

Italy's convoluted rulebook keeping investors at bay



A woman sits next to her bicycle as she sells drawings in downtown Rome December 13, 2013.
Reuters/Alessandro Bianchi

Portuguese energy group EDP Renovaveis ([EDPR.LS](#)) bought into Italy in 2010 with plans for the quick construction of a network of wind farms that had more than 500 megawatts of capacity.

Five years later and it has installed turbines that can generate barely a third of that amount. The company says muddled Italian laws and a plethora of regulations are to blame.

"[Italy](#)'s an appealing proposition and we'd like to spend more but the slow and tortuous legal framework has clipped our wings," EDPR's EU Country Manager Gianluca Veneroni said.

The same complaint is heard across the business spectrum, with economists saying the convoluted thicket of rules and regulations is one of the reasons why the Italian economy has proved such a serial underperformer over the past two decades.

In EDPR's case, the firm has struggled to get the necessary permits to erect its wind farms, having to deal with myriad offices at a national, regional and town level, with everyone from a cultural protection unit to a local fire brigade station able to delay a project for months and even years.

"How do I explain to my board a fact like by the time I finally get the go ahead from the regional government, the environmental permit has expired and we have to start over again," said an exasperated Veneroni.

Prime Minister Matteo Renzi's government says it is well aware of the problems and has introduced a series of reforms aimed at simplifying the legal system and regulatory landscape, with more bills in the pipeline in parliament.

These include enhancing special business tribunals to cut the length of time it takes to resolve cases, offer incentives to plaintiffs to seek out-of-court agreements and setting up a committee to help foreign companies overcome the red tape.

"This year, 30 percent of parliamentary activity has been spent on measures that come from my ministry," Justice Minister Andrea Orlando told Reuters. "The results are already clear. Italian justice is undergoing a deep reorganization."

But Italy has a mountain to climb if it wants to catch up with its main economic rivals when it comes to legal efficiency.

BOTTOM OF THE CLASS

The World Economic Forum Global Competitiveness Report for 2015/16 highlights the problem. It ranked Italy 139th out of 140 countries in terms of the efficiency of the legal system in settling disputes -- well below the likes of Haiti and Zimbabwe -- and 138th in terms of the burden of state regulations.

Latest World Bank data says it takes on average 1,120 days to enforce a contract in Italy against 538 days for the 34 rich and developing nations in the Organisation of Economic Co-operation and Development (OECD).

The drawn out legal process acts as a dead weight on the economy, making it difficult for creditors to call in their debts and deterring investors from entering the local market.

"I cannot tell you how many CEO's of American companies have told me... (the legal system) is the number one reason they decide against investing and doing business in Italy," U.S.

Ambassador John Phillips told an audience at Pisa University this year.

A number of businesses point to their own misfortunes. New-York based Fabrizio Arengi, head of investment company Fidia Holding, says his group sold a business in Italy four years ago and has been suing to recoup the cash ever since. He declined to name the firm because the case was still on-going. "If you go to court you know it'll take forever and that the outlook will be uncertain. And even if you win you only get back what you're owed. The legal costs are all yours," he said.

Australian group Westfield ([WFD.AX](#)) signed a deal with city and regional authorities in 2010 to build a huge shopping mall on the outskirts of Milan. The 1.4 billion euro (\$1.5 billion) project has been held up ever since because it has failed to secure planning permission for a 6-km access road.

The government has created a committee as part of its so-called Unblock-Italy reform, to try to slash back bureaucracy.

"Like Westfield, we have looked at 20 other foreign projects which have been blocked and which are worth 6 billion euros," said junior economy minister Carlo Calenda. His office said the committee was making headway but had yet to yank any of the projects free from the red tape.

FLOURISHING CORRUPTION

Such blockages are dragging down the economy, which has barely grown since 1994 and has shrunk since 2000 -- the worst performance of any OECD member. The Bank of Italy estimates that the poor functioning legal system costs Italy the equivalent of one percent of GDP annually.

Officials also acknowledge that Italy's Byzantine legal system and mass of overlapping authorities are partly to blame for the pervasive corruption that leaves the country floundering in

last place in Transparency International's latest Corruption Perceptions Index for the European Union.

"Italy is hampered by the instability of its regulations. The rule of law often changes, allowing corruption to permeate and prosper," former Prime Minister Enrico Letta told Reuters, suggesting repeated micro reforms only added to the confusion.

What the country really needed, he said, was "a proper reform" of the justice system.

Renzi, who seized power from Letta in early 2014, has ducked a full-blown revamp of the bloated legal architecture, preferring instead to reform specific elements -- a piecemeal approach contested by advocates of sweeping change.

"The government keeps talking and talking but it's mostly hot air," former judge Bruno Tinti told Reuters.

The government says its strategy is working and points to the fall in the number of pending civil cases as proof. Such cases fell from some six million in 2009 to an estimated 4.5 million this year, with the rate of new filings in decline.

"The results are clear. Italian justice is undergoing a profound reorganization," said Justice Minister Orlando.

(\$1 = 0.9187 euros)

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