

# Fiat accord could alter Italy's image

## Inside the Markets

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REUTERS

**MILAN** A proposed agreement between unions and Fiat at its plant in the poor south of Italy could be a sea change for the country's outdated labor system, with far-reaching consequences for Italy's global competitiveness.

Fiat's plant near Naples has a history of labor unrest and the worst productivity of all five of the company's domestic plants, even taking into account slow demand for its Alfa Romeo models.

Yet the company's charismatic chief executive, Sergio Marchionne, has secured approval from four of Fiat's five unions for a deal that wins management greater flexibility in the number and type of working shifts as well as limits on strikes and benefits like sick days.

In return, the company says, the plant would get a big increase of investment and the workers would get jobs — the most precious thing of all in an economy just showing tentative signs of growth after its worst recession since World War II.

The tough-talking Mr. Marchionne, who last week accused workers at another plant of striking to watch Italy play in the World Cup, wants unanimous backing before investing €700 million, or \$860 million, to upgrade the plant and move production of Fiat's next Panda model from Poland. The

deal was set for a union vote Tuesday. Bearing in mind that Fiat is the biggest manufacturer in Italy and a major player in the car industry, which accounts for 11.4 percent of the economy, economists and analysts say the proposed deal could change labor relations nationwide.

"It's a significant change, especially if it passes the referendum with a big margin," said Maurizio Del Conte, a labor law professor at Bocconi University in Milan. "It changes the way you consider productivity and the way you organize work in the factory."

Only the Fiom union rejected the deal, asserting that it broke national rules on rights to strike and on sick leave. "If

you approve the idea that in Italy you can rub out the Constitution, laws and contracts in order to make investments, you are heading towards making society barbaric," Maurizio Landini, head of the union, said Monday.

Economists have long complained that Italy's inflexible labor market and generous welfare provisions are a drain on productivity in the euro zone's third-largest economy, after those of Germany and France. By the end of last year, productivity had fallen two percentage points below its 2000 level, compared with increases of 8.7 percent in Germany and 10.4 percent in France, its two main E.U. export markets, according to Italy's statistics agency.

Davide Stroppa, an economist at UniCredit, said the accord could have a major effect on wage deals. "It could be seen as a signpost not only for more flexibility but also for a closer linkage between salaries and productivity," he said. Such a changed approach could mean Italian companies would bring back production they had outsourced, Mr. Del Conte said.

That return "could have an impact on economic growth in the future, say five to 10 years," he said, adding the exact effect was difficult to quantify.

And it might not just be Italian companies that warm to the new labor environment. Giuseppe Bonanni, head of one of the unions that has agreed to the deal, said it should give "a strong signal to investors, showing it is possible to come to Italy."

Italian unions have historically dominated labor relations in a country where jobs are often for life — or at least until early retirement. That has kept productivity low and prompted outsourcing, as Fiat has done.

Economy Minister Giulio Tremonti has called the Naples plant deal "the victory of reformers over all the others." His colleague at the Labor Ministry in the center-right government, Maurizio Sacconi, said the no vote came from a union "paralyzed by an ideological block."

Fiat's unusual offer of investment and jobs has wide appeal in a country where unemployment is running close to 9 percent, and perhaps nearer 13 percent in the area near the Naples plant. Workers are sharply aware that Fiat's U.S. partner, Chrysler, has had to close factories to survive.

With this plan, the company aims to increase employment at the plant to 15,000 from the current 5,000 and produce as many as 300,000 Pandas a year.

Fiat needs a hefty boost in productivity to make the plan work. Its Italian plants turn out 650,000 vehicles with 22,000 employees, sharply lower than its Polish plant, for example, which produces 600,000 a year with 6,100 people.

"The key to everything is productivity," Tito Boeri, also of Bocconi University, told L'Espresso magazine.

