

SUMMARY

Today, Europe's most developed societies are determined to play a key role in Europe and as a result they are mobilising resources and energy in order to become more competitive.

Over the last few years, Italy has often found itself languishing at the tail-end of international competitiveness rankings; many of these rankings are taken at face value and critics overlook the fact that their bases have a huge impact on the end results. Furthermore, the performance of member states, often decried or trumpeted in the press, depends on a whole host of factors that hide the full scale of the phenomenon.

Competitiveness is the recurring theme of this report; however, this increasingly complex issue can only be dealt with properly if we bear in mind that a combination of competitiveness and territory highlights an array of problems that makes it difficult to analyse the phenomenon conceptually and empirically.

Over the last twenty years, a great deal has been learnt about the mechanisms of development that is based on the traditional theory of growth¹. Focus is not limited to the number of production factors, but shifts towards the quality of the relationship between these factors and towards the actors within an economic environment. The key is no longer only aggregate variables, such as national product, but the myriad of different local situations, plus those in cities, where growth and development processes are independent of those in the rest of the country. In such cases, external factors play an important role. Territorial competition involves first and foremost individuals, enterprises, products and technologies, but aggregate entities, such as towns, regions, cities, sectors and territories, also play their part. In the simplest terms, individuals compete via their professional abilities; enterprises via production costs, innovation and product quality; products via quality-price ratio; and technologies via their efficiency.

This report illustrates competitiveness in terms of these key issues and each one is dealt with in detail chapter by chapter. These issues are: individuals, enterprises, products, technologies-innovation-logistics, the territory and specific regional features, plus the public finance system and energy. The latter two are dealt with in the second part of the report.

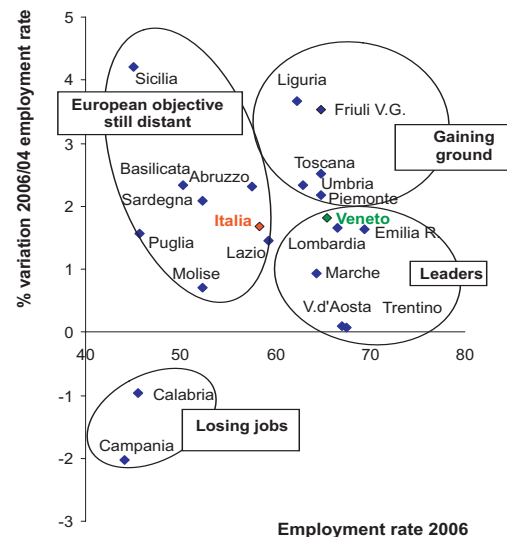
¹Work notes by Dino Martellato, University of Cà Foscari, Venice, Department of Economic Science – Territorial competitiveness, 2006

Individuals

compete via their professional abilities

Participation in the labour market is rising and consequently the number of people looking for work is falling. In 2006, demand for labour in Italy grew at a pace that had not been registered for some time; employment increased by nearly 2%, which means 425,000 more jobs than in 2005. Once again, a relevant contribution came from the foreign population, which made up 42% of the total newly employed, and from temporary positions. Employment in the Veneto increased by 2% on the previous year and by well over 18% on 1995. Despite the employment growth, the European objective established by the Lisbon strategy to achieve a median employment level of 70% by 2010 still seems distant. However, the prospects for the region will be better if it can maintain last year's positive trend in the population employed also over the next few years.

Fig. 1 - Employment rate 15-64 year-olds in the year 2006 and percentage variation 2006/2004 by region (*)



(*) Employment rate = (employed persons / population aged 15-64) x 100

Due to difficulties with graphs, the Marche region, whose employment rate is lower than 65%, is wrongly placed in the "leaders" group.

Source: Processing by Regione Veneto - Direzione Sistema Statistico Regionale on Istat data

Access to work, training and other opportunities is an essential feature of achieving development in which all social components participate. The European Union believes that the only way to achieve sustainable

development without fractures or social imbalances is to promote social cohesion by reducing inequality and marginal situations.

If employment is to rise, then improvements must be made to the systems that update and improve the skills of adults, a factor which is measured by the European Council with a parameter that calls for a minimum of 12.5% of the population aged 25—64 to participate in permanent learning by 2010. In 2005, the EU25 was a bit above 10%, nearly three percentage points more than the figure five years earlier, in 2006 Italy and the Veneto were lower with a rate of 6.9% and 7.3% respectively.

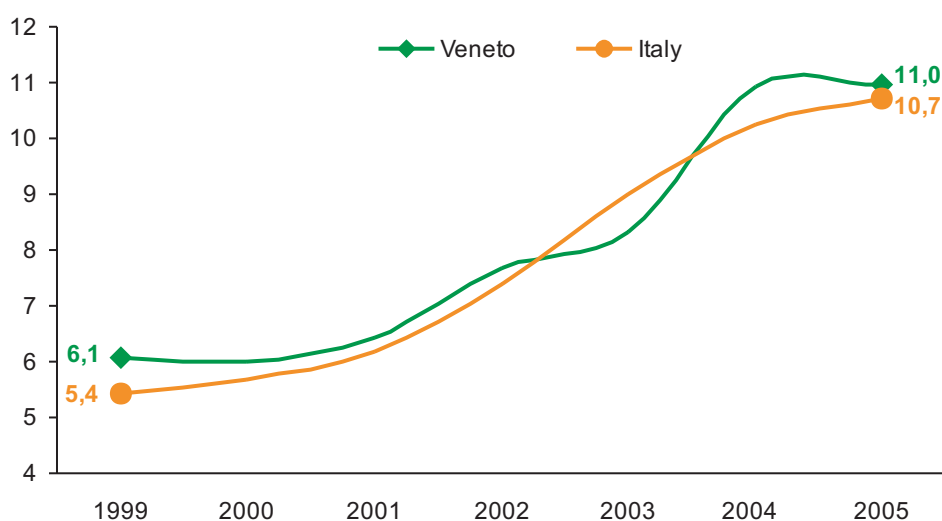
Furthermore, decisive action must be taken in order to reduce the gender gap in many aspects of modern European society. Although the employment gap between Europe's men and women is still wide, it is being bridged: among Europeans between the ages of 15—64, employment rates differ by 15 percentage points (EU25 figure). Both in Italy and in the Veneto the gender gap is particularly wide, amounting to 24 percentage points and 23.3 percentage points, respectively. Although overall figures are improving, structural differences often put women at a disadvantage, an issue often due to stereotypical career choices, which are still education, training

and career consulting. Recent signs, however, illustrate that women are also achieving satisfying results in business. Eurostat recently conducted a European survey² into successful enterprises, i.e. businesses founded in 2002 that were still active in 2005 and run by their founder. In the fifteen European countries surveyed, 28.1% of the 337,919 enterprises were founded and run by women, who displayed excellent business acumen when dealing with the problems of their chosen field.

If competitiveness is to be increased by improving jobs, i.e. focusing on quality, then higher levels of education must be promoted. One of the Lisbon Objectives is that a minimum 85% of young people are to complete secondary education. This target is to be achieved by 2010. In 2005, 77.5% of the population in the area of the EU25 at the age of 20-24 had a high school diploma, only about one percentage point more than in 2000. In Italy, the situation is even less encouraging. In 2006, Italy still ranked below the European average with 75%. On the other hand, the situation in the Veneto is considerably better, and it is even recovering steadily. In the last year, the region recorded a rate of 81.6%, nearly five percentage points higher than the 2005 figure.

The standard of education can be assessed by measuring the level of basic competences. An

Fig. 2 - Graduates in scientific and technological disciplines per thousand inhabitants aged 20-29 (*). Veneto – Years 1999:2005



(*) From 2002 onwards the data include graduates with the new first level degrees, with second level degrees and with single cycle degrees In addition to graduates with traditional degrees.

Source: Processing by Regione Veneto – Direzione Sistema Statistico Regionale on Eurostat, Istat, MEF - DPS data

²“Factors of Business Success” (FOBS) was coordinated by Eurostat and covered 15 European countries: Austria, Bulgaria, Denmark, Estonia, France, Italy, Latvia, Lithuania, Luxembourg, Portugal, the Czech Republic, Romania, Slovakia, Slovenia and Sweden

international survey on competence levels in mathematics, reading and problem-solving produced satisfying results for education in the Veneto in 2003, in that the percentage of students with poor levels in the three subjects was not particularly high, whereas the number of school-children with a medium-high level of education was above the Italian average and in line with international standards. Furthermore, 12% of 15-year-olds in the Veneto achieved top marks in mathematics, 8.2% in reading, and 16.7% in problem-solving.

Consequently, the Veneto almost always produces more mathematics, science and technology graduates than the Italian average, a figure the European Union says will increase by at least 15% by 2010. However, the region still produces more humanities graduates than other European regions where universities have a deep-rooted culture of science and technology that enables them to meet today's labour market demands as graduates are better able to use new technologies.

It is also true, however, that many graduates in humanistic disciplines in our continuously and rapidly changing society are able to adapt to various professions that apparently are not linked to their studies, thanks to their versatility and to their ability to solve unusual problems creatively. In so doing they contribute in various ways to growth in innovation. Creativity, inventiveness and the ability to develop and apply new knowledge form the principal competitive advantages on which to count in the long-term.

Spending on education

Public spending on education differs greatly from state to state. In 2005, Italy spent about 5% of its GDP on education, while Sweden spent 7.4% and the United States 6.3%. France, Finland, Austria and the United Kingdom all spent more on education than Italy. However, Italy has invested more per capita in recent years and spending increased by 5.6% from 2001-2005.

Spending per capita in the Veneto was compared with that in a range of Italian regions³. Expenditure increased in all these regions, but not in the Veneto or in Friuli V.G.. However, local government spending did increase in all regions as a result of a move to decentralise spending. Trentino Alto Adige

maintains the highest spending per capita, €1,733 in 2005, + 26.4% since 2001, due to the greater commitment to spending by local authorities⁴.

However, in 2004 Trentino Alto Adige ranked lowest for the number of graduates per 100 university students enrolled. In this respect Friuli Venezia Giulia was the region showing the most dynamism with 112 graduates for every 100 students enrolled in 2004, with a spending per capita of €1,105 per inhabitant in 2001, second in this respect only to Trentino Alto Adige. In 2005 this figure was on the decrease at €1,082.

Veneto is in penultimate position, with Lombardia last, with regards spending per capita on education, with an amount which decreases even further during the period of time taken into account, reaching €878 in 2005. But here the actions of public administration prove to be efficient, in as much as Veneto takes 3rd place for graduation rates in 2004 and shows an equally good performance in terms of the lowest number of high school students in every 100 having to repeat a year, where it comes second only to Trentino Alto Adige.

Enterprises ■

must be and must remain different by retaining the resources that make them unique and dealing with exogenous factors

Schumpeter⁵ stated that the ability to compete depended on the ability to innovate. Today, however, an enterprise's competitiveness depends essentially on controlled tangible and intangible resources. In order to retain a competitive advantage over a rival, an enterprise must be and must remain different by retaining the resources that make it unique. When one enterprise becomes an aggregate of enterprises or reaches other levels of aggregation, other types of competitiveness must be found.

The economic structure of the Veneto is changing and continues to grow gradually. In 2006, the Veneto's entrepreneurial base grew by 2,543 units, or 0.6%, taking the number of active enterprises to 459,421 units. The service and construction sectors are growing, and the manufacturing sector is being reorganised: -1% in the last year. This favours stronger, more competitive enterprises, ones organised in supply chains that focus on quality.

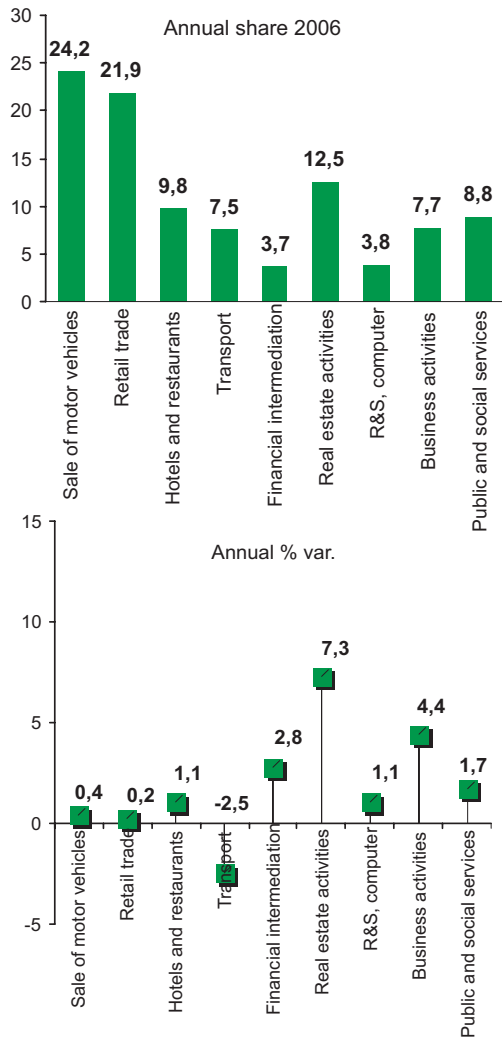
One new drive behind business is internationalisation via Foreign Direct Investments (FDI) and other forms of

³Piemonte, Lombardia, Trentino A.A., Veneto, Friuli V.G., Emilia Romagna and Toscana

⁴Regions and other territorial bodies

⁵Joseph Alois Schumpeter (Triesch, 1883 - Taconic, Connecticut, 1950) from Austria, one of the 20th century's major economists. Schumpeter's most original contribution to economic theory— and his hallmark—was his concept of development. Schumpeter's innovation theory enabled him to explain why the economic cycle alternated between expansion and recession. Indeed, innovations were not introduced constantly, but were concentrated in several periods (which explained their large expansion) followed by recessions in which a balance was restored to the circular flow of the economy. This balance, however, was not the same as the previous one as it had been changed by innovation.

Fig. 3 – Annual share and percentage variation of the Veneto's service enterprises - Year 2006



Source: Processing by Regione Veneto – Direzione Sistema Statistico Regionale on InfoCamere data

non-commercial internationalisation, which started to play an increasingly important role for Veneto enterprises in the early 1990s and has become a distinctive feature of regional development. Specific manufacturing phases were relocated to countries with low labour costs in order to enhance the competitiveness of end products. Relocation was combined with direct investments in order to further market penetration, which would help establish the enterprise and strengthen its roots in the outlet market by means of greenfield investments and/or

total or partial acquisition of foreign enterprises. Over the last few years, the number of foreign-invested enterprises has also grown in the Veneto.

As globalisation has spread, the older industrialised powers have managed to maintain control of the command centres and the main gateways of economic activity, whereas the hub of innovation within manufacturing production, or at least a part, is shifting towards other parts of the world. Also noteworthy is how nowadays relocation invests more in sophisticated activities, such as generating specialised knowledge within research and development, and involves other strategic assets for development within sectors such as the service sector.

Foreign-invested enterprises in the Veneto

Regarding solely the entire Reprint database⁶, at the start of 2006, 463 Veneto enterprises were partly owned by foreign multinational enterprises (MNEs). These enterprises employed 43,797 people and registered a turnover of 19,959 million euro in 2005⁷.

The vast majority of foreign MNEs in the Veneto have a controlling interest, which is in line with the rest of Italy. This type of enterprise comprises 88.6% of foreign-invested enterprises (Italian figure: 92.1%), 92% of employees (Italian figure: 91.5%) and 93.2% of turnover (Italian figure: 92.3%).

Over the last few years, however, the number of foreign MNEs in the Veneto has increased faster than the national average. From 2001-2006, the number of foreign-invested enterprises with their headquarters in the Veneto increased by 21.5%, compared to 12.5% nationwide. As regards the economic consistency in the activities of foreign-invested enterprises, the number of employees in foreign-invested enterprises in the Veneto grew by 16.5%, against a national average of 8.2%. Within the manufacturing industry, employment in foreign-invested enterprises fell by 7.9% nationwide during the same period, while it increased in the Veneto by 3.5%.

As regards the overall share of Italian participations abroad, the Veneto contributes 15.4% to the total of Italian multinationals, 13.1% to foreign-invested enterprises, 9.2% to the number of employees and 6% to turnover. As regards controlling interests, the Veneto's share rises to 13.5% of enterprises, 9.7% of employees and 6.9% of turnover. These figures

⁶Database created by Milan Polytechnic that surveys the holdings of Italian enterprises abroad and those of foreign enterprises in Italy, recording their numbers, economic consistency, geographic and sectoral orientations.

⁷Enterprises that have localised their headquarters to the Veneto are also considered to be Veneto enterprises. Headquarters means where an enterprise has its general management and administration, regardless of where the enterprise has its registered office.

illustrate how the Veneto's number of investors and foreign participations outweighs the region's general economic importance within the country. These percentages drop, however, as regards foreign-invested enterprises, in particular in terms of turnover, given the high share of specific production processes relocated abroad. However, analysis based on an enterprise's foreign direct investments only covers a part, albeit a major strategic part, of a wide variety of non-equity agreements which enterprises use to boost their involvement abroad. Indeed, this analysis excludes 'lightweight' internationalisation based on agreements and partnerships with foreign enterprises that do not involve exchanging shares. This is undoubtedly an important form of internationalisation for Italian enterprises, and for Veneto enterprises in particular, both so that part of production can be relocated to countries with lower labour costs and so that distribution channels on the recipient markets can be accessed.

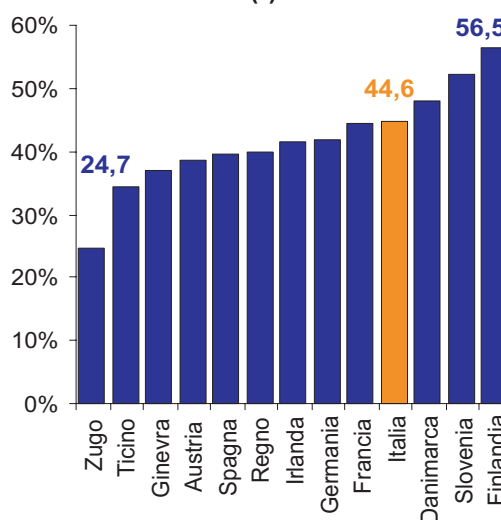
Another important phenomenon, in particular for the Veneto, regards Italian entrepreneurship abroad, i.e. private Italian citizens with foreign-invested enterprises which do not count as part of Italy's multinational businesses. Such enterprises are mainly ones in which Italian industry is traditionally competitive. As regards the Veneto, this phenomenon is particularly important in Central and Eastern Europe. In some countries, and especially in Romania, the percentage of businesses run by Italian citizens exceeds that of Italy's foreign-invested enterprises. The extent of this phenomenon is shown by comparing figures from the Reprint database and the results of a survey on Veneto enterprises in Romania promoted by Antenna Veneto Romania⁸. The overall number of Veneto enterprises that registered in Romania from 1990 to March 2005 is 2,578 units. These enterprises employ more than 39,000 people, and in 2003 they recorded a turnover of about 458 million euro. The Reprint database shows that Veneto enterprises had holdings in 182 Romanian enterprises at the end of 2005, they employed about 17,300 people and had a turnover of about 380 million euro. Regarding direct investments by private individuals, enterprise participations are clearly medium-size and have high productivity.

The tax burden of enterprises and of highly skilled employees is a major factor in the choice of destination. A low tax burden enables prices to be lowered and may also increase market share. This should also have a positive effect on regional economic growth.

However, enterprises not only have to deal with direct taxation, but also a part of their employees' tax burden. In a knowledge-based economy, human capital, and skilled human capital especially, is becoming increasingly important and increasingly mobile. When choosing a destination, an enterprise, and a multinational one especially, must consider both its own tax burden and that of its highly skilled employees. Italy, with an effective tax rate of almost 45%, has more of a disadvantage in the race for highly skilled employees than most other European states. France has similar levels of tax to Italy, whereas Germany and Ireland have slightly lower levels (about 41-42%). Spain and the United Kingdom have a tax rate of about 40%.

The tax burden of highly skilled employees varies greatly in the countries surveyed⁹ doubling from the Canton of Zug (25%) to Finland (56%). In other words, an employer in Zug spends 132,800 euro to guarantee an employee a disposable income of 100,000 euro, while in Finland the same employer has to spend 229,900 euro. In Italy, for a disposable income of 100,000 euro, an employer has to spend 180,500 euro.

Fig. 4 – Tax burden of highly qualified personnel - Year 2005 (*)



(*) Average effective tax rate for individuals without children with an income of 100,000 euro

Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale on BAK Basel Economics and ZEW data

⁸ Antenna Veneto Romania was set up by an agreement between Centro Estero delle Camere di Commercio del Veneto and the Timisoara Chamber of Commerce, Industry and Agriculture. It is a helpdesk for Veneto entrepreneurs wishing to start or strengthen economic ties with Romania and for Veneto businesses that have already delocalised. Antenna Veneto Romania is sponsored by Regione Veneto.

The tax burden for highly skilled employees is not the only factor that determines a region's economic success. A low tax burden attracts new enterprises to a region and creates incentives to stay and to invest in settled enterprises. Some Eastern European countries have adopted an aggressive strategy and have achieved the lowest tax burden in the whole of Europe (the clearest example is Slovakia). Unlike taxation on personal income, taxation on enterprises often varies from region to region within the same country. In Germany, each municipality is allowed to change its trade tax multiplier. In Switzerland, enterprises are taxed according to the federal system, which envisages an 8.5% national tax, plus a canton tax and a municipal tax, each of which varies according to canton laws and municipal decisions. In theory, Italy's regions have a certain taxation autonomy: national legislation establishes regional tax on production activities (IRAP) at 4.5%, which enables the regions to vary tax by one percentage point. In reality, however, no region made use of this right in 2005.

Remarkable differences also exist between enterprise taxation in the countries surveyed, as there are for taxation on highly qualified employees. With a tax rate of almost 31%, the Veneto, which differs minimally from other Italian regions, ranks among the regions with a medium-high tax burden. The regions with the highest tax rates are France, Germany and Spain. In Spain and Germany, the high tax burden is due to the high tax rate on profits, which includes both national and local taxation.

Although most regions have not made huge changes to enterprise taxation recently, some interesting changes in taxation policy on enterprise investments have come to light. Generally, a number of European countries have reduced taxation.

The most recent figures (2004) and forecasts for the coming years reveal that investment dynamics are extremely varied. After a recession year, investments in Italy in 2004 are increased (+2.2%), while in the Veneto investments rose by +0.9%, driven mainly by investments in services (+3.2%) and in monetary and financial brokering, real-estate and entrepreneurial activities in particular. However, investments in both industry and

construction fell by -3.8% and -24.4% respectively. Although low-cost financing continued on the credit market, in Italy investments fell slightly by -0.5% in 2005, probably because profitability conditions worsened and plant use was modest.

Nevertheless, figures for the coming years show that investments will make an overall recovery. In Italy, the 2.3% increase in 2006 was felt in all sectors, including machinery, transport and construction. In the Veneto, forecasts for 2006 show prospects of growth, which are supposed to continue over the next two-year period, reflecting a general trend towards reducing taxes.

Products

compete via price-quality ratio

From 2000 to 2005, Italy's economy was characterised by a prolonged period of stagnancy that lasted much longer than previous cycles, hitting rock bottom in early 2005. The economy started to recover slowly in February 2005, but gained momentum, and in 2006 it recorded an increase in GDP of 1.9%, which was in line with growth in the second half of the 1990s.

Productivity is also up, despite a constant, yet contained, rise in employment, while the rise in labour costs per product unit has slowed.

Economic indicators for the first few months of 2007 suggest a modest decrease in production and a consequent growth in GDP in the first semester of 2007. These are due to an appreciation of the euro, to lower foreign demand, and to the resizing of the stock accumulation process. At the root of this recovery were factors linked both with an upsurge in Europe and with a period of reorganisation and/or adjustment underway in the sectors most exposed to international competition, and in the manufacturing industry in particular.

In emerging markets, especially in China and India, the high demand for raw materials keeps prices up, but at the same time the enormous labour supply within Asiatic countries contains the cost of commodities. Consequently, these countries are able to compensate for the increase in raw material prices as costs are not completely offloaded onto finished products. The consequence is that prices of manufactured goods have risen less than those of commodities, and the greater presence of low-cost manufactured goods on the market has neutralised the effect of higher oil prices

Tab. 1 - Macroeconomic context (percentage variations on 2000). Veneto and Italy - Years 2002:2006

	2002		2003		2004		2005		2006	
	Italy	Veneto	Italy	Veneto	Italy	Veneto	Italy	Veneto	Italy	Veneto
Gross Domestic Product	0,3	-1,2	0,0	1,4	1,1	2,3	0,0	-0,8	1,9	2,1
Expenditure for final household consumption	-0,1	0,0	0,6	0,6	0,7	1,0	-0,1	-0,1	1,6	1,9
Expenditure for AA. PP. and Isp final consumption	2,2	1,9	2,1	1,9	0,6	1,0	1,5	1,8	-0,3	0,0
Fixed gross investments	4,0	9,6	-1,7	-5,6	2,2	0,7	-0,5	-0,4	2,3	1,5
Imports (*)	-1,0	3,6	0,7	-2,7	8,6	7,1	8,3	4,0	12,6	10,3
Exports (*)	-1,4	1,0	-1,6	-3,8	7,5	5,0	5,5	1,1	9,0	7,8

(*) Current values

Source: Processing by Regione Veneto - Direzione Sistema Statistico Regionale on Istat data and Prometeia forecasts

on inflation.

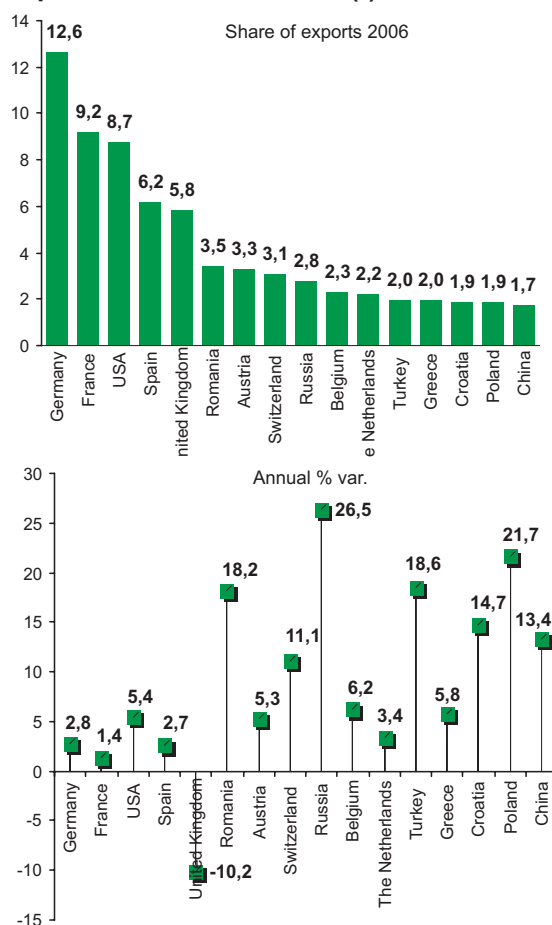
In addition to increased demand in emerging areas, other specific factors contributed to the dynamics of metal prices. Rising oil prices were reflected in the rising cost of goods, such as steel, which are produced with enormous amounts of energy. The price of producing oil substitutes, such as uranium, was also indirectly affected. It is also clear that the raw materials market is being exploited by speculators. Nowadays raw materials are a major share in the portfolios of international investors and are an important tool for diversifying risk.

This, however, did not prevent the recovery of production within Italy's specialised sectors, namely engineering and transport. In the second four-month period of 2006, these sectors were joined by more traditional Italian industries, i.e. textiles, clothing, leather, wood and furniture.

Exports were fostered by an intense development in world demand and by a new expansion cycle in Germany. The Veneto's provisional foreign trade figures for 2006¹⁰ have highlighted an annual growth in exports at current prices of 7.8%, for an overall amount that exceeded 43 billion euro. Regarding the European Union, which accounts for 55% of Veneto exports, the sale of Veneto products rose by 2.7%, while the value of exports to non-EU countries was up by 14.8%.

Veneto exports were driven by electronic and optical appliances (+14.7% annual), by metal products (+19.6%) and by mechanical goods

Fig. 5 – Annual share and percentage variation of the Veneto's exports to the main recipient markets - Year 2006 (*)



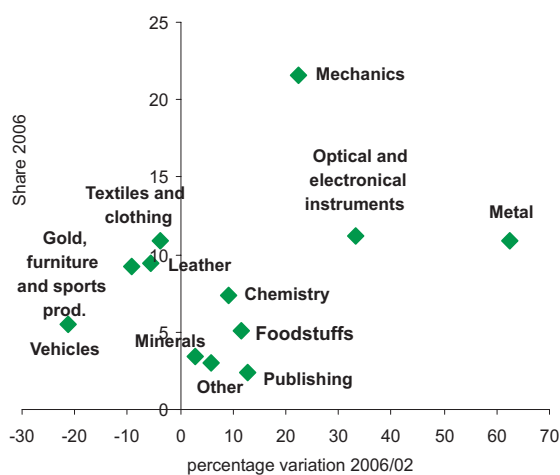
(*) Provisional data

Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale on Istat data

¹⁰Although timely, the arrival of these provisional foreign trade figures hides a forecast error which has a particular effect on exports. Should this error regard the exports for all of Italy's regions, then it will have a greater influence on the Veneto both in terms of a difference in percentage points and in terms of weight. In 2005, Veneto exports were underestimated by more than one billion euro, i.e. 2.5% of total exports.

(+6.6%). Exports of these goods grew particularly in emerging markets, where the development of the manufacturing industry has been, and will continue to be, the powerhouse behind the demand for capital and intermediate goods, i.e. goods that are purchased to produce final goods. After a far from spectacular 2005, Veneto exports in the furniture sector increased by 7.1% and in the gold sector by 13.4%.

Fig. 6 – Percentage variation 2006/02 and share for 2006 of Veneto exports by main economic sectors.



Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale on Istat data

Although fashion houses suffered terribly for several years when Chinese products burst onto the international trade scene, the crisis seems to be ending and this new season has started on a positive note. More fabrics are being sold (exports for 2006 rose by 1.7%) and the export value for leather products also started to increase (+2.9%). Veneto exports have also improved over the last five years (+10.1%) because of structural transformation processes. These processes have increased in recent years on account of ferocious international competition and have benefited companies that have raised the quality of their products. Furthermore, these processes have mainly favoured specialised producers of capital and intermediate goods, which have withstood the onslaught of foreign competition. Some studies¹¹ highlight other reasons that may have contributed to the growth of exports. On one

hand, growth could be explained by a shift towards market segments with higher added value and higher quality, i.e. those less vulnerable to competition from emerging markets. On the other was a reorganisation of production processes within individual companies. The majority of exports came from enterprises that intensified their internationalisation. This development raised the cost of operating on foreign markets, which led to medium and large enterprises consolidating their position and to smaller and marginal enterprises leaving the market.

In the Veneto, internal demand is expected to rise in the wake of a recovery across Italy, which is due to both an initially contained slowdown in private consumption and an acceleration in the growth of investments. For 2006, the Istituto di Ricerca Prometeia estimates that GDP will grow by 2.1%, in accordance with Istat's territorial breakdown for the same year. The North-East's GDP is expected to grow by 2.3%¹². Prometeia also forecasts that the GDP in the Veneto will grow by 1.9% in 2007.

In 2005, the most recent year of official local accountancy figures, the Veneto economy continued to maintain a consistent share in the production of national GDP (9.3%). The Veneto is third in the regional rankings for the production of national wealth after Lombardia (20.9%) and Lazio (10.9%). In dynamic terms, however, it has slowed down. The pessimism of both households and enterprises led to prudence and stagnant internal demand. Improvements, however, were noticeable towards the end of the year and there was an upturn in 2006 following improved exports, industrial production and consumption.

A major contributor to the stagnancy of added value was the services sector, which represents 62.2% of entire regional wealth. Despite including the outstanding commerce sector, which rose by 2.2%, the services sector was resized by -1.2% in 2005. Industry in a strict sense had an extremely positive 2004, growing by 2.8%, but it slowed in 2005 by 1%, whilst the construction industry recovered and increased by 2.8%. Agriculture dropped by 4.2%.

In 2006, Istat estimates a distinct drop in added value in the agriculture sector across the whole North-East. For the same year, Istituto di Ricerca Prometeia also estimates that construction in the Veneto will stagnate, but industry and services will grow by 2%, figures that are confirmed by Istat in its breakdown for the North-

¹¹ Isae, Fondazione Debenedetti, Prometeia

¹² The North-East is broken down into: Veneto, Trentino Alto Adige, Friuli Venezia Giulia and Emilia Romagna

East: +3.1% for industry and +1.8% for services. Identical figures are forecast for the Veneto in 2007.

■ *Technologies, innovation, logistics compete via efficiency*

Italy is still some way off the Lisbon Objective of making R&D expenditure 2.5% of GDP by 2010, although it did increase spending by 3.3% in 2004, which is more than the entire EU managed (+2.9%). The Veneto continued to spend modestly on R&D (0.64%) in 2004. In the last year surveyed, spending settled at +0.4% in absolute terms, which is in strong contrast to the fast development in the first years of our century.

Nationwide, the business world provides almost half of R&D expenditure—it is supposed to be two-thirds according to another specific European Union objective—while Italy's universities provide one third, public administrations 17.8%, and private no-profit organisations the remainder. In the Veneto, R&D expenditure is provided almost equally by its business world and by its universities, which spend 43.5% and 45.1% respectively.

Italy's lag in business innovation is often justified by the specific characteristics of its production system and, in particular, the modest size of its enterprises. The Veneto also comes into this category in that, according to the most recent figures (2004) the average size of its enterprises was a little more than 4 employees, with micro-enterprises comprising 93.7% of the total. In most cases, such micro-enterprises are not willing to spend on research, nor do they have the wherewithal to do so. Furthermore, they have little contact with universities and difficulty obtaining bank loans. This situation is coupled with the widespread belief that research will not improve short-term profits.

Small and medium-sized enterprises, which comprise 6.2% of the total in Veneto, are also keen to contain costs and have little interest in investments that do not bring immediate benefits.

Over the last few years, this trend has been countered because the legal structure of companies is changing and the number of corporations in the Veneto has increased. This long-term plan reflects a need to establish sturdier companies, to manage production networks and

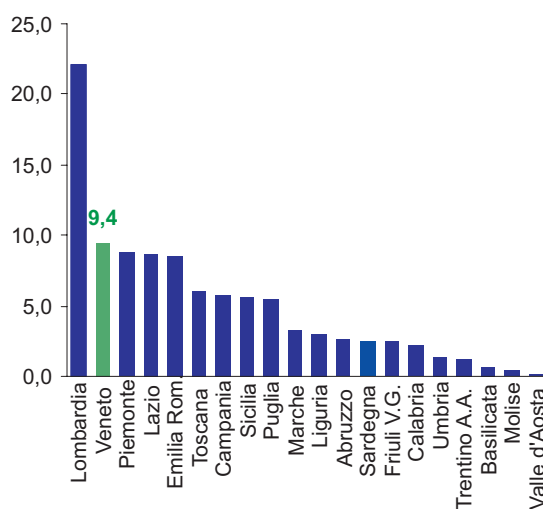
supply chains, to have and find more resources to invest in research and human capital, and to innovate and create new products.

In 2006, the Veneto's corporations were up by 5.5% on the previous year, while the number of partnerships increased by 0.6%, a more contained increase in line with the national average. However, a slight drop was recorded in the number of individual enterprises (-0.6%), which are still the most widespread type of enterprise at regional level and account for more than 60% of active enterprises in the Veneto.

The Veneto has stimulated innovation in the business world by promoting and supporting the development of the region's production system with regional legislation. So far, 43 clusters have been identified; these contain 7,840 enterprises and a total of 214,577 employees. This aggregation and cooperation process turns these clusters into innovative, hi-tech areas where production ability is transferred and partnerships strengthen innovation processes in order to enhance the quality and competitiveness of System Veneto.

This reorganisation is taking place in fertile territory: in 2006 the Veneto ranked second to Lombardia for the number of hi-tech manufacturing enterprises¹³, accounting for 9.4% of Italy's total.

Fig. 7 - Percentage distribution of active high-tech manufacturing businesses in the regions of Italy – Year 2006



Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale on Infocamere data

This result is mainly due to the medical-appliance, precision-instrument and optical sectors, which alone

¹³ I This ranking associates the various types of manufacturing industry to a technology level (high, medium-high, medium-low, low). It is based on the average values for expenditure on research and development in relation to the added value in each sector in the 12 member countries in 1999.

make up almost 80% of the total of high-technology enterprises in the Veneto and 10% of the entire national sector. In second position of Veneto high technology enterprises is the radio and television appliance sector with a share of 12%. The sectoral specialisation index also indicates that the Veneto has the highest concentration of enterprises producing optical instruments, medical appliances and precision appliances in the whole of Italy.

In recent years, there has also been a drive towards better organisational rationale due to the development of business service sectors, which add value to products. Indeed, the number of businesses within these sectors grew remarkably in the Veneto from 2000—2006. IT businesses increased by 20.3%, rising by 1% in the last year; R&D firms increased by 34.3% from 2000 and by 4.4% in 2006; companies offering professional and business services increased by 28.2%, and by 4.4% in 2006.

While on the subject of auxiliary services, a recent study sponsored by Regione Veneto revealed that 87% of enterprises with more than three employees use internet (Italian average: 89%) and 63% have a broadband connection (Italian average: 61%). This is huge step forward for the 72% of Veneto enterprises that use internet and have a broadband connection, which increases their potential for using telematic instruments.

This organisational logic ensures that an enterprise can devote all its time to its core business, i.e. what it does best. This logic seems to contain a winning formula.

In Italy, 63,962 patent applications were presented in 2006, +4.8% on the previous year. Creativity plays a major role in the Veneto in that for every one million inhabitants, 1,302 patent applications were presented (Italian average: 1,089).

The Veneto holds 9.6% of the national total and ranks fourth for the application of patents. Applications have increased by 3.9%. In the regional rankings per patent type, the Veneto ranks fourth in trademarks, third in inventions, and second in utility and ornamental models. Trademarks, which are the biggest slice of patent types in the Veneto, dropped by 2.5% in 2006 on 2005 figures, while inventions rose by 17%, utility models by 5.6%, and ornamental models more than doubled.

The Technology Balance of Payments for intangible flows of trade in technological and research services reveals that the Veneto, as well as Italy, demand more foreign products than they export. In the Veneto in 2005, balances were positive only in the trade of technology and in hi-tech services. Indeed, the ratio between revenues and payments was 2.6 in the trade of technology, i.e. revenues were two and a half times payments. Technology services also showed a strong ability to cede knowledge as an investment in future innovation with a ratio of 1.9.

Regarding these thoughts, and production systems in particular, it would be interesting to study the development of trade flow volumes and their modes of transport considering the increase in Veneto exports of capital and intermediate goods¹⁴, +19.5% from 2002-2006, up four percentage points in terms of share of the regional total (from 50.6% in 2002 to 54.9% in 2006).

We know that much of the trade travels by road. Indeed, figures for the carriage of goods by road¹⁵ reveal increasing quantities leaving and entering the Veneto, both in terms of tonnes and of tonnes/km. In the Veneto in 2004, the indicator that calculates the value for tonnes of freight incoming and outgoing by road as opposed to other modes was 97 (Italian figure: 93.7). Furthermore, the indicator for carriage of goods by road shows that the Veneto is not only ahead of all its traditional competitors, but is second only to Trentino Alto Adige with values that increase each year (44.8 in 2005 compared to the Italian figure of 24.9). Businesses who work with other countries also prefer road transport; 59% of exported goods are forwarded by road, whilst 25% are shipped by sea. The percentage of imported goods, however, is almost the complete opposite. The majority of trade between the European Union and Eastern Europe is transported by road.

The Veneto lies in a strategic location in Europe due to its network of major cross-trade traffic routes (East-West, North-South) and to recent enlargement, which has moved the centre of the continent eastwards. This new-found location at the heart of Europe should be considered in terms of both physical distance and as a gateway towards the east and the south of the world. However, although the Veneto's location does put it in a privileged position and give it a competitive edge, there are also causes for concern. The Veneto is crossed by European Corridors I (Brenner) and V (Barcelona-

¹⁴Main Industry Groupings (MIGs). This classification is defined by Commission Regulation no. 586/2001 (EC Official Gazette 27/03/2001). Each grouping is attributed with entire groups and/or divisions of economic activity according to prevalence criteria. Imports and exports were attributed to MIGs according to prevalence criteria, as were goods from economic activity other than industry in a strict sense, which were not considered in the aforementioned regulation.

¹⁵Average of incoming and outgoing goods.

Tab. 2 – Total freight in millions of tonne-kilometre with the Veneto as origin/destination (*). Veneto - Years 2003:2005

	Absolute values			Percentage variations	
	2003	2004	2005	2004/03	2005/04
Origin: the Veneto	20.084	21.387	24.142	6,5	12,9
Destination: the Veneto	18.882	20.740	22.681	9,8	9,4

(*) Amounts refer to traffic transported by vehicles of a useful load no lower than 3.5 tonnes and registered in Italy. Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale based on Istat data

Kiev). These two key axes, plus the strategic location for trade with Eastern Europe and southern Mediterranean countries, mean that the Veneto is being subjected to a constant increase in cross-border traffic, which puts additional pressure on a road network that is already used for short-haul intraregional mobility.

Efforts made to shift road traffic to the railway network are, however, showing the first signs of success. In fact, although the indicator for the total amount of freight entering and leaving the Veneto by rail continues to be well below the Italian figure (1.1 compared to 1.9), the indicator for carriage of goods by rail (tonnes of goods entering and leaving by rail per 100 inhabitants) is growing each year, and in 2005, it exceeded the national figure for the first time.

If this imbalance is to be redressed, then inland ports [Interporti] have a major role to play in both present and future initiatives. The Veneto is a flourishing "logistics environment", second only to Milan, and has performed well in a range of indicators both nationally and internationally. Strong results have been achieved in services and intermodal traffic at inland ports in Verona and Padova; in the wide range of logistics and transport services offered by enterprises; and in the progress of the logistics real-estate market. Regional policy is geared towards the development of two main features: the integration of the two main inland ports (Verona and Padova) and the opening of the hinterland of Venice port towards Central Europe.

■ *Territory and specific regional features*

speaking about territory introduces other forces that entail interdependence between an urban centre or other entities

A few years ago, when the Territorial Coordination Plan was being drafted¹⁶ we spoke either of territory or city, considering them as two entities that were easy to distinguish, but difficult to separate: the former is associated with physical manufactured articles, and the latter rather with the people who used them, but neither of the two entities "makes a city" on its own.

Speaking about territory in the context of competitiveness introduces other forces that entail interdependence between urban centres or other entities, such as industrial centres. According to the report, territory is the place where the interdependence between industrial activities, business services and institutions is particularly intense and where a socio-economic system is formed that affords its members considerable benefits. Local systems, or clusters, base their survival and functionality mainly on these interrelated mechanisms.

The Regional Territorial Coordination Plan (RTCP) highlights that the Veneto has, over the years, developed in a number of ways: its demographics and housing have changed and its production structures have expanded. Expansion clearly took place in the central and northern part of the region and included the piedmont area of the provinces of Vicenza and Treviso. This created a dense, continuous metropolitan area which has its principal hubs in the provincial capitals and along the route linking Venezia, Padova and Verona. This rapidly expanding sprawl encompasses residential districts, production facilities, crafts clusters, management offices, as well as large and small commercial buildings. It is an area that disposes of the most important resources for development and a magnet for dynamism, but it also has huge impact on the territory due to its almost total colonisation and the ensuing problems of mobility, transport, pollution and intensive exploitation of the area.

¹⁶ "La campagna che si fa metropoli – la trasformazione del territorio veneto" edited by Leonardo Ciacci, Regione Veneto 2005

Today, the Veneto has 4,738,313 inhabitants. Over the last thirty-five years, the population has increased by more than 600,000 residents at such a rapid pace (average rate of increase 4.1 per mil per year) that no other region in the North East has ever experienced anything like it. In the last five years, the growth rate has almost tripled (11.4 per mil).

There are 320,793 foreigners who reside officially in the Veneto, a figure that has more than doubled since 2001. Today foreigners comprise 6.8% of the population. Foreigners mainly reside in the central metropolitan area and in major provincial capitals, although the foreign population is increasing in most municipalities as well.

The Veneto has an average of about 258 inhabitants per km²; numbers range from a minimum 58 per km² in the mountainous area in the province of Belluno to much higher numbers in the central area, with Padova reaching 416 inhabitants per km².

These areas are characterised by an increasingly denser internal exchange of people and goods, a phenomenon that differs vastly from the agricultural settlements that dominated in the early 1970s.

According to the RTCP, about 92% of the population live in urban areas and small settlements, which account for 12% of the Veneto area. This highly fragmented portion of the region also encompasses 95% of local units, 27% of which operate in the industrial sector and 72% in the service sector. In 1971, cities held 75% more inhabitants than the first suburban belts and 42% more than the second. In 2005, however, provincial capitals, plus municipalities in the first and second belts, had almost the same number of inhabitants, which is summarised perfectly in terms such as “sprawling town” and “urban countryside”. Primary services are not concentrated only in provincial capitals, but are also evenly spread across the territory in order to meet the needs of the population.

This is one reason why the Veneto has had to face a range of environmental emergencies for some time. These emergencies are typical of all industrial and urban areas and are caused both by a growing demand for natural resources and by the dumping of pollutants into the environment. The Veneto is a densely populated area: 32.4% of its population live in only 26 municipalities. Local administrations

have tried to deal with these endemic problems by improving the quality of life with public greenery, separate waste collection, local noise-classification plans, plus measures to reduce atmospheric pollution.

The expansion of conurbations has also had effects on mobility, which is shown by the fact that secondary hubs are becoming as important as provincial capital municipalities. The dynamics of these centres, however, is not uniform. Figures reveal a growth in secondary hubs, whilst the main provincial capital municipalities vary greatly, often negatively. Generally, systematic mobility for provincial capitals fell by 1.6% from 1991-2001. Internal mobility within provincial capitals fell even more, by 8.3%, a figure only partly compensated by increased exchange mobility with surrounding municipalities. The attraction to areas outside provincial capitals increased everywhere apart from Venice.

This phenomenon is associated with the transformation of the mobility system, where exchange components, characterised by greater distances and greater territorial dispersion, have grown more than internal components with their short distances and mainly radial structure.

Large-scale distribution

In the last few decades, the retail distribution network, both in Italy and in the Veneto, has gradually adapted to these changes and to those in the population's needs by disseminating an increasing number of large-scale distribution businesses and shopping centres.

One new proposal is the progressive dissemination of commercial parks, i.e. large areas outside city centres that combine distribution businesses requiring large display areas.

This modern type of trade is heading in a new direction and aims to increase sales by focusing not only on price policies, but also on an increasingly higher and wider range of quality in order to meet the needs of customers of different ages, education levels and social classes.

In 2005 the Veneto had 1,148 large-scale distribution businesses¹⁷, up 5.7% on the previous year, with an average sales area of more than 1,200 m².

Comparisons with other regions reveal that in 2005 the Veneto had almost half the large-scale distribution businesses and sales area (large warehouses, hypermarkets and supermarkets) in the North East: 45.7% and 47.3% respectively.

Competitiveness within the agriculture sector

¹⁷Large-scale distribution means large warehouses, hypermarkets and supermarkets. Mini-markets, businesses which are defined as large-scale distribution because they encompass self-service and check-out payments, are dealt with separately. The smaller sales areas of mini-markets (between 200—399 m²) mean that, unlike other large-scale distribution businesses, they are located in old-town centres and in difficult-to-reach territories, which makes them similar to small and medium-scale distribution businesses.

Although the production and commercial areas are expanding, agriculture continues to decline, a phenomenon that is counterbalanced by the multi-purpose role of the sector and its enterprises. This role no longer encompasses purely farming, but activities that are linked to farming and that use the farm's resources or its products.

The main activities are: agrotourism, handicrafts, processing of vegetable and animal products, producing renewable energy, producing feed, and offering education and recreation.

Nationwide, the number of businesses linked to agriculture (agrotourism, product processing, handicrafts etc.) grew on 2003 figures (+17.7%). This growth was especially apparent in the Veneto (+53.9%).

It is noteworthy that the majority of multi-purpose farms are either small or medium in size: almost 47% cover less than 3 hectares. This highlights that although smaller farms are vanishing, the ones that invest in change to stay in the market adopt alternative strategies in order to maintain and/or increase their income.

The typicity of farm products

A strategic lever to develop agriculture both in Italy and in the Veneto is for farms to interpret typical features not only as agriculture and food, but also as a key part of the surrounding territory.

The Veneto already has a head-start because it has 13 wine and food routes and 21 of Italy's Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI) products, which places it just behind Emilia Romagna. The Veneto's many resources also include vine growing and wine production, which are a clear sign of the strong ties between economic needs and making optimal use of the environment, and between tradition and innovation. The Veneto contributes consistently to Italy's performance worldwide: it is, for example, the leading wine exporter in terms of value, which rose by 4.7% on last year, and it holds a market share of more than 27% of the national total.

Tourists in the Veneto

The winning combination of territory, multi-purpose businesses and quality service makes tourism one of the Veneto's main resources. In 2006, spending¹⁸ by foreign visitors to the Veneto amounted to 3,845 million euro—15.9% of total spending by foreign

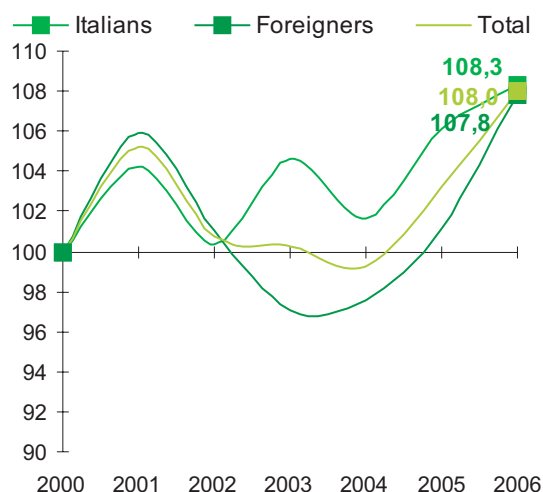
visitors in Italy. This figure puts the Veneto in second place behind Lazio.

In recent years, traditional sectors such as historical cities and beach resorts stand alongside an expanding group of tourists who want to experience Italy's natural environment and local traditions.

These tourists come to visit parks, do sports, savour fine food, enjoy nature and the great outdoors; instead of staying in hotels, they prefer simpler, more informal accommodation, such as agrotourisms, bed&breakfasts, campsites and mountain lodges. These establishments enable tourists to experience a family atmosphere and local cultures for themselves, a major part of which is tasting delicious local produce.

A growing trend for simple, "responsible" holidays is illustrated by the Veneto's figures for arrivals and nights spent in 2006, up +7.8% and +4.6% respectively on the previous year. However, although this increase covers both hotel and non-hotel accommodation, the latter recorded the highest growth: +9.1% for arrivals and +5.2% for nights spent.

Fig.8 - Nights spent by tourists (year 2000=100). Veneto - Years 2000:2006



Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale on Istat-Regione Veneto data

Agrotourisms performed best, with increases only little below 30%, both for arrivals and nights spent. Campsites and tourist villages also performed admirably with an increase in arrivals of 5.6%, mainly because the accommodation and facilities rank among some of the finest in Europe.

A number of things still remain to be done, however, in

¹⁸Tourist spending means the total consumption of goods and services by visitors and includes: accommodation, meals, museum visits, souvenirs, gifts, other personal purchases, internal transport, etc.

order to achieve a more sustainable tourism and to earn the trust of more tourists. Measures will reach from protecting existing resources to the decongestion and restructuring of the most popular destinations, and will be based on raising awareness among tourist operators and continual promotion of alternative tourism.

The Veneto is spearheading the quest for sustainable tourism: Bibione was the first European tourist resort to be awarded the EMAS certification, a trademark issued to organisations who display a commitment to improving the local environment. Other regional organisations have obtained this certification, including the Parco Nazionale delle Dolomiti Bellunesi and the island of Albarella, in the province of Rovigo.

Tourist appeal

The Veneto has a vast array of artistic and historical heritage, as well as cultural events. All these features are major attractions for tourists, which is why a lot of resources are being invested in order to promote and develop the region's tourism competitiveness.

For several years now, the Veneto's historic cities are the tourist attractions that has recorded the highest increase in nights spent - up +7% in 2006 on the previous year - and have become the powerhouse of the region's tourism.

This success is due to the importance, beauty and uniqueness of the region's architecture, its monuments and museums, not to mention the growing number of cultural events organised throughout the Veneto.

The Veneto has an especially comprehensive range of museums. In 2005, the Veneto had 340 active non-state museums; this figure did not account for another hundred or so museums that were newly opened, closed for restoration, open intermittently, or with only restricted exhibits or exhibition space. Another 14 museums, museum circuits, and state-owned archaeological areas should also be added. In 2005, visitors to state-owned museums alone in the Veneto increased by more than 983,000, +1.2% on the previous year.

The main exhibitions organised in 2006 in the Veneto were visited by more than 526,000 people. Initial figures for exhibitions that took place between late 2006 and early 2007 reveal that 1,187 visitors a

day saw the Picasso exhibition in Venice, 1,140 the Mantegna exhibition in Verona, and 710 the "da Boccioni a Vedova" exhibition in Treviso.

During the Venice Film Festival from 30 August — 9 September 2006, the number of nights spent in the old-town centre and the Lido topped 216,000.

Public finance systems ■

competitiveness depends on an efficient tax and distribution system; consequently public administration must also strive for higher efficiency.

This report looks at a socio-economic and territorial system that is entirely the result of opposing forces conditioned by tax systems and public spending. Part of the report deals with this aspect by comparing countries worldwide. Results reveal that Italy is in eighth place out of all the Organisation for Economic Cooperation and Development (OECD) countries in terms of tax revenue as a percentage of GDP with 41.1%, after Sweden 50.4%, Denmark, Belgium, Finland, Norway, France, 43.4%, and Austria, 42.6%. Further down the list are Spain, 34.8%, and straight after Germany 34.7%, 17th and 18th respectively in the list of 30 OECD countries. At the bottom of the list are Japan and the United States, with ratios of 26.4% and 25.5% respectively.

The make-up of the various fiscal revenues among the different economic sectors is rather diversified: in Eastern European countries a larger part of the total revenue comes from social contributions, while in Sweden, the United States and Denmark, the bulk of the revenue comes from taxation on income, salary and profits. In Italy, 31.4% of revenues derive from these, 30.3% derive from social contributions, and 26.4% from taxes on goods and services.

Taxation of social transfers

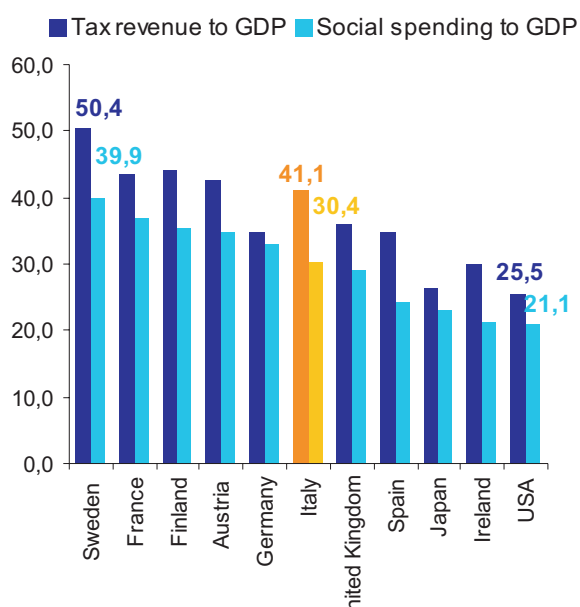
An OECD study has revealed that one of the main questions about taxation as a percentage of GDP regards the reasons behind the notable differences between the tax index in many countries. Much of this is due to decisions about how far governments plan to offer certain public services (e.g. spending on education and health) and the generosity of the social transfer system (such as pensions and unemployment benefit). In addition to the major difference in tax systems and national legislation, two reasons may partly explain the difference in national tax indices. The

first is that countries differ in the way they pursue social objectives by means of tax deductions or social transfers; the second lies in the differences between the methods of taxing social transfers.

The highest levels of taxes paid on social transfers are to be found in Denmark and Sweden, which are joint top of the rankings for general tax rate, while countries with the lowest levels of taxation on social transfers (Mexico, Korea, Japan, the United States) are the four with the lowest tax rates. This suggests that reducing the differences in the countries' tax rate on social spending would, in fact, minimise the differences in overall tax rates to GDP.

A look was then taken at how different tax revenues were invested in social spending in order to understand how Italy compared to other countries. If all types of social spending are considered¹⁹ Sweden ranks first with 40% of GDP and an expenditure per capita of 12,478 euro, while Japan and the United are at the bottom of the table. Italy ranks halfway in the table of countries surveyed²⁰ with 30.4%. Generally, high taxation means high social spending, but countries such as Germany and non-EU states invest their modest tax revenues almost entirely in this type of expenditure.

Fig. 9 - Tax revenue and social spending - Year 2004



Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale on OECD data

¹⁹Health, recreation, culture and religion, education and welfare

²⁰Sweden, France, Finland, Austria, Germany, Italy, the United Kingdom, Spain, Japan, Ireland, and the USA.

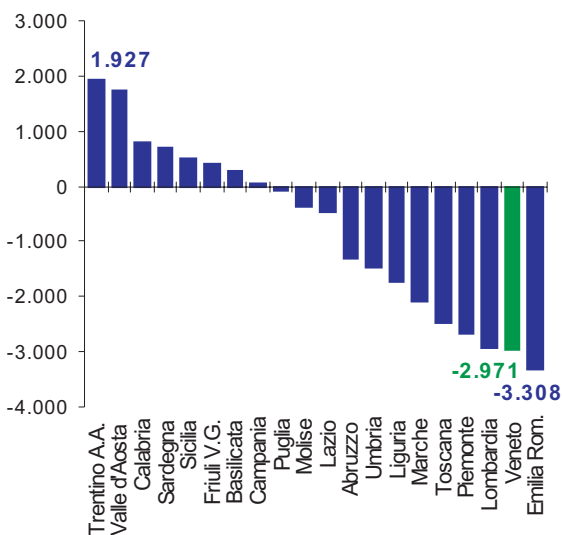
²¹As local authorities we consider the public territorial bodies whose authority extends to a part of the economic territory (Autonomous Regions and Provinces, Chambers of Commerce, Local Health Authorities, Hospitals, Provinces, Municipalities, Mountain Communities, Universities, other local bodies); as Central Governments we consider all of the administrative bodies of the State and the other central bodies whose authority extends over the whole of the economic territory, along with the Departments of Welfare and Social Security; the sub-sector of Sub-central Administrations, which Italy does not have, can be defined as all of the institutional units which carry out some of the administrative functions at a lower level than the central governments and a higher level than the institutional administrative units which exist at a local level.

Financial flows

If bureaucracy is slimmed down, public services will be more efficient, thus improving quality and speed, and ensuring resources are allocated and used as well as possible. Consequently, some time ago, many European States started to decentralise the functions of central government towards local administrations²¹. Of particular importance to this regard was the distribution of increased autonomy in terms of expenditure and revenue for decentralised bodies, with an increase in available resources and spending power attributed to local administrative bodies. In some countries, this process was developed alongside constitutional reforms which caused the state's structure to evolve from unitary to federal.

The spending power of local administrations, however, is conditioned by financial flows with the State, which is still a source of major territorial imbalance. The latest figures, which date back to 2002, show that each resident in the Veneto pays the State on average more than he or she receives. This happens on a much greater scale in the Veneto than in other regions. Vice-versa the group of special statute regions, which have more autonomy to manage their tax revenue, have positive financial balances with the State.

Fig. 10 - Financial balance per capita by region (difference between payments by the state and per capita state tax revenue). Values in current euro - Year 2002



Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale on data by the Ministero dell'Economia e Finanze - Ragioneria Generale dello Stato and Dipartimento per le politiche fiscali.

Every year, each Veneto citizen pays the State 2,971 euro more than the State invests in the region. This figure amounts to 12% of regional GDP per capita. One month a year of wealth produced in the Veneto goes to the State, which invests it elsewhere.

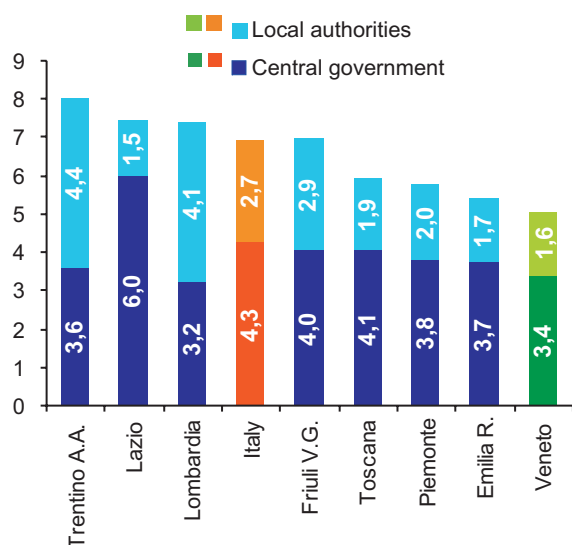
Updated payments figures for 2004 are also available. These figures reveal that the gap between the regions from 2002—2004 grew. Valle d'Aosta, which still ranks first for State payments with 9,599 euro per capita in 2004, saw its share increase by 13% on the previous two years. The Veneto, however, which is still last, receives 2,553 euro per resident, -6.2% on 2002. As the figures for 2004 on the taxes paid by citizens in each region are not available to update the financial balance, the most recent financial flows cannot be evaluated.

The functioning of the public administration

The efficiency of public spending also depends on the amount of resources invested in running the public administration.

In Italy, spending on general administration increased by 21% from 2001 — 2005. Spending included running administration bodies and institutions, plus managing and preserving the patrimony of the public administration, a trend

Fig. 11 – Percentage share of GDP of spending on 'general administration' per government level - Year 2005



Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale on Istat and Ministero dello Sviluppo Economico data

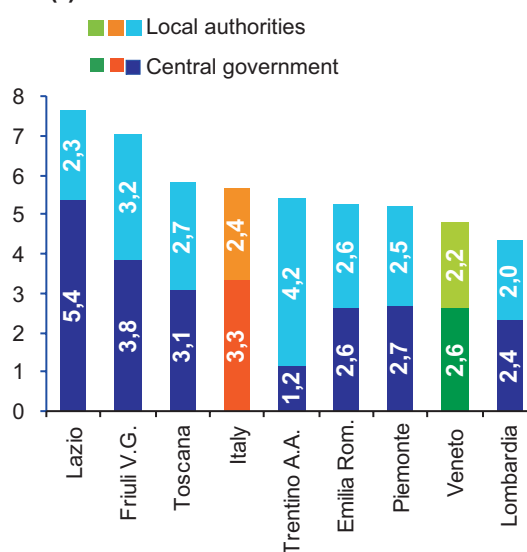
which encompassed all the regions surveyed²² in the second part of this report, apart from Trentino Alto Adige, where figures were stable.

This type of spending takes up 7% of the GDP in Italy, this number is further divided into 4% for the central administrations and 3% for the local authorities. The Veneto's public administration stands out for its virtuosity: with 5% of the GDP used to maintain its public institutions and its patrimony, it falls into last place out of the different regions. Trentino Alto Adige shows a higher level of spending in this area, 8% out of its total product, higher than the national average of 7%, which gives a reason for its stability shown in these five years.

The personnel

The Veneto's public administration has 4.8 employees on open-term contracts per 100 inhabitants, divided between 2.6% of central administration bodies and 2.2% of decentralised authorities. Of the regions surveyed, only Lombardia has fewer: 4.4 per 100 inhabitants. Trentino Alto Adige stands out in this respect as, as opposed to the other regions, the staff of the decentralised administrations outnumber those of the central PA by almost three and a half times. In fact it has 4.2 employees of the local PA per 100 residents, as

Fig. 12 – Public administration personnel per 100 inhabitants per government level - Year 2005 (*)



(*) Number of employees with open-ended contracts at PA authorities per 100 inhabitants

Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale on Istat and Ragioneria Generale dello Stato data

²² Veneto, Trentino Alto Adige, Lombardia, Emilia Romagna, Toscana, Friuli Venezia Giulia, Piemonte and Lazio. The latter is considered as a region that is home to the capital and therefore has a clear impact on PA indicators.

opposed to 1.2% working for the central administrations, which are localised within the region. This can be explained as a consequence of Trentino's special status as a region with political autonomy in certain matters which gives its local government the possibility to carry out administrative functions directly, which in the other regions are still carried out by the state.

Spending on public administration staff in 2005 equals 10% of GDP, and reaches 12% in the two regions with political autonomy in certain matters and in Lazio. Veneto and Lombardia are ranked last, at 7% and 6% of their own product respectively. It is interesting to note how the regional ranking based on the unitary rate of spending on staff puts Trentino Alto Adige in first place once again with more than 65,000 euro spent by the public administration on each employee both in the central administration and the local authorities. The Veneto's local authorities are in last position, and with less than 38,000 euro prove to be paying particular attention to the containment of this type of spending in comparison with the other regions.

Main spending on the functioning of the local authorities

This expense on personnel, along with the purchase of goods and services²³ by decentralised administrations, is the one mainly subjected to the restrictions imposed by the internal stability pact which started with the Maastricht treaty and which restricts local authorities considerably by containing spending. In fact, most of the local authorities' spending is taken up by the purchase of goods and services, 38%, which, along with the spending on personnel, 27%, makes up 64.6% of the consolidated decentralised spending in 2005.

In all of the regions, this type of spending easily exceeds 50% of the respective total spending, although the figures vary greatly from region to region. It ranges from 52.4% of spending in Trentino Alto Adige to 73.2% in Toscana.

The trend in spending on the purchase of goods and services has repercussions in monetary terms on the spending rate with relation to the GDP. In Italy, spending by local authorities on the purchase of goods and services was 6% of the GDP, spending by the central administrations, 2%. This trend is

repeated in the other regions too, except for in Lazio, where the extra weight of the functions carried out by its central public administration makes itself felt as always. Veneto and Emilia Romagna spend 6% of their gross domestic product on purchasing goods and services, purchased as input towards the production process, mostly for the local authorities, which is less than in the all other regions.

The perception of the problem of public debt

The simplification of procedures, the user's satisfaction, and the rationalisation of the ever decreasing financial resources are the public administration's most important aims. Therefore, measuring efficiency and effectiveness is extremely important to guide the managerial and organisational choices with the aim of improving territorial competitiveness and to best face the urgent external constraints. Everyone must be made aware of this problem so that efforts can be concentrated on preventing waste. Out of the problems considered as priorities for the country, the public debt is really considered as such by only 14% of Italians, but if we look at the opinions of those who live in Central and Northern Italy, this percentage rises almost to 19% as we reach the North-East. Out of the regions put under scrutiny, it seems that the people of Lombardia are least interested in this problem (14.4%), the people of Tuscany are a little more worried about it, followed by the people of the Veneto, 15% of whom consider the problem of public debt to be a priority for the country. In these regions there is therefore a higher awareness among the population of the impact that this aspect of political life has on the citizens. This is felt even more by the inhabitants of the two regions with special autonomous status in certain political matters, above all in Trentino Alto Adige, which is due to its different relationship with the central government.

Energy ■

The growing dependence on petroleum and other fossil fuels and the increase in the cost of energy overall make Europe more and more vulnerable. Changes must be made.

Within the EU the situation is rather heterogeneous among the various member states regarding both supply capabilities and the respective fiscal policies, with the inevitable effects on prices.

²³Not including those of fixed capital nature usable in the productive process for a period longer than a year

In this context Italy is in a particularly critical situation. Most of the fossil fuels and gas needed to produce energy are imported.

Energy dependence

In 2004 the total production of energy in the EU25 amounted to 882 million toe²⁴ and almost 910 million toe were imported to deal with the internal demand, more than 50% of the entire gross inland consumption²⁵, resulting in a strong dependence on energy-producing countries.

25% of European production comes from the United Kingdom and among all the member states, only France and Germany produced over 100 million toe. Italy, however, only produced 30 million toe, showing a particularly critical situation since the balance of imports and exports²⁶ was 156 million toe, equal to 85.7% of the gross inland consumption²⁷.

The energy dependence rate²⁸ varies among member states from the almost null value of the United Kingdom and Poland, both of which have significant natural resources, to more than 80% in

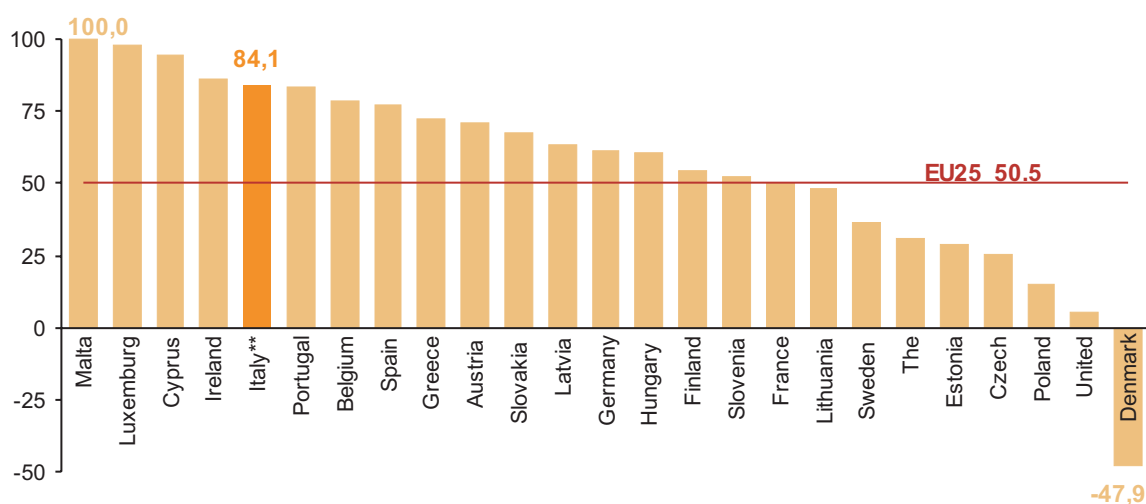
Portugal, Ireland, Cyprus, Luxemburg and Malta. In this ranking, Italy is fifth among the countries that are most dependent on foreign states for the supply of raw materials for energy production with a dependence index of 84.1%.

Veneto follows the national trend with a particularly onerous energy demand. While primary production was 774,000 toe, the balance between imports and exports, net of electric energy, was 16.5 million toe, i.e. 96% of the gross regional consumption. This value is significantly higher than the corresponding Italian percentage.

Level of consumption

The trend of the gross inland consumption per capita in the decade 1994:2004 showed a slight upward trend in the EU25 countries, from 3.5 toe per capita on average in 1994 to 3.8 in 2004. The same trend can be observed in Italy even if the index has consistently maintained lower levels than the European average (2.7 toe per capita in 1994 and 3.1 in 2004). Over the decade, consumption in the Veneto has oscillated, but the level of consumption per capita has always been above the national average.

Fig. 13 – Energy dependence rate (import/export balance in relation to gross consumption(*) - percentages). Italy(), EU25 countries - Year 2004**



(*) Eurostat defines gross consumption as the sum of primary production, import/export balance and variations in stocks

(**) Data from Enea

Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale on Enea and Eurostat data

²⁴Tonnes of oil equivalent

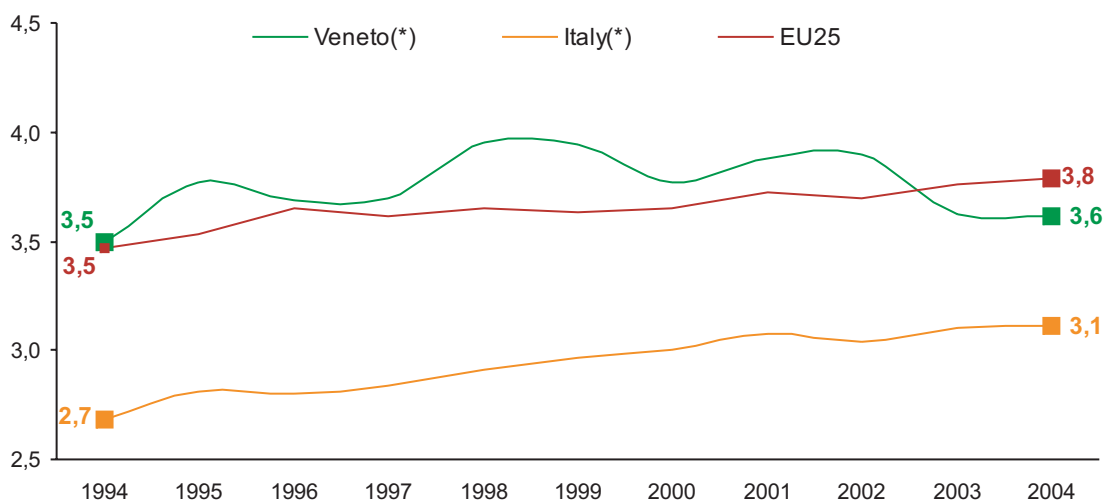
²⁵Gross inland consumption is a measure of the energy inputs to the economy, calculated by adding total domestic energy production plus energy imports minus energy exports, plus net withdrawals from existing stocks.

²⁶Data from Enea The values of energy imports and exports are calculated net of electric energy imports and exports in order to make the data comparable with Eurostat data.

²⁷Calculated starting from Enea data, which uses a different definition than Eurostat data inasmuch as it also includes stocks which were, therefore, subtracted.

²⁸The energy dependence rate is the relationship between the import/export of energy balance and gross consumption defined by Eurostat as the sum of primary production, balance between imports and exports, and variations in stocks.

Fig. 14 - Gross inland consumption per capita (toe per capita). Veneto(*), Italy(*), EU25 countries - Years 1994:2004



(*) Data from Enea. Stocks and electric energy consumption were subtracted from the gross inland consumption as presented in the "Rapporto Energia e Ambiente" in order to enable comparison with Eurostat data

Source: processing by Regione Veneto - Direzione Sistema Statistico Regionale on Enea, Eurostat and Istat data

Energy efficiency

The picture that has been painted so far is one of territories poor in raw materials which nonetheless have significant economic development, which makes them large consumers of energy and highly dependent on countries producing traditional sources of energy such as petrol and natural gas, still the most commonly used types of energy. But, if on the one hand there are high levels of energy consumption, what are the capabilities needed to exploit them in a sustainable way in order to produce wealth?

During the decade from 1994 to 2004, in the European Union there has been a progressive reduction in energy intensity and, therefore, improvement in energy efficiency. Within this context, in spite of the problems related to the supply of resources, Italy has good capabilities for transforming them into wealth. For example, in 1994 the energy intensity was slightly greater than 183 toe per million € of the GDP, a value which is much lower than the European average. In 2004, Italy was sixth in the ranking of energy intensity with one of the lowest values among member states (185.5 toe per million € of GDP), preceded only by France, Germany, Ireland, Austria and Denmark.

The value in Veneto in 1994 was even better as it

was 181.4 toe per million €, but within the timeframe considered both in Italy and Veneto, contrary to what took place on a European level, there was a progressive worsening of the energy intensity index of the economy, even if it was consistently lower than the EU average. This increase trend was more evident in Veneto as in 2004, with 191 toe per million of euro, the region surpassed the national average level.