



# **Agri-Food Past, Present & Future Report**

*Italy*

*June 2006*



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# ***Italy***

## **Past Present & Future Report June 2006**

### **Overview**

This southern European country has a population of nearly 58 million people, a GDP of US\$1.7 trillion (2005), and ranks as the world's 6<sup>th</sup> largest economy. Per capita, Italy's GDP is US\$30,000, which is comparable to Canada.

Known for its high style and gracious hospitality, Italy has one of the most dynamic economies in Europe. Southern regions of Italy rely on the economic contributions of agriculture, while the more industrialized North focuses on manufacturing and has a rich hospitality industry.

Currently, Italy's economic output is on par with EU partners France and the UK, but economic growth is predicted to develop at a slower rate than its other EU counterparts. A high national deficit budget and high debt are responsible for this low growth.

Beginning in 2005 and continuing through 2006, Italy will experience a moderate economic growth, although the budget will continue to exceed 100% of GDP and the limits outlined in the EU Stability and Growth Pact (SGP). However, anti-deficit measures proposed by the Italian government will seek to improve public finances by 2007.

Northern Italy has one of the highest incomes per capita in the entire EU. Main Italian markets include Rome, Milan, Naples and Turin, holding the largest population numbers and high tourist rates. Consumer confidence remains low, although the economy is expected to be fully on its way to recovery by 2007.

### **Canada – Italy Relations**

Canada and Italy share excellent bilateral relations. Italy ranks as Canada's 10<sup>th</sup> largest bilateral trading partner. In 2005, trade between the two countries was valued at \$6.5 billion. Given the size and purchasing power of the Italian economy, the Government of Canada devotes considerable efforts towards the promotion of bilateral trade.

Canada continues to invest in Italy's economy. Overall, Italians see Canada as an attractive business investment destination with over \$1.0 billion in Foreign Direct Investment (FDI) in 2003.

Partnerships between the two countries include explorations of joint project opportunities in third-world countries, as well as expansion of the Canada-European Trade and Investment Enhancement Agreement (TIEA) which continues to stimulate and build upon existing economic ties between European Union countries and Canada.

Canada has strong ties to Italy with a large Italo-Canadian population. Italian officials are keen to embrace this relationship and its cultural, social, economic and political implications.

Both countries are joint members of the North American Treaty Organization (NATO), the United Nations (UN), the Group of 8 (G8) and the Organization for Economic Development and Co-Operation (OECD).

<b>Canada-Italy Bilateral Trade (2005)</b>	
<b>Italy Total Trade</b>	<b>US\$748 billion</b>
Exports	US\$368 billion
Imports	US\$380 billion
Trade balance	(US\$12) billion
<b>Canada- Italy Trade</b>	<b>\$6.5 billion</b>
Exports	\$1.9 billion
Imports	\$4.6 billion
Trade balance	(\$2.7 billion)
<b>Canada- Italy Ag Trade</b>	<b>\$832 million</b>
Exports	\$272.5 million
Imports	\$560 million
Trade balance	(\$288 million)

- Italy is Canada's 10<sup>th</sup> largest trading partner.
- Bilateral trade between Canada and Italy reached \$6.5 billion in 2005.
- In 2005, top Canadian exports to Italy included: wood pulp (20%), nuclear reactors and machinery (12.5%), and cereals (9.5%).
- In 2005, top Italian exports to Canada included: nuclear reactors and machinery (25%), beverages and spirits (6%) and pharmaceutical products (5%).

- Italy typically maintains a positive trade balance in two-way trade.

### **Agricultural Trade**

Canada has a healthy agricultural trade relationship with Italy. In 2005, total bilateral agricultural trade reached \$832 million; while Canada imported \$560 million in Italian agricultural products, Italy imported \$272.5 million in Canadian agricultural products.

Italy consistently maintains a positive agricultural trade balance with Canada. Revenues from such products as wine and olive oil account for over 100% of Italy's trade surplus; while the positive trade balance for Italy stands at \$288 million, trade of olive oil and wine brought in \$301.5 million to Italian exporters at 17% and 36.7% of agri-food trade revenues respectively.

Prepared food imports are becoming increasingly popular in Italy. This is quite apparent in trade statistics for the past five years. In 2004, 2005 and the first months of 2006, food preparations were among the top five exports from Canada. Between 2001 and 2003, trade statistics showed no signs of growth in exports of food preparations from Canada.

Typical Italian importers are smaller scale businesses, usually small to medium sized, unlike larger supermarket chains found in northern Europe. These companies import on vastly smaller scales, and exporters can expect lower volume orders; however, these companies are more likely to deal with a reliable Canadian exporter. Price is also a key factor in their product choices. Most imports are received via air or by water directly through the Port of Rotterdam in the Netherlands.

- Total Canada/Italy agricultural trade was valued at over \$832 million in 2005.

- Top agricultural exports to Italy in 2005 were durum wheat valued at nearly \$123 million and accounting for 46% of agricultural exports, non-durum wheat valued at over \$56 million and 27% of agricultural exports, and food preparations valued at over \$26 million and 9% of agricultural exports.
- Food preparations are proving to be a promising market for Canadian agri-food exporters, as Italians are increasingly driven to prepared foods because of busier lifestyles. Many Italians are increasingly buying and using convenience oriented food preparation appliances.
- In 2005, top exports from Italy included: grape wines at \$205.5 million, virgin olive oil at \$60 million, refined olive oil at \$36 million, specialty cheese at \$32.6 million and uncooked pasta at \$27 million.
- Bulk exports to Italy totaled \$183 million in 2005 and included grains (\$182 million), oilseeds (\$1.1 million) and coffee, tea and spices (\$37 thousand). Intermediate exports to Italy totaled \$55.5 million in 2005. Top intermediate exports included edible vegetables (\$29 million), rawhides (\$11 million) and furskins (\$6.8 million). Consumer exports to Italy totaled \$32.7 million in 2005. Top exports included miscellaneous food preparations (\$24.7 million), edible meats and offal (\$3.3 million) and fruits and nuts (\$1.2 million).
- Bulk imports to Canada totaled \$15 million in 2005 and included coffee, tea and spices (\$12.3 million), bulk grains (\$1.8 million) and raw cotton (\$560 thousand). Intermediate imports to Canada totaled \$105 Million with top imports being animal and vegetable fat (\$98 million), gums and resins (\$4 million) and caseins and albumins (\$800 thousand). Consumer imports to Canada totaled \$440 million and included beverages (\$274 million), preparations of grains and pasta (\$52 million) and dairy products, eggs and honey (\$35 million).

<b>Canada's Top 5 Agricultural Exports to Italy (2005)</b>	
Wheat, durum	\$123 million
Wheat, non durum	\$56.1 million
Food preparations	\$24.6 million
Kidney beans, dried, shelled	\$11.6 million
Lentils, dried, shelled	\$11.1 million

*Complete statistical summary available:  
[http://www.ats.agr.gc.ca/stats/Italy\\_x\\_e.pdf](http://www.ats.agr.gc.ca/stats/Italy_x_e.pdf)*

## **Economy**

While economic growth has been essentially stagnant, Italy's total and per capita economic output is approximately the same as France and the UK and holds the position of world's 6<sup>th</sup> largest economy (after the USA, Japan, Germany, United Kingdom and France). Italy has experienced an economic slow down due to increasing deficit rooted in the 1980s. Economic troubles have opened the door to some interesting export opportunities for Canadian companies. Italian companies are

small and are in need of technological acquisition, and this is where larger, more technologically advanced Canadian companies can make large gains in this market.

Italy is divided into two sections: a highly industrialized prosperous north, and an economically dependent agricultural south. The population is split almost in half between these two regions; the north accounts for around 55% of the population, while the south accounts for 45% of the population.

The northern region is among the highest in income rates in the EU. The service industry accounts for Italy's largest sector with 69.1% share of the GDP and includes small and mid-sized companies that specialize in high quality goods and services.

Italy's exports are dominated by manufactured goods. Primarily manufactured in the northern regions of the country, these goods account for nearly 90% of exports. Small and medium sized companies who specialize in luxury and quality goods are the norm. Most of these companies employ a small number of employees, having fewer than 100 workers; in fact, the average firm employs only 7 workers.

Italy also has a large underground economy. It is estimated that as much as 27% of its GDP can be attributed to the underground market. Construction, services and agriculture are the largest underground industries in Italy.

Issues currently facing the economy include high unemployment and deficit. Italy faces a 20% overall unemployment rate, and has to import roughly 75% of its energy requirements, and almost all raw materials for industry. Tight fiscal policies have been implemented in the past decade to bring Italy back from economic hardship experienced in the 1980s. To date, a budgetary deficit of more than 3% remains. In 2005, the unemployment rate remained stagnant at 20%, and no economic growth occurred.

Currently, the grey market economy is an issue in Italy. It is estimated that as much as 27% of its GDP can be attributed to the underground market. Construction, services and agriculture are the largest underground industries in Italy.

Despite economic hurdles, forecasts of future growth are encouraging increases in investment and consumer spending, all promising signs of a rebounding economy. Governmental measures such as improvements to infrastructure, lowering the tax burden, monetary support for families to foster consumer spending, a crack down on tax evasion and business costs are helping Italy's economy to recover.

<b>Gross Domestic Product (2005)</b>	
GDP	US\$1.7 trillion
GDP growth	1.1%(2006e) 1.3%(2007e)
GDP/ capita	US\$29,400
GDP/ capita (PPP)	US\$28,760

**Current**

- Italy's GDP is US\$1.7 trillion; more than \$500 billion larger than the GDP of Canada's at \$1.1 trillion.
- Italian GDP per capita and Canadian GDP per capita are comparable at almost US\$30,000.

**Forecast:**

- Italian GDP is expected to see a 1.1% growth rate in 2006 and an even larger 1.3% growth rate in 2007, indicating an upturn in the economy.
- Italy is beginning to benefit from tight fiscal policies implemented by the Italian Government in order to combat sluggish economic growth. Lower

interest and inflation rates show promising signs of future economic growth and benefits.

## **Consumer Market**

Italy's population is aging rapidly. Italy was the first country in the world to report a greater population of the over-65 demographic than the under-15 demographic. Due to this aging population, products that are attractive to the older population are lucrative.

Overall, changing lifestyles are not modifying the general eating habits of most Italians. Because of busier lifestyles, Italians are more likely to visit supermarkets where they can buy a variety of fresh prepared foods such as washed salads and cleaned fish in one location, indicating a shift in shopping habits, not diet habits.

Fast food consumption is relatively low in Italy compared to other western European countries, and it is not uncommon for older Italians to have never visited a fast food restaurant in their lifetime. Fast foods are often eaten by students who make up about 11% of the population. Nationwide, supermarkets are becoming popular in northern Italy, southern Italians prefer traditional methods of shopping where frequent shopping trips are popular.

### General

- The Italian diet is seen as one of the healthiest in the world. It combines both continental and Mediterranean eating habits which include a balance of pasta, rice, bread, meats and fish, eggs, cheese and vegetables and fruit.
- Italians have a good, but limited, range of domestic fresh food due to their own agricultural production in the south.
- Fish and vegetables remain a staple in the Italian diet. Fish consumption is around 23kgs annually. 50% of fish is imported.
- A growing group of health conscious consumers are willing to pay a premium for quality foods.
- In the northern regions, around 20% of income is spent on foods, while the southern regions spend around 25% of their income on foods.
- American style foods are being exported to Italy in large quantities. However, these products are mainly consumed by the younger population, who are the minority.
- The ready made food market is ever-expanding with the focus on: healthy eating, a desire for increased convenience and product diversification.
- Italians are reluctant to spend their small food budgets on convenience foods, but more and more Italians are purchasing microwaves which is helping to promote the convenience food industry
- Italian food spending is, on average, only around 22% of household income. Italians eat three meals a day with two snacks, and tend not to graze throughout the day. Unlike other countries spending habits have changed very little over the past few years. Italians still prefer fresh foods.
- Breakfast consists of milk and coffee, biscuits, croissants, cereal, toast and yogurt. Lunch is the main meal of the day and about 62% of Italians eat lunch with first and second courses and a dessert. Dinner is often eaten with one's family.

## Retail

- Italy is beginning to cater to the “international” tastes of its over 1.5 million foreign residents with non-traditional foods and prepared foods becoming widely available.
- Well over 50% of Italy's large food retail outlets and malls reside in the country's Northern regions
- Southern Italy has far fewer retail outlets; Southern consumers tend to buy their foods from smaller, local shops.
- Large chain supermarkets are attractive to price conscious consumers.

## Hotel and Restaurant Industry

- Italy has the world's fourth largest tourist industry. 80 million people visit Italy each year.
- The hotel industry is based on smaller establishments rather than large international chains. Large international hotel chains only account for 2% of the market share.
- The Italian Hotel and Restaurant Industry (HRI) ranks only second to the USA's hotel and restaurant industry.
- In 2004, 60 billion EUROS were spent in the Italian HRI.

## Competitors

- Canada's main trade competitors come from other European Union nations due to both proximity and ease of trade barriers within this union.
- Among the EU countries, Germany is the largest trading partner, accounting for 18% of trade, followed by France with 11%, the Netherlands with 5.9%, Spain with 4.7%, Belgium with 4.5%, the UK with 4.3% and China with 4.1%.
- The importance of EU trade is illustrated in the agri-food trade category. France and Germany hold the top position of exporter of agri-food products to Italy.
- Major competition for agri-food imports comes from the domestic sector as the industry predominately relies on imports of commodities for processing.
- The major advantage of the domestic food-processing sector is its ability to easily and effectively create products that cater to cultural preferences at a lower price.
- The top ten food producers in Italy are responsible for over 35% of all sales in the food sector. Much of their raw materials used in processing need to be imported to satisfy their quotas of production.
- Italian food processors are seeking specialized ingredients such as whole grain flours and organic cereal products.
- Food processors are using an increasing amount of dried fruits and nuts in order to develop new products. The trade of raw agri-food materials shows the most promise to Canada's agri-food industry.

## Access Issues

Italy is a member of the European Union, and as such, tariffs and trade barriers fall in line with EU policy. Canadians wishing to export goods to Italy are encouraged to contact the Canadian Embassy in Italy for detailed information on Italian markets as well as EU trade policies.

Great differences in Northern Italy and Southern Italy economic channels and capacity make product distribution and product demand quite different within the more developed north and the less developed south.

Domestic regulations may make it harder for Canadian exporters to trade grains in the future as the Italian Agriculture Ministry has announced stronger regulations on genetically-modified materials [than the European Union currently holds]. Likewise, seeds labeled "organic" will come under tougher restrictions, which will increase barriers for foreign seeds.

Canadian exporters are encouraged to register with the **Virtual Trade Commissioner Service**, to gain easy access to Canada's embassies and posts abroad. Canadian exporters are also encouraged to use the services of Export Development Canada (EDC) and the Department of Foreign Affairs, both of which offer trade information and financial and risk management services to Canadian exporters.

- Canada and Italy are both members of the Canada-European Trade and Investment Enhancement Agreement (TIEA). This agreement is set between the member countries of the European Union and Canada to allow imports and exports flow with ease between the two regions.
- Italy is a member of the EU, World Trade Organization (WTO), the OECD the Organization for Security and Co-operation in Europe (OSCE) and NATO, so all restrictions governing these organizations/alliances apply to Italy in terms of imports and exports.
- Import duties into EU countries are subject to the respective import tariff plus a Value Added Tax (VAT) which varies according to individual EU countries. Currently, the VAT for Italy is 19%.
- Animal products coming into the EU must be from pre-approved establishments. These items include, but are not limited to: seafood, meat, and dairy products.
- Certain foodstuffs, colourings, animal products, plants, seed grains and alcohol are prohibited from entering EU countries. Contacting the Italian importer prior to shipment for confirmation that the product is acceptable for import is advisable.

#### Business Travel Tips

- The official language of Italy is Italian, although English and Provençal French are accepted, however most local businessmen and wholesalers often need interpreters.
- To enter Italy, Canadian citizens must hold a passport that will be valid for at least 6 months or more during the duration of the visit. Canadian Citizens are exempted from having to obtain a visa for stays in Italy of no longer than three months.
- During this three month period, you are unable to perform services or be paid by an Italy company. You may do research and act as a representative of your own company, however.
- To stay longer than three months, a long-term visa must be obtained; this visa will permit you to stay in Italy for up to one year. You must apply for this visa before leaving Canada. You will also need to obtain residency authorization as soon as possible (usually within 8 days of your arrival in Italy). This can be renewed one year at a time for up to three years, at which time you will be eligible for permanent residency status.



- Permanent work authorization is required to work either independently or as an employee in Italy.
- Italy is known for its gracious hospitality – refusal of this hospitality is seen as an insult.
- Since Italy is seen as a fashion Mecca, styles, both business and casual are very formal and elegant. In Italy, high style is a badge of success.

## **Agriculture Sector & Policies**

The Italian agricultural centre resides in the less industrialized south; although they are world renowned for their cuisine, Italy's agriculture sector is not self sufficient. Agriculture accounts for 2.1% of Italy's GDP, followed by industry at 28.8% and services at 69.1%. In fact, Italy has to import the majority of its agricultural products.

Italian agricultural products include fruits, vegetables, grapes, potatoes, sugar beets, soybeans, grain, olives as well as beef, dairy products and fish. One of Italy's highest agricultural exports is olive oil as well as other luxury products such as wines and pasta.

The agriculture industry is dominated by the southern regions of the country while the northern portion of the country is dedicated to the service and manufacturing industries. Because of the production in the south, many agriculture and agri-foods products that are not processed come from this region, including potatoes, soybeans, grains, olive oils and the like. Much of Italy's rich Mediterranean diet is supplied by this region. Italy is also beginning to face tough competition from Eastern European countries as well as Asia who will export goods for lower prices than Italy.

Italy's agricultural sector is governed by the policies set forth by the European Union. The EU has set quotas on many agricultural and agri-food products such as sugar and dairy production. The sector is also subject to the Common Agricultural Policy (CAP) which is a system of agricultural subsidies given out by the European Union. The CAP accounts for 44% of the total EU budget and is a direct payment to farmers for crops planted. Future reforms see the CAP being phased into a land stewardship by the year 2012.

### **General**

- Agricultural production is mainly centered in the southern region of the country.
- Main Italian agricultural products include: fruits, vegetables, grapes, potatoes, sugar beets, soybeans, grains, olives as well as agri-foods such as beef, dairy products and fish.
- EU expansion, national budget deficit and reduced subsidies and high quota penalties are shaping Italy's agriculture sector.
- Agriculture regulation has been decentralized and is now the responsibility of Italy's various regions and municipalities.
- The Ministry of Agricultural Resources still carries out regulation on stocks and food supply, agri-food product quality and safety, research and development, and market intervention.

### **Organic Production**

- The organic food industry has shown more growth than any other agricultural

- sector in Italy.
- 30% of organic foods in Europe are of Italian origin.
  - Organic food accounts for 2-3% of all agricultural production in Italy.
  - Consumer demand for organic foods in Italy increases every time a new food problem arises (BSE, herbicides, etc...)
  - Restaurants in northern Italy are especially known for using organic products
  - Chickens are now fed organic feed.
  - Consumers are more conscious about taste, genuineness and environmental factors when choosing foods, making organic foods a more attractive choice.

**Contact Information:**

For more information on Country please visit –

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