



Agriculture and
Agri-Food Canada

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ITALY

Agri-Food Trade Synopsis

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Executive Summary

Italy is a highly developed country, a member of the European Union, and a possible export growth market for select agri-food and seafood products. The main reason for Italy's overall small expected agri-food and seafood growth is demographics. Over the next fifty years, the population, even accounting for the effects of immigration, is expected to fall while the median age increases.

Italians are quite conscious of food quality and prefer to purchase fresh, traditional, and more organic foods. Such tastes are more apparent in the South than the highly industrialized North. These preferences, however, are slowly changing as the acceptance of frozen and prepared products is growing.

Canada has a small presence in the Italian market, accounting for only 0.6 per cent of Italy's imports in 2002. Because of regulations, high tariffs, and discriminating preferences, Canada has been excluded from the market for Italy's top three agri-food and seafood imports – pork, cigars and cigarettes, and cheese and curd. Canada's top exports currently are wheat, legumes and raw hides. Growth commodities include seafood, pulses, organic products and furskins.

1. Overview of Italy

Italy is a highly industrialized country with large regional variations in climate, tastes and economic circumstances. The North, consisting of 40 per cent of the population has an average per capita income of \$23,000 (USD), while the South, also with 40 per cent of the population, has an average income of only \$12,000 (USD). Despite these differences, Italians as a whole are interested in high-quality, fresh, and traditional foods. A net agri-food and seafood importer, Italians are second only to the Portuguese for per capita expenditure on food products.

The current population growth rate is effectively stagnant with only immigration offsetting a birth rate that is below the natural replacement rate. Future projections indicate that the population will decline by one million over the next decade. Economically, projections for Italy's real GDP growth of 2.4 per cent in 2004 indicate that it will be on par with the euro zone but below the OECD average.¹

¹ *OECD Economic Outlook*, No. 73, June 2003.

Italy, a founding member of the European Union, has reaped large benefits from its membership and has been instrumental in its development. As a mandatory requirement of its entry, Italy has adopted the Common Agricultural Policy, an EU-wide policy of tariffs, quotas, subsidies and regulations. These regulations are usually stricter than North American standards and have been used to, among others, reject imports of beef treated with growth hormones.

2. Domestic Agricultural Environment

EU agricultural directives are mandatory across the regions but individual countries have the license to strengthen those regulations domestically. For Italy, the importation of grains may become tougher in the coming years, as the Italian Agriculture Minister has announced that Italy intends to have stronger rules on the presence of genetically-modified material than the EU. Whereas the rules proposed by the EU indicate that seeds could have a maximum of between 0.3 and 0.7 per cent trace GM material in grains, Italy intends to have standards that would be less than 0.1 per cent for seeds used in conventional farming. Seeds deemed organic would similarly have stronger requirements than the EU's organic level. This proposal would increase barriers to entry for foreign seeds.²

Italy's real GDP growth is average for the European region. Population levels are falling as the population in 2010 is expected to be 56.5 million, down from 57.5 million inhabitants in 2000.³ Moreover, Italy's income elasticity of food, at 0.320, is consistent with other European countries.⁴ Income elasticity of food measures the responsiveness of changes in income to changes in the value of food purchased. A value of 0.320 indicates that for every 10 per cent increase in income, expenditures on food should increase by 3.2 per cent. It is evident, therefore, that agri-food and seafood trade with Italy will not increase based solely on projected demographic or economic indicators.

² Agra-Europe Weekly, October 10, 2003.

³ Source: United Nations Population Division

⁴ Source: Economic Research Service of the USDA

3. Trade Profile

International Perspective

Despite this somewhat bleak demographic outlook for the growth of the overall market, the development and composition of Italian tastes and preferences are changing. Like North Americans, Italians, especially in the North, are demanding a wider variety of pre-packaged and high-value convenience foods. This trend is characterized by the still low but growing prevalence and use of microwaves in the household.

Surprisingly, Italy is a net importer of agri-food and seafood products with imports exceeding exports by more than 40 per cent. Italy's agri-food and seafood export performance has done quite well with gains over 36 per cent between 1996 and 2002, especially considering lacklustre pan-European economic performance over this period.

Italy's main exports are displayed in table 1. Its leading agri-food and seafood export is beverages. Wine composed nearly 70 per cent of the beverages exported with a value of almost €2.8 billion in 2002. Wine has also become more prominent in the overall share of exports by increases in both quantity and price. Quantities of non-sparkling wine (i.e., table and fortified wines) exported by Italy increased 45.2 per cent between 1996 and 2002. The average unit value exported increased at approximately double the national rate of inflation.⁵

	1996 Value	Share		2002 Value	Share	Change (%)
OVERALL	13,889.3	100.0		18,925.0	100.0	36.26
Beverages and spirits	2,399.2	17.3	Beverages and spirits	3,960.8	20.9	65.09
Edible fruits and nuts	1,755.9	12.6	Prep. cereal, flour, milk	2,192.6	11.6	38.47
Prep. cereal, flour, milk	1,583.5	11.4	Edible fruits and nuts	2,104.1	11.1	19.83
Prep. fruits, vegetables and nuts	1,396.1	10.1	Prep. fruits, vegetables and nuts	1,889.4	10.0	35.34
Animal and vegetable oils & fats	890.3	6.4	Dairy, eggs and honey	1,074.7	5.7	42.89

⁵ Source: World Trade Atlas and IMF Statistics

Edible veg. & roots	756.0	5.4	Animal and vegetable oils & fats	1,056.9	5.6	18.71
Dairy, eggs and honey	752.2	5.4	Meat & edible offal	951.3	5.0	38.44
Meat & edible offal	687.2	5.0	Edible veg. & roots	876.7	4.6	15.96
Cocoa and preparations	443.8	3.2	Misc. edible preparations	784.8	4.2	84.29
Misc. edible preparations	425.9	3.1	Live trees, plants, bulbs	525.5	2.8	46.78

Source: World Trade Atlas. Note: Value is in millions of euros.

The export of prepared cereals, flour and milk was Italy's second-most export. Naturally, pasta was the main commodity accounting for a value in 2002 of €1.2 billion. Increasing 29.3 per cent over the period 1996-2002, the growth of this commodity was less than the growth of the overall market. New competitors such as Canada, which during the same period increased exports of pasta by over 320 per cent, and the United States, which increased exports by 79 per cent, may have reduced relative demand for Italian pasta.

Italy's agri-food and seafood import growth is considerably less than the export growth seen above for the same period. Table 2 shows Italy's main imports. Meat remains the country's leading import, a market worth more than €3.0 billion in 2002. Pork is the largest meat imported, worth €1.4 billion, followed by beef, worth €1.3 billion. Poultry, on the other hand, comprises a very small share; its imported value lies at only €49 million.

Surprisingly, the prominence of dairy, eggs and honey is composed primarily by the import of cheese from Germany. The overall sector, however, has seen only very small nominal gains between 1996 and 2002. The increased demand for fish and seafood was evenly divided amongst almost all product classes. As for beverages, the largest gains were seen in the import of beer and wine.

	1996 Value	Share		2002 Value	Share	Change (%)
OVERALL	22,404.6	100.0		26,590.0	100.0	18.68
Meat & edible offal	2,759.9	12.3	Meat & edible offal	3,084.9	11.6	11.77
Dairy, eggs and honey	2,390.3	10.7	Dairy, eggs and honey	2,461.8	9.3	2.99
Fish and crustaceans	1,669.9	7.5	Fish and crustaceans	2,397.6	9.0	43.58

Cereals	1,523.4	6.8	Animal and vegetable oils & fats	1,706.4	6.4	22.00
Animal and vegetable oils & fats	1,398.7	6.2	Tobacco and substitutes	1,535.5	5.8	46.66
Live animals	1,177.1	5.3	Edible fruits and nuts	1,474.2	5.5	39.69
Food residue and waste	1,096.5	4.9	Cereals	1,464.1	5.5	-3.90
Edible fruits and nuts	1,055.4	4.7	Live animals	1,353.1	5.1	14.95
Tobacco and substitutes	1,047.0	4.7	Food residue and waste	1,208.6	4.6	10.22
Raw hides & skins, bovine or equine	845.8	3.8	Beverages and spirits	1,063.6	4.0	59.96

Source: World Trade Atlas. Note: Value is in millions of euros.

Most surprising, however, is the large increases in the amount of tobacco imported. Bucking the trend of almost all other industrialized countries, Italy's tobacco imports have increased by more than 46 per cent. The vast majority of imported tobacco is in the form of cigarettes; furthermore, approximately 95 per cent of those were for domestic consumption. While per capita consumption of cigarettes in Canada and the United States has declined significantly since 1970, in the order of 40 per cent, Italy has actually seen *increases* of 13 per cent per capita.⁶

	1996 Value	2002 Value	Growth (%)
Octopus, not fresh or live	82.1	207.9	153.2
Yogurt	40.2	90.5	125.3
Prepared fish and caviar	280.8	538.9	91.9
Frozen beef	77.0	127.2	65.8
Frozen vegetables	90.1	147.1	63.2

Source: World Trade Atlas. Note: Value is in millions of euros.

Displayed in table 3 above are selected imports that have had significant growth over the six-year period. The expansion of the import seafood market is huge, especially prepared seafood. Furthermore, many items above are also high-value and processed goods. Generally, these are sources to which exporters like to target for trade expansion. Italy, however, still remains a nation that imports raw materials and exports finished goods. In 2002, Italy's imports

⁶ Source: World Health Organization

were 67.3 per cent non-bulk while its exports were 87.7 per cent non-bulk.⁷

Canadian Perspective

Between 1996 and 2002, Canadian agri-food and seafood exporters have not had as great a success as other international competitors. Overall agri-food and seafood imports from Canada increased only 9.3 per cent compared to the Italian import demand growth of 18.7 per cent.

Table 4 lists Canada's top exports to Italy. The two top commodities, wheat and legumes, are exports that Canada ships around the world and are primarily directed to developing countries.

The following three products exported are all either luxury goods or are used in the production of high-end retail products. Not only do these goods have a high relative value, their growth as exports to Italy is quite large. For example, Canada's exports of crustaceans to Italy are more than three-quarters composed of fresh lobsters. The commodity class has performed well, although the price at which Canada exports lobsters to Italy is below that of other countries. The exported price per kilogram of fresh lobsters in 2002 to the US is \$17.23, to France is \$19.60, and to Japan is \$20.68 while to Italy it is \$16.91, below the global average of Canadian exports of this product.

	1996 Value	Share		2002 Value	Share	Change (%)
OVERALL	144.8	100.0		158.3	100.0	9.3
Wheat and meslin	79.9	55.2	Wheat and meslin	64.4	40.7	-19.4
Vegetables, legumes dried	18.3	12.6	Vegetables, legumes dried	23.4	14.8	27.9
Meat of horses and mules	7.5	5.2	Raw hides & skins, bovine & equine	12.5	7.9	88.3
Raw furskins	7.3	5.0	Crustaceans	9.3	5.9	57.6
Crustaceans	5.9	4.1	Raw furskins	9.0	5.7	23.3

Source: World Trade Atlas. Value is in millions of euros.

The export of raw furskins to Italy has followed a worldwide trend in the increasing use of fur in fashion design. Specifically, growth after 1996-1997 to the present has reclaimed some market demand that was lost in the 1980s due to a global campaign against the use of fur.⁸

⁷ Source: Global Trade Atlas

⁸ International Fur Trade Association

The early 1990s saw the threat of an import ban of furskins by the European Union of the three other major fur producing regions: Canada, the United States and the Russian Federation. The EU had serious concerns about animal welfare in Canada's trapping methods. With an import ban looming, though breaching WTO rules, Canada and the Russian Federation signed an agreement in December 1997 that would phase out the use of scientifically-proved trapping methods that did not meet minimum animal welfare standards and would parallel the EU's internal regulations.⁹ The United States signed a similar agreement a few months later that was not as onerous as Canada's and Russia's. These agreements have, at least for the mean time, secured market access for Canadian exports of fur products.

Canadian exports of raw hides, usually to be made into leather products, have also had significant increases. Shipments of these to Italy have not been directly affected by Canada's BSE outbreak in May, 2003, although because the beef market in Canada has been depressed, fewer cattle are being slaughtered and thereby fewer hides are being produced. Raw hide exports to Italy in July and August of 2003 are significantly below the previous three-year average for the same time period.¹⁰

4. International Competitors

As seen in table 5, Italy is very dependent on intra-EU trade for its agri-food and seafood imports. Overall, other EU members supply approximately 69 per cent of Italy's agri-food and seafood imports, which is actually lower than for many other EU countries.

The United States has lost considerable market share over the period, providing 2.8 per cent of Italy's import demand in 2002, down from 3.5 per cent in 1996. Moreover, the Asian region as a whole has seen falling market share for its goods in Italy, as the share has dropped to 6.5 per cent in 2002 from 7.4 per cent in 1996.

	1996	2002
France	19.2%	15.9%
Germany	12.8%	14.0%
Netherlands	13.0%	11.9%
Spain	6.4%	9.8%
Belgium	3.6%	3.9%

Source: World Trade Atlas

⁹ Department of Foreign Affairs and International Trade

¹⁰ Source: CATS

Smaller regions that have made significant inroads into the Italian economy are displayed in table 6. The greater appearance of Russian goods in the Italian market is paralleled by the fact that Italy has become Russia's number one agri-food and seafood export market. Part of this is the turn-around in the Russian agricultural sector. In 1999, Russia was seeking massive food aid from the United States.

Just a few years later, Russian producers had bumper crops, especially in grains, that have put increased pressure on traditional exporters to Italy.¹¹

	1996	2002
Argentina	2.0%	3.1%
Russia	0.7%	1.2%
Ecuador	0.6%	1.1%
Serbia & Montenegro	0.2%	0.6%
Canada	0.7%	0.6%

Source: World Trade Atlas

The peace reached in the Balkans has stabilized the region and thus promoted better trade. Italy and Serbia & Montenegro are relatively close geographically with only the Adriatic Sea dividing them. Trade between the two countries is focused primarily on sugar beet exports. Argentina, meanwhile, has increased trade with Italy while its overall agri-food exports have stayed relatively constant. Most of the overall increased value can be attributed to high export levels of soybean residue. Canada, on the other hand, has lost market share in trade with Italy. This is consistent with Canada's overall declining presence in the European market, as Canadian agri-food and seafood imports accounted for 2.2 per cent of total EU imports in 1997 but only 1.8 per cent in 2002.

As discussed earlier, some of Italy's main agri-food and seafood imports are pork, wheat and meslin, cigars and cigarettes, and cheese and curd. Disaggregating the specific commodities by country of origin can help to identify market opportunities. The results are displayed in table 7. Italy is Canada's largest market in Europe after the United Kingdom for wheat exports.

¹¹ Canadian Wheat Board

Table 7 LEADING IMPORTS BY COUNTRY OF ORIGIN							
Pork		Cigars & Cigarettes		Cheese & Curd		Wheat & Meslin	
Country	Share	Country	Share	Country	Share	Country	Share
Germany	23.4	Netherlands	68.2	Germany	50.0	France	19.8
Netherlands	21.8	Germany	18.0	France	13.2	Russia	18.7
France	17.2	Belgium	10.7	Netherlands	9.1	US	15.0
Denmark	15.4	Spain	1.3	Belgium	7.9	Australia	7.2
Belgium	7.5	Austria	0.7	Switzerland	7.6	Germany	6.6
Canada	0.0	Canada	0.0	Canada	0.0	Canada	5.8
Total imp.	€1,447.8		€1,351.4		€1,125.9		€1,116.4

Source: World Trade Atlas for year 2002

Much like overall trade, the large countries of the European Union dominate trade in the most valuable Italian import commodities. Of pork, cigars and cigarettes, and cheese and curd, Canada has no presence in the Italian market for any of these products. Canada's pork exports to the entire European Union amounted to less than half of a million dollars in 2002, while the United States' value is approximately \$23 million (CDN) of a total US pork export market of over \$1.8 billion (CDN). This lack of market access stems from import requirements of the European Union that stipulate that all meat imported must never have been treated with growth hormones. This issue, among others related to animal and plant technologies, have and are causing serious trade disputes between North America and the EU.

Like pork, Canada's exports of cheese and curd to Italy were zero in 2002. On the other hand, Canada's exports of cheese to the entire EU totalled more than \$30 million (CDN). Part of this is certainly due to perceived quality differences between European and North American cheeses and Canadian supply management policies. Italy is a large producer of cheese, making more than one million tonnes in 2001, compared to Canada's 344,000 tonnes. Italy, however, exports approximately 16 per cent of its stocks while Canada exports less than half that. Although much of its exports are directed to the EU, Italy has done a much better job at creating an international market for its cheeses than has Canada.¹²

Canadian exports of cigars and cigarettes were similarly non-existent in 2002, with the entire EU importing less than half of a million dollars in Canadian cigars and cigarettes. The lack of Canadian exports can be explained by the prohibitive tariff implemented by the EU at 57.6 per cent. Canada's duty on EU imports is only 12.5 per

¹² Source: FAO Statistics

cent. Unlike American products, such as Marlboro, Canadian cigarettes do not have large international brand appeal that could profitably compete in face of such a tariff.¹³

5. Market Structure

Domestic Consumption and Imports

Although a prominent member of the European Union, Italy's agri-food trade patterns are quite different from those of the EU. In some areas, Italy's domestic production is better able to meet the domestic demand of its citizens over that of the EU (refer to table 8). Where Italy noticeably imports a sizeable quantity compared to domestic production is in the areas of fish, seafood, wheat and pulses. These are highly lucrative markets that should, at least for fish and seafood, see a large growth in imports.

Market Structure

Table 8 Imports to Domestic Consumption (%)		
	Italy	European Union
Wheat	72.4	35.1
Rice	19.2	88.0
Maize	5.3	26.3
Potatoes	37.7	23.7
Soybeans	52.8	109.0
Beef and veal	22.4	24.8
Swine	44.2	25.1
Pulses	78.8	43.7
Milk	37.6	29.7
Fish	89.1	122.1
Seafood (less fish)	62.4	86.5

Source: FAO Statistics for year 2001

The market structure of importing and retailing is quite open and competitive. Much like the division between North and South with respect to income, retail development is also stratified. Northern Italy, with its higher incomes, greater level of development and more robust economy, has a

highly developed retail sector with many supermarket chains. The South is still highly catered to by small mom-and-pop stores that are more hesitant to import a wide variety of foreign agri-food goods.

Whereas Canadian food expenditures are primarily focused on supermarkets, whose share of total food purchases is approximately 42 per cent, Italian purchases at similar stores account for only 29 per cent. A relatively large percentage – around 15 per cent – of total food consumption is purchased in mom-and-pop stores. Similarly,

¹³ European Union and Canada Customs and Revenue Agency

restaurants and fast food outlets account for 29 per cent. Many of these shops are independently owned and accessing these markets is much more difficult and labour-intensive than targeting a supermarket for product placement.¹⁴

Distribution of Goods

Non-European investment in the Italian retailing market is extremely scarce. The only foreign countries to have invested any considerable amount in Italian retailing chains are France, Germany, and Austria. Of the leading retailers, there is considerable competition, with the top 5 chains accounting for approximately 54 per cent of the total market.¹⁵ Supermarkets and hypermarkets, which now number approximately 7000, have started to break out of their traditional territories. A number of chains have started to compete in the South to tap the underdeveloped food retail market.

6. Opportunities for Canadian Exporters

One of the main growth areas that Canadian exporters can attempt to better penetrate is the Italian fish and seafood market. In 2002, Italian imports of seafood products stood at 777,147 tonnes while exports were only 120,156 tonnes. In value terms, Italy's seafood trade deficit stood at \$2.4 billion (USD) in 2002. Imports from outside the European Union should rise steadily in the foreseeable future for two reasons. First, this is primarily driven by changes in European catches. Declining seafood populations in the Mediterranean coupled with reduced effort (e.g., number of fishing days, number of vessels) have significantly reduced harvests for almost all species. For Italy alone, catches have dropped from 465,000 tonnes in 1998 to 338,518 tonnes in 2001. This is similar across other Mediterranean countries as well. Second, initial Italian resistance to the consumption of frozen and pre-packaged seafood products has gradually been reduced. Greater acceptance of convenience and prepared seafood products has followed large investments in television and in-store promotions. There is still a preference for fresh fish and seafood, but this is changing with tastes and demographics.

Italians currently consume 23 kg of seafood products annually, which should rise by around 5 per cent per capita over the next five years. Their consumption is quite sensitive to price changes. Coupled

¹⁴ *Italy: Retail Food Sector Report*, USDA (2002)

¹⁵ *Italy: Retail Food Sector Report*, USDA (2002)

with declining domestic and European production, there is significant room for foreign competitors to compete for this market as domestic frozen seafood producers have only the capacity to serve one-third of the total demand.¹⁶

The pulse, or legume, market is Canada's second largest export to Italy. Although only approximately 4 per cent of Canada's pulse exports are destined for Italy, Italy's primary source for dried legumes is Canada. Demand for pulse protein is increasing following a strengthening resistance over the use of genetically-modified soy protein. Italian production of pulses has increased in recent years, but is far below traditional levels and far below domestic demand. For further information of the Italian pulse market, refer to the Agri-Food Trade Service website (<http://ats.agr.ca/info/europe-e.htm#Italy>).

Unlike North America, the organic food market is highly developed and shows considerable growth. Over the next three years, sales of organic food are expected to reach \$7.3 billion and 3.3 per cent of Italy's entire food consumption. Facilitating this growth is the projected accessibility of these goods as 60 per cent of organic goods are expected to be sold in supermarkets by 2004.¹⁷

The Italian hotel and restaurant industry is smaller only to that of the United States. Hotels in Italy number 33,000 but only a small percentage, around two per cent, are international hotel chains. The growth of restaurants has been fuelled by the 141 per cent increase in the number of meals consumed outside the home in the past ten years. Much of this growth has been in North American-style restaurants and other foreign foods, such as sushi. Although not particularly healthy, as studies show that Italians are consuming fruits and vegetables less often, the evolution of the Italian diet is geared towards greater convenience and a perception that North American-style foods are trendier and easier.¹⁸ Canadian producers can capitalize on these shifted food preferences.

As with many primary agricultural products in the EU, future prospects for export opportunities are heavily reliant on the degree of market access, especially the level of tariffs. This is certainly true of tobacco and grains. Until such time that international negotiations

¹⁶ *Italy: Fishery Products Annual*, USDA (2003)

¹⁷ Agri-Food Trade Service

¹⁸ *HRI Food Service Sector Report: Italy*, USDA (2003).

agree to reduce trade-distorting tariffs, Canadian access to these markets will be limited.

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