

# ITALY

## Overview

Italy's economy performed well in 1995, with 3.0 percent growth, the highest since 1988 and tops among the G-7 countries. Strong exports, helped by the weak lira, were key to this performance. Growth in domestic demand, mostly in export-related investment, also contributed strongly to growth. Consumption, however, has been weak over the last several years, and remained so in early 1996. Declining exports due to the strengthening of the lira and the slowdown in growth in major trading partners led to a deceleration of growth in 1996. Growth was not expected to surpass 1.6 percent in 1996, although most forecasts expect it to rebound to 2.0 percent in 1997.

Despite taking charge in less than favorable economic circumstances, the new government led by Romano Prodi will continue policies of budget austerity. Prodi has passed a supplemental 1996 budget which is expected to allow reduction of the debt to GDP ratio and bring 1996 public finances back in line with government targets. The government has also produced a medium-term budget program putting Italy on a path to the 3% Maastricht treaty deficit/GDP target by 1998. Prodi has also committed to continuing the process of privatization begun in 1992, with plans to put the major telecommunications, energy and electricity monopolies on the market in 1996/97.

## Defense Industry Environment

The Italian defense budget for 1996 is approximately US \$20.4 billion, which represents approximately 1.7 percent of GDP. Of this budget, approximately US \$15.4 billion is earmarked for national defense and US \$5 billion is for domestic security. Within the national defense budget, US \$3.36 billion is appropriated for goods and services such as: weapons (e.g., armaments and ammunition); quartermaster supplies; motorized vehicles, fuels, infrastructure and engineering works, health, and various miscellaneous items and US \$2.63 billion is appropriated for modernization, including procurement and research and development.

The supplemental budget that was presented to Parliament in June 1996 cut defense spending by less than one percent, with all cuts occurring in the goods and services sector. The government will try to reallocate any operational savings to technological modernization.

Investment in modernization reached an all-time low in FY 1994, causing important international projects to slip. To optimize resources, the government is concentrating on a few high-priority projects:

- Substituting the new Eurofighter aircraft for F-104s
- Building the Frigate "Horizon" with France and the U.K. (early 2000s)
- Procuring 200 Ariete tanks and developing the Ariete 2
- U-212 New Generation Submarines
- FSAF anti-missile defense system, with French participation, for the Army and Navy

- Future Large Aircraft transport
- EH-101 and NH-90 Helicopters
- Mid-range missile defense system
- Sicral/Post Sicral Satellite Communication; and Helios and Horus satellite observation projects

These projects will require an average annual investment of approximately US \$4.6 billion from 1996 to 2010.

The Italian defense industry is largely government-owned, but is moving toward privatization. Such traditional government entities as Alenia and Oto Melara are being consolidated under the corporate management of agencies such as Finmeccanica. Efforts are being undertaken to streamline both management and workforce structures, increase manufacturing efficiency, and improve general perceptions of product quality and capabilities. Industrial and defense general staff strategies are to decrease dependence on the products of other nations for major weapon systems production and to improve in-house capabilities whenever and wherever possible. Emphasis is also being placed on European partnerships for weapon system and sub-system component R&D and production, often with Italy receiving a significant workshare. Expectations are that the entire Italian defense industry will be privatized by the end of the century. However, to achieve state-of-the-art capability in most advanced areas, the Italians will continue to depend on cooperation with their allies.

### **Major Domestic Defense Suppliers**

For a complete listing of Italian defense suppliers, a copy of the publication "Chi & Dov'e La Difesa in Italia" should be obtained. Copies can be obtained for approximately US \$70 from Gruppo Editoriale Publi & Consult Spa, via Tagliamento 29, 00198 Rome, Tel: 39-6-8543267, or from Trade Media International Corp., 1328 Broadway, New York, NY 10001-2190, Tel: 212-564-3380. Another source is "Italian Defense Industries Directory" from Ritade, Viale Liegi 44, 00100 Rome, Tel: 39-6-8550208.

### **MOD Defense Plan**

Now awaiting Parliamentary approval is a "new defense model" which focuses on the need for transition from a principally conscript force to a more professional volunteer force. This transition should result in cost savings in individual training and sustainment and allow greater expenditures for force modernization and increased unit training. The MOD is dedicated to becoming more self-sustained in weapons production and logistics, but not at the expense of modernization. Also, the shift from the traditional national defense role to an emphasis on peacekeeping deployment is driving weapon systems considerations and forcing organizational structure shifts.

Future weapons systems must be capable of a variety of roles and functions, and they must be reliable and easy to maintain. The MOD also wants to expand communications and space based capabilities, as well as improve crew protection and system survivability in more

conventional systems. Electro-optical and laser related systems are in demand to improve weapons delivery and battlefield identification. The development and retention of key technical skills, both military and civilian, is a high priority in Italian defense planning. Thus, efforts are being made to increase internal production capacities and capabilities for surge requirements and jobs generation.

Increased participation in industrial offsets is becoming commonplace in Italian defense industries and appears to be officially condoned, especially when Italian jobs are increased or technology improved. Increased participation in European partnerships is also being strongly pursued, often at the expense of similar arrangements with U.S. firms. U.S. restrictions on technology transfer are an issue. Thus, the MOD is looking increasingly toward its Northern European allies for cooperative R&D and procurements.

## **Defense Opportunities**

Major defense sector business opportunities fall within the areas of aviation, communications/electronics, command & control systems, avionics, advanced composites manufacturing, advanced electronics, advanced munitions, and computer software and simulation technologies. High demand exists for improved munitions and all varieties of simulation programs for battlefield command & control, weapons systems, and staff planning. Logistics systems which increase force survivability and sustainability in undeveloped areas are being heavily considered for future funding.

Budgetary realities, however, are forcing some tough decisions on new systems production and deployment. Plans to upgrade main battle tanks, personnel carriers, artillery & howitzer systems, air defense systems, fighter aircraft, communications platforms, anti-tank systems, small arms, and helicopters are being re-evaluated. Even so, new systems continue in development and are nearing production. The continuing requirement to provide spare parts for a number of existing U.S. manufactured weapons systems is an open opportunity. Italy is developing an improved munitions manufacturing capability, now in its early stages. Many opportunities exist for sales of munitions items such as main tank gun ammunition, artillery munitions, air defense munitions, propellants, and small arms ammunition. The need for new logistics sustainment systems such as heavy transport and fuel distribution is also a wide open area for U.S. firms.

Italy has long depended on a mixture of U.S. and European products, however, the emphasis is shifting to keep jobs in Europe, especially in Italy. In fact, any program which stands a significant chance of acceptance generally includes some measures for improving Italian employment. U.S. firms must keep this in mind when considering opportunities in Italy. Teaming agreements or licensed production should be considered.

Italy is also pursuing entry into a joint effort to produce a theater anti-air defense capability and is expected to become a working partner within the NATO or European framework for such development. Also being explored are capabilities to expand Italian presence in satellite communications and GPS systems; and the manufacture of advanced composites, ceramics, and electronics capabilities to enhance the Italian ability to become more self-sustained.

## **Defense Procurement Process**

Italian MOD requirements are developed and refined in much the same manner as those of the U.S., including obtaining funding authorizations. Once approved for acquisition, the MOD's Procurement Executive acts as the principal agency responsible for competition, however actual procurements are executed by the technical procuring agencies within the Segredifesa. U.S. firms looking for guidance on Italian MOD procurement procedures should contact the Office of the Segretariato Generale, via XX Settembre 123, 00100 Roma. This office can provide information on the MOD's main procurement offices and identify major Italian contractors for teaming or sub-contracting opportunities. Additionally, valuable information on bidding and contract procedures found in the monthly publication of the "Bolettino Del Contratto" (Contracts Bulletin) which lists all upcoming and executed procurements by procuring agency. This bulletin is published in both English and Italian and is available under subscription. For further information on how to subscribe, U.S. firms should contact the Office of Defense Cooperation, U.S. Embassy-Rome, PSC 59 Box 51, APO AE 09624, or the U.S. and Foreign Commercial Service, U.S. Embassy-Rome, PSC 59 Box 30, APO AE 09624.

Rarely will the Italian MOD fund developmental costs other than those for major weapons systems programs. In many of the most recent purchases, they have opted for already developed solutions and "off-the-shelf" products whose development was funded by contractor or other agencies. This does not mean they prefer this method, only that they find it often more financially advantageous and timely. Quite often, a deciding factor is whether the program will involve a significant workshare for Italy, licensed production in Italy, or a teaming arrangement with an Italian firm.

The Italian MOD prefers firm fixed price contracts; however, other types of contracts can be negotiated depending on the nature of the acquisition. Bid packets usually include all necessary technical specifications and contract information and contracting procedures are often much like those in the U.S. However, although contracts often take longer to execute, sometimes two or more years from the date of bid acceptance, a price is considered firm until the contract is finalized.

There do not appear to be any significant barriers to U.S. Contractors; however, teaming with an Italian partner whenever possible is recommended. It is often easier if the prime contractor or significant partner is an Italian entity.

As in the U.S., the prime contractor is responsible for sub-contractor selection and quality controls. The MOD normally will not interfere with the prime-sub relationship; however, competition between subs is encouraged. Contract administration is normally performed by the procuring agency whose staffs are assisted by quality assurance and technical/finance personnel.

### **Purchasing Agencies for the Italian MOD**

*Food, Clothing, Field Equipment, Furniture & Fittings*

Commidife  
Piazza Della Marina 4  
00196 Roma  
Tel: 39-6-36805663

*Space, Aircraft, Helicopters, Weapon Systems, Avionics, Missiles, Logistics*

Costarmareo  
Viale Dell'Universita' 4  
00100 Roma  
Tel: 39-6-495-8346

*Medicines, Medical Accessories, Sanitary Fittings*

Difesan  
Via S. Stefano Rotondo 4  
00100 Roma  
Tel: 39-6-759-1533

*Construction & Maintenance of Facilities, Bridging & Boats, Mines, Power Generation, Camouflage, Demolitions*

Geniodife  
Palazzo Marina, Lungotevere Delle Navi  
00100 Roma  
Tel: 39-6-360-3904

*Armored Vehicles, Wheeled Vehicles, Petroleum, Oil & Lubricants*

Motordife  
Via Marsala, 104  
00100 Roma  
Tel: 39-6-475-0605

*Ships and Naval Combat Systems*

Navalcostarmi  
Ministero Difesa Marina  
Piazza Della Marina 4  
00196 Roma  
Tel: 39-6-36804018

*Radar Systems, Telecommunications Systems, Navigational Aids, and Computers*

Telecomdife  
Viale Dell' Universita' 4  
00185 Roma  
Tel: 39-6-4986-5258

*Ground Weapon Systems, Rockets & Missiles, Battlefield Surveillance, NBC Defense, and Field Communications*

Terrarmimuni  
Via XX Settembre 123  
00100 Roma  
Tel: 39-6-464428

## **Diversification/Commercial Opportunities**

The current Government of Italy (GOI), headed by Prime Minister Romano Prodi, has publicly reaffirmed the GOI's intention to continue the privatization initiatives of former Prime Minister Amato and his successors.

The Italian Parastatal Organizations until recently represented as much as 40 percent of Italy's GDP. It was decided that these state-owned groups, which controlled large portions of many industry sectors including banking, telecommunications, steel, insurance, energy and electricity, were contributing significantly to Italy's chronic budget difficulties and bloated public debt.

To date, eleven Italian Parastatal Entities have been fully or partially privatized including Credito Italiano, IMI, and Comit in the banking sector, and INA in the insurance sector.

Commercial opportunities for U.S. firms could be immense, especially in the telecommunications and energy sectors. Enel (electricity), Stet (telecommunications), and ENI (energy and chemicals), are Italy's largest companies after Fiat and involve public monopolies controlling key and heavily-regulated sectors of the economy. Together these companies have been valued at approximately U.S. \$50 billion. Although the entire Stet group (the IRI-Controlled Telecommunications Holding Company) is scheduled for privatization in 1997, this sector will be influenced by political considerations.

Successive government plans to move forward with the sale of Stet and Enel have fallen victim to parliamentary wrangling over the establishment of regulatory authorities to oversee the privatized electricity and telecommunications sectors. While obstacles remain, progress has been made and the privatization process is expected to go forward with the support of all mainstream political parties.

*Electrical Power Systems*

The Italian energy policy is strongly conditioned by the country's lack of natural resources and extreme dependence on imported energy sources. Furthermore, Italy's economic/political instability and unforeseen difficulties in implementing a national energy plan have significantly influenced the local market for energy related products, equipment and systems. At the same time, electric power demand continues to increase, requiring substantial imports of electricity from France, Austria and Switzerland. Therefore, both government and industry are keenly interested in achieving a maximum degree of energy independence and are continuously considering all possible alternatives to traditional energy producing systems. The potential market for such energy systems is strong, particularly for technology and products of sophisticated design. Good opportunities exist for solar, geothermal and clean-coal technology as well as for nuclear waste-handling and storage systems, advanced fuels-exploitation systems, and peak-load gas turbines.

In addition, energy conservation technologies and utilization of renewable sources will continue to play a significant role in Italy's power generation planning. Although energy generation by nuclear fuel has been halted, there are signs of renewed interest in this form of electric power generation. However, competition from Switzerland, Germany and France is growing through the acquisition of Italian companies and aggressive marketing. Therefore, U.S. manufacturers and suppliers should concentrate their marketing efforts on highly sophisticated and innovative products/systems, while maintaining and possibly improving their leadership in licensing and technical cooperation with Italian firms already manufacturing heavy electrical machinery under U.S. license.

### *Telecommunications*

Italy is the world's sixth largest market in telecommunications services, after the United States, Japan, Germany, the United Kingdom and France. It is also the fifth-largest market in telecommunications equipment, following the U.S., Japan, Germany and France. The combined telecom market in Italy for 1995 is estimated at US \$20 billion and is expected to increase by 7 percent over the next two years.

One of the main areas of growth is in telecommunications infrastructure. By the year 2002, Telecom Italia plans to invest US \$7 billion to link ten million homes with fiber optic cables. The project, known as "Project Socrates", will become the backbone for a future nationwide "electronic superhighway" to enable consumers to receive video, sound, television and telephone services through one network.

The cellular/mobile telephone segment has also experienced exceptional growth. With 5 million subscribers and a penetration rate of 6.5 percent, Italy is one of the four largest markets in the European Union. This number is projected to increase to 11 million by the year 2,000. The award of a third cellular license is expected in 1996.

The virtual monopoly of Telecom Italia in the areas of services and networks will be challenged by the advent of European Union-mandated liberalization in January 1998. U.S.

telecommunications firms are positioning themselves: IBM has signed an agreement with Telecom Italia's Stet; AT & T, Sprint, Hughes Network Systems, and MCI have subsidiaries in Italy; and other companies, such as several of the Bell companies, are active through joint ventures. U.S. telecom equipment manufacturers are gaining significant market share with 1995 sales of American hardware and supplies estimated at US \$1 billion. For example, exports of cellular phone handsets by Motorola (U.S.) rose 51 percent in 1995.

Telephone operator and carrier equipment hold excellent prospects for U.S. companies. Mobile and network systems, as well as satellite communication systems and services, are also earmarked for high growth.

### *Aircraft & Parts*

Although the Italian aviation sector experienced a slowdown in 1995, moderate growth is forecast through 1997 as the Italian flag carrier Alitalia, the largest aviation company, is expected to recover from its losses. Moreover, with Alitalia pulling back from the short-haul routes to provincial centers, small, private companies such as Avianova, Aerdolomiti, Alisarda/Meridiana, Transavio, Air One, Alpi Eagles, and Noman are moving to provide additional transportation service at both the regional and national levels. Italy offers a challenging market in this sector, especially since there are many U.S.-made aircraft now in service that must be routinely maintained with original U.S. replacement parts to comply with technical standards and safety rules.

The Italian aviation sector continues to appreciate U.S. product sophistication, advanced technology, and unique design, despite increasing European competition. U.S. manufacturers have been able to maintain their dominant position with approximately 80 percent of the import market share in 1995. However, in order to withstand high initial investment costs, Italian aviation manufacturers often collaborate with other foreign companies.

### *Airport & Ground Support Equipment*

In spite of increasing competition from Germany, France, and the U.K., the U.S. market position in airport and ground support equipment in Italy continues to be strong and is expected to maintain its share through the year 2000. Because Italian manufacturers supply no more than 75 percent of domestic demand and only cover low technology equipment requirements, the importance and market dominance of imports of U.S. high technology products has remained almost unchanged by the Dollar/Lira relationship. Although the Italian domestic market leveled off in 1993 and 1994 due to political instability, corruption, and nation-wide business stagnation, the market is expected to grow again in view of near term investments and expenditures for airport expansions, upgrading of infrastructures, and purchases of ground support equipment and systems in order to meet world standards for safety, performance and systems maintenance.

The GOI has demonstrated its determined support for these expansions by contributing approximately US \$350 million in 1992 and US \$290 million in 1993 for investments to take place



over a five year period. Expenditures in the private sector are estimated at approximately US \$950 million through 1999. Current investments have been concentrated at 14 major Italian airports in order to update overall management and passenger/cargo terminal facilities.

### **Key Italian Civil Ministries**

- Ministry for the Environment  
Via Della Ferratella in Laterano 25/33  
00184 Rome Italy  
Tel: 39-6-6790151  
Fax: 39-6-6797257
- Ministry of Finance  
Viale Europa  
00144 Rome Italy  
Tel: 39-6-5923370  
Fax: 39-6-5924090
- Ministry of Foreign Trade  
Viale America 341  
00144 Rome Italy  
Tel: 39-6-59647526;59647505;59647549  
Fax: 39-6-59932633
- Ministry of Health  
Viale Dell'Industria 20  
00144 Rome Italy  
Tel: 39-6-59945292  
Fax: 39-6-59945226
- Ministry of Industry, Commerce and Craft  
Via Molise 2  
00187 Rome Italy  
Tel: 39-6-4884450  
Fax: 39-6-4884748

### **U.S. Government Points of Contact**

The following is a list of useful points of contact for U.S. firms interested in the Italian market.

#### **U.S. Embassy**

Office of Defense Cooperation

U.S. Embassy - Rome

PSC 59 - Box 51

APO AE 09624

Tel: 39-6-4674-2641/2543

Fax: 39-6-4674-2611/2360

U.S. & Foreign Commercial Service

U.S. Embassy - Rome

PSC 59 - Box 30

Tel: 39-6-4674-2382/2202

Fax: 39-6-4674-2113