NEW INDUSTRIAL POLICIES: LESSONS FOR THE EU AND THE CLEAN INDUSTRIAL DEAL

Case study: New industrial policy in Italy

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NOTE

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Although Italy is a highly industrialized country (more than 19% of GDP in 2024), the national government was not particularly interventionist concerning industrial policy until recently. In 2017, the National Plan for Industry 4.0 aimed at increasing the innovation and competitiveness of Italian industries and was a first step towards a more active industrial policy. Then, the massive recovery and resilience plan (€194.4 billion, the largest in absolute terms in the EU) was seized as an opportunity to solve the infrastructure gap and improve industrial productivity in Italy. Regarding competitiveness, the continuation of the Industry 4.0 R&D subsidies was the main transversal support provided to all sectors; it was also complemented by a Transition 5.0 subsidy, focused on energy efficiency in manufacturing. Overall, the sectoral components of the industrial strategy remain relatively limited, and rather targeted on the economic development of the Southern regions. The resilience & recovery plan was indeed used as an opportunity to develop a new "single special economic zone" covering the whole center and south of Italy, providing tax incentives for any investments, and additional fiscal bonuses through some "development contracts" for investments in strategic sectors (including clean technologies) in the South. This rather horizontal support is complemented by massive investments in infrastructures (especially in transport and energy), again especially in Southern regions (more than 40% of resources are dedicated to support Southern regions).[1]


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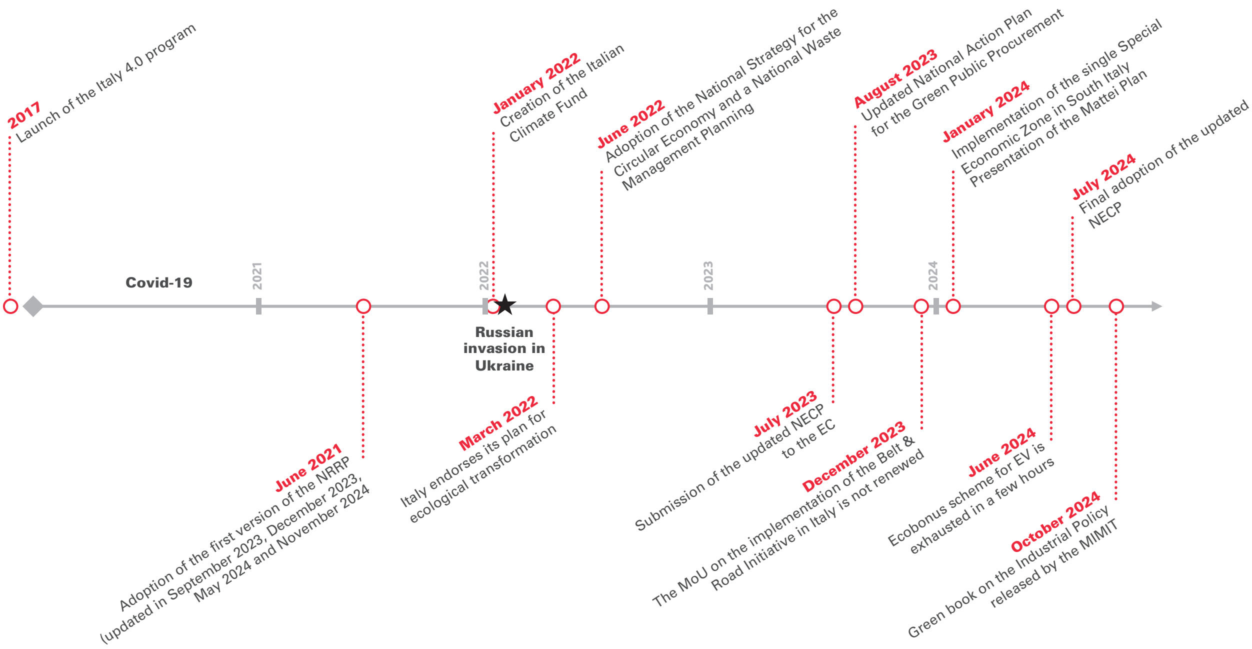
New industrial policies: lessons for the EU and the Clean Industrial Deal

STUDY

This case study is related to the *Study* New industrial policies: Lessons for the EU and the Clean industrial Deal

[1] Alessandro D'Alfonso, "Italy's National Recovery ad Resilience Plan Latest State of play" (Apr. 2024). Next Generation EU (NGEU) delivery – How are the Member States doing? EPRS Briefing

Figure A.1 Italy timeline



1. INDUSTRIAL STRATEGY – DIRECTION, PLANNING & GOVERNANCE

1.1. Political directionality of the national industrial strategy

Despite a strong industrial base (19.2% of GDP in 2024 excluding the construction sector),[2] Italy did not develop a particularly active industrial policy. Since the 2008 financial crisis, limited fiscal space did not allow the Italian government to conduct significant subsidy programs. The first sign of an industrial strategy emerged in 2017 with the National Industry 4.0 plan. A new support scheme was created to support the robotization and digitalization of industry.

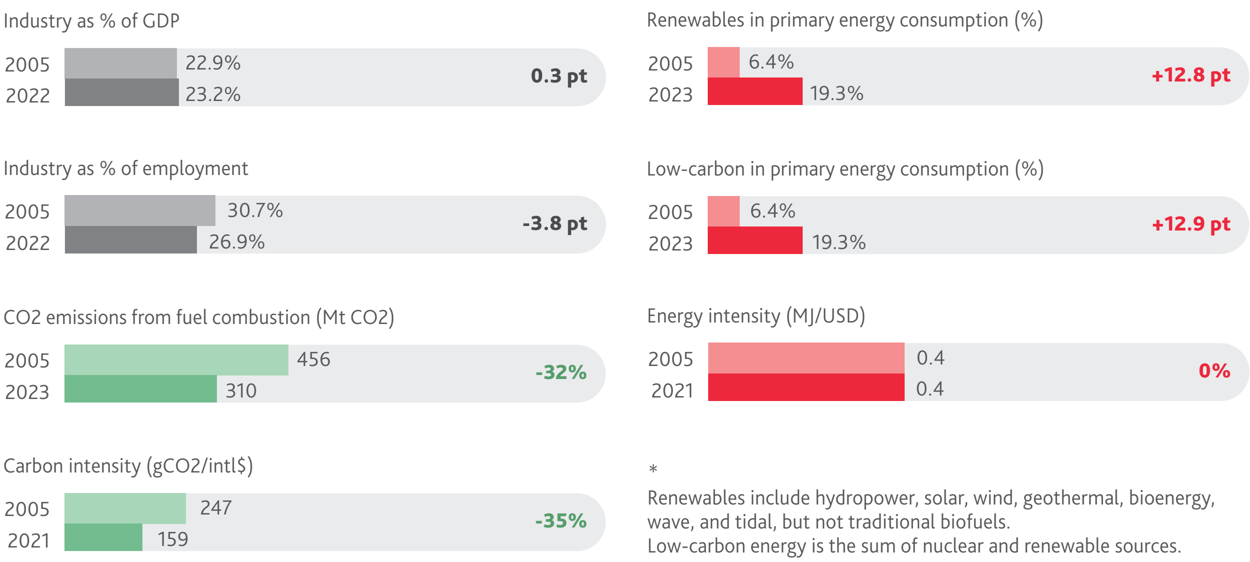
The Resilience and Recovery Plan after the COVID-19 was the main opportunity to enable the development of a national industrial strategy. The Piano Nazionale di Ripresa e Resilienza (PNRR) is the largest in absolute terms in the EU (€194.4 bn in grants and loans in December 2023). It aims to compensate for public under-investment observed during the 2010s which is considered to have undermined Italian competitiveness. As a result, 63% of the PNRR allocations were expected to be public investment. The plan is structured around 7 missions (including the REPowerEU chapter) most of which is dedicated towards infrastructures (€23 bn for the rail network, €22 bn for renewable energy, hydrogen, grid and sustainable mobility, €16 bn for energy efficiency and renovation of buildings). Two other large components relevant for industrial policy are €25 bn for digitalization, innovation and competitiveness in the production system and €19 bn for education services. In that sense, industrial policy remains largely transversal, although some sectors (mostly the energy and transport sectors) have received targeted investment in order to develop public infrastructures. The plan also targets the regional development of Southern regions, focusing on the development of infrastructures around ports and special economic zones in the South.

The PNRR has recently been completed by a Green Book on the Industrial Policy[3] released in October 2024 that aims to describe the current state of play of Italian industry, challenges and direction for the industrial policy. This policy paper focuses on 3 main challenges: the twin green and digital transitions, and the geopolitical fragmentation. It sets 4 main objectives to a new "strategist state": avoid deindustrialization, radically change energy sources and production methods; introduce new critical technologies, and secure development and economic well-being from "weaponization" of interdependencies (p. 51). This Green Book should lead to the publication of a "White Book" which provides measures to tackle the challenges identified after the public consultation and to a sequence of meetings around industrial policy in 2025.

2 Share of industry in GDP, United Nations Economic Commission for Europe (UNECE).

3 Made in Italy 2030 (Oct. 2024). Libro Verde Sulla Politica Industriale Ministero delle Imprese e del Made in Italy.

Figure A.2 Italy indicators



1.2. Technological and environmental objectives of industrial policy

The Green Book defines 15 medium-term objectives on Italy's industrial strategy, while the PNRR defines targets and measurements as part of the European framework for the recovery and resilience plans. Decarbonization objectives, in particular relating to industry, were rather defined in the environmental policy strategies and especially in two documents: the Plan for Ecological Transition released in March 2022, and the National Energy and Climate Plan which was updated in July 2024 (the draft was submitted in July 2023).

The updated NECP sets an overall objective of greenhouse gas (GHG) emissions reduction of 40.6% compared to 2005 levels and a share of 39.4% of renewable energy in gross final energy consumption by 2030 (63% in the energy sector, 34% in transport and 36% in heating and cooling). The NECP also includes a target of 4.3 m battery electric vehicles (BEVs) and 2.3 m plug-in hybrid electric vehicles (PHEVs) by 2030. In 2023, there were only around 240,000 BEVs and 250,000 PHEVs circulating on Italian roads.

1.3. Institutional setup supporting the implementation of the industrial policy

The main body responsible for the implementation of the industrial policy is the Ministry of Business and Made in Italy. It provides a list of all the available support measures in Italy for industries, which are most often operated by the Italian development bank Invitalia.

An interesting and recent feature of industrial policy in Italy is the development of the so-called "Single Special Economic Zone". The NRRP had initially scheduled to support the development of 8 Special Economic Zones in Southern regions (which exist since 2017), allocating a total of €630 million to the connecting of infrastructures and the strengthening of industrial production in these areas. In September 2023[4], the 8 SEZs were replaced by a single SEZ extended to all the regions of southern Italy (Abruzzo, Molise, Sardinia, Campania, Apulia, Puglia, Basilicata, Calabria, and Sicily), for 3 years, starting 1 January, 2024. These regions now benefit from a derogatory tax incentive system and a specific governance system. A "Mission structure" composed of 67 people and 14 external experts replace the former 8 commissioners for the SEZ. This Mission Structure is placed under the direct authority of the political authority delegated to the SEZ, i.e. the Minister for European Affairs, the South, Cohesion Policies, and the NRRP. The Mission Structure is in charge of preparing a three-year "Strategic Plan" to identify which sectors to promote and how they should be supported. It should also be the contracting station under the NRRP and issue the authorization through the South. The Mission Structure will in effect be the only one responding to requests of any company willing to invest in the South, as much for production sites or residential areas. There is an open question on how this Mission structure will coordinate with local administration as it has jurisdiction over the entire territory of the South (not only its industrial areas), especially on topics in which usage conflict could appear such as land and urban planning.

[4] Decree Law No. 124 of 19 September, 2023, see here.

2. DEVELOPMENT OF A CARBON PRICING MECHANISM

Italy does not levy a fuel-based carbon tax and does not tax GHG emissions directly. Its industrial and energy production sites participate in the EU ETS whose average price was about €70/tCO_2 in 2024.

3. SUPPLY-SIDE SUPPORT TO INDUSTRIES

3.1. Support mechanisms for R&D&I focused on new green technologies

Based on a diagnosis of underperformance in Italian non-price competitiveness and innovation, the government published in 2016 the "Industry 4.0" strategy for digitizing industry. It was based on 5 key fiscal measures to incentivize investments in innovation and equipment modernization:

- a tax incentive for investments in innovative startups and SMEs (up to 30% of the invested sums up to €1 M for individuals and €1.8 M for companies);
- a super-depreciation plan with 40% increase in the ordinary depreciation deduction for investments in new industrial machinery;
- an "hyper-depreciation" of 150% in ordinary depreciation deduction for selected industrial equipment (mostly for IoT);
- a 50% tax credit for additional expenses on R&D expenditure in the 2017-2020 period;
- a 50% reduction in corporate tax on income derived from direct and indirect use of intangible assets.

The scheme has been extended to the 2021-2026 period in the NRRP with a €13.4 bn total allocation, with multiple tax credits: on investments in tangible and intangible goods; on R&D activities with an increase of 5 percentage points of the tax credit rate for innovation; on green and "4.0" technologies on the 2022-2023 period; and on training 4.0. A patent box also allows a 110% increase, for tax purposes, of expenses incurred in carrying out R&D activities aimed at maintaining, enhancing, protecting and increasing the value of copyrighted software, industrial patents and legally protected designs and models.

On top of these fiscal measures, the NRRP has also introduced in 2022 a Green Transition Fund, endowed with €250 m, managed by the national development bank, CDP Venture Capital, which invests in companies in the areas of renewable energy use, circular economy, mobility, energy efficiency, waste management & energy storage.

A specific program, the Scoperta Imprenditoriale, also subsidizes R&D projects in Southern Italy with a relief from 25% to 35% of direct contribution for relevant expenditures.

3.2. Support mechanisms for the development of new green technologies production units

Some open funds support industrial development as part of the Transition 4.0 Plan, which is the main support provided to enterprises via the NRRP. For instance, the Fund against deindustrialization (€136 m) aims to counteract deindustrialization in specific territories in the South of Italy.

More generally, other forms of support to industries and to the economy provided via the NRRP are mostly targeted towards Southern regions. The single SEZ was associated with tax incentives for investments and development of all types of activities in the 8 Southern regions. Beneficiaries must maintain their activity in the plant areas for at least 5 years after the completion of the investment. The tax credit can go up to 70% for any investment above €200,000 (up to a maximum of €50 million) in Puglia for SMEs (different rates apply to the different regions and depend on the size of the companies–SME, medium-size or large companies). These investments may be related to investments in pre-existing projects or new investment projects located mainly in industrial areas or intended for industrial and production settlements. A single authorization procedure for all regions applies to the requests of the tax credit.

Invitalia, the agency for the economic development in Italia, is also responsible for the definition of "Development contracts" which are ad hoc subsidies for the development of industrial projects in the internal regions (Mezzogornio & South) of the country for investment above €20 m. The scheme has been extended in 2024 to "mini-development contracts" for investments above €4 m in strategic technologies (digital & deep-tech technologies, clean and resource efficient technologies, biotechnology).

Invitalia should also make available a fund for SMEs worth €320 m for investment programs aimed at self-generation of energy from RES and optimization of energy consumption and a support tool should be made available in 2025 for "Made in Italy for renewable energy" (€500 m).

Energy Release 2.0, through a decree in July 2025 by the Italian Ministry of the Environment and Energy Security, encourages energy-intensive users to contribute to new power generation capacity from renewable sources.

3.3. Support mechanisms for the decarbonization of existing industrial production units

Complementary to the Transition 4.0 plan, the Transition 5.0 aims at supporting businesses in reducing their final energy consumption and energy savings in processes. The program, applicable since April 2024, was granted with €6.3 bn in the NRRP in the form of a tax credit on investments in innovative projects that reduce energy consumption of production or of processes. The tax credit is increasing with the share of energy consumption reduction but decreasing with the investment level with an upper limit of €50 m in line with European rules on State aid.

There are some requirements for the type of investments according to the technology considered, including rules on the EU origin (e.g. for PV only modules produced in EU member states can receive investments) and the technology's efficiency.
Invitalia manages multiple funds from the NRRP for supporting the decarbonization and energy efficiency of industries:

— The National Energy efficiency fund: granted with €310 m, funding initiatives aiming at reducing energy consumption in industrial processes, development of district heating and cooling networks and efficiency of infrastructures;
— The Industrial Transition Fund: (€450 m - ongoing) for investment in environmental protection, funding projects for greater energy efficiency, efficient use of resources not leading to an increase in production capacity;
— Hard To Abate measure (€1 bn): mostly to fund projects replacing methane by green hydrogen and R&D in that field.

4. DEMAND-SIDE SUPPORT TO INDUSTRIES

4.1. Support mechanisms incentivizing private demand in green markets

For EVs the government has deployed an "ecobonus" scheme for the buying of new BEV and PHEV. However, the scheme, with a limited budget (€250 m for EVs) was exhausted in a few hours in June 2024. The government decided not to continue this scheme in 2025 due to indirect subsidies provided to foreign companies and decided to rather provide direct subsidies for Italian car manufacturers.
The NRRP had also planned the support for the energetic renovation of buildings with a "superbonus" tax credit of up to 110% for making homes more energy efficient. However, the scheme was plagued with frauds,[5] led to high inflation in service cost and had a substantive cost for the public finance (estimated at €219 bn in 2024) although with a significant impact on the adoption of RES and the reduction in energy consumption of buildings. The bonus has been reduced to 70% in 2024 and 65% in 2025 of investment costs. Other tax relief schemes for the building renovation also apply in Italy (Ecobonus, Bonus Casa).

4.2. Public procurement strategy favoring green products and local content requirements

In Italy, Green Public Procurement (GPP) was introduced in 2008 with the National Action Plan on GPP which set national targets (efficiency and resource savings, reduction of waste) in 11 procurement categories for products and services where Minimum Environmental Criteria (*Criteri Ambiantali Minimi* - CAM) are defined. The 2013 update sets a target of 50% green procurement for the year 2014 for categories where CAM were defined. CAM became mandatory for public procurement in supplies, services and works of any amount with the new Public Contracts Code in 2016, across all Italian contracting authorities. These CAM are defined by the general direction of the sustainability of the products and consumption. Public authorities have to contribute to the green public procurement through the inclusion, in the design and tender documentation, of at least the technical specifications and contract clauses contained in the CAM.
The 2023 update of the National Action Plan (NAP) for GPP (decree of 3 August, 2023) made GPP a strategic tool for the implementation of the provisions in the National Strategy for Sustainable Development and of the National Strategy for Circular Economy. This NAP sets the criteria for 20 product categories. Moreover, the Italian State Council has confirmed in a judgement on 14 October, 2022 (n° 8773) that the failure to meet the CAM in a tender leads to the cancellation of the entire tender.
The new Contract Code (Legislative Decree 36/2023) confirms the mandatory nature of CAM for all contracts for goods, services and works where minimum criteria are adopted. One of the key novelty of this new code is the obligation to have a sustainability report for the procurement with an evaluation of the socio-economic, local and global environment impacts including a life-cycle analysis of the project. Italy is the only European country to have a 100% mandatory GPP when CAMs are defined. Still, a 2023 report by the Green Procurement Observatory shows that the implementation of CAM by municipalities reaches 52% of contracts.

4.3. Regulation and norms favoring green industries

In order to accelerate the deployment of renewable energy supply and reduce dependence towards Russian gas and the particularly high cost of energy, the Italian government has also adopted a series of measures to accelerate the deployment of RES in Italy. Most recently, the "PNRR ter Decree" of February 2023 simplifies the authorization process and extends the suitable areas for RES. The Energy Decree of February 2024 supports the development or refurbishment of self-production of RES by energy-intensive companies and simplifies authorization procedures for RES plants.
Softer certification processes were also developed. The 2015 law to promote measures regarding green economy (Law n°221/2015) has introduced a voluntary national "Made Green in Italy" scheme based on the product's environmental footprint. It quantifies the environmental performance of a product, verified by an independent third-party certification body, with 3 performance classes (A, B and C). For class A and B (higher or equal environmental performance than the reference benchmark), the product can obtain a "Made Green in Italy" logo. Product that are not 100% "Made in Italy" can still participate in the scheme if the last substantial transformation takes place in Italy.

[5] For anecdotal evidence, in May 2024 the Italian Finance Police uncovered a billion-euro scam using illegal "superbonus" tax credits (https://www.swissinfo.ch/eng/italian-police-uncover-billion-euro-tax-credit-scam/77707138).

5. LABOR AND SOCIAL POLICIES FOR A JUST INDUSTRIAL TRANSITION

The thematics of training are limited and appear to be focused on digital transition dimensions. The training tax credits associated with the Transition 4.0 plan, provided a 70% tax credit for eligible expenses up to 300k€ for SMEs, 50% for medium-sized and 30% for large companies (up to 250k€), which is no longer in place (reference : Minestero delle Imprese e del Made in Italy. (2025).[6]

The European Just Transition Fund has also identified two regions in Italy relevant for the scheme, Taranto and Sulcis Iglesiente, leading to the approval of two Territorial Plans by the European Commission in December 2022 for these regions with respectively €795.6 m and €367 m. For the implementation, 30% of resources are directed towards energy and the environment, 38% towards economic diversification and 32% to mitigate economic and employment effects triggered by the transition. A report by ECCO and Reform Institute estimates that the latest Italian NECP tends to better integrate just transition measures compared to the former 2019 version, especially on tackling energy poverty, while still highlighting that many relevant issues were completely omitted, especially regarding financing needs or stakeholder engagement and public consultation.[7]The NRRP also funds many different programs aiming at increasing the labor participation of young and female workers. The youth bonus for example exempts the payment of social security contributions, up to a maximum of 650 € per month per worker for a period not exceeding 24 months, for any private employer hiring, between 1 September 2024 and 31 December 2025, young people under the age of 35 with open-ended employment contracts or who convert fixed-term contracts into open-ended ones. A woman bonus offers the same privilege for any employer hiring any disadvantaged female worker with an open-ended contract.

6. TRADE AND INTERNATIONAL POLICIES SUPPORTING INDUSTRIAL POLICIES

6.1. Policies aiming at improving resilience and de-risk global supply chains

Following the European movement for de-risking and securing supply chains against economic coercion, Italy has tightened its regulation of trade and FDI control. In July 2024, Italy transposed the EU regulation 2021/821 on export control with an extensive national list of dual-use goods and technologies. Similarly, the FDI control regime is regulated by a Law of March 2012 (the Golden Power Law) with an extensive list of sensitive activities (such as audio-visual media services, finance including credit and insurance, etc.). In August 2023 the Italian FDI screening regime has even been extended to intra-group transactions that involve non-EU investors.

6.2. Policies supporting internationalization of national industries

The 2022 budgetary law has created a new Italian Climate Fund that aims to finance projects to combat climate change in countries receiving public development assistance. It was endowed with €4.4 bn (€840 m annually until 2026) and is open to Italian or foreign companies, public entities of partner countries and public and private financial institutions. The fund is directed by the Ministries of Environment, Economy and Foreign Affairs and managed by the Deposit and Loan Fund (CDP).

However, the main recent initiative is the Mattei Plan presented at the Africa-Italy summit in January 2024. The plan was equipped with €5.5 billion in grants, credits or guarantees, including €3 billion from the Italian Climate Fund and €2.5 billion from the development cooperation budget. This plan aims to build a new form of partnership with African countries and is in line with a recent repositioning of Italy towards the African continent. As of December 2024, 21 projects were in progress in 9 countries (some of them already started under the Italian Climate Fund). The projects do not seem to be particularly related with the creation of new value chains in Africa, supporting Italian industrial development. Moreover, criticisms against this plan highlight the still very limited Italian support towards development aid (ODA represents 0.27% of GDP).

On critical minerals, Italy has been also engaging a proactive external cooperation by signing a joint Communique with France and Germany in December 2023, pledged with the same countries to create a Raw Materials Funds of €2.5 billion and signed a joint Statement with Canada for the cooperation on critical minerals strategy, on the margins of the G7 Ministerial Meeting on Industry and Technological innovation in October 2024. There are also lines of cooperation with African countries (such as Angola or Algeria) in which the major ENI plays a key role. Nonetheless, Italy rather highlights the opportunities for mining critical minerals directly in Italy and aims at facilitating the mining administrative procedure.

[6] Credito d'imposta formazione 4.0.

[7] Maria Niewitała-Rej (Dec. 2023) Territorial and Distributional Aspects of Just Transition in the draft updated Italian National Energy and Climate Plan Reform Institute in cooperation with ECCO.

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