

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Italy

Food Processing Ingredients

Italian Food Processing Ingredients Sector

Approved By:

James Dever

Prepared By:

Dana Biasetti

Report Highlights:

The Italian food-processing industry is highly fragmented, and, in recent years, the sector has been characterized by the growing consolidation of smaller companies and by an increasing number of joint ventures. The 10 leading food-processing companies account for around 40% of sector sales. Growth in recent years has been strongest in the production of frozen foods, pasta and roasted coffee. A large proportion of raw materials have to be imported.

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Italian Food Processing and Ingredients Sector

Market Summary

Agriculture is one of Italy's primary industry sectors, accounting for around 3% of GDP. The most important products are grains, sugar beet, soybeans, meat and dairy products -- especially in the North of the country -- and fruit, vegetables, olive oil, wine and durum wheat in the South. Italy is the world's fifth-largest exporter of agri-food products.

Italy has a diversified industrial economy with roughly the same total and per capita output as France or the United Kingdom. Italian industries, including the food processing sector, rely heavily on imports of raw materials. Italy's major food and agricultural trading partners are EU Member States, with neighboring France and Germany each accounting for slightly less than a fifth of Italy's agricultural trade. Italy is one of the largest agricultural producers in the European Union (EU). Its major trading partners in food and agricultural products are EU member states, with neighboring France and Germany each accounting for roughly a fifth of Italy's trade. Italy's major exports consist of wine, olive oil, cheeses, and fruits and vegetables. Italian perception of the place and role of Italian food in the global marketplace ties into the issue of protected designations of origin, or geographic indications, which represent only a small fraction of the value of total food production yet loom large in Italy's national marketing of its food exports as 'high quality and Italian'.

Key Processed Food and Drink Industry Data, Italy 2010	
	2010
Total food and drink production (value)	€ 124.0 billion
Exports of processed food and drink	€ 20.9 billion
Imports of processed food and drink	€ 16.7 billion
Total food/drink consumption	€ 204 billion
Imports of raw food inputs	€ 10.7 billion
Number of food processors	6,300

Source: Federazione Italiana dell'Industria Alimentare

Italy's Main Food and Drink Production Industry:

Meat and poultry industry - 16%

Fruits and vegetable processing and preserving (a segment that includes olive-oil manufacturing) - 12.5%

Bread and baked goods - 10%
Alcoholic beverages - 9%
Chocolate and confectionery - 5.4%
Pasta and noodles - 4.5%
Soft drinks and mineral water - 3.7%
Fish processing - 3%
Coffee and tea production - 2.5%

Italian Agricultural Imports

Italy is a net importer of agricultural products. U.S. agricultural exports to Italy in 2010 totaled \$1 billion and agricultural imports from Italy totaled \$3 billion. The U.S. mainly imports from Italy processed food products and exports commodities. The EU remains Italy's most important trading partner with the top five suppliers being France, Germany, Spain, the Netherlands and Austria, while the main importers of Italy's goods, in addition to Germany and France, were the United States, followed by the UK and Spain. Wine dominates Italy's food exports, followed by pasta, virgin and extra-virgin olive oil, canned tomatoes, cheese, biscuits and baked goods. The United States is Italy's largest non-EU market. Due to its large food processing sector's need for inputs, Italy has become a net agricultural importing country.

The United States is, for Italy, primarily a supplier of high quality inputs for Italian food processing—wheat for pasta and confectionary, forest products for furniture and housing components, tree nuts for bakery products, seeds for planting, hides and skins, seafood for the restaurant sector, and tobacco. While consumer-ready products also do succeed in this market, the EU's system of making technical conclusions subordinate to political decisions has constrained trade for many U.S. products, but in particular, meats and products containing genetically modified ingredients.

Bilateral Ag Trade 2010 – Major Exports

U.S. Ag Exports to Italy \$1.0B

- Wheat: \$140 million
- Tree Nuts: \$140 million
- Crustaceans: \$67 million

U.S Ag Imports from Italy \$3.0B

- Wine: \$1,300 million
- Olive Oil: \$508 million
- Cheese: \$ 277 million

- Italy is a Major Food Processor and a Net Agricultural Importer
- U.S. exports mostly Bulk Commodities to Italy.
- Italy exports mainly Consumer Products to the U.S.

Italy depends heavily on imports for both processed and unprocessed fish and seafood, and the majority of imports come from other EU countries. In recent years fish processing, conservation and fish-based product production have declined partly because the Italian processing industry only utilizes a few species (anchovies, sardine and mackerel). The Italian canned tuna industry has drastically downsized as large companies have shifted their investments to countries with a

larger availability of raw material for processing. The reduction of tuna catches has also caused an increase in production costs forcing Italian businesses to become more dependent on imports. The result is that Italy, which used to be self sufficient in canned tuna production, now imports large quantities of fish from Spain. In 2009, the tuna industry imported more than 37,000 tons of tuna loins, and almost 16,600 tons of frozen tuna. The seafood processing sector in Italy is now mainly in preserves, and specifically tuna based preserves. The frozen fish industry in 2009 produced only 23 thousand tons of frozen fish products, 7% less than in 2008, worth just over \$135 million. In 2009 stagnating demand, dependence on foreign imports for the supply of raw materials and competitive foreign products has negatively influenced the sector.

Italian Agricultural Exports

As the export market drives the Italian food processing sector, the economic performance of the world market, and particularly the economic performance of Germany and other northern neighbors, heavily influences Italian business performance. Outside the EU, where Italy competes in global food markets, the weak dollar and strong euro have continued to exert pressure on Italian food export prospects. The notable exception is the United States where Italian wine sales continue to grow in spite of the 'expensive' euro.

Italian Food-Processing

The Italian food-processing industry is highly fragmented, and, in recent years, the sector has been characterized by the growing consolidation of smaller companies and by an increasing number of joint ventures. The 10 leading food-processing companies account for around 40% of sector sales, excluding exports. Growth in recent years has been strongest in the production of frozen foods, pasta and roasted coffee. A large proportion of raw materials have to be imported.

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Canned, Confectionery & Prepared Food

Italian consumers continue to prefer fresh products rather than canned ones. However, the most popular canned food products are fish and seafood (tuna in particular), meat and meat products, tomatoes and beans. Canned food sales in 2010 were 394,000 valued at \$1.4 billion. Chocolate dominates the Italian confectionery sector, accounting for nearly 70% of the total market.

However, per capita consumption is actually among the lowest in Europe and less than half that of the United Kingdom and Germany. Italian manufacturers in hopes of increasing demand have started to introduce new product ranges, aimed at particular market segments. Total confectionary sales in 2010 were 276,000 tons valued at \$3.2 billion. As Italian lifestyles have become busier, prepared ready-made meals are on the rise. Chilled ready meals have proven to be more successful than dried or frozen products, as they are perceived to be fresher and more natural.

Italian Food Consumption

Italy has a deeply rooted love and appreciation for food, with consumption in 2010 valued at \$152 billion (the highest per capita spending on food in the world). While Italian consumers still continue to demand premium and functional products regardless of the harsh economic environment, they are also becoming increasingly health conscious. Products emphasizing health or functional properties, such as those that lower cholesterol or are low in fat and sugar, are particularly successful due in part to governmental campaigns to increase awareness about the rising rate of obesity.

Changing demographics has created a need for more ready-made, ready-to-serve products and a wider range of products. Italian households still prefer fresh rather than frozen and frozen to canned food, as shopping frequency is greater in Italy than in many other European markets. Italians consume a significant amount of seafood, and they are increasingly demanding frozen, easy-to-prepare products. Demand for ethnic packaged foods has also increased due to the growing immigrant population.

Fish consumption in Italy is still below the EU average level. During the first six months of 2009 fish consumption has recorded an increase mainly due to a major demand for anchovies, trout and salmon. In 2009 household purchases of fishery products showed a reduction of 2.6%, due to a lower demand for fresh fish. According to industry estimates total demand in 2010 will decrease by 6%. Specifically, the demand for fresh fish will decrease by 6% while frozen fish will decrease by 5%. Per capita fish consumption in 2010 was 21 kilos.

Best Prospects for U.S. Agricultural and Fish Exports

U.S. bulk and intermediate commodities are used as ingredients or inputs for value-added Italian products that are then re-exported. North American high-quality durum wheat, for example, is used to produce pasta. Italy is the world's fifth largest importer of seafood products, with an estimated annual consumption of almost 20 kilograms of fish and seafood. Last year Italy imported \$77 million from the United States in seafood products.

Opportunities exist in the supply of fish, especially tuna, salmon, crab, surimi, roe, seafood for the canning industry, frozen fish fillets such as hake, cod and plaice to meet the demand for convenient, ready-to-prepare products, peeled and processed shrimp, squid, cuttlefish, octopus and lobster. Opportunities also exist for fruit berries, condiments, fruit juices, and tree nuts, all sectors that have seen growth in recent years.

Products not present because they face significant barriers

EU regulations impose significant trade barriers on the following products:

- Food additives not approved by the European Commission
- Red meat and meat products produced with hormones
- Most poultry and eggs
- Biotech products

<i>Advantages and Challenges for U.S. Exporters to Italy</i>	
Advantages	Challenges
Food consumption levels are among the highest in the world.	Competition from EU countries.
Italy is the third largest market in Europe for food and drink in terms of value, and there is a reliable affluent consumer base for such products.	U.S. exporters have significantly higher transportation costs and time lags than most other European countries, given the distance between Italy and the United States.
The current dollar-euro exchange rate makes U.S. exports inexpensive compared to other Euro-zone exports.	Non-tariff barriers such as phyto-sanitary restrictions and traceability requirements hinder U.S. exports.
Italy is highly dependent on raw imports for its processed food industry, particularly wheat and other cereals.	U.S. exporters new to the Italian market may find the Italian bureaucracy difficult to maneuver.
EU expansion creates new market opportunities for Italian food and drink exports, for which the Italian food processing industry will need additional ingredient inputs.	Biotech products are prohibited in Italy.
Lifestyle changes have increased demand for processed, convenient foods.	U.S. exporters face stiff competition from other EU countries that export to Italy tariff-free.

Sector Trends & Competition

The majority of Italian firms engaging in foreign direct investment (FDI) choose to invest in Eastern European countries, particularly Romania, Bulgaria, and Poland where production and labor costs are cheaper. Products with medical benefits, diet qualities, and easy-to-prepare are growing in popularity.

Italy imports mainly from other EU countries, particularly France, Germany, Spain, and the

Netherlands. U.S. exporters will have difficulty competing against their EU counterparts in high-tariff sectors. Nevertheless, the United States is the ninth largest exporter of agricultural products to Italy. U.S. exporters of wheat and meslin (ingredients often used in the Italian baking industry) are in a favorable competitive position. Cereals also do very well in the Italian market.

Road Map for Market Entry

Italian Importers and Retailers

Italian importers are usually small to medium-sized companies, rather than the large, market-dominating types found in northern Europe. Consequently, these companies import smaller volumes and a broader range than their much larger European counterparts. Most imported food products enter the Italian market through brokers or specialized traders. Price is always important, although quality and novelty alone do move some imported products. Imported products from North America often enter Italy indirectly from the Netherlands' Port of Rotterdam, or directly by air. Processed food is primarily distributed through retail grocers, convenience stores and discount grocers. Italian retail chain outlets have started to make their own purchasing decisions.

Continuing tendencies toward smaller families, later marriages, and an increasing number of women in the workforce are resulting in food retail outlets offering more ready-made, ready-to-serve products and a wider range of products. Italian households still prefer fresh rather than frozen and frozen to canned food, as shopping frequency is greater in Italy than in many other European markets.

Italian food retailing is still very fragmented and dominated by a high number of small to medium-sized outlets. Most of the supermarkets, hypermarkets, and large shopping malls are mainly located in the North of Italy, while the south continues to lag behind with fewer retail outlets and a still underdeveloped distribution network. Large retailers have started to source products from buying groups who can ensure better deals with suppliers, while some large food retailers have decided to join buying groups to increase their leverage when dealing with suppliers. Although buying groups are largely the precinct of large chain food retailers, independent retailers have started to understand their value. A number of large multinational retailers have either merged or made acquisition agreements with local Italian players, in order to assimilate know-how and avoid fairly strict Italian regulations.

Discount retailers are slowly emerging in the Italian market, but have had to modify their market approach by catering to Italian consumer preferences. Hard discounting in the past has proven not to work in Italy but by modifying their image and offering a mix of branded and private label products they seem to have made inroads with the Italian consumer. Private label products have also seen a surge in acceptance by Italian consumers. Each retailer has begun to offer a variety of private label food products, targeting different types of consumers, especially in the organic or typical regional categories.

Private Labels

Italian consumers have been slower than other European nations to accept private label food and drink products, preferring brand name goods. However, due to rising food prices and a stagnant economy, Italians are starting to move away from branded products in favor of private labels. In general, Italians are willing to pay the price for quality ingredients and branded products, which can partly explain Italian consumer's reluctance to embrace private label products. Currently brand

name producers dominate the market for staple products, such as milk and pasta; however, this may soon change especially at a time when consumers are feeling the crunch of rising food prices.

Top producers of packaged foods in Italy			
Producer	Product Categories	Comments	End-Use Channels
Cargill SRL	Grains, oil seeds, sweeteners	Major global ingredient supplier for food processors	Retail, HRI
Kraft Foods, Inc.	Snacks, beverages, cheese, convenient meals	Kraft Foods Inc. is the world's second largest food producer.	Retail, HRI
Barilla Holding SpA	Bakery products (68% of sales), ice cream, snack bars, pasta, dried processed food, sauces, dressings and condiments	Italy accounted for €2.0 billion of total revenue in 2009. Barilla has 3.8% of the packaged food market in Italy. Barilla has the largest share of the global pasta market. The company is the fourth largest global manufacturer of bakery products in the world.	Retail, HRI
Unilever Group	Oils and fats	In 2010 Unilever had 3% of the packaged food market in Italy.	Retail, HRI
Consorzio del Prosciutto di Parma	Meats, cooked and cured	In 2009 Consorzio del Prosciutto di Parma had 2.8% of the packaged food market in Italy.	Retail, HRI
Ferrero Group	Confectionery (71% of revenue in 2007), bakery products, dairy products, spreads	75% of sales are in Italy. Part of the Ferrero group is Ferrero Rocher, Kinder, and Nutella.	Retail, HRI
Nestlé SA	Snack foods, non-alcoholic drinks	In 2009 Nestlé had 2.4% of the packaged food market in Italy.	Retail, HRI
CERPL - Consorzio Emiliano Romagnolo Produttore Latte	Dairy products	In 2009 CERPL had 2.2% of the packaged food market in Italy.	Retail, HRI
Lactalis Groupe	Dairy products	In 2009 Lactalis had 2.1% of the packaged food market in Italy.	Retail, HRI
Parmalat Group	Dairy products (94% of revenue), bakery products, oils and fats, sauces, dressings and	Italy accounts for about one-third of total revenue. Parmalat is the seventh largest global dairy producer.	Retail, HRI

	condiments, spreads		
Perfetti Van Melle Group	Candy, gum	Including Mentos, Vivident, and Smint.	Retail, HRI
Campari Milano SpA	Spirits, wines, soft drinks	Currently ranked 6 th in the global beverages industry	Retail, HRI
Danone, Groupe	Dairy products, bottled water, baby food	Danone is one of the largest global dairy producers.	Retail, HRI
Finpesca	Fresh and processed fish and seafood	Also imports fish for processing, currently from France, Spain, Greece, Norway, the UK, and Denmark	Retail, HRI
Sources: Euromonitor			

FAS GAIN Reports

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USDA FAS Contacts in Rome, Italy

**Office of Agricultural Affairs,
American Embassy, Via Veneto 119a
Rome, 00187, Italy**

Webpage: <http://Italy.usembassy.gov/agtrade.html>
E-mail: agrome@fas.usda.gov
Tel: (011) (39) 06 4674 2396
Fax: (011) (39) 06 4788 7008

Jim Dever, Agricultural Counselor

E-mail: James.Dever@fas.usda.gov

Dana Biasetti, Senior Agricultural Specialist

E-mail: Dana.Biasetti@fas.usda.gov