Analysis: Italy needs red tape bonfire before labor reform

Tue, Apr 3 2012

By Lisa Jucca

VERONA, Italy (Reuters) - Mario Monti's government is battling to reform Italy's labour laws, but hacking through a dense jungle of red tape is more urgent if it is to improve its poor record on attracting foreign investment.

Foreign direct investment into Italy represented only 1.4 percent of the country's economic output between 2005 and 2010, half the level that poured into Germany and France and less than a third of what Britain pulls in.

Widespread corruption and organized crime play their part in deterring investors, but a tortuous bureaucracy, outdated infrastructure and a myriad of complex and at times conflicting rules make Italy less successful at attracting new investment than Zambia or Mongolia, according to World Bank data.

"This uncertainty on rules is unacceptable. The fact that at every step you must confront an array of officials, each of them saying something contradictory, does not help and is the biggest hurdle to investment," Sandro De Poli, Chairman of the Italian unit of U.S. giant GE (GE.N: Quote, Profile, Research, Stock Buzz), told Reuters last week while attending a business conference in Cernobbio.

"We have never considered Italian labour laws as a problem. Everything the Monti's government is doing is very good. The next fundamental step is tackling bureaucracy."

In the 2012 Doing Business report by the International Finance Corporation and the World Bank, Italy ranked 87 in the world for ease of business, bottom of the class in Europe and behind a raft of developing African and Asian nations.

Problems highlighted by the report were Italy's inability to enforce contracts and a baffling and punitive tax system.

Italy scored better in the World Economic Forum 2011-2012 Global Competitiveness report, where it came in 43 out of 142 countries surveyed. But when assessing the overall burden of its government regulation on business, Rome slid to the bottom of the index, ahead of only Angola and Brazil.

COMPLEX REGULATORY SYSTEM

These poor showings stem from a regulatory system that gives officials at local, provincial, regional and national level a say on a single business project.

The experience of UK gas producer BG Group (BG.L: Quote, Profile, Research, Stock Buzz) is emblematic. Last month it abandoned plans to build a plant in the southern region of Puglia after failing for 11 years to obtain all the necessary permits.

"They spent years trying to get the proper licences and approvals, and finally they gave up and left. That underscores how dramatic the problem is ... Cutting red tape is a long and hard process, but it must be continued," Emma Marcegaglia, outgoing head of the big business lobby Confindustria, told Reuters.

"The government has started deregulating, and has tackled labour reforms. The road is certainly the right one. But from a practical point of view, the changes introduced up until now are not yet those that can convince a multinational that it should open a plant in Italy," said Domenico Rubino, Chief Financial Officer of Swiss-Swedish giant ABB (ABBN.VX: Quote, Profile, Research, Stock Buzz) in Italy.

"Bureaucracy limits us rather than blocking us completely. But I doubt we would have waited for 11 years."

ABB, which has invested around 200 million euros ($270 million) in Italy in the past five years and employs nearly 6,000 people in the country, is currently standing pat on investment until there are concrete steps to revive the flagging economy, and perhaps some incentives, Rubino said.

Business executives have praised the Monti government for its ability to push through fiscal and welfare reforms, but would now like to see decisive measures to unlock the country's growth potential, including cutting red tape.

The issue of greater deregulation and more simplification was discussed at a closed-door meeting between Monti and some of the country's best-known businessmen at the end of February, a person who attended that meeting told Reuters.

Confindustria's foreign investors committee has written to the government to highlight the urgency of focusing on measures that can boost the real economy. It has suggested a dedicated administrative channel for multinationals and streamlining tax obligations.

DIFFICULT TO CHANGE COURSE

But changing course after decades of inaction will take time and will require a raft of initiatives.

In a decree on simplification currently before parliament, the Monti government is taking steps to streamline the process for environmental permits and business authorisations.

Other measures should ease participation in public tenders, which the government says should save companies more than 140 million euros a year.

"Italy's situation is shameful. Simplification is a priority and the government is working on it," a government source said.

Yet the jury is still out on how these measures will work in practice, says Carlo Stagnaro, head of research for the liberal Bruno Leoni institute which promotes deregulation.

"Red tape needs to be cut down and regulation needs to be completely in line with EU norms," says Giovanni Renna, CEO for German medical supplies group Hartmann in Italy, who laments, among other issues, the public administration's slowness in paying billions of euros of debts it owes to its clients.

"We go from 90 days to well over 1,000 days in certain Italian regions against an average of 35-40 days in Germany."

While multinationals struggle to navigate Italy's legislative maze, local players who know how to cut corners say they can steal a march on foreign rivals.

"Italian companies can use it to their advantage; being Italians, they can better navigate the jungle of Italian bureaucracy," says the owner of one of the country's biggest industrial groups, who asked not to be named. "As a citizen, I don't think this is good. As an entrepreneur, I use it to my advantage."

($1 = 0.7518 euros)

(Additional reporting by Steve Scherer; editing by Barry Moody and Will Waterman)