Trade Line

Coface's magazine for its clients and partners

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Special report: Italy

Credit insurance

coface

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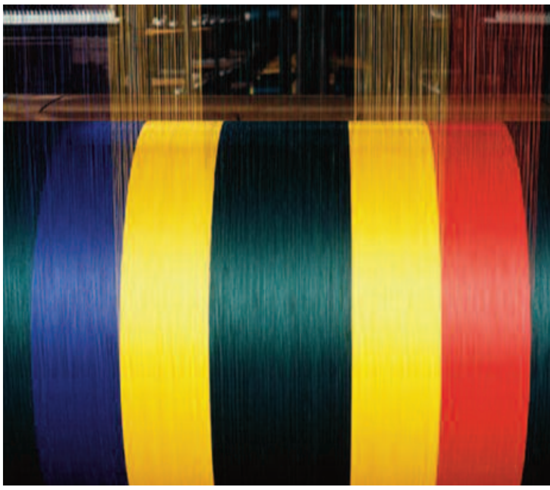
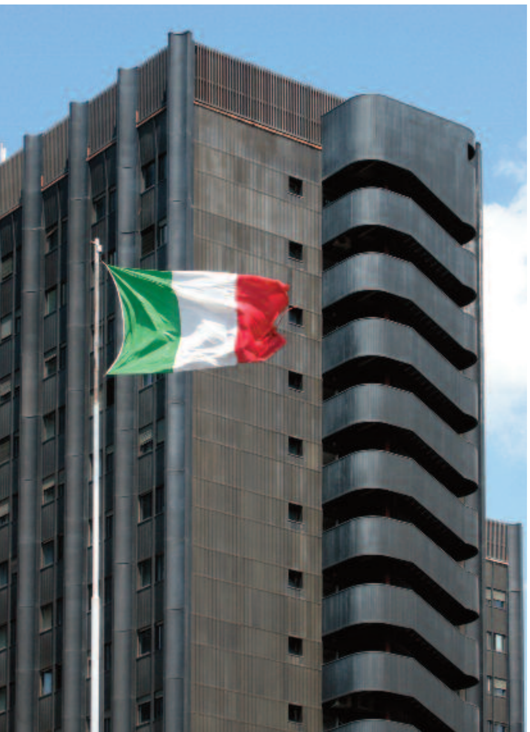
Information review published by Coface - 12, cours Michelet - 92800 Puteaux /// **Jean-Marc Pillu,** Publication Director /// **Marie-Laure Meunier,** Managing Editor /// **Patrice Godeau,** Chief Editor /// **Françoise Crouïgneau,** Editorial Advisor /// **ISSN:** 1966-6780

Italy in the eye of the hurricane

Italy's economy – the third-largest in the euro zone – is well diversified. Yet the country is currently at the centre of the debt crisis plaguing the single currency zone. Of course, many of the economy's fundamentals appear sound. The budget deficit did not deteriorate significantly during the crisis, the growth in industrial added-value and a niche strategy help to limit the trade deficit, and household indebtedness is relatively low. But the deterioration in the country's economic growth potential due to structural weaknesses and the crushing weight of the public-sector debt in a very uncertain international environment are all cause for concern. Given the vast size of this debt and the fact that it is widely held by the European banking sectors, a default by the Italian government would have incalculable consequences on the euro zone's future. However, the recent formation of a government of experts led by Mario Monti, an economist and former European Commissioner, provides some reassurance of rigour which is a step in the right direction.





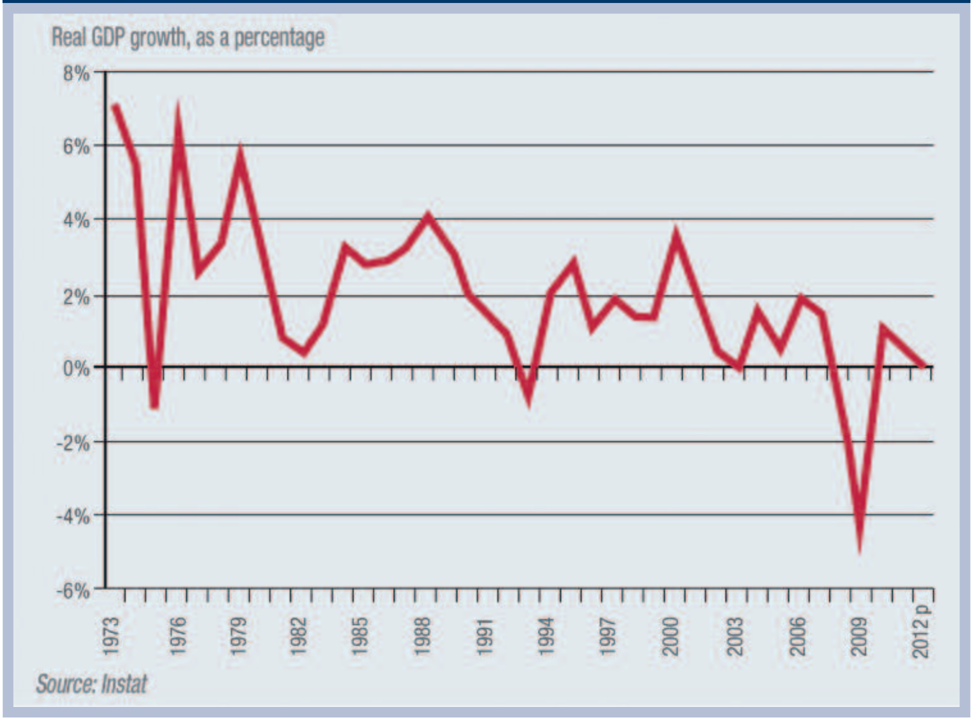
Jean-Louis Daudier,

Analyst, Country Risk and Economic Research, Coface

“One of the strongest recessions in the euro zone and one of the most fragile recoveries„

In 2009, following relatively mediocre growth for the decade leading up to the crisis, Italy experienced its worst recession since the end of World War II. Since then, the vigour of the economic recovery has remained uncertain. The rebound, driven primarily by exports, began to loose steam in the second half of 2010, a trend that carried over to early 2011. Although growth picked up slightly in the second quarter, thanks to an increase in industrial output, the economy is expected to stagnate, or even contract slightly in the second half of this year and in all likelihood, again in 2012. Specifically, GDP growth is projected to be only 0.6% in 2011 before falling into negative territory in 2012.
Foreign demand is expected to weaken as a result of austerity policies implemented in the euro zone, and Italian exports will slacken. Household income will be affected by inflation and labour market weakness. Financial market tensions will push company financing costs higher. The budgetary austerity measures adopted in 2011,

Disappointing economic performances for more than a decade



Strengths

- Low household debt and robust savings capacity
- More than half of the public-sector debt held by local market participants
- Banking system has low exposure to countries in trouble
- Considerable tourism potential
- Still substantial weight of industry in the economy
- Highly profitable niches with low price sensitivity: luxury apparel, household equipment, agri-business, machinery, steel

Weaknesses

- Recurring weak growth
- Low productivity
- Shortcomings in research and higher education
- Labour market rigidity; low employment of the youth and women
- Insufficient competition
- Inefficient public administration; large number of civil servants,
- High public-sector debt; tax evasion
- Anaemic demographics
- Lagging growth in southern regions

built around increased social security charges, will weigh on domestic demand. Private investment is already constrained by excess capacity and company financial situations that have not returned to normal yet.
Precautionary household savings, which are already substantial, are expected to increase given the uncertainties on how disposable income trends are going to evolve. Confidence surveys reflect these changes: in September, for example, the business climate index fell to its lowest level in 20 months.
Although Italy's de-industrialisation is not as severe as that of other countries (its industrial sector still accounts for 25% of GDP, compared with 19% for France), the economic performances prior to the crisis were disappointing. Italy regularly posted growth rates among the lowest in the euro zone. Many reasons account for this sluggishness.
The economic model, which for years constituted the country's strength, is struggling to meet the challenges of globalisation. The small size of Italian companies makes it hard for them to penetrate foreign markets. The synergies amongst companies, which constituted the backbone of mono-activity industrial districts, are now tenuous, primarily as a result of offshoring. Moreover, regulatory restrictions on businesses and services stymies competition, the tax burden is relatively high, public-sector services are of sub-standard quality and regional income disparities remain considerable. Yet some progress has been achieved, including changes to the bankruptcy law (see page 19), liberalisation of the energy market, greater use of tenders at the local authorities level, and measures to improve secondary and higher education. However, the continuation of structural reforms to stimulate productivity growth and the supply of labour is running up against the lack of consensus and political stalemates.

“Massive public-sector debt and low growth potential complicate a recovery from the crisis„

The markets are currently measuring the scale of Italy's public-sector debt, which has been largely inherited from the high deficits recorded in the early 1990s. At end-2010, this debt totalled 119% of GDP, the highest level in the euro zone behind Greece.
Nevertheless, after falling beginning in 1997 thanks to the implementation of a conservative budgetary policy, the weight of the debt rose only slightly at the time of the crisis. This is because the authorities have preferred to reallocate government spending instead of adopting stimulus measures that would further widen the deficits. The government therefore largely adhered to its budgetary objective in 2010 and trimmed the public deficit to 4.6% of GDP, compared with an average of 6% for the euro zone. These efforts nevertheless had to be

Massive public debt *(% of GDP)*

Source: Eurostat

strengthened under pressure from the markets and the European Central Bank. Thus several cost-saving plans were adopted successively this year in order to balance the budget by 2013. In addition to a freeze on government salaries, they call for an increase in VAT, a tax on high incomes, increased taxation of financial income, tobacco products and gaming sales, pension cutbacks and raising the retirement age for women. Finally, the measures include reduced funding to the regions and municipalities, healthcare spending cuts and cutbacks in government services. Despite these measures and the start of a decline in the deficit, the three rating agencies lowered Italy's sovereign debt rating (S&P's in September, then Moody's and Fitch in early October). In addition to the vast size of the debt and the State's financing needs, the country's sluggish long-term economic growth potential and doubts over its ability to enact reforms are likely to impede the de-leveraging process. These factors are all legitimate concerns.

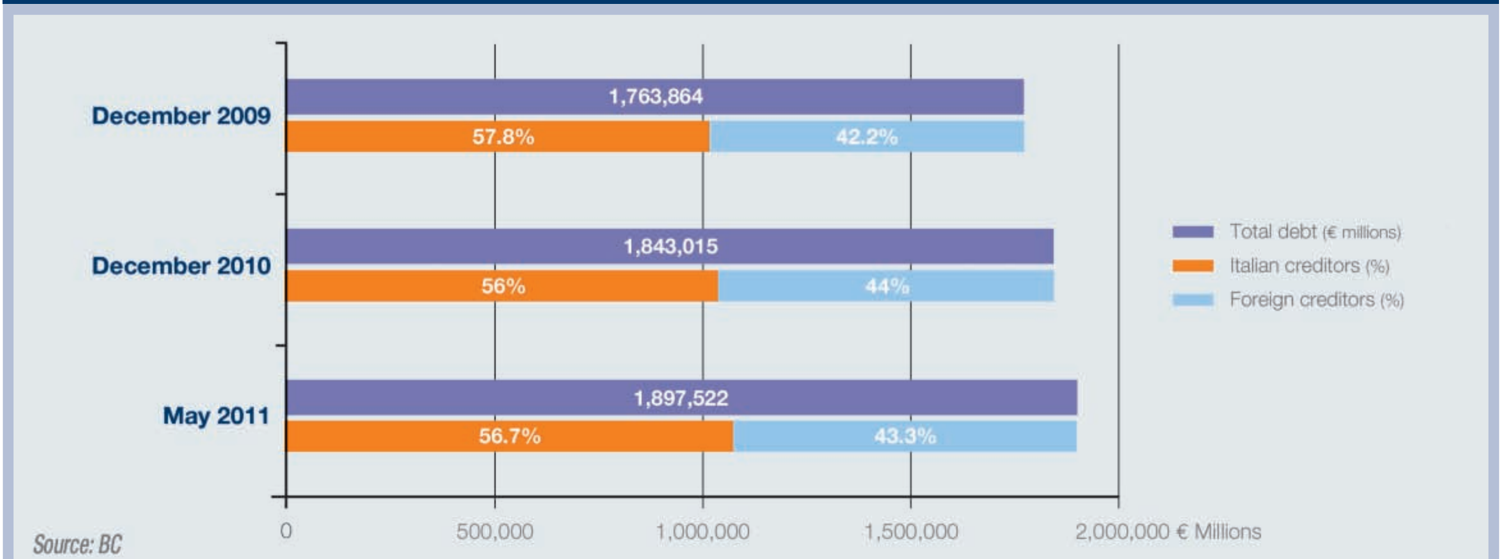
The political environment has stabilised with the resignation of Silvio Berlusconi and appointment of Mario Monti as Prime Minister This environment had been increasingly unstable, with no clear paths toward significant progress on a reform plan, and it threatened to trigger early legislative elections that were otherwise scheduled for April 2013. The recent period was marked by the political upsets of Silvio Berlusconi and his coalition government in May, as well as the legal troubles of the Prime Minister and others in the summer of 2011, and, most recently, the government slipping to minority status. The country is nevertheless at the centre of the euro zone debt crisis. Since early August 2011, it has depended on European Central Bank purchases of Italian debt in an effort to rein in rising interest rates on its debt. After a period of easing, the yield on the ten-year government bond again climbed to 5.8%, a level approaching the early-August high of 6.2%, before surging up again in November to cross the 7% threshold. In early September, the yield on Italian government bonds even exceeded that of bonds in Spain, the euro zone's other peripheral country caught in the market's crosshairs along with Greece, Portugal and Ireland.

Even though the bulk of Italian debt is long-term and variable-rate bonds account for only a relatively small amount, the heavy burden of interest expense (4.5% of GDP in 2010) makes the debt trend vulnerable to financing conditions. If rates remain above 5% over the long term and economic growth continues to slow, the efforts to trim the budget deficit and stabilise the debt ratio will be threatened. In any event, the stimulus to the economy would be reduced by the amount of the excess resources used to pay interest on the debt.

Coface downgrades its credit risk assessment

Coface assesses the average risk of companies defaulting in connection with their commercial operations over the short term -generally a credit period of up to six months. Italy's assessment has been downgraded to A3, with a negative watch. Companies' overall financial situation remains fragile, marked by low capitalisations and high debt, much of it short-term and most of it at variable rates. The country's payment incidents indices are traditionally higher than the global average and have been trending upwards in recent months. After increasing by 25.5% in 2009 and 19.8% in 2010, bankruptcies increased by another 10% in the first half of 2011.

Italian public-sector debt held by Italian and foreign creditors



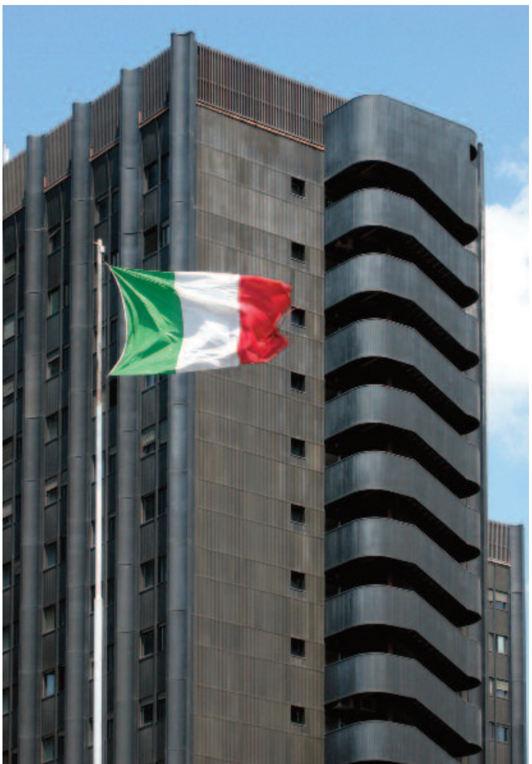
Source: BC

"A banking sector weakened by the recession and its exposure to sovereign debt risk"

Italian banks have substantial downside resistance capabilities thanks to their traditional business model, based on deposits and a conservative regulatory framework established by the Italian Central Bank. Since February 2010, credit has rebounded and, for the most part, held its ground in recent months, in contrast to the situation in other countries. However some vulnerabilities have appeared.. Italian banks hold very little Spanish, Greek or Irish sovereign debt but are heavily exposed to their own country's sovereign debt (€150 billion), which accounts for their plummeting share prices. Moreover, in the light of the recession, the quality of their portfolios has deteriorated and bad receivables have nearly doubled in the past two years, although the deterioration is not as acute as it was during the 1992/93 recession.
The two banking leaders, UniCredit and Intesa Sanpaolo, account for more than half of all non-performing loans held by the main Italian banks. These loans represent, respectively, 6.8% and 6% of the two banks'outstandings. The current economic slowdown does not favour an end to the deterioration in the loan portfolios, and it will be difficult for the financial institutions to improve their profitability. Solvency ratios for Italy's banks are slightly below those of banks in the other euro zone countries, making additional recapitalisations necessary.

"Strengths to consider"

However, in view of these vulnerabilities, the country enjoys some strength. Italian industry has raised its added-value contribution, as evidenced by the capital goods trade surplus. This favourable performance limits the deterioration of the current account deficit, which has remained at a reasonable level (less than 3.5% of GDP in 2010). The budget deficit has also remained in check. The primary budget deficit, ie excluding interest on the debt, is nearly balanced. This means that in order to improve the public finances and stabilise the debt, the budgetary measures needed are less significant than in the other euro zone countries. Also, the country's debt is 57%-owned by Italian residents, which limits speculation. And while Italian companies have relatively high debt levels, household debt remains low (less than 60% of GDP) when compared with that of other euro zone countries.
Despite a marked increase in housing loans in recent years, the country has not experienced a speculative property bubble. Finally, the level of private savings remains relatively high (18% of GDP). Therefore the country has considerable manoeuvring room to finance its growth.



Jean-Louis Daudier

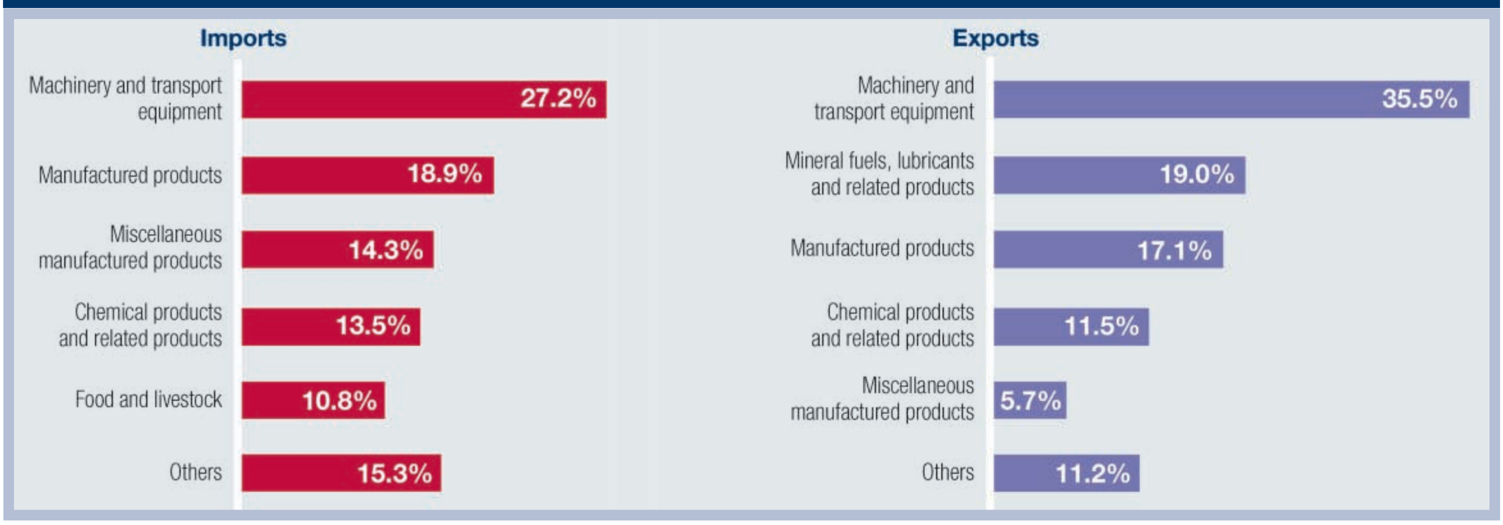
Riccardo Carradori,
Chief Executive Officer Coface Italia

The challenge for exports lies with the micro-enterprises

Italy is characterized by over five million companies (divided up among agriculture, industry, trade and services). 95% of them are micro-enterprises. Most of these companies have taken bold steps to take on markets which are more and more globalised, expanding their product ranges and increasing their flexibility to launch themselves on the international markets.
Internationalization is precisely one of the keys which will allow Italy to take up the upcoming challenges of the future. Much has been done in this direction, but there is still a long way to go.
Proper risk management is ever more important for companies as the complexity of business deals and risk volatility are on the rise. Risk management makes it possible for companies to cover their risks. It helps to support development and internationalization. Italian companies are becoming aware of that. Awareness of the importance of credit insurance is also growing thanks to the work carried out by Coface.
In Italy, Coface operates nationwide, offering services through a network of over 60 general agents and professionals specialized in integrated credit management and with in-depth knowledge of local economies and sectors. Through its deep rooting in the group, Coface in Italy is able to coordinate all the services and facilities of international scope to the needs of Italian market, where it has been present since 1987. Coface Italia has become the leader on the surety market and the second actor on the credit insurance, market.
Recently Coface Italia has strengthened its commitment on behalf of enterprises, first and foremost in the framework of the protection of trade receivables, but also by offering its support in the area of business strategy, by identifying on which markets to invest in and by accessing to bank credit, made increasingly costly and insufficient by the turbulence of the financial markets, which has pushed banks to pay particular attention to financing methods.
Coface is investing in dialogue with companies and undertaking a path of collaboration with the major Italian manufacturers' association, the home of enterprises, thanks to which important partnerships have been created, above all the national accord with Confindustria for credit insurance and its application to local realities.
In the future, Coface intends to carry on its mission with Italian companies by helping them to prevent risks in a complex and volatile economic environment in Italy as in the rest of the world

Riccardo Carradori

Sectoral distribution of Italian Trade *(Imports/Exports)*



Roberto Rossi,
Natixis Milan Branch

The banking system: few international leaders

Financial institutions with a long history and still closely linked to their regions and the country's manufacturing base.

Two leading domestic banking giants stand out above all the others: IntesaSanPaolo and Unicredit-HVB. They are followed by large banks that were formed through the merger of national and regional institutions and which were able – not without some difficulty – to create a new culture and a new kind of banker. These banks have also been able to expand outside of the country and become European banks not global though. Below them are five or six large banks which are only known in Italy but largely anonymous to those outside the country: Monte dei Paschi di Siena, Banco Popolare, UBI, Carige, etc. These are financial institutions with a long history and still closely linked to their region and the country's manufacturing base.
Italy has large industries but is characterised mostly by its small- and medium-sized businesses grouped regionally: machinery in Lombardy and Piedmont, ceramics in Emilia, textiles and furniture in Veneto, kitchens in the Marches, sofas in Apulia. In these circumstances, the banking profession consists in knowing one's clients, understanding their needs, knowing how to help them and, in some cases, knowing how to make them wait. Because companies do not all pay and make deposits at the same pace, they do not all succeed without assistance to overcome low points in the economic cycle, and they do not all succeed in penetrating new markets without the support and understanding of a serious financial institution.
The business landscape also includes tradespeople, shopkeepers and emigrants from Eastern Europe and Africa who resourcefully launch small business activities. They turn to medium-sized and small retail banks, savings banks and mutual banks that do not want to go beyond the borders of their own region, and finally, the small cooperative banks (nearly 800) that manage to have their own sales niche with a single bank counter or hardly more.
Lastly, there are the savers. As a rule, Italians prefer not to live on credit. To build a house, they first set aside savings, with parents and family helping out. Only then do banks enter the picture to make up the difference, but they never contribute more than 70% of the value of the house to be purchased or built. In Italy, savings are channelled through the banking system. There are still many deposits and many low-risk bonds, which are jealously guarded by each saver's trusted bank, along with a bit of asset management and some stocks and shares, but still well below the international average. This lack of enthusiasm for shares is due mostly to their price volatility, but also to the paucity of listed companies.
And the number of true public companies in Italy can be counted on one hand.
The families have struggled to accumulate savings year after year and these savings have prompted a few large foreign banks to cross the Alps, study the market and establish a firm foothold. In recent years, BNP Paribas and Crédit Agricole have acquired solid positions, with nearly 2,000 counters throughout the peninsula, although they continue to operate under the old, traditional Italian names such as BNL, Cassa di Risparmio di Parma and Friuladria. Other foreign entrants have chosen to fly their own flags, including Deutsche Bank and Barclays - making it commonplace today to see the blue eagle logo side by side with more familiar names. Lastly, ING's orange logo has become ubiquitous. A virtual bank? Indeed, but one that has managed to overcome scepticism and win lots of customers, notably among the youth: the Internet-savvy generation who has little money and for whom cost-consciousness is a priority.
Italy is changing along with the rest of Europe. Change may not always be coming as fast as in other countries, but the banking system is supporting it. And if the Italian banking sector is not yet fully able to anticipate this change, the same can be said of that in other countries. The crucial thing is that trust-based banking relationships remain firmly established in Italy, and that people here feel that their banks rise above the vagaries of the market and, under the watchful eye of the central bank, continue to be conservatively managed.

Roberto Rossi

Italian industry reinvents itself

The manufacturing sector, the driver of Italy's economy, is banking on innovation and flexibility to regain competitiveness. Studies carried out by Cofindustria and Medioblanca confirm this.

Despite its current difficulties, Italy remains a country with a marked industrial vocation, as underscored by a recent research by the Centro Studi of Confindustria. Despite having dropped from fifth to seventh place world-wide it remains second in Europe only to Germany. Unfortunately, however, in the last quarter a troubling downturn in the activity was recorded (-17.0%), that is, double or triple that of its biggest competitors Only Spain did worse.

The main driver of the economy

Industry continues to be the main driver of the economy. It is the origin of the productivity gains of the whole system. It is there that quality, better-remunerated jobs are created, and it is there that most of the research is conducted. Industry is the source of 78% of the revenues obtained from the exports that serve to finance the imports of goods and services. Simulations by Confindustria's Centro Studi illustrate that more than a third of GDP and 8,2 million workers are linked directly or indirectly to the manufacturing sector and that, without its decisive contribution to foreign trade, the Italian economic system would implode. Comparison with Europe confirms that where industry (net of the building sector) does best, income grows more rapidly.

Northern Italy is specialised in mechanical, especially, and competes with the Central and Northern European areas, while in Italy's South the weight of the clothing sector is greater and this exposes it to competition from Southern and Eastern Europe. Italy is the world's eighth-ranked exporter of goods, fourth in Europe. Even during the crisis it has continued to reorient its overseas sales towards Eastern and Central Asia, Northern and Central Africa and non-EU Europe. The weight of the emerging markets on its GDP increased between 2000 and 2010 from 4.1% to 6.5%, an increase and level, however, that are much lower than those of South Korea and Germany. This reduces the driving force that comes from the fastest-developing economies.

Italian specialisation has continued to turn towards the manufacture of goods not directly attributable to the fashion-clothing-furnishings area, which remains significant in production and a driver for the country's international image but which has seen its share of exports decline from the 21.5% at the start of the 1990s to the 14% of 2010. In terms of export sales, sales abroad machinery prevails (nearly 20%), while in the past three years the incidence of chemical products has increased (to 7%), and even more that of pharmaceuticals (to 4.3%).

Last year productivity registered significant improvement (+6.8%), which however follows the 8.2% contraction in the previous two years. The number of workers employed also contracted, interrupting a decade at steady levels.

The profitability of investments in Italy is low, however, and comes from a decade-long descending trend. In 2010 EBITDA, in relation to added-value, recouped the drop in 2009 only in small part and remained well below the values of 2008, closing at 24.6% (it was 33.2% in 2000).

Companies' new strategies

Many companies have fully grasped the momentous changes in progress and have adapted their strategies: decisions to focus on growth and to concentrate on knowledge, to expand their product ranges and outlets, to project themselves onto the international markets, to integrate the upstream and downstream activity to recover skills and value shares and to be more flexible and ready to respond quickly to customers' changing needs, have all proved successful. Within sectors, closer collaboration with major suppliers is being seen.

The commercial function and investment in brands have become increasingly important. Cost cutting and efficiency increases have become secondary: they remain a precondition for competing, but they are not enough to stand up against the competition and to create those distinctive elements that are indispensable for staying on the market long-term.

The most prestigious road of increased productivity passes through the ability to capture a demand that requires more advanced products and constant renewal of the solutions offered. It passes through the accumulation of human capital and investment in the people who work in the company.

These strategies are shared by the companies that have demonstrated in the past decade that they are more dynamic and proactive to change, independently of their size, sector or the territory they belong to. Features of these behaviours also emerge in the business models of the small enterprises that have the best performances, according to the analysis conducted for Confindustria's Centro Studi on the basis of information that regards companies that invoice less than 7,5 million euros. Also in those cases the competitive factors that count are the management of brands and foreign markets and commercial strength. Companies that adopt simplified business models, with low technological and organisational skills, are fragile and struggle to survive.

The transformation of the Italian manufacturing fabric also takes place through a harsh and accelerated selection. Raw materials have become a vital issue. Product and process innovation, with the introduction of new materials, the dematerialization of production, with the raising of added-value due to the greater content in service, and coverage of the risk brought by the excessive volatility of quotations, are the viable ways to counter this threat.

A weakened financial system

Other difficulties could arrive for Italian companies on the credit front. The financial crisis, the increase of the spreads on Italian government bonds and the perception of a greater country risk have in fact considerably increased the financing costs of the banks and, as a result, they are slowly shifting the increases onto the companies.

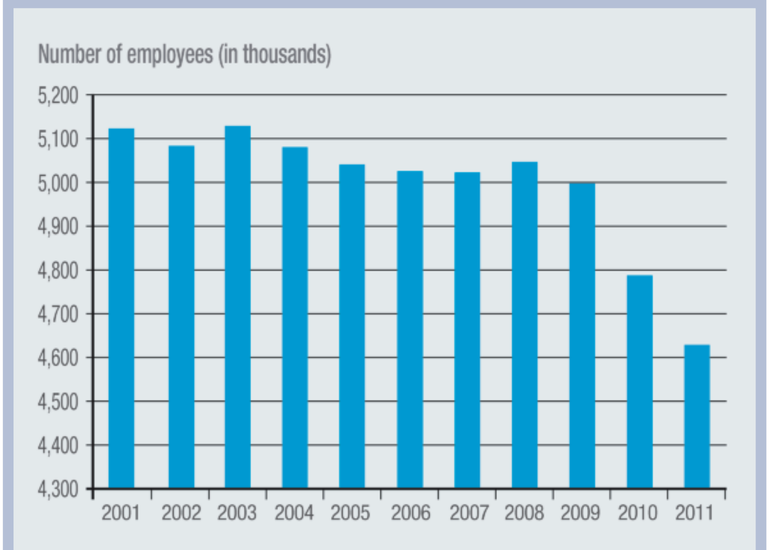
According to a research by Ricerche & Studi of Mediobanca on the 50 largest listed Italian groups, the market capitalisation of the six leading Italian banks (Intesa Sanpaolo, Unicredit, Monte dei Paschi di Siena, UBI Banca, Mediobanca and Banco Popolare) is currently not even a third of what it was before the crisis: 66 billion euros compared to the 218 billion of late 2006. Several troubling signals emerge from the research, starting with the fact that in the first quarter of the year the net non-performing loans of the five "bigs" of the sector amounted to 87,2 billion euros: double the 44,8 billion in 2008.

For the R&S Mediobanca analysts, it is a question of "levels finally stabilised both with respect to the loans to customers and to the net capital," but the boom has been remarkable: from more than 44 billion euros of 2008 to the 76,7 billion at the end of 2009, to the 85,5 billion at the end of 2010. Last March the least favourable situation was that of Banco Popolare, whose NPLs were equal to 9.7% of the loans to customers and to 75% of the net capital.

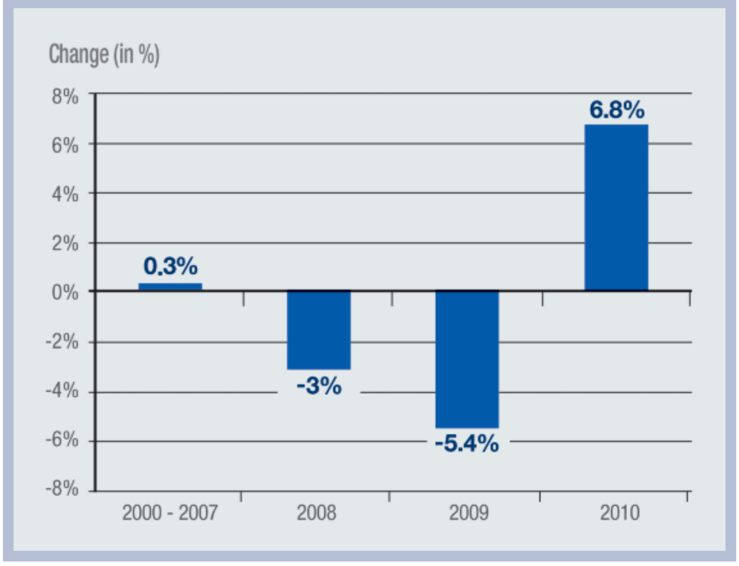
In the first quarter the overall earnings show slight growth (+1.3%) over the first quarter of 2010, with a small increase in the interest margin (+2.1%) and a strong improvement of the negotiation result (+45.3%), i.e. of the trading. However, "with the current situation of the markets it is very doubtful that this year the banks will close the trading activities with positive results," the R&S Mediobanca analysts comment, "and if these initial tendencies are confirmed in the course of the year, the aggregate of the banks would still close 2011 with earnings around 10% lower than the 2007 level," i.e. the period preceding the crisis.

Coface Italia

Employment in the industrial sector *(excluding construction)*



Labour productivity in the industrial sector



Sergio Napoli,

Head of Coface Italy Risk Underwriting Department

"Sector report: « luxury goods » lead the way, construction on hold"

Sergio Napoli reports on the health of the leading "Made in Italy" sectors.

TradeLine (TL): Let's start this sector review with one of the cornerstones of the Italian economy, the machinery industry, which includes the automotive and metallurgy sectors.

Sergio Napoli (SN): Overall, the machinery industry is one of the "Made in Italy" sectors recording the strongest growth abroad, notably in the BRIC countries (Brazil, Russia, India and China). In the ceramics industry, which has been fundamentally restructured in recent years, we are also seeing renewed domestic demand, whereas shipbuilding and forklifts have not performed well. After a difficult year in 2009, the metallurgy industry's situation improved in 2010 thanks to exports, although some stagnation was evident in the latter six months of the year. Here again, shipbuilding companies were hardest hit, whereas companies that manufacture steel for the gas sector (gas pipelines and conduits) performed better. The claims rate remains high, but in line with expectations.

The success of Italian companies, which excel in every way, will depend on a recovery in domestic market growth. As regards the automotive sector, the domestic market has contracted significantly as a result of falling consumption. The country's leading automotive company Fiat, of course has lost market share in Italy but increased exports, notably to North and South America.

TL: What about agri-business, another traditionally solid sector, inextricably linked to mass market retail?

SN: The impact of the crisis has not been less significant, in particular on exports. In the domestic market, the Italians' low propensity to consume has weighed on growth. Wine, fruits and vegetables have recorded favourable results, while the production sectors related to beef and lamb have turned in below-average performances despite strong gains.

As regards mass retail, Italy's positioning is consistent with that of other European countries, except in the southern part of the country, where market penetration remains limited. The health of the agribusiness sector depends on this sector, since the large retail chains can negotiate lengthy payment terms, which can be difficult for small operators, who are often themselves intermediaries.

TL: The growth trend in the construction and to some extent the wood/furniture sector appears less reassuring. What is your view of that situation?

SN: The construction industry is struggling the most, with plummeting revenues during the past two years and a growing number of bankruptcies this year. We are seeing increasing consolidation amongst small companies, consisting mainly in cooperatives. The large operators are also negatively affected by the situation in the foreign markets, notably in North Africa and the Middle East.

In the wood/furniture sector, a distinction is necessary. After falling off drastically, sales of furniture and sofas have rebounded thanks to exports - there being no signs of renewed growth in domestic demand. Meanwhile, the kitchen cabinet segment continues to experience major difficulties.

TL: Is the luxury goods sector still the star of "Made in Italy"?

SN: Exports of high fashion and luxury goods continue to perform well, but this is one of the rare sectors in Italy that can act as a whole and present a unified image in the market. Companies in the other sectors should learn from this winning strategy instead of counting on initiatives by individual players.

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Sectors on the rise

Agribusiness

Sales volumes and revenues have increased slightly. Exports have performed well regarding both basic agricultural commodities and processed products. Given the anaemic household consumption, the favourable outlook offered by foreign markets will represent the main source of growth.

Fashion

Textiles, leather goods and shoes are gradually gaining strength, thanks in large part to exports. Apparel has also recorded robust volume gains, but these have not been reflected in higher revenues because of the downward pressure on prices. High-end fashion companies present in international markets have benefited the most from the growth.

Machinery

This sector is showing promising signs of improvement, both in the domestic market as well as for exports. Of all the manufacturing sectors, it is the one most likely to experience a recovery in the short- and medium-term, and even offers a promising outlook if it can fully exploit the possibilities available in the emerging markets.

Automotive

Restrictions on imports and the advantages linked to the government incentive mechanism to purchase automobiles, combined with the decline in household spending on consumer durables, have resulted in declining revenues in the domestic market and the appearance of difficulties for the brands of Italy's leading car manufacturer.

Construction

The companies in this sector, which continue to have a hard time obtaining credit, have again recorded declining performance. The sharp drop in new home construction has been only partially offset by the renovation and modernisation activities. Non-residential and industrial construction has also continued to decline.

Mass market retail

Savings and protecting purchasing power are the predominant factors affecting consumer behaviour, along with the uncertain labour market outlook. The large retail chains still find themselves in a highly competitive environment, which offers limited potential for growing sales.

Sectors in decline

Fabrice Rocchi,
Coface Underwriter

"Exporting to Italy: preconceptions and pitfalls to avoid"

Companies looking to export to Italy need to recognise specificities that might otherwise be underestimated given the country's proximity to France.

TradeLine (TL): What advice would you give a company looking to export to Italy?

Fabrice Rocci (FR): You need to understand this country in order to do business there. Even though it is very close to France both geographically and culturally speaking, there are major differences. In my opinion, to think that you can export to Italy without knowing the fundamentals or having a solid base or the capacity to get a sense of the market would be a huge mistake. If you think you can structure and develop this market from France – after all, with the Internet, a telephone and low-cost flights, anyone can manage the business from the main office in France, right? – you may well run into serious trouble. It is a difficult market, with certain specificities that need to be understood. But it offers advantages to those who take the time to get properly acquainted with them. I believe that it is essential to have a dedicated staff (or trustworthy representatives) in the country for any commercial transaction, along with flawless management discipline (close attention needs to be paid to overseeing delivery conditions for merchandise, checking compliance with payment deadlines, etc.).

TL: which industrial sectors are the safest and which are the riskiest?

FR: Given Italy's currently challenging financial situation, the simple answer would be to say that all industrial sectors are risky. This country, which is in the midst of a major crisis, faces numerous problems. The fact that it needs to import all of its energy needs (out of the planet's 14 richest countries, Italy is the only one not having any nuclear resources related to nuclear energy), makes it extremely vulnerable and dependent from a financial standpoint. Moreover, the structural weakness of the Italian political system undoubtedly complicates any plan to stimulate the economy. In this environment, it is only the individual capabilities of certain Italian companies, linked to the family-based capitalism that has always been Italy's strength, which are able to protect a limited number of organizations which, despite the crisis, are now getting a second wind. One of the most striking examples in that regard is the textile industry, which was excessively hard-hit by competition from China. The past decade has been a catastrophe for this sector. Realising that this challenge from the Asian market could not be overcome, the Italian textile sector turned to products with very high technical added-value. It is clearly a niche market, but one that allows the sector to retain a true and tangible presence on the market. Conversely, some sectors that have long been amongst the strongest performers in Italy such as steel, corrugated board and chemicals are now clearly feeling the impact of rampant globalisation, which points out all the weaknesses of the Italian system in terms of competitiveness and therefore limits any possibilities of stimulating the activity.

TL: What types of risks do you assume and what guarantees do you require for Italy?

FR: Coface is able to assume all types of commercial risks in Italy, without specific guarantees, with the exception of special cases naturally. Our in-depth knowledge of this market over many years enables us to take on a broad range of transactions, which is clearly a major commercial asset relative to our competitors. In any event, it remains difficult for our clients to get guarantees from our Italian buyers. The guarantees are costly and often based on formal aspects that are difficult to verify from a legal standpoint. For example, the use of the bank guarantee, which is very costly for the buyer, is still relatively rare. Therefore, we generally prefer to rely on our own experience to decide whether to cover certain types of transactions. Moreover, this specific experience has shown us that with the exception of documentary credit, all other available forms of guarantees do not offer absolute payment certainty. These types of guarantee are often marred by technical flaws related to tax regulations, applicable legislation at the time, the proper ratification of documents, etc., which may go undetected even to the closest scrutiny. The need to obtain guarantees remains a more comforting factor in the event of tricky payment collection situations.

TL: Do you underwrite Italian risks differently from in other countries?

FR: Yes, of course. To assess the risk posed by an Italian buyer, one needs to conduct an in-depth financial analysis and – even more importantly – have a detailed understanding of the country, its economic history (some industrial districts need to be understood and mastered separately to avoid any missteps) and above all its practices.

Enrico Bracalente,
President of NeroGiardini

NeroGiardini, a textbook case of "Made in Italy"

Founded in 1975 by Enrico Bracalente, NeroGiardini is a small enterprise located in the Marches region which manufactures shoes on behalf of others companies. After having some mixed results and setbacks on the American market, the enterprise decides to change its strategy and to launch its own brand. Between 2005 and 2010 its sales have multiplied by four and have reached 213 million euros even though the enterprise keeps its production in Italy, refusing the "optical illusion" of low costs countries, according to Enrico Bracalente, manager of the enterprise. Between "a return on investment of 0.3 % on quality products in Italy and 10% on low quality products in China, what is the advantage of relocating?" he says. A textbook case to be studied during times of crisis.
It has become a well-known brand, with sales revenues steadily climbing even in the midst of the crisis. All this happened thanks to the flair of Enrico Bracalente, an entrepreneur who always had the courage to make bold choices, from investments in communication to credit insurance, from refusal to relocate production to the creation of an innovative IT platform in order to handle orders and shipments.
Coface Italia met with its president, Enrico Bracalente.

Coface Italia (CI): But what is the secret of Nerogiardini's success?

Enrico Bracalente (EB): We've invested a lot in technology and communication, trying to provide a first-rate retail service. Through daily scheduling we keep sales constantly monitored and we are able to intervene if necessary, perfecting the system.
Orders, restocking and reservations for the next season are handled in accordance with consolidated know-how in order to support retailers with a true consulting service. The aim is to reduce unsold goods to the minimum by means of a forecasting system which is improved from one season to another.

CI: What is the company's distribution policy?

EB: The biggest outlet market of the Marches-based company is Italy,

where NeroGiardini occupies a leading position in the mid-market range.
Regarding the distribution strategy, the company has introduced a modern system based on the presence throughout the territory of showrooms to support the sales network and to attract the clientele.
The brand's distribution is based on a mixed formula which includes own stores, franchise stores and multi-brand stores. Since 2003, the company has opened 12 company-owned single-brand sales outlets. The first NeroGiardini Junior flagship store (offering articles for children and teens) has also opened in Corso Venezia in Milan in March 2010.
In 2007 the franchising project is launched, with the opening so far of 30 NeroGiardini sales outlets. They are planning to reach 500 by 2015. Moreover, for this project, an IT platform has been developed which allows each store owner to interact with the company warehouse in real time. Also tested in the company-owned single-brand stores, the software is programmed to keep tabs on the flow of sales in real time.
There are 2,500 multi-brand stores in Italy. Over the last few years, 500 of them have created a dedicated single-brand corner inside their spaces. And soon another 100 multi-brand stores will be added.

➔ CI: What about its export policy?

EB: Today, foreign markets only represent 10% of NeroGiardini's sales revenue, therefore the growth potential is enormous. The group plans to consolidate the expansion starting with Europe (Belgium, Netherlands, Spain, France and Germany, but also England, Greece and Austria), with the goal of getting 35 to 45% of its sales revenue abroad by 2015. To reach the new markets a series of single-brand stores will be developed, both directly operated and others in franchising. Among the emerging countries, Turkey and China are of lively interest.

➔ CI: What role does credit insurance play?

EB: Since 1992, with what was then La Viscontea (Coface Italia), we consider credit insurance an essential item. Coface has been a big help because it has always provided us with valuable information, sparing us useless risks. Twenty years ago in our industrial area few companies had a credit insurance cover. They greatly underestimated risk cover and they saw it as a cost, not as an investment. They were wrong! As they later often learned at their own expense. As for banks, knowing that the trade receivables are insured is an important guarantee.

Interview by
Coface Italia

NeroGiardini in numbers

Initially, it started as a small enterprise founded in 1975 in the Marches region and which specialized in the shoes manufacture. Today, it has become a well-known brand on the market. And all this happened by investing in quality, communication and a production highly concentrated in Italy.

- **1975:** year of founding
- **213 million euros:** the 2010 sales revenues of BAG SpA (+6.5% over 2009)
- **4** company-owned production facilities
- **21** shoe factories of suppliers
- **2,000** direct and indirect employees
- **3.5 million** pairs of shoes produced per year
- **120,000** belts produced per year
- **50,000** women's handbags produced per year
- **13** company-owned single-brand sales outlets
- **30** single-brand franchise outlets
- **2,500** multi-brand sales outlets
- **10%:** the share of sales revenue earned abroad

Olivier
de Rocca-Serra,
CCEF
CEO of Bel-Italia,
Subsidiary
of Bel cheese-makers

Nicolas Diers,
CCEF
Senior Adviser,
SIA Conseil

Italy? No... « The Italies »

Italy is a large country, a big market. Although it may often appear challenging and complex, it still offers numerous opportunities. But you have to be patient and find the right way in. That is not always easy if you don't follow certain rules or adopt certain practices. Olivier de Rocca-Serra and Nicolas Diers, two French foreign trade advisers, share their experience with us.

We are all familiar with Italy's wealth, its history, artistic heritage and strong traditions, even if national unity was achieved only relatively recently (Italy is celebrating its 150th anniversary this year). But Italy is also a large country in terms of its size and population (even if the latter is ageing), as well as the cultural heritage of its people, who only have modest debt on the private level. The country is also famous for its industry, which ranks second in Europe behind only Germany and ahead of France! The industrial know-how and large number of centres of excellence contribute to the wealth of a country known for its "customised" artisanal and even mass production. This "customised" production is on the high end and has substantial added-value. At the same time, it is true that Italy is currently experiencing a difficult phase. Its economy has been in quasi-stagnation for about a decade and could soon slide back into a recession.

Some impediments...

➔ A complex country

Italy is often "hard to read" for French people used to a centralised country. It makes more sense to speak of "the Italies" as opposed to "Italy". This heterogeneous country (rift between the North and South) is also very fragmented by region and even by local area. It is not easy to put together reliable, comprehensive, structured and relevant information that enables you to reach a single conclusion or business model that can be rolled out everywhere identically.

➔ Excessive regulations

The vast number of standards and regulations imposed at various administrative levels (State, regions, provinces, municipalities) and established "in parallel" to European regulations often constitute impediments to action. In an increasingly federal country, the administrative capital Rome is very different from Milan, the commercial and financial capital. Companies are also dispersed across the northern and central regions.

➔ High market entry costs

Specifically, the high market entry costs related to distribution and market coverage, communications, transport, energy, client risk, and administrative and advisory fees are an unfortunate factor. An unfair competitive landscape which results from the special status of some regions (Alto Adige, Val d'Aosta, etc.) or certain organisations (retail or producer co-operatives, etc.) is also to be regretted. Finally government bureaucracy is still relatively fastidious and slow, and the quality of the country's infrastructure and public services varies significantly.

➔ Economic players that can be conservative

Typically, commercial positions have been established over many years and are therefore difficult to budge. Economic players can be economically fragile, cautious and resistant to change, while commercial companies often have suppliers and standards at a local level rather than an international one.
Finally, the weight of politics in the business world needs to be taken into account. All in all, these constraints make the country relatively difficult to penetrate while giving a particularly strong advantage to established market positions.

... but major assets

➔ A highly productive SME network

Italy has a large number of dynamic SMEs doing business in all sectors and serving both the domestic and export markets. However, these SMEs, which are typically family-owned, need to be modernised and offer new services at local and international level. They therefore represent a vast source of B2B opportunities. Italian regions and cities organise numerous trade shows, which are always an effective means to meet people and share information and commercial opportunities. The 2015

Milan Expo, for example, will be a major economic event that will create numerous local, national and international business opportunities.

A complex distribution system

The Italian distribution system is "concentrated" at the procurement end, where suppliers deal with centralised buying bodies: five procurement centres single-handedly accounted for 60% of mass market retail sales in 2010. Meanwhile, the system is "diffuse" at the end-consumer sales end (40 store chains accounted for 60% of sales to end-consumers in 2010).

Numerous opportunities

Italy remains a rich country, and although the State is heavily indebted, Italians themselves are not at the individual level. Their "savings" (net assets) have certainly been eroded during these recent years of crisis, and living standards have declined for many families (notably as a result of unemployment). But on average the situation remains relatively satisfactory, with a "reserve" of purchasing power and the best net-worth-to-income ratio in Europe.

High-quality consumers

Italian consumers remain attached to brands. As "well-informed consumers", they are still prepared to pay for quality, although they still love to shop regularly for bargains in order to get a good deal.

Lessons of experience when approaching the market

Beware of conventional wisdom

Although it is a Latin country like France, Italy is very different, especially regarding how its business world works. The country is decentralised and relatively heterogeneous, a place where personal contacts and relations and the many networks play a decisive role. You have to find the right contact/decision-maker, pay attention to the "passaparola" – i.e. the reputation of a person, product or service – and not neglect the importance of Italian or French professional associations in the country: business clubs, business start-up clubs (CCE), Ubifrance, Chambers of Commerce, etc.). This requires individual effort by all managers to forge those all-important personal relationships, to a greater extent than is the case in France.

Understanding the Italian mosaic

In this context; getting out and about and visiting regions as different as Lombardy, Apulia and Alto Adige can be a very good way to understand the "Italian mosaic".

Get good advisers

Know how to find good lawyers and accountants who can handle the various legislative and administrative complexities and any other surprises for you.

Commercial relations - put it in writing

The commercial tradition is essentially oral. Italians often avoid written contracts in order to maintain maximum flexibility. Formal documents in writing should nevertheless be obtained fairly early in the sales process to avoid misunderstandings and wasting time. An agreement only really exists when it has been put into writing, and throughout the negotiations the Italian contracting party will always look for a plan B that can be substituted up until the final signature. Italians live and breathe in complexity and are particularly clever at finding creative solutions to what might otherwise appear to be intractable problems. Their pragmatism is real, as is their decision-making capability, even if these decisions contradict earlier choices. They look for the best solution today, even if it means changing their mind tomorrow, which they do without a second thought. This is a key point of difference.

Take your time

Be patient and be prepared to take your time, because the complexity of the administrative and legal systems means that business deals can take more time to be concluded. In all cases, however, the result will be more stable and long-lasting.

It would be a mistake to forgo the creativity and experience of Italian entrepreneurs to solve problems!

In France, we often have a better ability to forecast and plan the future and therefore get organised. We undoubtedly have more experience with finance and end-to-end supply chain logistics. But Italians are often themselves outstanding entrepreneurs, excellent sales people and very creative and responsive manufacturers (importance of the production engineer very close to the sales staff and the customer's needs). Think of this as a complementary fit.

Avoid appearing arrogant

Our self-assurance at the start is often perceived negatively. It gives an image (generally false) of mistrust and/or arrogance, which gets in the way of collaboration and agreements. We should be rigorous when it comes to formalisation and operational monitoring, two areas where we can be "overconfident" or even cursory - a potential source of failure or disappointment. The framework of the agreement must be specific and include the major points on payments, expenses, treasury, regular reporting, etc., and the monitoring must be equally rigorous. Deals need discussing and the Italians expect this; the point of business is to make money, and the weak are, by definition, wrong. No one will have any qualms about testing you. Given their still largely paternalistic culture, Italian companies rarely give the same amount of manoeuvring room to their managers as French ones do. In all cases, trust is earned over time and through teamwork.

Keep a close eye on your customers and suppliers

In this period of economic crisis, let's remember that Italian companies are generally small and family-owned, and sometimes financially vulnerable (little capital and not negligible debt). Italian banks have generally done a good job of supporting their corporate clients over the past two to three years, which cost them and will continue to cost them money. It is therefore necessary to monitor the financial health of your clients and suppliers. Ask them questions. Make systematic use of the information agencies. This relative fragility of Italian companies can also be a source of unexpected opportunities (acquisitions, associations, partnerships, etc.) with companies that offer real know-how or valuable market share but little in the way of equity capital. In some cases, Italian entrepreneurs may be tired after many difficult years. They may view a partnership or association as a means to achieve greater serenity and efficiency in order to penetrate emerging markets, ensure the long-term viability of their companies and secure the future of their employees. In that context, French partners are well regarded!

Jean-François Rondest,
Group Information and Claims Department, Coface

A welcome change in the bankruptcy law

A change in the Italian bankruptcy procedures had become necessary because it was widely believed that the former legal framework was much too rigid to help distressed companies to reorganise in a meaningful way, and that as a result many companies could not avoid liquidation.
The complete overhaul of the Italian bankruptcy Act (the "legge fallimentare", first promulgated by Regio Decreto no. 267 of 16 March 1942) was carried out in several stages.

First stage

The law-decree no. 35 of 14 March 2005, entered into force on 17 March 2005 and converted into law no. 80 of 14 May 2005, applicable the following day.
The two new provisions of the law-decree of March 2005 involve the enforcement of revocatory orders (claw-back actions) and the composition arrangement.

Second stage

The legislative decree no. 5 of 9 January 2006, which entered into force on 16 July 2006, transforms the entire "legge fallimentare" and is complemented by amending legislative decree no. 169 of 12 September 2007, applicable as from 1st January 2008 and by decree-law no. 78 of 31 May 2010 (article 48) effective 30 July 2010.
These laws are designed to help companies to reorganise as well to streamline the legal proceedings..

The main amendments to the "legge fallimentare"

The conditions for declaration of bankruptcy (articles 1 and 5)

The following are subject to the bankruptcy and composition arrangement: companies and entrepreneurs that, in the last three years prior to the bankruptcy petition, have reached an annual total assets of more than € 300,000, an annual gross revenue of more than € 200,000 and recorded payment defaults, including debts not yet matured, of more than € 500,000.
The lawmakers' objective is to exclude small entities that may be subject to bankruptcy law by tightening the conditions for admission to the procedure.

The state of insolvency (stato d'insolvenza) triggers the bankruptcy procedure.
The company manager who is regularly unable to meet his own obligations (of at least more than € 30,000) is considered in insolvency state and in that case, the bankruptcy may be declared at the request of the debtor, one or more creditors or the Public prosecutor.

Shortening of procedural deadlines

Shorter and stricter deadlines have been implemented in order to speed up the procedure.
For example, these deadlines apply to the setting of the date for the hearing to review the liabilities estate (either 120 days following the date of the bankruptcy ruling or 180 days in complex cases), the filing by creditors of their proof of claims with the court clerk office (30 days prior to the hearing set to review the liabilities estate), the presentation of a liquidation plan by the receiver (within 60 days of the drafting of the inventory of assets).

Rehabilitation of the debtor
(esdebitazione) - article 142

At the conclusion of the procedure, the bankrupt party, an individual, may be discharged of his debts to the creditors requesting the bankruptcy and who were not fully satisfied.
The rehabilitation option is allowed once the debtor is considered to have acted in good faith and co-operated with the bankruptcy administration.
The following commitments are nevertheless excluded from rehabilitation : family financial and food support commitments, as well as commitments arising from relations outside of the company's business and compensations for damages following extra-contractual illegal activities.

The creditors committee
(comitato dei creditori) - articles 40 and 41

Appointed by the delegate judge, the creditors committee, which is composed of three to five members, got its role and scope considerably expanded. Not only the committee controls the activity of the receiver (curatore), but he may also authorise certain transactions, may audit accounting statements and bankruptcy documents at any time and express opinions in cases stipulated by the law or at the request of the delegate judge.

Revocatory orders (claw-back actions)
(azioni revocatorie) - article 67

Existing revocatory orders enabled the receiver – up until three years after the bankruptcy judgment – to reclaim certain assets by voiding the contracts entered into by the debtor during the suspect period, unless the creditor could prove that he was unaware of the state of insolvency of his customer during this same period.
Insofar as the deadline for the suspect period could be up to two years from the bankruptcy date, suppliers were often inclined to refuse to make deliveries or to make only limited ones – just when the company was most in need of new goods – because they might be claimed the refund of payments received during this period, in the event of a future liquidation of their buyer
To mitigate this concern, on one hand the amendment consists of reducing the suspect period to one year for contracts previously revocable for up to two years and to six months for contracts previously revocable for up to one year, and on the other hand, it consists of listing a series of transactions that are exempted, ex lege, from revocatory orders
Are subject to revocatory orders, contracts for valuable consideration entered into during the year prior to the bankruptcy, such as contracts for which the services executed or commitments assumed by the bankrupt party exceed the amounts given or promised by one-quarter, payments of pecuniary due debts through unusual means of payment, pledges, antichresis (security on a real property whereby the mortgagee takes possession) and conventional mortgages established for pre-existing unexpired debts, or, during a period of up to six months prior to the bankruptcy, these same securities established for overdue debts
If the receiver provides proof that the other party was aware of debtor's insolvency, within six months prior to the bankruptcy, revocable items include payments of current due debts, transactions for valuable consideration, or transactions granting a lien for debts simultaneously created.
With the exception of customary gifts, free of charge transactions can be revoked for up to two years.
In practice, even over a reduced period, the revocatory orders remain a powerful tool in the hands of the receiver and it is often difficult for the creditor to prove that he was unaware of his customer's insolvency, especially when the court intents on upholding the bankruptcy procedure's interests.
The new provisions of the decree-law of March 2005 make a distinction for some transactions exempted from revocatory orders.
That ensures some security for transactions processed during the company's suspect period.
For example, these exemptions cover payments on standard terms for goods and services performed within the ordinary course of business (nei termini d'uso), payments made on a current bank account provided that such payments have not caused a significant and lasting reduction in the solvency of the bankrupt party with regard to his bank, payment for services performed by employees and other workers, even if not subordinates of the bankrupt party, etc.

The composition arrangement
(concordato preventivo) - article 160

The conditions to obtain a composition arrangement have been substantially modified, and are now less restrictive for company managers facing severe financial difficulty.
The goal is to enable the company to reorganise itself and preserve employment
A new process has also been introduced, subject to negotiations between the parties of a "debt restructuring arrangement (article 182-bis).
Since March 2005, the petitioner must be in a state of crisis (in stato di crisi), a less demanding condition than under the former law, which stipulated that the petitioner needed to be in a state of insolvency.
If the decree-law does not provide a precise definition, a state of crisis can be defined as a debtor's recurring inability to meet his commitments.
The entrepreneur files a petition with the court – in the jurisdiction where the company's registered office is located – in which he submits to creditors a composition arrangement that consists in a range of proposals which, with the aim of making it easier to obtain their consent, has been made much more extensive.

These proposals include:

- debt restructuring and clearance of receivables by any possible means: assignments of assets, delegation or other special transactions, including the transfer of shares, participating interests, bonds (which may be convertible into shares) or other financial instruments and payment orders to creditors and companies in which they have ownership interests.

Beware of scams

Coface has noted an ongoing trend of scam transactions connected to exports to Italy.

Although these scams affect primarily the agribusiness sector (and in particular wines and spirits in the period leading up to the year-end holidays), it should be noted that they apply to all sectors: barrel-making, clothing industry, IT equipment, etc.

The scenario is usually the same. A shady intermediary pretends to be a sales representative of a company typically registered with the Coface departments ; then further he tricks the exporters by having them deliver goods to a local logistics platform and making off with the supplies.

The liability of the Italian buyer whose identity was stolen is totally waived, since he did not order the merchandise and his involvement in the transaction cannot be proven.

Coface is therefore warning its clients on a general basis to carefully check the identity of persons claiming to be acting in the name and on behalf of end-user clients, and to ensure that the buyer's business sector matches his area of activity. Before entering into a relationship, it is advisable to check the legitimacy of the transaction, for example by contacting the company on which behalf the intermediary purports to be acting.

Claims Department, Coface

- the assignment of the company's activity to a third-party manager (assuntore).
  This "assuntore" is tasked with continuing the company's commercial activity, avoiding liquidation – in contrast to prior practice – and paying out dividends in accordance with the terms specified in the arrangement.
- the subdivision of creditors into uniform like classes according to the nature of their rights and the different treatment of creditors belonging to different classes, as an exception to the "par conditio creditorum" rule of equal treatment.

This provision enables the debtor to better organise his activity based on the priority ranking of his suppliers.
The court reviews the financial statements presented in support of the petition and the appraiser's report certifying the compliance of the financial data, and can then declare the composition arrangement procedure open.
The court then appoints a judge (giudice) and a judicial commissioner (commissario giudiziale) with the task of controlling the debtor's management activities. The debtor remains in charge of the administration of the company carries out his commercial activity under court supervision.
The judicial commissioner prepares the inventory of assets, drafts a report on the present difficulties and provides his opinion on the composition arrangement proposals.
The composition arrangement must be approved by a vote of creditors which represents the majority of qualified voting claims.
If various classes of creditors have been created, the composition arrangement is approved if it receives a favourable vote from the majority of the classes of creditors.
Secured creditors are not authorised to vote, except to waive their pre-emptive rights.
If a creditor belonging to a dissident class disputes the contents of the composition arrangement the court may approve the arrangement if it considers that this creditor may be satisfied by the arrangement in a manner that is at least equivalent to that under an alternative solution or a bankruptcy (U.S "cram down" approach).
The composition arrangement's approval must occur within six months of the petition for the composition arrangement.

Debt restructuring arrangements
(accordi di ristrutturazione dei debiti (article 182-bis)

An entrepreneur in a crisis state, with the petition and the supporting documents, may apply the court for approval of the debt restructuring arrangement, freely negotiated with creditors representing at least 60 % of the claims ; and also is joined a report drafted by an appraiser on the feasibility of execution of such arrangement.
A special clause is required regarding the capacity to ensure regular payments to creditors not taking part in the vote.
The arrangement is published in the companies register (registro delle imprese) and within 60 days of this publication, no freezing orders or enforcement procedure may be commenced or continued.
However, creditors and all interested third parties may oppose this arrangement within 30 days of its publication. The court, after reviewing the challenges, decides whether to approve the arrangement in closed session.
Through a simple review by the court, this new solution, along with the composition arrangement, provides companies with another option for minimising their liabilities and reorganising through an out-of-court negotiation with creditors, backed by an appraiser's report. This solution has begun to gain in popularity.

In conclusion, according to the data available in 2008, i.e. after the introduction of the legislative reform, showing a total of 7,238 bankruptcies, the number of composition arrangements (concordato preventivo) had nearly tripled to approximately 300 petitions, which is an encouraging number even though it remains modest relative to the total number of bankruptcies recorded.
Given the current crisis, the estimated number of bankruptcies in 2010 is 11,000, with more than 1,000 composition arrangements *(*)*.

Jean-François Rondest

(*) Source Cerved

A single form to start a company

Since 2010, bureaucratic procedures have been made easier for the creation of commercial companies for foreign investors in Italy.

Foreign investors who want to start up new companies in Italy can do so if a condition of reciprocity exists, that is, when an analogous right is accorded to Italian investors who operate in the foreign investor's home country.
The "verification of reciprocity" is not necessary if the foreign investor is a national of one of the member states of the European Union or of the European Economic Area (Iceland, Liechtenstein and Norway), of a state with which Italy has entered into a specific international agreement, or if he has the status of a stateless person or refugee.

By "start-up of an entrepreneurial activity" by a foreigner in Italy is meant: start-up of a sole proprietorship, founding of an Italian company, opening of a branch office, filiale or representative office of the foreign company.

Registration in the register of companies or in the economic and administrative index

It is obligatory to register in the Register of Companies (Registro delle Imprese) for companies which set up in Italy by foreign natural or legal persons or branch offices of foreign companies.

The following must instead be registered in the Economic and Administrative Index (REA) by the sole proprietorships started up by a foreign investor, subsidiaries of foreign companies, or representative offices of foreign companies.

These registries are housed at the Chamber of Commerce, Industry, Crafts and Agriculture of the place where the company, branch office, sole proprietorship, filiale or representative office are located.

A single form

For over a year now it has been possible to start up a company through a single form, called the "Comunicazione Unica," to be made electronically to the Register of Companies or the REA.

This single form must report all the particulars of the company to be started up and all the relevant information for tax, social security and insurance purposes. This information will then be sent automatically to Agenzia delle Entrate/ Centre des împots (for the request for a fiscal code and VAT number), Istituto Nazionale contro gli Infortuni sul Lavoro (for the question on insurance), and Istituto Nazionale della Previdenza Sociale (for the registration of employees or self-employed workers).

The investor can submit the Single form directly, on condition that he is in possession of a "digital signature" device (such as the Carta Nazionale dei Servizi or the Carta Regionale dei Servizi), of the credentials of the service of TELECOMEPAY (the information to obtain it are on the website http://starweb.infocamere.it/starweb/index.jsp), the software to send the dossiers, downloadable from http://www.registroimprese.it, and a certified email address (issued by one of the operators of the list, which can be consulted at http://www.digitpa.gov.it/pec_elenco_gestori).

The single form is subjected to a series of verifications. If the outcome is positive, registration is immediate and the system issues a receipt that represents the title to start up the activity.

Partnerships and Limited Liability Company

In Italy, company law distinguishes between two fundamental groups of business organisations.

- Partnerships which are characterised by unlimited joint liability of the partners for the obligations assumed by the partnership, so that each partner responds for these obligations with all his present and future assets; coincidence between the status of partner and the power of administration, so that each partner, as such, is also an administrator of the partnership; non-transferability, by an act inter vivos or by reason of death, of the status of partner, except with the consent of the other partners.
- And Limited Liability Companies, which are instead characterised by legal personality, autonomous with respect to, that of its members; enjoyment of the benefit of limited liability by the members: each member responds for the company's obligations limited to the money or assets that he contributed to it; dissociation between the status of member and the power of administration, so that the member as such is not an administrator of the company and the administrator of the company is not necessarily one of the members; free transferability of the status of member, either by act inter vivos or by reason of death.

In Italy the most widespread types of companies are the società per azioni (public limited company) and the società a responsabilità limitata (Limited Liability Company). Both are created through a memorandum of association, unilateral if there is only one member or multilateral if there are several members. An integral part of the memorandum of association is the company's by-laws, that is, the complex of rules that will govern its operation. If these rules need to be changed over the years as desired by the members, only the by-laws will have to be modified, while the memorandum of association will remain unchanged.

Società per azioni (S.p.A)

This is the main type of company. The share capital may not be less than 120,000 euros and is represented by shares (azioni). The amount of the capital is determined at the time the S.p.A. is set up; in the event that there are several founding members, each of them will subscribe a portion (which may also be variable) of the share capital.

Società a responsabilità (S.r.L)

As a company model the S.r.l. is much more flexible than the S.p.A. It is in fact characterised by the ample freedom that the law confers on the founding member or members in establishing the company's characteristics, functioning and organisation, adapting them to their concrete needs.

The company capital may not be less than 10,000 euros and is divided into stakes (quote). The amount is determined at the time the S.r.l. is set up and must be entirely subscribed by the single member or by the plurality of members who intend to set up the company. Also for the società a responsabilità limitata (like for the società per azioni), if there is a plurality of founding members, those who must pay up the subscribed portion by means of a money contribution are not bound to pay the entire amount of that portion but can limit themselves to paying only 25% of it and pledging to make payment of the remaining 75% at a later date, that is, when it is requested by the company's administrative body. If instead the subscription takes place by means of contribution in kind or of credits, it is mandatory to pay the portion of subscribed capital in its entirety. In the case of a single member, he is obliged to pay up all the capital, whatever the type of contribution. Any premium on the shares must be paid in full in any case.

Coface Italia

Extracts from « Doing business in Italy », Invitalia National Agengy

- **Shareholders' meeting** (assemblea dei soci)**:** this is the sovereign body of a società per azioni. It is where the will of the members takes shape, which is then implemented by the administrative body. The shareholders' meeting decides with the collegial method; the decisions legitimately taken by the meeting are binding on all the shareholders, including those who did not attend the meeting or who voted against the adopted resolution, even if, in some specific cases, they are allowed to withdraw from the company, in the manner provided by law.

- **Administrative body:** manages the company. In carrying out this activity it is not bound by the shareholders' meeting, except for those acts of company administration for which the law expressly reserves competency to the shareholders. The composition and functions of the administrative body depend on the corporate governance model adopted; in the most widespread case, the "ordinary" model, the administrative body is comprised of a sole director or of a board of directors (which can elect a managing director or an executive committee from among its members).

- **Oversight body:** performs the accounting control and monitors the management of the company, but the accounting control only can also be entrusted to a body outside the company. In the most widespread model, the "ordinary" one, management oversight is entrusted to a collegio sindacale (board of statutory auditors), made up of three or five standing members (standing statutory auditors) and two alternate members (alternate statutory auditors), while the accounting control, in the case that it is not entrusted to the board of statutory auditors, is performed by a certified public accountant or an auditing firm.

- **Meeting of members:** in a società a responsabilità limitata the members can take the decisions reserved to them by law or by the memorandum of association with the traditional collegial method of the meeting of members. However, the memorandum of association may provide that such decisions, unless they regard certain matters, be taken with a more agile legal method, either consultation or written consent.

- **Managing body:** unless provided otherwise by the by-laws, administration of the company is entrusted to one or more members appointed by decision of the membership. A società a responsabilità limitata may therefore be run by a sole director or by a plurality of directors, in which case the company may be under a board of directors, individual management or joint management.

- **Oversight body:** in a società a responsabilità limitata the supervision of management and the accounting control are entrusted to the board of statutory auditors, which operates with the same procedures and formalities foreseen for the società per azioni. However, appointing this body is not mandatory except in the case of the occurrence of certain circumstances.

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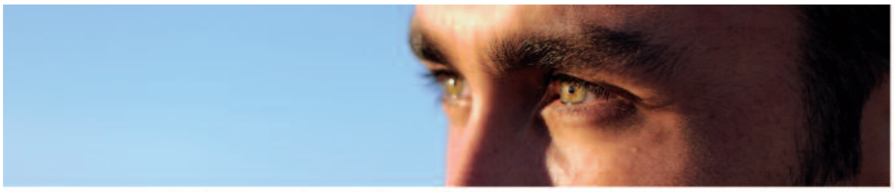

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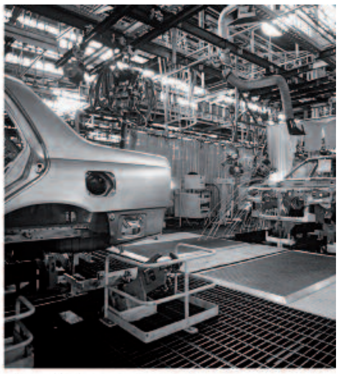

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