seeking to rninimize interest rate effects.

Policy Reaction Function for the Money Market Rate

Our reaction function for the money market rate regresses the quarterly average for the overnight money market rate, IBRO, (closely controlled by the Banque de France) on the annual percentage rate of change in the spot franJmark exchange rate, ln (FRD[,4XROt/ FRDMXRQT-4)' the annual percentage rate of change in the consurner prjce index' in(CPlFOl-l/CPlFOt-s), and in an industrial productlon index, ln (lPlCt-tlPrct-5), th; three-month Eurodollar rate in London, REDQT-|, and the government budget deficit, GDEFT 1

ll. ltaly

The key domestlc economic goals of ihe ltalian monetary authorlties may be presumed to be to sustain real economic groMh and to coniribute to cyciical stabilization of the economy so as to limii unernployment and low use oi industrial capacity. Stability of the domestic price level, while hypothetically an impoftant policy goal for purey domestic reasons may be of secondary imporlance in ltaly. Wage indexation has parliaily protected workers {rom loss of real income due to price inflation while a policy of low or negative real interest rates to favor business and government borrowing has had support through political and government channels On the other hand, in an economy u" op""n u" the ltalia; economy the condition of ihe balance of payments and exchange rate must be a constant preoccupation of the monetary authorities. This implies concern with relative price trends, interest rate differentials, the externai value of the lira and the surplus or deficit in the balance of payments, especially the current account.

tral banks discount rate, its intervention rate in the Treasury biil market, the obligatory cash reserve requirement' the security investmenl requiremeni, the ceiling rates of expansion slipulated for bank loans, the regulation of the net -foreign posiiion of commercial banks and special deposits at the central bank as a stipulated percentage of import payments

Our prirne candidate for the best lndrcator of the policy intentions of the Italian monetary authorities is the monetary base Although this is noi striclly a policy instrumeni, per se, there are two good reasons for choosing it:

(1) iis movement over ljme incorporates the influence of a number o{ ihe policy instruments used by the Banca d'ltalia lhough certainiy noi all, and

(2) in Banca d'ltalia doclrine the monetary base has beer regar'Jed. as the key monetary aggregate through which the monetary authorjties should atternpt io exert tneir ,nllr ence on the p. o'lor).

The prominence accorded since 1974 to "total domestic credit"'(TDC)' as an intermediate target might suggest its use as a policy indicator rather ihan ihe monetary base. We reject this alternative. ln the central bank's efforts to achieve domeitic and balance of payments goals, control of TDC can be shown to be a distinctly second-best alternative to control of the monetary base and ton"y "rpply. Effofts io control TDC involve various direct administraiive tea"ur"" (for exarnple, quotas on rediscounting' ceilings on bank loan expansion, setting of minimum marginal security reserve requirements, controls over international capital movements) TDC targets have replaced monetary base control as a stated objective because under government policy the -Banca d'ltalia has been constrained from permitting interest ratei to iise to market clearing ievels implied by rnonetary base control geared to domestic and balance of payments objectives ln the coniext of freely adjusting credit markets and interest rates, control of the monetary base would remove the raison d'fitre of the TDC intermediate target Control of TDC does not guarantee control o{ the monetary base and money supply which is essential for achieving longer term goals for real economic growt-h, modorating dornestic jnflation and achieving equilihrium in the -balance of paymenis. Thus, moneiary base control may reasonably be viewed as a Banca d'lialia policy indicator while TDC is better understood as an intermediate tarqet designed for specific ltaiian conditions

Since 1974 the Banca d'ltalia has sought progressively to widen its cliscretionary limits with regard to interesi rate policy and thus io be able to rely more on market foices and less on administrative measures in implementing monetary policy Thus, for this more recent period ii may be reasonable io estimate a policy reaction function usjng an appropriale interest rate as the Banca d'ltalia's instrument variable This approach is undertaken following that for the moneiary base.

Concluding Comments

In conclusion we comment brefly on three aspeqts of our study of monetary policy reaction functions that merit emphasis: narnely observed differences in nalional palterns of policy behavior, the issue of regine changes and the more general theme of socio-political influences on monetary policy.

French monetary policy appears to have been concerned primarily wiih domestic lntrution and witn managlng the balance of payments and exchange rate. From qualitative evidence we know that France has sought.to keep domestic intrest rates relativety low and stable and to use monetary and to use monetary andbudgetary policy instrument of money market rates and domestic effectsby means of direct control. Evidence from the policy reaction function showa that such specialization of function and segmentation of market is incomplete. Two other quantitative result are of intrest. Since late 1974 the FF/DM exchange rate has ssuperseded the FF$ exchange rate in influencing Ffrance appears not to have exerted a significant influence on monetary policy.

Any scheme of international monetary cooperation such as the EuroDean monetary System or llss formal commilments to monetary coooerallon or harmonization,muth less monetary unification,must be compatible with the deeply embedded,slowly changing and nationally diverse socio-political fories that help to define the persistent strategy thems of nalional rnonetary policies. The degree of international monetory cooperation defined in operational and technical terms can be achived and made to work limited by the degree of convergence in favorable domestic political forces in the cooperating countries.'thus it is not so much the 'politic':l will" as the "political feasibility" ot various schemes of Interational monetary cooperation that determines their acceplabililv and practicality.

PART-II

COMPANY SPECIFIC STUDY

Damiani (jewelry company)

Damiani S.p.A.	
Type	Società per azioni

Traded as	BIT: DMN
Industry	Jewellers
Founded	1924, in Valenza, Italy
Headquarters	Valenza, Italy Piazza Damiano Grassi "Damiani" n.1 15948 Valenza
Key people	Guido Grassi Damiani, CEO Giorgio Grassi Damiani, Vice President Enrico Grassi Damiani, Founder
Products	Jewelry
Website	damiani.com

2.1.1 INTRODUCTION OF THE DAMIANI JEWELLERY AND ITS ROLE IN THE ECONOMY OF ITALY.

Introduction

Damiani is an Italian jewelry company founded in 1924 by Enrico Grassi Damiani in Valenza, Italy. Strongly influenced by the beauty of Art Deco styles, Enrico designed and produced fine jewelry which quickly became renowned. He became the personal jeweler of influent and noble families of the time.

HISTORY

Our Beginnings

The Damiani Group was founded in 1924, in Valenza, Italy, in the heart of the goldsmith district, world-renowned for its jewelry production. Founder and master goldsmith Enrico Damiani quic- kly became the jeweler to the most im- portant families both within and outside Italy, creating one-of-a-kind pie- ces and masterworks of highly refined craftsmanship.

The 1960’s

Starting from the 1960’s Damiano, En- rico’s son, started the process of indu- strial and commercial expansion through the promotion of design rese- arch and technical innovation, two ele- ments which strongly impacted future production in which single pieces enjo- yed both exclusive design and high level production techniques. Thanks to these activities Damiani brand products gained an ever-increasing presence in the high-end fine jewelry market both in Italy and abroad, featuring an ideal combination of tradition and innova- tion which characterized the wholly-Ita- lian aesthetics and production of the jewelry.

The 1980’s

Between the end of the 1980s and the 1990s, the Damiani Group successfully started a new style of communication which connected the Group’s product image to well-known personalities. Da- miani became one of the first jewelry companies in the world to use celebrity endorsements. With portraits done by photographers of worldwide renown, the movie stars hand-picked by Da- miani gave life to advertising cam- paigns which had a great impact, winning prizes and recognition for their innovative style of communication.

International Recognition

In 1976, the Group won its first Dia- monds International Awards. The most prestigious prize in the sector given to the best design in diamond jewelry. Damiani has won this award another seventeen times, as well as Calderoni, who has won this “Oscar of the Je- welry World” four times.

Our Brands

Over the years, other prestigious brands were added to Damiani: Salvini in 1986, and in 1998, Alfieri & St. John, a brand dating back in Italy from 1977. 2000 saw the creation of Bliss, promoted through an ad hoc company, New Mood S.p.A., controlled by Damiani Group. In 2006 the Group acquired Calderoni, a historical Milanese brand of high-end fine je- welry.

International Expansion

At the end of the 1990s Damiani Group opened its first international subsidiaries in Switzerland, the United States, and Japan with the goals of starting distribution in the main foreign markets, protecting its territory and establishing profitable relationships for business development. In 1997 Da- miani International BV was set up with headquarters in Amsterdam, as well as an operative branch in Switzerland with control over Damiani Japan K.K. in Tokyo, which was then started in 1998. Damiani USA Corp. was esta- blished in New York two years later. Today each subsidiary represents a real and true operative headquarters with the typical functions of a structu-red Group with a worldwide presence.

The Business Network

In addition to its foreign subsidiaries, the Group has also opened many points of sale which are in line with both the communication style and image of the various brands. Currently the Group is present throughout the world with 80 monobrand points of sale which are located in the most im- portant streets of both Italian and in-ternational fashion.

From a Family Business to a Manage- rial Entity

Starting from the end of the 1990s the Damiani Group accelerated its tran-sformation from a family-run company to an organized entrepreneurial reality thanks to the insertion of managerial fi- gures of high standing in key directio- nal roles.

November 2007: Listing on the Italian Stock Exchange

2007 brought a new challenge for the Group—being listed on the Italian Stock Exchange, an important step in our growth process and an affirmation of Damiani as one of the main opera- tors in the international jewelry market. This was a project which was highly de- sired by the family and one for which the entire top management of the com- pany worked with great commitment.

The purchase of Rocca

In September 2008 the Group purcha- sed full control of the high-end Rocca jewelry and watch-making chain.

Lawsuit

Brad Pitt and Jennifer Aniston filed a $50 million lawsuit against a jewelry designer that began selling imitations of their wedding bands, which were supposedly "one of a kind". The couple claims they had an agreement with Damiani International that the company would never reproduce the wedding bands or the engagement ring (designed by Pitt). Damiani reportedly sold "Brad and Jennifer knockoffs" and sold them on the Internet and at Damiani dealerships using the couple's images to sell the product.

That dispute has been settled and Pitt will now design a line of jewelry for the company and Aniston will model it in ads. Their wedding bands were based on an idea of Pitt's. They were white gold and were engraved with "Jen 2000" (his) and "Brad 2000" (hers). The rings had 10 and 20 diamonds embedded in them respectively. Damiani International states, "Mr. Pitt will design an exclusive jewelry collection for Damiani, and Ms. Aniston will be featured in an international advertising campaign that will run in a number of countries throughout the world, with the exception of North America."

The statement was confirmed by Pitt's publicist. In exchange for Pitt designing an exclusive line for the company and Aniston modeling for the ads, Damiani will stop selling copies of Pitt and Aniston's wedding rings. It has been reported that Pitt and friends were collaborating on a clothing line, but Pitt's camp has denied that rumor.

Silver is a soft, lustrous metal that has a long history as a medium of exchange in coins and currency, and as a store of wealth (silver bullion). A precious metal, silver has been used in jewellery and as a decorative metal for millennia, while, more recently, it has become an important metal for electronic, industrial and medical applications.

Properties:

- Atomic Symbol: Ag
- Atomic Number: 47
- Element Category: Transition metal
- Density: 10.5g/cm^3
- Melting Point: 1760.9 °F (960.5 °C)
- Boiling Point: 3542 °F (1950 °C)
- Moh's Hardness: 3.25

Characteristics:

Silver is a very malleable and ductile metal that reacts readily with sulphur, causing it to tarnish easily. It has the highest thermal and electrical conductivity of any metal, making it a valuable material for many electronic applications. Silver metal is also non-toxic and has anti-bacterial properties.

Italian goldsmith's excellence across the world

Damiani S.p.A., parent company of the Damiani Group, historically is a leading company in the Italian manufacturing and trade sector of jewelry and high level luxury watches. Founded in 1924, the Damiani brand excelled in Italian and International markets, becoming an ambassador of Italian style and a synonym of excellence and the best Italian jewelry tradition. Creativity, design and entrepreneurship are the key elements that have driven the Damiani family for nearly a century, together with a deep passion for an art that has passed on from father to son and also been transmitted to the third generation, now the head of the company. Strengthened by an almost centennial tradition, the Damiani Group has always been renowned for the quality of products and materials adopted and the exclusive design of its collections. The innovative marketing and communications strategy and the proven experience of the management team are two additional key elements that contribute to Damiani's leadership position in the jewelry market sector. The success of the Gruppo Damiani is the result of a perfect combination of creativity, research and innovation, merged with a profound knowledge of the goldsmith's tradition at an international level.

Today the Damiani Group can proudly claim ownership of a prestigious portfolio of perfectly complementary brands: Damiani, Salvini, Alfieri & St. John, Bliss, Calderoni and Rocca, the jewelry and high level watches chain. Currently the Group is in Italy and major markets worldwide with fully owned subsidiaries, managing 32 direct and 50 franchised points of sale, in the most exclusive streets of the world's major cities.

The history: one passion, three generations

Valenza, homeland of the best Italian jewelry tradition: this is where the story of a leading brand of top end Italian made jewelry begins. It was 1924 when Enrico Grassi, founder of the family of jewelers, began designing and creating jewels with diamonds; small masterpieces destined for the noble families of the time, for which he soon became the trusted jeweler. For all the following years, Damiani was acclaimed in the Italian jewelry sector as the highest expression of classicism, balance, and preciousness.

Damiano, Enrico's son, continued the family tradition, driven by great creativity and a strong entrepreneurial spirit: he created jewels with an unmistakable style that has remained unaltered over time, made significant investments in research and for the creation of new solutions. Through a perfect combination of tradition and innovation, Damiani products acquired increasing fame in Italy and across the world.

Starting in the 1980s, the company innovated its communication style introducing, pioneers in the jewelry sector, highly prestigious testimonials, photographed by the world's greatest photographers.

Faithful to its heritage, the third generation also followed in the family steps with passion, creativity and commitment, expanding the development process that has enabled the shift from family business to organized corporation to accelerate, also through the opening over the years of international subsidiaries and boutiques in the world's most famous and prestigious locations.

In 2007 the Group went public and was listed in the Italian stock exchange; today the Damiani brand is leader of the Italian jewelry market sector and is acknowledged worldwide as a synonym of top-end Italian style tradition.

Celebrities like Isabella Rossellini, Brad Pitt, Nastassja Kinski, Chiara Mastroianni, Milla Jovovich, Jennifer Aniston, Gwyneth Paltrow, Sophia Loren and Sharon Stone have collaborated with Damiani, which can claim princesses and prime ministers among its clients.

Enrico Grassi Damiani, Damiano Grassi Damiani The Damiani family Among the Damiani's testimonials: Jennifer Aniston, Isabella Rossellini, Gwyneth Paltrow

Values

Passion, experience and excellence at the service of top-end jewelry

Tradition

The maximum expression of Italian style: the district of Valenza, the heart of Italian jewelry tradition, continues to have very strong bonds with the company. Master goldsmiths and artisans, holders of invaluable expertise, enhance the quality of every single piece, transmitting emotion, history and passion since 1924.

Quality and Savoir Faire

Strong point and distinction, built on the quality of gems, the perfection and precision of the craftsmanship recognizable across the globe. Handcrafting, painstaking care of details, creation and study of the design, first-rate materials: resulting in great masterpieces of the goldsmith's art.

Ethics

All Damiani suppliers are part of a very restricted circle of selected organizations respecting UN regulations on the certification and origin of diamonds. Compliance with the Kimberly Process involves the highest degree of attention to legitimate sources not involved in funding conflicts, responding to conditions that respect and promote ethics for labour and the market but people first and foremost, fundamental values for Damiani.

Independence

Damiani maintains its family business DNA, headed today by the third generation: Guido, Giorgio and Silvia Grassi Damiani, the founder's grandchildren. A company that is 100% Italian and has maintained its independence and philosophy focusing on "Italianism" and the goldsmith's tradition.

Innovation

A successful combination between the excellent craftsmanship that is part of the Damiani tradition, and innovation: Company roots deeply grounded in the Valenza jewelry district combined with the pioneering spirit of forward-looking people.

Exclusivity

Exclusive, even unique jewels: with the collections, Damiani creates Limited Edition and unique masterpieces, occasionally also created or customized on customer request.

Treasuring

Every Damiani jewel is a treasure, to be passed on from generation to generation: an unbreakable link between past and future, a wealth of emotions and much more bringing forth the company's values, unchanged over three generations. Damiani: authenticity is stronger than time.

Italian style expressed through a perfect balance of elegance, luxury and design

Creativity, cratfmanship and originality are the elements deeply embedded in the Damiani jewelry DNA, symbolizing the passion for fine jewelry passed from father to son for three generations. All jewels, entirely handmade with the highest level of care for details, are absolute masterpieces of the goldsmith's art, an expression of long lasting tradition with a strong focus on jewelry design that have forever characterized Damiani jewelry's exclusive and exquisite collections.

View oscars

.

All Damiani collection jewels are exclusive and unique creations, combining the allure of Italian jewelry with the unmistakable, always modern and fashionable Damiani taste. From gold rings to elegant diamond solitaires, to gemstones jewelry and ageless watches, the Damiani jewelry universe is always capable of granting unforgettable emotions.

Design

Design of the highest level, taste and masterly techniques create unmistakably unique jewelry, examples of aesthetic perfection, beauty and harmony. Some are true masterpieces of master goldsmith expertise at the highest level: the Damiani Masterpieces have attained numerous awards and acknowledgements over the years, in particular, the Diamonds International Awards, the World Jewelry Oscars, rewarding the best design and best diamond jewelry creations. Damiani is the only International brand to have won 18, an unequalled record.

Damiani D.Icon **Baci**

Anima

Regina Cleopatra

<u>Burlesque</u>

<u>Eden</u>

<u>Gaia Fancy Dream</u>

<u>Metropolitan</u>

Via Lattea

Moon Drops

Gomitolo **Justman**

Damiani fine jewelry

Unique, precious jewels expressing the luxury of timeless class

Each Damiani creation represents the highest expression of Italian fine jewelry: almost 100 years of creating precious jewels entirely handmade with the greatest attention to detail and careful selection of gems, real masterpieces of fine jewelry art and expressions of a tradition that has remained unchanged and is the trademark of the Damiani style. Damiani fine jewelry creations aim at stylistic and aesthetic perfection. Unique, fascinating, elegant and refined jewels flow from the designer's inspiration expressing a distinctive style that has gained prestigious international awards. All Damiani jewels are a combination of tradition and innovation, a blend of the perfect balance of shape and top quality, an expression of savoir faire and confidence that has become the brand's strength and hallmark worldwide.

The unique masterpieces of Damiani fine jewelry are created for people who love wearing highly exclusive jewels for special occasions or simply to collect, custodians of emotions and timeless class, a treasure to pass down the generations that creates an indissoluble bond between past and present; a wealth of affection and family ties to safeguard and make eternal through the passage of time; a history of excellence bearing the values of the Damiani family passed from father to son for three generations. Damiani fine jewelry reaches the highest level of excellence with its Masterpieces, exclusive jewels, real masterpieces of unequalled excellence, and the 18 Diamond International Awards assigned to 18 precious Damiani jewels, an unparalleled achievement worldwide.

Damiani Masterpieces Masterly crafted works of art

Damiani has always been synonymous for high-level tradition of made in Italy around the world. The Damiani Masterpieces come from designer inspiration, always able to create unique jewelry with endless artistry, real masterpieces of goldsmith's art at the highest levels of excellence. Damiani top end jewelry creations are rare examples aimed at aesthetic and stylistic perfection and have attained prestigious awards and recognitions over the years.

The expert artisans from Valenza are masters in emphasizing the light and colour of precious gemstones and diamonds, the pure lines and unique gems, transforming them into eternal objects able to convey strong emotions, the history and passion animating the birth of every single piece.

Damiani Masterpieces synthesize tradition with modernity, shapes with excellent quality and expressions of the savoir-faire that have become the strong point of the Maison at worldwide level.

The unique masterpieces of top end jewelry by Damiani are for people who love highly exclusive jewelry to wear for special occasions or simply to collect, custodians of emotions and timeless class, treasures to be passed down from generation to generation.

Exclusive design, highest quality, excellent craftsmanship: these are the features of all Damiani Masterpieces, creations that are the essence of luxury.

Damiani luxury watches for women

A selection of women's watches identified by exclusive design and excellent craftmanship

Damiani luxury watches are watches for women that merge accurate craftsmanship and the latest trends of high-end female horology. They are in fact representations of a perfect balance between design and elegance, made even more precious by the yet unseen technical and aesthetic details that place them in the category of horology masterpieces. Expertly created by the best Swiss artisan watchmakers they are rendered unique by the integration with the most modern trends of Italian design. This combination is the foundation for the creation of extraordinary luxury watches for women, for a sophisticated woman that favors excellence and seeks the real essence of luxury in the most exquisite details; an example of which are the diamonds on the hour and minutes hands, a distinctive element that adds a touch of exclusivity to some of the highly sophisticated luxury wristwatches. The luxury watches for women by Damiani, in fact, are skillfully enriched by the colors of gemstones, the brightness of diamonds. Additionally, in some watches, the ceramic, adopted for the case in white or black, adds glamour and refinement by highlighting the sparkle of the gems and the preciousness of details.

Perfect for elegant attire but also for every day wear, all Damiani luxury watches are characterized by distinctive lines and appealing shapes, combined with fine materials and exceptionally valuable gems. Luxury watches for women by Damiani are the perfect interpretation of the jewelry house's Italian style, of the painstaking attention to detail and the constant search for excellent quality.

Watches in white gold, ceramic watches, watches with diamonds and colored gemstones, women's refined sports watches, watches with mother of pearl, stylishly elegant chronograph watches: all precious luxury watches for women by Damiani are small masterpieces, surprising in their exclusivity, the unique craftsmanship and the most sophisticated preciousness.

Eden

Belle Epoque Ceramic

Notte di San Lorenzo

2.1.2 STRUCTURE, FUNCTIONS AND BUSINESS ACTIVITIES OF DAMIANI JEWELLERY

Structure

Bimetallic nanoparticles, also called nanoalloys, are at the heart of nanoscience because of their ability to tune together composition and size for specific purposes. By approaching both their physical and chemical properties, Nanoalloys: Synthesis, Structure & Properties provides a comprehensive reference to this research field in nanoscience by addressing the subject from both experimental and theoretical points of view, providing chapters across three main topics: Growth and structural properties Thermodynamics and electronic structure of nanoalloys Magnetic, optic and catalytic properties The growth and elaboration processes which are the necessary and crucial part of any experimental approach are detailed in the first chapter. Three chapters are focused on the widely used characterization techniques sensitive to both the structural arrangements and chemistry of nanoalloys. The electronic structure of nanoalloys is described as a guide of useful concepts and theoretical tools. Chapters covering thermodynamics begin with bulk alloys, going to nanoalloys via surfaces in order to describe chemical order/disorder, segregation and phase transitions in reduced dimension. Finally, the optical, magnetic and catalytic properties are discussed by focusing on nanoparticles formed with one element to track the modifications which occur when forming nanoalloys. The range and detail of Nanoalloys: Synthesis, Structure & Properties makes it an ideal resource for postgraduates and researchers working in the field of nanoscience looking to expand and support their knowledge of nanoalloys.

From the Back Cover

Bimetallic nanoparticles, also called nanoalloys, are at the heart of nanoscience because of their ability to tune together composition and size for specific purposes. By approaching both their physical and chemical properties, Nanoalloys: Synthesis, Structure & Properties provides a comprehensive reference to this research field in nanoscience by addressing the subject from both experimental and theoretical points of view, providing chapters across three main topics: •Growth and structural properties •Thermodynamics and electronic structure of nanoalloys •Magnetic, optic and catalytic properties The growth and elaboration processes which are the necessary and crucial part of any experimental approach are detailed in the first chapter. Three chapters are focused on the widely used characterization techniques sensitive to both the structural arrangements and chemistry of nanoalloys. The electronic structure of nanoalloys is described as a guide of useful concepts and theoretical tools. Chapters covering thermodynamics begin with bulk alloys, going to nanoalloys via surfaces in order to describe chemical order/disorder, segregation and phase transitions in reduced dimension. Finally, the optical, magnetic and catalytic properties are discussed by focusing on nanoparticles formed with one element to track the modifications which occur when forming nanoalloys. The range and detail of Nanoalloys: Synthesis, Structure & Properties makes it an ideal resource for postgraduates and researchers working in the field of nanoscience looking to expand and support their knowledge of nanoalloys.

About the Author

Damien Alloyeau is working at the Paris Diderot University in the Materials and Quantum Phenomena laboratory. His research focuses on both the synthesis of innovative nanomaterials and the development of electron microscopy techniques dedicated to the study of nano-objects. After his PhD thesis focused on the thermodynamical properties of CoPt nanoparticles in Paris, he obtained a post-doctoral position at the National Center for Electron Microscopy in Berkeley (LBNL, USA) where he became a specialist in aberration-corrected high-resolution TEM. He entered the CNRS as a permanent researcher in 2010. Recently, he has applied electron tomography and quantitative high-resolution electron microscopy to study the effect of the shape of CoPt nanoparticles on their order-disorder phase transition. This work, recently published in Nature Materials, is an important step forward in determining the origin of size effects in magnetic alloys nanoparticles. Christine Mottet is a researcher of the department of Theory and Numerical Simulations of the Interdisciplinary Centre of Nanoscience in Marseille (France). After a thesis on metallic clusters and a post-doc at the University of Genova, Italy, in the group of the professor Ferrando on the growth of metallic surfaces, she enters the CNRS as researcher in the group of modelisation of Guy Tréglia in the Research Centre on Crystal Growth Mecanisms in Marseille. She works on the modelling by numerical simulations of the structure and dynamics of metallic nanoparticles. She has been member of the Council of the French Physical Society and of the National Council of the Universities. Since 2008, she has been co-director, with Christian Ricolleau, of a CNRS research network composed of 30 French laboratories working on nanoalloys. Christian Ricolleau is the leader of the Advanced Transmission Electron Microscopy and Nanostructures group at the Material and Quantum Phenomena laboratory. He is a physicist in materials science with much experience in electron microscopy (mainly in high resolution, diffraction and energy filtered TEM techniques). He has extensive knowledge in the growth of metallic nanoparticles on oxide substrates since it has been, in addition to the new development in advanced TEM techniques, his main field of research since 1999. After his PhD thesis on the wetting phenomenon of antiphase boundaries in binary alloys, he got the position of assistant professor in Mineralogy Crystallography Lab in Paris Diderot University. In 2000, he participated in the creation of the Materials and Quantum Phenomena laboratory and, in 2004, he received the position of professor at the Paris Diderot University. Since 2008, he has been the director of the Nanoalloys Research Network of the CNRS. From May 2010, Christine Mottet and Christian Ricolleau are French members of the Management Committee of the COST Action "Nanoalloys as advanced materials:

Business Activities

Business

Jewwlry as a business is classified as an industry based on its purpose. It can be in the manufacturing industry as jewelry (NAICS Code 33991) if what is produced is a new product to be sold. It can be in the arts industry if the jewelry is considered to be a work of art (NAICS Code 711510), rather than a product.

There are a variety of ways people make money from making jewelry. Some sell their product locally, at trade shows or via the internet. Others sell original patterns or kits they have designed themselves. And, still others teach jewelry making. The best way to learn more about the viabiiity of any of these business models is to participate in Professional Resources, subscribe to magazines that are related to your interests, and read books that give more in-depth information about the business.

Costume Jewelry and Novelty Manufacturing

This U.S. industry comprises establishments primarily engaged in (1) manufacturing, engraving, chasing, and etching costume jewelry; and/or (2) manufacturing, engraving, chasing, or etching nonprecious metal personal goods (i.e., small articles carried on or about the person, such as compacts or cigarette cases). This industry includes establishments primarily engaged in manufacturing precious plated jewelry and precious plated personal goods.

The NAICS industry code for Costume Jewelry and Novelty Manufacturing is 339914. Included in this industry are:

Cases, jewelry, metal (except precious), manufacturing
Costume jewelry manufacturing
Engraving and/or etching costume jewelry
Jewelry, costume, manufacturing
Pearls, costume, manufacturing
Personal goods, metal (except precious), manufacturing
Watch bands, metal (except precious), manufacturing

Cross-References. Establishments primarily engaged in

- Manufacturing, engraving, chasing, or etching precious (except precious plated) metal jewelry and novelties - classified in U.S. Industry 339911, Jewelry (except Costume) Manufacturing;
- Manufacturing personal goods (except metal) carried on or about the person, such as compacts and cigarette cases, - classified in U.S. Industry 316993, Personal Leather Goods (except Women's Handbag and Purse) Manufacturing; and
- Manufacturing synthetic stones - classified in U.S. Industry 327999, All Other Miscellaneous Nonmetallic Mineral Product Manufacturing.

Jewelry (except Costume) Manufacturing

This U.S. industry comprises establishments primarily engaged in one or more of the following:

1. manufacturing, engraving, chasing, or etching precious metal solid or precious metal clad jewelry;
2. manufacturing, engraving, chasing, or etching personal goods (i.e., small articles carried on or about the person, such as compacts or cigarette cases) made of precious solid or clad metal; and

3. (3) stamping coins.

Making Jewelry

Introduction

Jewelry consists of ornamental devices worn by persons, typically made with gems and precious metals. Costume jewellery is made from less valuable materials. However, jewellery can and has been made out of almost every kind of material. Examples include bracelets, necklaces, rings, and earrings, as well as items like hair ornaments or body piercing jewellery.

The word jewelry is derived from the word "jewel", which was anglicised from the Old French "jouel" in around the 13th century. Further tracing leads back to the Latin word "jocale", meaning plaything.

Jewelry, particularly when made with precious materials, is generally considered valuable and desirable. Some cultures have a practice of keeping large amounts of wealth stored in the form of jewellery. Jewellery can also be symbolic, as in the case of Christians wearing a crucifix in the form of jewellery, or, as is the case in many Western cultures, married people wearing a wedding ring.

Jewelry in various forms has been made and worn by both sexes in almost every (if not every) human culture, on every inhabited continent. Personal adornment seems to be a basic human tendency.

2.2.1 COMPARATIVE POSITION OF DAMIANI JEWELLERY / PRODUCT WITH INDIA AND GUJARAT

Comparative Position of Damiani Jewellers

Rajesh Exports Limited was established in the year 1990 as a gold jewellery manufacturing company and has grown to be the largest gold jewellery manufacturing company in the world.

Rajesh Exports Ltd has welcomed the Government’s decision to make Hallmarking mandatory on Gold Jewellery.

During the two festive weeks of Diwali and Christmas of 2012 the 75 retail stores of DAMIANI Jewellers recorded sales in excess of Rs. 90 crores, wherein more than 330 kilos of jewellery was sold in a retail area of about 45000 sq ft. DAMIANI Jewellers has emerged as a household and the number one retail jewellery brand in the state of Karnataka.

Profit before interest, depreciation and tax is Rs.1900.21 millions as against Rs.2232.60 millions in the corresponding period of the previous year. Expenditure : During the quarter the total expenditure cost rose by 21 per cent mainly on account of increase in Material consumed and Employee benefit expenses. Total expenditure in Q3FY13 was at Rs.76337.57 million as against Rs.62894.19 million in Q3FY12. Cost of material consumed rose to Rs.74087.31 against Rs.62736.41 millions in the corresponding period of the previous year. Other Expenditure was at Rs. 12.62 million and depreciation is Rs.5.10 million in Q3FY13 are the primarily attributable to growth of expenditure.

DAMIANI Jewellers the retail brand of Rajesh Exports Limited has posted record retail sales during the Diwali and Christmas festival season. During the two festive weeks of Diwali and Christmas the 75 retail stores of DAMIANI Jewellers recorded sales in excess of Rs. 900 million, wherein more than 330 kilos of jewellery was sold in a retail area of about 45000 sq ft. During the two weeks there was a footfall of 37616 customers and 28454 conversions were recorded with a sale of 67414 pieces of Jewellery.

DAMIANI Jewellers on a consolidated basis has recorded an increase of 223% over sales during the same period last year and has recorded an increase of 215% over the footfalls recorded during the same period last year.

The company has plans to inaugurate 500 DAMIANI Jewellery showrooms by the year 2014. Presently the company has 75 DAMIANI Jewelers, retail showrooms.

Company Profile

Rajesh Exports is manufacturer of gold and diamond jewellery and was incorporated in 1990 and is head quartered in Bangalore, India. Mr. Rajesh Mehta and his brother Prashant Mehta entered into their family business of retailing jewellery in 1985. In 1994 the company became the largest exporter of jewellery from India.

Currently the company has set up world’s largest jewellery manufacturing unit which is spread across 10 acres of land. This unit processes 250 tonnes of gold per annum. It is also capable of producing hand-made jewellery, casting jewellery, machine chains, stamped jewellery, studded jewellery, tube jewellery and electro-formed jewellery. The company has its presence in entire jewellery cycle starting from refining of gold to marketing of jewellery.

The company designs jewellery according to market trend and has a portfolio of 29000 designs. REL has set up a gold refining unit at Rudrapur, Uttarakhand in the year 2009. The peak-out capacity of the refining unit is to refine Four hundred tones of gold per annum.

It is the lowest cost gold jewellery producer in the world. The company has its presence in four continents of North America, Europe, Asia and Australia. It has distribution network in the cities of New York, Chicago, Dallas, Toronto, London, Paris, Zurich, Dubai, Sharjah, Muscat, Kuwait, Singapore, Kuala Lumpur and Sydney. Currently the company supplies jewellery to over five thousand retail showrooms across India. It has also set up exclusive jewellery retail stores under the name LAABH JEWELLERS. Currently REL has setup 80 retail jewellery stores across Karnataka at prominent locations. Products: REL manufactures a wide range of jewellery. The R&D division tracks the changes in the jewellery markets, the changes are analyzed and based on the analysis designers create designs. The designs on the drawing board are prototyped by senior artisans.

The products so created are displayed to the selection committee which decides on the inclusion of the products in the design portfolio. The existing design portfolio is also constantly monitored to eliminate out of trend designs. REL currently has a design portfolio of 29,000 active designs.

Retail brand: DAMIANI Jewellers

DAMIANI Jewellers (Retail brand of Rajesh Exports Limited), is the largest retail jeweler in the country selling 100% hall marked jewellery. DAMIANI Jewellers has 75 showrooms wherein each piece of jewellery sold is hall marked, Since inception it has been the policy of DAMIANI Jewellers to deliver 100% hall marked jewellery of finest designs at the lowest price in the world, which DAMIANI Jewellers is capable of delivering because of being the only completely integrated jewellery retailer in the world, starting from the mines, refining the gold at it's own refinery, manufacturing world class jewellery at it's own world's largest jewellery manufacturing facility and also retailing the jewellery directly to the retailers.

The design portfolio is divided in to three basic types of products:-

Asian Jewellery

Western Jewellery

Diamond Jewellery

These products are further divided into various categories and items. The entire product portfolio is digitized and each of the design bears a distinctive number. The R&D division has conducted extensive research in color, finish, shine, size and durability of the products which has resulted in each of the products of REL being exclusive and unique. Each piece of jewellery undergoes a strict quality checking process and only after the certification by the quality control department the product is released for sale. REL absolutely guarantees the gold purity in each of its products.

The inventory division maintains inventory of the products based on the quantity suggested by the product division for each of the designs. Most of the products are available off the shelf. REL is capable of quickly responding to orders from its buyers. Financial Highlight

Production:

Silver often naturally occurs in sulphide deposits along with copper (in chalcopyrite), lead (in galena) and zinc (in sphalerite). About three quarters of virgin silver production is, consequently, extracted as a by- or co-product of these metals. The minerals most commonly mined in primary silver operations include argentite, chlorargyrite and pyragyrite.

Silver containing ore is first crushed and ground into a powder before froth flotation separates metal containing particles. During the flotation process, air is pumped through a slurry of water and ore, resulting in metal sulphides sinking to the bottom.

Depending on the type of ore, different processes are then employed to extract silver and purify the primary metal (e.g. zinc).

When silver containing copper ore is electrolytically refined silver accumulates at the bottom of the refining tank. This can be smelted, cast and itself electrolysed in a solution of silver-copper nitrate to produce 99.9-99.99% (commercial grade) silver

After flotation, zinc concentrates are roasted and leached with sulphuric acid, which results in residue that contains lead, silver and gold. This residue - or slag - can be melted and treated with powdered coal and hot air producing a lead, silver and gold bullion. Treated with zinc, during what is known as the Parker process, gold and silver in lead bullion, or lead concentrates, form compounds and float to the surface.

The gold-silver residue is then heated to about 800° C (1,450° F) oxidizing any remaining lead content in a process called *cupellation*. It can then be refined electrolytically and boiled with sulfuric acid to separate the gold and silver.

According to the Silver Institute, 950 million ounces of silver were produced in 2010. Just over 20% of this silver came from recycled materials. The largest producing countries were Mexico (128.6 million ounces), Peru (116.1) and China (99.2). The largest silver producing companies during the same period were BHP Billiton, Fresnillo PLC and KGHM Polska.

Applications:

Silver is used in three main areas:

1.industrial and medical applications

2.jewellery

3.modes of investment

Although in decline, silver's main industrial application is traditionally in photography, which accounts for about 7% of total silver demand. Photographic film depends upon silver halide crystals, which are light sensitive, in order to produce negative images for radiography, graphic arts and consumer photography.

Electrical solders, switches, contacts and fuses depend upon silver because of its efficient electrical and thermal conductivity properties. Electrically heated auto windshields, conductive adhesives and certain types of photovoltaic cells are manufactured using silver, as well as mirror and glass coatings, cellophane and batteries.

The jewellery and silverware industry accounted for about 20% of global demand in 2010. Silver is often alloyed with copper or base metals to increase the metal's durability for its use in silverware.

Silver is used in dentistry, as well as in very small quantities to sterilize water. It is used in medical equipment because of its ability to act as a bactericide and in some medications to fight infection. It can also be used on burn victims to halt infection and aid in the healing process.

Silver is perhaps, historically, most known for is its role in coinage. Today, silver bullion coins and medals are still a common form of retail investment, accounting for almost 10% of demand in 2010. It is traded on the London Bullion Market and COMEX in New York.

2.2.2 PRESENT POSITION AND TREND OF BUSINESS (IMPORT / EXPORT) WITH INDIA / GUJARAT DURING LAST 3 TO 5 YEARS

PRESENT POSSITION AND TRADE OF BUSINESS IN INDIA(FIAT)

New Delhi-based Fiat Partecipazioni India, the group sourcing arm of Fiat, will commence the export of components for models to be launched from 2012. So far, the company has exported components that are primarily for the existing models as an additional source and also for the spare part requirements of the models that have ceased production. According to Niraj Hans, managing director and country head, Fiat Partecipazioni India, this marks the beginning of Indian suppliers participating extensively in new vehicle programmes. “We have a Euro 50 million business of advance purchasing. Supplies will commence towards the end of 2011. Gradually, the business from resourcing will be replaced with advance purchasing,” he says.

Present Position and Trend of Business

Hong Kong jewellery industry can be divided into two main categories: precious metal jewellery and imitation jewellery. In terms of production and sales volume, precious metal jewellery gets the lion’s share. Manufacturers in Hong Kong are specialized in creating contemporary design jewellery set with diamonds, precious and semi-precious stones as well as pearls. Jewellery “made in Hong Kong” is highly renowned all over the world and attains a higher standard of craftsmanship over their counterparts in other South East Asian countries; nevertheless it lags behind the state-of-art technology of Italy and Japan. In particular, Hong

Kong leads the world in the production and consumption of 24kt gold With Hong Kong’s reunification with Mainland China, many manufacturers have moved their production facilities back to China, especially mass production and labour intensive jewellery. Shenzhen is developing at a fast pace in chain-making and jewellery casting from medium to low end price range; in Panyu county around 250 factories are found, the majority belongs to Hong Kong manufacturers that produces jewellery adorned with diamonds, precious stones and pearls. These companies maintain their facilities in Hong Kong for design output, management and control and not to mention the production of high end jewellery which requires a more skilled craftsmanship.

In view of the restructuring of the jewellery industry in Mainland China, the levels of efficiency and technology standard have improved as a result of joint venture with foreign producers like Hong Kong. Certain production phases are made in their factories in Southern China and subsequently ship back to Hong Kong for other value-added processes before delivery to overseas customers This phenomenon can explain an increase in imports and re exports and a cut-throat competition existing not only in the local market, but also with Thailand, Singapore and Korea who profit either from a rich resources of raw materials or a rise in the production capacity.

IMPORTS FROM ITALY

Hong Kong imported over US$283 million of precious metal jewellery from Italy in 2004, accounting for a year-on-year increase of 14.2%. Italy remained to the second most important supplying country, obtaining a market share of 14.9%, and was around half of Mainland China's market share, which was the top on the list.

Comparing with 2003, Italy exported over US$248 million of precious metal jewellery to Hong Kong, represented an extremely slight decrease of 0.17% against the previous year. Italy retained a market share of around 14% after Mainland China (26.7%) and South Korea (25.4%).

Trend

Trade figures from 2004 showed a positive sign. Local economy has finally picked up from the adverse effects caused by the SARS epidemic in 2003 thanks to the introduction of "Individual Visit Scheme". Such a measure facilitates the issuance of visas to Chinese citizens from designated provincials who wish to travel to Hong Kong.

Jewellery "made in Italy" is well sought after for its quality standard and designs due to a long tradition of craftsmanship and jewellery making. Plain and fancy gold chains in 18K have a strong demand in the local market. Branded Italian jewellery such as Stefan Hafner, Marco Bicego and Calgaro are sold through large retail chain stores; while long established names like Buccellati and Bvlgari have their own jewellery shops. Importers tend to keep a wide range of stock in necklaces, bracelets, earrings, rings and pendants etc to serve (1) local jewellery stores; (2) wholesalers from China and other Asian countries. Hong Kong is a major regional distribution centre for chains supplying to various countries in Asia other than Japan.

Italy exported US$248 million of precious metal jewellery to Hong Kong in 2003, equivalent to 13.9% of market share and was positioned as the third major supplying country.

Before 1998, Italy always ranked top in terms of supplying precious metal jewellery to Hong Kong, only to be overtaken by Mainland China after various trade deregulation initiatives adopted by the government to boost economy. Attractive labour cost has induced many local manufacturers to move their factories to the southern part of Mainland China. Increase in imports from Mainland China and the consequent decrease in the market share of Italy do not necessarily imply that Italy cannot further expand its export value and volume, just as happened before in 2002 with very positive outcome.

1.1 OVERVIEW OF HONG KONG JEWELLERY MARKET

Hong Kong is famous for its craftsmanship and skill labour in jewellery set with precious stones, in particular jewellery mounted with diamond in 14K and 18K gold. Multi faceted cut diamond rings combined with assorted colour precious stones are definitely the # best-seller. While their European counterparts concentrate their efforts in producing high ticket value item and promote brand image, local manufacturers specialize instead in offering contemporary and innovative designs, with good quality and a competitive pricing strategy.

Chuk kam jewellery or fine jewellery made of 24K gold is one of the popular product categories in the domestic market. In particular, Hong Kong is leading in the production of pure gold items. Chinese view chuk kam mainly as a financial asset because it can be easily converted into cash and that explains the reason why it is referred as “yellow gold”.

Local importers and wholesalers have over twenty years experience working with Italian chain manufacturers. The highest turnover in volume is gold chains which are well received in the market with a good quality standard and reasonable pricing. Silver and platinum follow suit. Market trend shows that white metal’s popularity is increasing among consumers in Hong Kong and Asia.

1.2 LOCAL PRODUCTION

According to Hong Kong Census & Statistics Department, the value of sales of local production for jewellery (excluding other jewellery and related articles, *(Table 1)* in 2003 was HK$4,013 million (around US$ 514 million) in comparison with HK$4,611 million (around US$591 million) in 2002. The total number of establishments was 561 in September 2004 with a work force reaching 4,259, while 479 establishments were registered in the preceding year that produced over 86% of the total industry output (HS7113 % HS7117). With CEPA came into effect as of 1 January 2004, jewellery “made in Hong Kong” is eligible for zero tariff in China, which may account for the increase of production facilities in Hong Kong. Looking back at the historical data in 2002, the industry numbered 4,615 and the production of precious metal jewellery and imitation jewellery reached HK$5,286 million (around US$677.6 million).

In general, jewellery products made in Hong Kong can be classified in 3 categories:

-jewellery made of precious metal, mounted with diamond, gem jade, pearls, etc;
-jewellery made of precious metal, NOT mounted with diamond, gem jade, pearls, etc;

OTHER

jewellery and related articles made of precious metal or precious stones As shown in Table 1, Hong Kong has diminished its production capacity in precious metal jewellery mounted with diamonds or various types of precious stones. Manufacturers established new factories in Shenzhen and Panyu, both within the Guangdong Provinces to capitalize on lower production cost for labour intensive jewellery.

2.3.2 POLICIES AND NORMS OF ITALY FOR DAMIANI JEWELLERY FOR IMPORT / EXPORT INCLUDING LICENSING/PERMISSION, TAXATION ETC

POLICIES AND NORMS OF ITALY

Since the end of World War II, Italian foreign policy has been built around three main pillars, or “circles”: the Atlantic Partnership and NATO, European integration, and the Mediterranean. In the last 60 years, all governments have sought to strike a balance between these three dimensions and in particular between the relationship with the United States on the one hand and with the European Union on the other.

In the immediate aftermath of the Second World War, Atlanticism and Europeanism emerged as the two lodestars of Italy’s foreign policy. The country’s main interests in that period were to regain a status of parity within the international community, namely in Europe and in the Mediterranean, in order to prevent its exclusion from post-World War II security alliances, and receive protection against Soviet expansionism.

India, US trump Italy as top gold jewellery exporters

Italy has lost its position as the world's premier gold jewellery exporter, overtaken by India and the United States, and risks slipping further due to its high cost base and tariff barriers.

For years Italy was the world's biggest manufacturer and exporter of mass-produced and crafted gold jewellery. Bulgari, Damiani and Roberto Coin are Italian luxury brands celebrated worldwide for their opulent use of gold and precious gemstones and cutting-edge designs.

But the Italian goldsmith sector is fighting an uphill battle against punitive import duties imposed by markets such as China, and competition from lower cost producers benefiting from improving design skills and the latest technology.

Soaring prices of gold and high salaries, have inflated Italian jewellery manufacturers' costs.

Domestic gold jewellery sales have slumped due to the recession in Italy and the soaring price of gold, which hit a record price in euro terms last month.

"Demand for jewellery is one of the first things that drops in a recession," said Licia Mattioli, who is president of Italy's Federation of Goldsmiths (Federorafi), and heads a family-owned gold jewellery manufacturing business in Turin.

Sales of gold jewellery in Italy were down 15 percent in volume terms (to 4.8 tonnes) and fell 9 percent in value terms year on year in the second quarter, figures from the World Gold Council showed.

Steven Tranquilli, director of Italy's federation of jewellery retailers, Federdettaglianti Orafi, estimated that gold jewellery retail sales were down 20-25 percent year on year in Italy.

Total revenues of the Italian goldsmith sector in 2011 stood at 6.3 billion euros, down 16 percent from 2007, according to Federorafi.

The Italian industry flourished on the expertise and skills built up by family-owned businesses over generations and the international prestige of "Made in Italy" design and manufacturing. Italy is seen as an international trend-setter in jewellery design.

But now India and the United States have overtaken Italy as exporters in volume terms.

There is also intense competition from lower cost gold jewellery manufacturing origins such as mainland China, Hong Kong, and Thailand, Mattioli said.

"India and the United States have tax advantages over Italy," Mattioli said.

IMPORT DUTIES

She said that Indian manufacturers can export gold jewellery to the United States duty-free up to a certain volume, whereas all Italian gold jewellery exports to the United States had to pay duty.

Indian and Brazilian manufacturers pay low duties when they export gold jewellery into EU markets, she added.

Manufacturers in India and the United States have benefited from greater economies of scale compared to the fragmented nature of the Italian goldsmiths' industry, as well.

Improving design skills and technology, and cheaper labour, give manufacturers in developing countries such as India a competitive edge.

Italy's gold jewellery manufacturing companies are centred in Vicenza, Valenza, Arezzo and Bassano del Grappa. Most production comes from family-run goldsmith workshops with small workforces.

Export-focused Italian gold jewellery manufacturers gather three times a year, in January, May and September, at the VicenzaORO trade fairs in Vicenza, which attract hundreds of retail buyers from around the world searching for the most exciting new designs for their stores.

Gold is currently trading at historically high levels around $1,700 an ounce, having touched an 11-month peak of $1,795 on October 5. The current environment of relaxed monetary policy, which fuels fears of inflation, has boosted the investment appeal of gold.

Faced with the tough challenges of the domestic market, Italian gold jewellery manufacturers are turning their attention increasingly to the fastest growing export markets.

According to the latest figures from VicenzaORO, the main destinations for Italian jewellery exports in the first quarter were Switzerland (363 million euros, or 22 percent of the total), the United Arab Emirates (237 million euros, or 14.3 percent), and the United States (142 million euros, or 8.6 percent).

Italy exports about 70 percent of its manufactured gold jewellery, with the remainder sold domestically.

"We are seeing demand from the United States pick up," Mattioli said, referring to the fragile recovery of the world's biggest economy, which had been for years the biggest importer of Italian gold jewellery.

"But the big problem for Italian gold jewellery exports are the import duties in BRIC countries," she added, referring to emerging economies Brazil, Russia, India and China.

The Italian industry is lobbying the European Union to overcome the challenge of import duties but VicenzaORO officials have said the high quality of Italian jewellery exports would ensure that they increasingly penetrate fast-growing Asian markets, including China.

"China operates big import duties - a major brake on business for Italian companies," Mattioli said.

"We need to discuss at an international level the problem of the import duties," she added, referring to ongoing contacts between the Italian industry and the EU.

According to VicenzaORO, the Vicenza gold jewellery manufacturing district's exports to China in the first quarter of 2012 jumped by 52.7 percent to 38.2 million euros, propelling the country to second place among export destinations.

Increased design innovation and skilful marketing to growth export destinations will be vital for the future success of the Italian industry.

At the retail level, Italian luxury jeweller Damiani has seen strong growth in the Chinese and Russian markets where it expects to expand its presence.

The rapid increase of wealth in these countries has boosted demand for branded luxury goods including gold jewellery.

"The foreign markets which are growing fast and where our group sees great possibilities are: Greater China, where Damiani is already present with eight boutiques and will soon open another five, and the former Soviet republics where a new boutique will open soon in Moscow," said Guido Damiani, president and CEO of Damiani.

He said a store in St. Petersburg would follow.

Mumbai-based Gitanjali, one of the world's largest diamond and jewellery manufacturer-retailers, acquired a handful of Italian luxury jewellery brands during the economic downturn, and now sells their pieces in strategic growth markets.

Gitanjali has opened a store showcasing two of its upscale Italian brands, Stefan Hafner and Nouvelle Bague, in Dalian, China.

Italian trade is dominated by automobiles and machinery. The country is challenged by mountainous terrain where cultivation of agriculture isn't possible. For the same reason, Italian trade depends on the manufacturing sector.

Around the world, Italy's famous brands such as Armani, Valentino, Versace, Benetton, Prada, FIAT, Lancia, Alfa Romeo, Maserati and Lamborghini have created a niche in the global marketplace where there is a demand for high quality and superior goods.

Italy Trade: Exports

The 2008 recession decreased Italy's global trade volumes significantly. Its export volumes decreased from $546.9 billion in 2008 to $369 billion in 2010. However, the country's economy remained relatively strong and ranked 8th in the world for export volumes.

-

Italy Trade: Imports

Italy's imports dipped as well following the 2008 recession. The figures dropped from $546.9 billion in 2008 to $358.7 billion in 2010.

Italy imports the following commodities:

Engineering products

Chemicals

Transport equipment

Energy products

Minerals and nonferrous metals

Textiles and clothing

Food and Beverages

Tobacco

Italy’s main imports partners are:

Germany

France

China

Netherlands

Libya

Russia

Italy Trade: Energy Export

Italy has a high volume of energy production in its industry sector. Italy exports 3.431 billion kWh of electricity and 667,100 bbl/day of oil and 210 million cu m of natural gas. Through increased energy production, Italy's trade balance has come down from $78.03 billion in 2008 to $55.44 billion in 2010.

Analysis & Opinion

- Europe, China holding back Asian export recovery
- The once and future Silvio

Fri Nov 2, 2012 9:43am EDT

* Gold jewellery sales down in Italy due to recession, costs

* Italian goldsmith sector lobbies for fairer tax regime

* India, U.S. export volumes take top spots

* India's Gitanjali acquired Italian luxury brands

By David Brough

LONDON, Nov 2 (Reuters) - Italy has lost its position as the world's premier gold jewellery exporter, overtaken by India and the United States, and risks slipping further due to its high cost base and tariff barriers.

For years Italy was the world's biggest manufacturer and exporter of mass-produced and crafted gold jewellery. Bulgari, Damiani and Roberto Coin are Italian luxury brands celebrated worldwide for their opulent use of gold and precious gemstones and cutting-edge designs.

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Total revenues of the Italian goldsmith sector in 2011 stood at 6.3 billion euros, down 16 percent from 2007, according to Federorafi.

The Italian industry flourished on the expertise and skills built up by family-owned businesses over generations and the international prestige of "Made in Italy" design and manufacturing. Italy is seen as an international trend-setter in jewellery design. But now India and the United States have overtaken Italy as exporters in volume terms.

There is also intense competition from lower cost gold jewellery manufacturing origins such as mainland China, Hong Kong, and Thailand, Mattioli said.

"India and the United States have tax advantages over Italy," Mattioli said.

2.3.2 Policies and Norms of India for Import or export to the Italy Including licensing

Industrial Licensing: Norms and Policy

Posted on June 21, 2012 by India Briefing

By Harshit Khandar

Jun. 21 – For the organized growth and development of industrial India, Parliament has enacted the Industrial (Development and Regulation) Act, 1951. The IDR Act provisions apply to “industrial undertakings,” which means an undertaking pertaining to a scheduled industry carried on in one or more factories by any person or authority.

Chapter III of the Act pertaining to the regulation of scheduled industries makes it mandatory for every existing industrial undertaking to seek registration with the Central Government. Also, every new industrial undertaking has been mandated to obtain a license by the Central Government.

Moreover, a registered or a licensed industrial undertaking is restricted from manufacturing a new article unless the license for new article has been obtained or prior license has been amended to include the article, as the case may be.

The rules regarding the granting of registration certificates and licenses are provided under “The Registration and Licensing of Industrial Undertaking Rules, 1952” and Notification 477(E) dated July 25, 1991, of the Department of Industrial Policy and Promotion.

Presently, an industrial license is required for industries retained under compulsory licensing, the manufacturing of items reserved for the small scale sector by larger units, and when the proposed location attracts restrictions.

The industries requiring compulsory licensing are:

- Distillation and brewing of alcoholic drinks
- Cigars and cigarettes of tobacco and manufactured tobacco substitutes
- Electronics
- Aerospace and defense equipment
- Industrial explosives -including detonating fuses, safety fuses, gun powder, nitrocellulose and matches
- Hazardous chemicals – including items hazardous to human safety and health and thus fall for mandatory licensing

The government has reserved certain items for exclusive manufacturing in the small-scale sector. Non-small-scale units can undertake the manufacturing of items reserved for the small scale sector only after obtaining an industrial license. In such cases, the non-small-scale unit is required to undertake an obligation to export 50 percent of the production of small-scale industry (SSI) reserved items. This has been done to protect indigenous manufacturers from competitive exotic substitutes so as to ensure a level playing field for domestic manufacturers.

With regards to locational limitations, industrial undertakings are free to select the location of their projects. Industrial licenses, however, are required if the proposed location is within 25 kilometers of the standard urban area limits of 23 Indian cities having a population of at least 1 million. The locational restrictions, however, do not apply in the case of electronics, computer software and printing and any other industry which may be classified in the future as a "non-polluting industry." The location of industrial units is subject to the applicable local zoning and land use regulations and environmental regulations so as to maintain ecological discipline.

The application for registration has to be made to the Secretary of Industrial Assistance, Central Government. After due consideration, the government then issues the Certificate of Registration. Similarly, an application (Form IL-FC) for obtaining a license by a new undertaking has to be made to the Central Government along with the fee, after which the Ministry issues a license. Industrial licenses are granted by the Secretarial of Industrial Assistance (SIA) on the recommendation of the Licensing Committee.

After a an industrial undertaking has obtained a license or permission as above, it becomes eligible to the allotment of controlled commodities and for the issuance of an import license for goods required for the construction and operation of the industrial undertaking.

De-licensed industries

These are industries which do not require compulsory licensing, do not fall under locational restrictions, and are not reserved for small-scale industries. There is no exhaustive list specified by the Department of Industrial Policy and Promotion. As a process of liberalization of industrial policy, many items have been exempted from compulsory licensing and attention is reserved only for those which are vital for public health, safety and national security. Industries exempted from the provisions of industrial licensing are required to file an Industrial Entrepreneur's Memorandum along with a fee.

The Government's liberalization and economic reforms program aims at rapid and substantial economic growth, and integration with the global economy in a harmonized manner. The industrial policy reforms have reduced the industrial licensing requirements, removed restrictions on investment and expansion, and facilitated easy access to foreign technology and foreign direct investment.

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Jewellery

Franchise India is a mission of Franchise Mart in which Jewellery franchise is key franchise business opportunity. Jewellery franchise is a major part of the franchise business and also a great opportunity to start your own business. There are all kinds of Jewellery franchises - including fashion jewellery, gold, silver, diamond, artificial, costume jewellery, pearls, art jewellery, international jewellery brands etc. Interested in Jewellery franchise ? Somewhere in this franchise category, there is probably some Jewellery franchise that is just right for you ! Simply click on below Jewellery franchise opportunities to access their franchise information to start a franchise in India.

Regulatory Laws & Taxation

There are some regulations which are restricting the growth of the industry such as search & seizure laws. Perhaps there is case of rationalizing /removing these restrictive laws. At the same time there is dire need to standardization in the industry, which can restore the credibility of the industry. In terms of taxation there should be a continuation and further enhancements of tax benefits. Notably Deduction under section 10A / 10B / 10AA of Income tax Act should be modified to have a longer period of benefit both for future as well as retrospective effects. Removal of Octroi from Mumbai will also go a long way in supporting the large presence of the sector in that city.

IMPORT TAXES

VAT

VAT or value added tax is accessed at a rate of 21% on those shipments that are entered as normal consumption entries in addition to the normal rate of duty.

CUSTOMS FEES

Examination Fees

Additional fees can be accessed on some commodities to cover the expense of performing the examinations and or testing required as a condition of the goods entry into the commerce of Italy. Commodities affected: cosmetics, drugs and medicines, artwork.

IMPORT AND EXPORT POLICIES OF INDIA(FIAT)

The UPA Government has assumed office at a challenging time when the entire world is facing an unprecedented economic slow-down. The year 2009 is witnessing one of the most severe global recessions in the post-war period. Countries across the world have been affected in varying degrees and all major economic indicators of industrial production, trade, capital flows, unemployment, per capita investment and consumption have taken a hit. The WTO estimates project a grim forecast that global trade is likely to decline by 9% in volume terms and the IMF estimates project a decline of over 11%. The recessionary trend has huge social implications. The World Bank estimate suggests that 53 million more people would fall into the poverty net this year and over a billion people would go chronically hungry.

Though India has not been affected to the same extent as other economies of the world, yet our exports have suffered a decline in the last 10 months due to a contraction in demand in the traditional markets of our exports. The protectionist measures being adopted by some of these countries have aggravated the problem. After four clear quarters of recession there is some sign of a turnaround and the emergence of ‘green shoots’, though I would be hesitant to hazard a guess on the nature and extent of this recovery and the time the major economies will take to return to their pre-recession growth levels.

2.3.3 PRESENT TRADE BARRIERS FOR IMPORT / EXPORT OF GOLD (IF ANY)

Trade barriers between India and Italy

India and Italy have agreed to improve bilateral trade flows as a common goal for mutual benefit and mutual reinforcement of political links. This is indicated in the agreed minutes of the 16th Session of the India-Italy Joint Commission for Economic Cooperation which was signed here by Shri Kamal Nath, Minister of Commerce & Industry, on behalf of Government of India and Mr. Antonio Marzano, Minister for Production Activities, on behalf of the Government of Italy. Although the two-way trade between India and Italy increased to US $ 2.77 billion during 2003-04, both sides have noted that the level of trade is far below its true potential. Indo-Italian trade could be doubled to US $ 5 billion within the next 2 to 3 years, Shri Kamal Nath had said at the inaugural meeting of the Joint Commission and the interactive business session held on 7th January.

In another significant move in the context of the phase-out of the multi-fibre arrangement (MFA), India and Italy have agreed to explore enhanced cooperation in textile clusters and in the field of textile design through the National institute of Fashion Technology (NIFT). Both sides expressed the hope that the transition from quota to the non-quota regime in textiles "will be smooth and would not cause disruptions so as to affect current flows, without any negative repercussions especially on developing and the least developed countries". Both sides will also explore possibilities for cooperation in leather, gems & jewellery, food processing industry, tourism, energy, financial services and information technology and scientific research.

Present Trade barriers for import /Export of accessories

Most trade barriers work on the same principle: the imposition of some sort of cost on trade that raises the price of the traded products. If two or more nations repeatedly use trade barriers against each other, then a trade war results.

Economists generally agree that trade barriers are detrimental and decrease overall economic efficiency, this can be explained by the theory of comparative advantage. In theory, free trade involves the removal of all such barriers, except perhaps those considered necessary for health or national security. In practice, however, even those countries promoting free trade heavily subsidize certain industries, such as agriculture and steel.

Trade barriers are often criticized for the effect they have on the developing world. Because rich-country players call most of the shots and set trade policies, goods such as crops that developing countries are best at producing still face high barriers.

Trade barriers such as taxes on food imports or subsidies for farmers in developed economies lead to overproduction and dumping on world markets, thus lowering prices and hurting poor-country farmers.

Tariffs also tend to be anti-poor, with low rates for raw commodities and high rates for labor-intensive processed goods. The Commitment to Development Index measures the effect that rich country trade policies actually have on the developing world.

Another negative aspect of trade barriers is that it would cause a limited choice of products and would therefore force customers to pay higher prices and accept inferior quality.

2.4.1 POTENTIAL FOR IMPORT / EXPORT IN INDIA MARKET

The automotive industry in India is one of the largest in the world and one of the fastest growing globally. India's passenger car and commercial vehicle manufacturing industry is the sixth largest in the world, with an annual production of more than 3.7 million units in 2010. According to recent reports, India is set to overtake Brazil to become the sixth largest passenger vehicle producer in the world, growing 16-18 per cent to sell around three million units in the course of 2011-12. In 2009, India emerged as Asia's fourth largest exporter of passenger cars, behind Japan, South Korea, and Thailand. In 2010, India reached as Asia's third largest exporter of passenger cars, behind Japan and South Korea beating Thailand.

As of 2010, India is home to 40 million passenger vehicles. More than 3.7 million automotive vehicles were produced in India in 2010 (an increase of 33.9%), making the country the second fastest growing automobile market in the world. According to the Society of Indian Automobile Manufacturers, annual vehicle sales are projected to increase to 5 million by 2015 and more than 9 million by

2020. By 2050, the country is expected to top the world in car volumes with approximately 611 million vehicles on the nation's roads.

Italy Export Prohibitions

Export controls are imposed on Italian exporters by the government can take the form of prohibitions such as blockades, embargoes, boycotts, and sanctions or they can take the form of export licensing and permit requirements for controlled commodities. Export controls may be product specific, technology specific or country specific.The Customs Department holds the list of commodities and areas that are under control and/or require an export license. Contact the Customs Department or utilize their web site http://www.agenziadogane.it to determine if the goods being exported or the shipping destination is under control.

Examples of goods subject to export licensing controls:

- Agricultural products; (i.e. grains, cheeses)
- Dual Use goods; (i.e. software, computers, machines and machine parts)
- Biological reagents
- Artwork (i.e.hand work, jewellery etc.)
- Antiques

Artwork

The following items are not acceptable for carriage to any international destinations unless otherwise indicated. (Additional restrictions may apply depending on destination. Various regulatory clearances in addition to customs clearance may be required for certain commodities, thereby extending the transit time.)

- APO/FPO addresses.
- C.O.D. shipments.
- Human corpses, human organs or body parts, human and animal embryos, or cremated or disinterred human remains.
- Perishable foodstuffs and foods and beverages requiring refrigeration or other environmental control.
- Plants and plant material, including cut flowers (cut flowers are acceptable from the U.S. to selected points in Canada and from Colombia, Ecuador and the Netherlands to the U.S.).
- Money (coins, cash, currency, paper money and negotiable instruments equivalent to cash such as endorsed stocks, bonds and cash letters).
- Shipments that may cause damage to, or delay of, equipment, personnel or other shipments.
- Shipments that require us to obtain any special licenses or permit for transportation, importation or exportation.
- Shipments or commodities whose carriage, importation or exportation is prohibited by any law, statute or regulation.
- Shipments with a declared value for customs in excess of that permitted for a specific destination. (See the Declared Value for Carriage and Limits of Liability section in the FedEx Service Guide).
- Dangerous goods except as permitted under the Dangerous Goods section of these terms and conditions.

- Processed or unprocessed dead animals, including insects and pets. Taxidermy-finished hunting trophies or completely processed (dried) specimens of whole animals or parts of animals are acceptable for shipment into the U.S.
- Packages that are wet, leaking or emit an odor of any kind.
- Wildlife products that require U.S. Fish and Wildlife Service export clearance by FedEx prior to exportation from the U.S.

2.4.2 BUSINESS OPPORTUNITIES IN FUTURE

Driven by a growth rate of over 8% in 2010 and a 350 million strong middle-class with increasing purchasing power, the Indian market today is reshaping the world's economy. India's GDP crossed the trillion dollar mark in 2007 and is currently in 4th position (PPP) after US, China and Japan. Investment in almost every sector (Education, Food, Energy, Health Care and Retail) of the Indian economy has a promise of high returns that has caught the attention of investors and businesses across the world. Considering that restaurants keep you waiting, malls are packed, movie theatres are full, and airlines and hotels are over-booked showcase the increasing appetite of the Indian consumer. As an example, recognizing that Indian youths strongly favor branded clothes, Levis introduced a special brand 'Spykar' for India that is a runaway success.

So far only Multi National Companies (MNCs) with their vast resources, know-how and the right connections have been the major beneficiaries of this phenomenal growth in India. Small and Medium Enterprises (SMEs) and Entrepreneurs are just becoming aware of the growth story of India.

A simple analysis, taking into account the increasing population (See side box), growing consumption and the shrinking agricultural land, shows that there is a very lucrative market for US companies with products or technologies in the following areas:

- Food & Beverages: food processing, food packaging, food warehouse and transport, health drinks, etc.
- Home based: home décor products, kitchenware essentials, bed and bath, etc.

- Healthcare: diagnostics and testing, medical equipment, health supplements, clean air and water products, etc.
- Education: medical/nursing, 'train the teacher' programs, automotive mechanics, medical technicians, advanced courses in the upcoming fields of genetics and nanotechnologies. For human resource and skill requirements in the healthcare services industry, your can download a full report by National Skill Development Corporation of India at
- Consultancy Services: engineering, business development, product development, security analysis, etc.
- Infrastructure: waste management, solar and wind technologies, temperature controlled warehouses, air and noise pollution control technologies, towing trucks, and automated parking lot equipment.

Similar business prospects abound in other sectors such as home land security, media & entertainment, hotel/motel, financial investment services, etc.

One of the business formats that is rapidly gaining acceptance is "Franchising" which is growing at a rate of 30% annually. While legal infrastructure and ecosystem are in place in India, one must do a thorough research, and due diligence of the potential Franchisee and create binding agreements covering all important aspects of the Franchising before making any investments. One must also understand business norms of India and seek professional help in navigating the paper trail, IP protection, and Tax implications etc. before undertaking partnership agreements with the Franchisee. Top sectors with franchising opportunities are Education and Healthcare due to a huge mismatch between supply and demand now and in the coming years. You may want to take advantage of the fact that US Commercial Service (Dept. of Commerce) regularly takes Trade Missions of US Franchisors to India.

Another popular model is Public Private Partnership (PPP) with the Government of India through a 'tender' process. In the Infrastructure sector, for example, India is expected to invest $1.2 trillion in revamping or upgrading its ports, roads, bridges, energy plants, etc. Again the US Commerce Service can be instrumental in making the opportunities in this area available to US companies in a timely fashion and help with responding to the RFPs and with the required paperwork.

All of the above present a historic opportunity for the SMEs and Entrepreneurs in the US to expand beyond borders to India. US companies with the right know-how have almost unfair advantage for success for several reasons:

- President Obama's National Export Initiative has set a target of doubling US exports to $2 trillion by 2015. To meet this objective, the US Administration has initiated huge incentives to support US exports. Commerce Dept.'s International Trade Administration (ITA) budget is raised by 20 percent to $534 million and 300 international trade specialists are added to help US companies export US goods and services.

- Indians have a very favorable view (76%) of the US according to a Global Attitudes Survey. Indian Government officials make regular visits to the US to meet with the industry experts and to promote business and trade opportunities.
- The government of India offers multiple incentives to US companies doing business in India. Government incentives include duty free import of capital goods and raw materials, reimbursements of Central Sales Tax, Tax holiday for specified period, 100 per cent repatriation of profits for subcontracting facilities and more.

Italian jeweller retailer major Damiani seeks entry in India

NEW DELHI: Italian jewellery brand Damiani has approached the government for permission to enter the country's single-brand retail sector.

Damiani India has filed an application in this regard with the Foreign Investment Promotion Board (FIPB) in the Finance Ministry.

"Damiani India is seeking permission for single-brand retail business in collaboration with Damiani International B.B, Italy," an official said.

Further details were not immediately available. Recently, Damiani opened its first outlet in New Delhi. In January this year, India hiked the FDI cap in single- brand retail to 100 per cent from 51 per cent.

FEATURED ARTICLES

Gold to continue its downtrend for many years: Analysts

Creating Golden Opportunities Amid Austerity

MILAN — The Damiani boutique occupies a prime corner here on Via Monte Napoleone, an obligatory halt for elegant shoppers strolling along the chic avenue, oblivious to the clouds of austerity hanging above.

Enlarge This Image

Damiani

A Burlesque Masterpiece cuff bracelet. Damiano makes all its jewelry at its factory in Valenza, near Milan.

But Damiani, a family-controlled jeweler that is an institution in Italy, has faced challenging domestic conditions in recent years as the country has sunk into a lingering recession. The company’s saving grace has been its foresight to tap into public financing and expand its presence in foreign markets on a large scale.

Even so, “We are an Italian company, and this is still our first market,” Guido Damiani, the president and chief executive of the Damiani Group, said in an interview at his 19th-century villa high above the hills of Valenza, about 80 kilometers, or 50 miles, south of Milan. The company has 11 stores in Italy.

The 88-year-old Damiani Group has reported annual revenue of €151.6 million, or $193.3 million, and has diversified into a number of niche jewelry brands, including Alfieri & St. John, Bliss, Calderoni, Rocca and Salvini, allowing it to cover the spectrum from haute joaillerie and watches to lines aimed at a young clientele.

Damiani, although family controlled, is a public company, a rarity in an industry made up mostly of local artisans. Since 2008, as Italy has struggled with an economic crisis while gold prices have risen, the jewelry group has been less hopeful about its home-turf business and increasingly has been eyeing foreign markets.

“I am positive about our future because of what we are doing abroad,” Mr. Damiani said. “Even if it is not a fantastic period around the world, it is better than in Italy.”

Damiani operates about 50 boutiques in major cities, mainly in Europe and North America. By early next year, the group plans to open four more stores in China, adding to its existing eight there.

This past summer, Damiani reported that it had become the first — and so far the only — jeweler to obtain state authorization to hold a 51 percent controlling interest in an India-based entity, Damiani India. Foreign retailers in India are typically not allowed to hold majority stakes in their own local businesses.

In February, the Japanese multinational trading company Itochu announced a capital alliance with Damiani Japan, acquiring a minority stake of 14 percent in that entity, in order to help develop Damiani's retail business in Japan.

Still, with a manufacturing base in Italy, the company is not indifferent to the plight of its local market. "The gross domestic product here has been on a downward slope for years, and the Italian market is very depressed," Mr. Damiani said.

This year, Damiani has posted sliding but respectable results in an unforgiving economic climate. In its financial statement for the first six months this year, the company reported a drop of 4.5 percent in revenue compared with the same period a year earlier: While foreign revenue was up 18.3 percent, its domestic revenue fell 11.9 percent.

The company's resilience, according to the family, comes in part from its having first developed its own production capabilities before expanding into retail outlets, avoiding the need for vertical integration.

"We have great value in our manufacturing, which is a big advantage for us as a brand," Giorgio Damiani, the vice president of the Damiani Group and Guido's brother, said in an interview at the Place Vendôme boutique in Paris.

Last September, Damiani presented a collection of its most spectacular creations in a show titled "Masterpiece Couture," an invitation-only event at which the jeweler showcased its design capabilities and the skill of its artisans, all of whom are based in its factory in Valenza.

A quick drive through the countryside south of Milan, the town of Valenza is internationally known for its jewelry production and for being a hub for family-run goldsmithing workshops.

Italy loses its gold jewellery export crown

Italy has lost its position as the world's premier gold jewellery exporter, overtaken by India and the United States, and risks slipping further due to its high cost base and tariff barriers.

For years Italy was the world's biggest manufacturer and exporter of mass-produced and crafted gold jewellery. Bulgari, Damiani and Roberto Coin are Italian luxury brands celebrated worldwide for their opulent use of gold and precious gemstones and cutting-edge designs.

Luxury goods takeover

But the Italian goldsmith sector is fighting an uphill battle against punitive import duties imposed by markets such as China, and competition from lower cost producers benefiting from improving design skills and the latest technology.

Soaring prices of gold and high salaries, have inflated Italian jewellery manufacturers' costs.

Domestic gold jewellery sales have slumped due to the recession in Italy and the soaring price of gold, which hit a record price in euro terms last month.

"Demand for jewellery is one of the first things that drops in a recession," said Licia Mattioli, who is president of Italy's Federation of Goldsmiths (Federorafi), and heads a family-owned gold jewellery manufacturing business in Turin.

Sales of gold jewellery in Italy were down 15 per cent in volume terms (to 4.8 tonnes) and fell 9 per cent in value terms year on year in the second quarter, figures from the World Gold Council showed.

Steven Tranquilli, director of Italy's federation of jewellery retailers, Federdettaglianti Orafi, estimated that gold jewellery retail sales were down 20 to 25 per cent year on year in Italy.

Total revenues of the Italian goldsmith sector in 2011 stood at €6.3-billion ($8.1-billion), down 16 per cent from 2007, according to Federorafi.

The Italian industry flourished on the expertise and skills built up by family-owned businesses over generations and the international prestige of "Made in Italy" design and manufacturing. Italy is seen as an international trend-setter in jewellery design.

But now India and the United States have overtaken Italy as exporters in volume terms.

There is also intense competition from lower cost gold jewellery manufacturing regions such as mainland China, Hong Kong, and Thailand, Ms. Mattioli said.

"India and the United States have tax advantages over Italy," Ms. Mattioli said.

She said that Indian manufacturers can export gold jewellery to the United States duty-free up to a certain volume, whereas all Italian gold jewellery exports to the United States had to pay duty.

Indian and Brazilian manufacturers pay low duties when they export gold jewellery into EU markets, she added.

Manufacturers in India and the United States have benefited from greater economies of scale compared to the fragmented nature of the Italian goldsmiths' industry, as well.

Improving design skills and technology, and cheaper labour, give manufacturers in developing countries such as India a competitive edge.

Italy's gold jewellery manufacturing companies are centred in Vicenza, Valenza, Arezzo and Bassano del Grappa. Most production comes from family-run goldsmith workshops with small work forces.

Export-focused Italian gold jewellery manufacturers gather three times a year, in January, May and September, at the VicenzaORO trade fairs in Vicenza, which attract hundreds of retail buyers from around the world searching for the most exciting new designs for their stores.

Gold is currently trading at historically high levels around $1,700 an ounce, having touched an 11-month peak of $1,795 on Oct. 5. The current environment of relaxed monetary policy, which fuels fears of inflation, has boosted the investment appeal of gold.

Faced with the tough challenges of the domestic market, Italian gold jewellery manufacturers are turning their attention increasingly to the fastest growing export markets.

According to the latest figures from VicenzaORO, the main destinations for Italian jewellery exports in the first quarter were Switzerland (€363-million, or 22 per cent of the total), the United Arab Emirates (€237-million, or 14.3 per cent), and the United States (€142-million, or 8.6 per cent).

Italy exports about 70 per cent of its manufactured gold jewellery, with the remainder sold domestically.

"We are seeing demand from the United States pick up," Ms. Mattioli said, referring to the fragile recovery of the world's biggest economy, which had been for years the biggest importer of Italian gold jewellery.

"But the big problem for Italian gold jewellery exports are the import duties in BRIC countries," she added, referring to emerging economies Brazil, Russia, India and China.

The Italian industry is lobbying the European Union to overcome the challenge of import duties but VicenzaORO officials have said the high quality of Italian jewellery exports would ensure that they increasingly penetrate fast-growing Asian markets, including China.

“China operates big import duties – a major brake on business for Italian companies,” Ms. Mattioli said.

“We need to discuss at an international level the problem of the import duties,” she added, referring to ongoing contacts between the Italian industry and the EU.

According to VicenzaORO, the Vicenza gold jewellery manufacturing district’s exports to China in the first quarter of 2012 jumped by 52.7 per cent to €38.2-million, propelling the country to second place among export destinations.

Increased design innovation and skillful marketing to growth export destinations will be vital for the future success of the Italian industry.

At the retail level, Italian luxury jeweller Damiani has seen strong growth in the Chinese and Russian markets where it expects to expand its presence.

The rapid increase of wealth in these countries has boosted demand for branded luxury goods including gold jewellery.

“The foreign markets which are growing fast and where our group sees great possibilities are: Greater China, where Damiani is already present with eight boutiques and will soon open another five, and the former Soviet republics where a new boutique will open soon in Moscow,” said Guido Damiani, president and CEO of Damiani.

He said a store in St. Petersburg would follow.

Mumbai-based Gitanjali, one of the world’s largest diamond and jewellery manufacturer-retailers, acquired a handful of Italian luxury jewellery brands during the economic downturn, and now sells their pieces in strategic growth markets.

Gitanjali has opened a store showcasing two of its upscale Italian brands, Stefan Hafner and Nouvelle Bague, in Dalian, China.

2.4.3. CONCLUSIONS AND SUGGESTIONS

CONCLUSION of Damiani jewellers

World gems and jewellery industry is on the verge of transformation due to both supply-side and demand-side factors. Some of the recent trends in the global gems and jewellery industry include: fragmentation of rough diamond supply positions; emergence of new mining areas; beneficiation movement in mining countries, and ever-growing raw material prices. At fabrication level, fashion and styles have been changing significantly; the ratio of cost of raw materials to sales has been coming down, squeezing the profit margin of the fabricators. There has been volatility in raw material prices; the global slowdown led to low capacity utilization in this industry bringing down the margins in the jewellery manufacturing. In some countries, including India, some of the processing units have been partially shut down due to slackening demand. As a result, the value chain in the gems and jewellery industry may witness consolidation; only select major players are likely to cope with the trends and sustain the competitive pressures.

It is expected that the spike in gold and silver prices might change the consumer preferences, as also impact their demand pattern. The growing consumer sophistication, decline in investment-driven (jewellery) demand, and competition from other luxury goods are also likely to impact the demand pattern of gems and jewellery. Further, the consumer awareness and consciousness, generated through the vigilant measures adopted by various national Governments, are expected to drive the demand for branded and hallmarked jewellery. At national level, India has been adopting various strategies to cope with the global trends in gems and jewellery business. World Gold Council and the Indian gems and jewellery industry have jointly introduced international jewellery designing competitions among the Indian artisans to generate awareness about the skills of Indian artisans in the global market, as also to expose Indian artisans to new design developments emerging around the world. There have been initiatives taken by many designing centers to train Indian jewellers in international manufacturing and designing skills. This is expected to enhance demand as well as sales for the Indian gems and jewellery industry.

Indian gems and jewellery industry is increasingly building its ability to produce full range of sizes and qualities of stones, utilizing not only the low-cost and abundant workforce, but also advanced technologies. The industry has been seeking further growth through processing of larger size stones and manufacture of diamond jewellery. Both the Government and the gems and jewellery industry have recognized the use of IT in diamond clusters in order to enable seamless flow of information between the functional areas, right from job contractors to small / mid-sized firms, to large, integrated units. The IT interface would also provide the necessary platform for firms to scale up their operations. While several such measures have been taken, at firm-level, industry-level, and Government-level, there exists still a need to strengthen the position of India in the global market place through a concerted strategy, addressing the challenges of raw- material sourcing, technological infusion at processing stage, adoption of dynamism in design and product development, and sustainable market entry approach.

SUGGESTIONS FOR NEW ITALIAN OPERATORS IN THE LOCAL MARKET

• Market demand Mainland tourists will be the potential customers in the future; Italian jewellers must improve their understanding of the market needs in order to develop products and services more in line with the consumers' needs; to maintain regular dialogues and to conduct market researches with the assistance of Hong Kong importers or agents; to be updated about the policy changes and market directions; and to identify potential partners for the sake of developing new sales networks.

• Delivery Since late delivery is a relatively serious problem faced by importers in Hong Kong, Italian suppliers need to improve their lead time in production in accordance with the agreed delivery schedule.

• Response & reply Communication is very important in business sector. Local importers complained about the high percentage rate of no response and reply when dealing with Italian suppliers. As a result, orders had to be cancelled eventually due to no follow up action from Italy. To maintain a good trading relationship with local importers, Italian suppliers must react faster and to answer enquiries in any circumstances.

• Quality Hong Kong importers are not satisfied with the quality control conducted by Italian suppliers in general. Some orders shipped out from Italy are not packed according to the instructions; or merchandise is found to be in poor quality. Suppliers from Italy should pay more attention to quality control since consistency in quality is always a prime concern in business.

• Design Hong Kong importers claimed that the design of Italian jewellery is more or less the same in recent years. To increase competitiveness in the world market and to satisfy customer's needs, innovative design is very important. Italian jewellery manufacturers are suggested to allocate more resources on jewellery design and development.

• Price The price of Italian jewellery, especially chains, is reasonable to local importers and retailers due to keen competition among suppliers in Italy. Few importers believe that cut-throat competition would endanger the Italian industry if suppliers slash the price too low.

• Trade Fairs in Hong Kong To increase product exposure in the local market and to establish new business relationships with local operators, Italian companies are encouraged to exhibit in various important international jewellery exhibitions in Hong Kong. Major trade fairs in Hong Kong include International Jewellery Show (March), Asia's Fashion Jewellery and Accessories Fair (June), June Hong Kong Jewellery & Watch Fair (June), and September Hong Kong Jewellery and Watch Fair (September) in Hong Kong. Starting from 2006, a newly organized fair Hong Kong January Jewellery & Watch Show will take place at the AsiaWorld-Expo, adding another occasion for trade operators to meet with potential buyers.

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