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Italy

Export Promotion Programs Report

Annual

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Report Highlights: Italian food and beverage exporters have market promotion resources available to them from the EU, the Italian government, and from regional budgets. This report outlines the main institutions, programs and philosophies underlying the distribution of this support.

Includes PSD Changes: No
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GENERAL ECONOMIC DATA:

Italy is the world's sixth largest economy, with a GDP of almost $1.5 trillion, and average annual per capita income of over $25,000. This economy remains divided into a developed industrial north, dominated by private companies, and a less developed, welfare-dependent agricultural south, with 20% unemployment. Italy has a population of 58 million people who spend 20% of their disposable income on food. The population is aging and will shrink in coming years. While living longer, Italians are having fewer children and are marrying at a much later age. Also, contrary to trends across Europe, the majority of Italians continue to live in small cities and towns. Consumer price inflation has been around 2% per annum, but this has been accelerated by the conversion from the lira to Euro, and by the strength of the Euro against the dollar. Unemployment has remained stable at 9%.

ITALIAN AGRICULTURAL SECTOR AND INTERNATIONAL TRADE:

Italy is one of the largest agricultural producers in the European Union. 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. The US is Italy’s largest non-EU market. Italy's major exports are 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”.

On balance, Italy is a net importer of agricultural products. In 2004, Italy's annual imports were valued at $43 billion and exports were almost $30 billion. Italy relies on agricultural imports for food or fiber manufacturing, processing, or repackaging, and subsequent export as value-added, consumer-ready exports. With the major exception of wine grapes, and a few other products including tomatoes and buffalo milk for mozzarella, Italy's food industries turn out finished, consumer-ready products using raw products from non-Italian sources.

Because the export market drives the Italian food processing sector, world market conditions, and particularly the economic performance of Germany and other northern neighbors, heavily influence Italian business performance. Outside the EU, the weak dollar and strong Euro have continued to exert pressure on Italian food export prospects. The notable exception is the U.S. where Italian wine sales continue to grow in spite of the 'expensive' Euro.

The EU-25 supplied almost 70 percent of Italy's global food and forestry imports in 2004. Italy's exports of wine dominate its food export profile, followed by pasta and fruits and vegetables. Italy is Europe's largest producer of organic fruits and vegetables.

As previously mentioned, trade with the EU member states dominates Italian commercial activity in food and beverages. Yearly, about 65% of Italian food and agricultural exports globally are destined to EU partners. Horticultural products are significant in the mix. Italy’s foremost customers worldwide (by value) for food and beverages are Germany, followed by France, the United Kingdom, and the U.S. The government of Italy promotes food and wine in northern Europe and the rest of the world, by targeting consumer interest in high-value gourmet products, and selling an image of Italian regional specialties. Preliminary data for 2005 indicate growth in Italian wine exports - export volumes have grown by 9 percent, but value only by 2. The reason for this is much larger exports of table wines, both bottled and bulk, and reduced profit margins on the quality wines. Exports to the U.S. were stable in quantity, but declined in value. The Italian wine industry is very concerned about the growing price and quality competition on the world market from “new” wine producing countries, such as Australia, Chile, Argentina and South Africa. Imported wine was until recently a negligible element in the total Italian wine market, and usually comprised prestige products, such as Champagne, Port, and Sherry from other EU countries. Recently, however, imports have been rising rapidly, first because of available inexpensive Spanish bulk wines, which are blended domestically, and, second, starting in 2004, because of significant shipments of U.S. bulk wine, which is bottled locally and then re-exported to other EU countries.

ITALIAN – U.S. AGRICULTURAL TRADE:

In 2004, Italy imported $763 million of U.S. agricultural products. The U.S. share is approximately 3 percent of Italy's agricultural imports, including forestry products.

The United States is a supplier of high quality wheat for the pasta and confectionery industry, of fish and seafood, and a wide assortment of other foods. In 2005, major Italian imports of U.S. products were: wheat valued at $126 million (durum and bread wheat), forestry products valued at $177 million, tree nuts at $173 million, fishery and seafood products at $61 million; seeds for planting at $23 million; tobacco at $19 million and pet food at $14 million. U.S. products showing significant growth in 2005 compared to 2004 were tree nuts, wheat, and hides and skins. Italy is deficit in beef and pork. The U.S. is hampered by EU restrictions on U.S. exports of these meats, and so is limited to exports of horsemeat, wild boar, and game.

The wood sector and the pasta industry illustrate Italy's role as an importer of raw or semi-finished goods and an exporter of finished products. Italy's wood resources are meager, but it has a robust woodworking and furniture industry that was the main user in 2004 of $180 million of U.S. wood, most of which was manufactured and subsequently exported. Another example is pasta manufacturing. Italian farmers produce approximately 4 million metric tons of durum wheat annually and Italy imports another 2 million tons of durum, of which, in a typical year, 400,000 tons are of US origin, mostly for the manufacture of pasta. In terms of all types of wheat imports, the quantity varies annually but reached a record high of 7 million tons in the crop year 2003/2004. Worldwide, Italy exported $1.2 billion of pasta in 2004 (1,472,000 tons).

There are several other Italian exports of importance to U.S. suppliers, such as leather goods and textiles. U.S. exports to Italy of hides and skins (worth $50 million in 2004) became Italian shoes and leather goods; and U.S. exports of cotton totaling $25 million were used in the Italian textile industry.

ITALY'S FOREIGN MARKET DEVELOPMENT PROGRAMS:

Italy uses a patchwork of different sources to provide for its foreign market development programs. Some of them are co-funded by public money from various sources including the national budget, EU rural development funds, regional governments' and others. Programs funded with national and local budgets however have to be approved by the EU Commission for compliance with EU's internal market regulations. These programs include:

<u>The Italian Institute for Foreign Trade (ICE)</u>, also known as Italian Trade Commission, is the government agency entrusted with promoting trade, business opportunities and industrial co-operation between Italian and foreign companies. It operates through 100 branch offices in over 80 countries in the world. ICE, is an agency of the Ministry of Productive Activities. Funds used by ICE to promote Italian food and agricultural products, including wines, are provided by the Ministries of Productive Activities and Agriculture, as well as the 20 Italian regions, by some leading trade and farmer associations, many private companies, and cooperatives and consortia. The 2006 promotional plan of ICE was passed by Parliament as

part of the Budget Law. This budget cut expenditures in certain areas, but not in the food and agricultural sector. In general, ICE' s yearly expenditures for food and beverage promotion are about €30 million ($ 36 million) of which €4 million are from the budget of the Ministry of Productive Activities. The Ministry of Agriculture has so far allocated some € 5 million to be spent for the most valuable Italian food products, such as those having recognized appellation of origin and Geographic Indicators.

Trade promotion programs sponsored by ICE include:

1) SINCE (Italian Information System for Foreign Trade) an information system that provides instruments of analysis to Italian SMEs and institutional users to support companies with their decision-making process. This information service is provided in different ways and in various degrees of detail: statistical data, information on the economy and specific sectors, customs, fiscal, financial and currency regulations, and ad hoc market research. In addition, they have produced over 600 publications dealing with economic trends, country profiles, investment reports, country-risk analysis, and market sector publications.

The Public Promotion Program arranges activities including international fairs, missions of exporters, exhibitions, congresses, communications and other initiatives. Specifically, these programs are designed to improve the image of the 'Made in Italy' brand and promote industrial co-operation and foreign investments in Italy. The Public Promotional Program is also designed to provide institutional guidance and strategies for approaching foreign markets.

2) The Italian Institute for Foreign Trade assists Italian companies in gaining access to financing by international organizations and encourages joint-venture opportunities and industrial and technological partnerships with foreign companies. They also promote industrial co-operation through workshops and bilateral meetings, financial advice and specific seminars for companies operating in the services sector.

3) The Institute provides training activities on research, innovation, communication, and quality control with Italian regions and local government.

Buonitalia S.p.A. is the Italian Company created to provide promotion, image and international competitiveness for the Italian food sector. Buonitalia was established by the Ministry for Agricultural and Forestry Policies in July 2003, as a result of a partnership between ICE, Ismea (Institute for Agri-food Market Services), and Unioncamere (Union of the Italian Chambers of Commerce, Industry, the Crafts and Agriculture). The main operational interlocutors are the Ministry of Foreign Affairs, the Ministry for Productive Activities and those Italian Regions that signed an institutional agreement at the State-Region Conference in February 2005. Buonitalia is assigned the tasks of:

-Promoting, enhancing and making the Italian agricultural and food heritage known throughout the world by creating a system to coordinate promotional policies;
-Delivering services to agricultural and food companies to promote the competitiveness of Italian food products in international markets;
-Protecting Italian products through registration and international branding associated with original national products.

The relationship between the Ministry for Agricultural and Forestry Policies and the Regions under Buonitalia is regulated by an institutional agreement that defines programs that each must carry out in promoting the Italian agro-food system. The document states that Buonitalia shall organize the demand and delivery of services aimed at facilitating exports. This task is to be carried out by encouraging Italian farms, agro-food enterprises and their services to appear on the international stage. Regions are to promote the establishment of associations, especially in the processing industry, to streamline, unify and qualify the demand for services conducive to international promotion. Regions will also coordinate with local community bodies to ensure that the agro-food system works within the community and local culture.

Buonitalia interacts with companies mainly through so-called "Internationalization Contracts." The Internationalization Contract is aimed at establishing a stable presence for Italian food companies in strategic foreign markets. For each target market BuonItalia signs a contract with some 70-100 companies and provides all the services required for promotional actions such as logistics and transportation, insurance, hiring of local staff, etc. Detailed information on BuonItalia's budget for 2006 has not yet been made available. The company received about €50 million in November 2005 from the Government of Italy.

EU Rural Development initiatives in Italy, as in most EU member states, include funds for the promotion of EU protected geographic indications, organic productions and other similar programs. The EU allocated budget for promotion of Italian food products in the period 2000/2006 is €25.1 million. In addition, €42.2 million in national funding from regions and the Italian government were made available. Companies are required to co-fund programs so that the total value of funding in Italy is about €129 million. Regional governments bid for funds from the EU presenting strategic plans. A more accurate breakdown of promotional expenses will likely be available in the future.

EU directly-sponsored initiatives are those programs where the European Community contributes directly to financing measures that provide information on, or promotion of, EU agricultural products and food in the Internal Market, as well as in "third countries." There are two separate programs, one for the EU Internal Market and one for third countries.

The EU market programs consist of public relations, promotion and publicity. Also covered are participation at events and fairs, information campaigns on the EU system of protected geographical indications, information on EU quality and labeling systems and organic farming. The EU co-finances these measures by an amount not exceeding 50 percent; the remainder must be paid by the professional/inter-branch organizations that proposed them and by the concerned Member States.

Each year interested professional organizations must send their proposals to the designated member state authorities by November 30th. The designated authorities send on to the Commission the list of programs they have selected, and a copy of each proposal. Subsequently the Commission examines the program applications and decides which ones to co-finance.

Details of the Italian programs approved in 2005 are as follows:

Tab. 1. Programs approved by EU Commission – Promotion in EU countries

PROMOTION IN EU COUNTRIES 2005

PROF. ORGANIZATION	PRODUCT	DURATION	TOTAL BUDGET	EU CONTRIBUTION
		N. years	*euros*	*euros*
ASSOLATTE	MILK	2	300,000	150,000
CONS. GRANA PADANO	CHEESE	3	831,210	415,605
UNAVINI	WINE	3	2,671,890	1,335,945
UNALAT	MILK	3	3,730,000	1,865,000
CNO	OLIVE OIL	1	920,000	460,000
TOTAL			**8,453,100**	**4,226,550**

Extra-EU market programs are provided funding for public relations, promotion or publicity measures, particularly those that highlight the advantages of Community products in terms of quality, hygiene, food safety, nutrition, labeling, animal welfare or environment-friendliness. These measures can cover participation at trade exhibitions, events and fairs, and information campaigns on the Community system of protected geographical indicators. Information campaigns on the Community system of quality wines produced in specified regions (QWPSR) and studies of new markets are also amongst the possibilities.

The above measures are financed up to 50 percent by the EU, while the remaining financing must be covered by the organizations proposing them and by the Member States concerned. The EU can finance certain specific measures (information on EU quality and labeling systems, high-level visits) at 100 percent. Program proposals must be submitted no later than March 31st each year to the competent authorities of the Member States, which will send to the Commission the programs they have selected by the June 30th. Subsequently the Commission examines the programs and decides as to their eligibility by no later than November 30th. The annex to Commission Regulation 1346/2005 lists the third-country markets where promotion measures can currently be carried out and the products that can be covered by these promotion measures. Details of the Italian programs approved in 2005 are as follows:

Tab. 2. Programs approved by EU Commission – Promotion in extra-EU countries

REGULATON (EC) No 1346/2005: PROMOTION IN THIRD COUNTRIES 2005 - PROGRAMMES SELECTED
PROMOTION IN EU COUNTRIES 2005

PROF. ORGANIZATION	PRODUCT	DURATION *N. years*	TOTAL BUDGET *euros*	EU CONTRIBUTION *euros*
ISTITUTO VALORIZZAZIONE SALUMI ITALIANI	PREPARED MEAT	2	742,600	371,300
CONS. PROSCIUTTO DI PARMA	HAM	3	4,000,000	2,000,000
CONS. PARMIGIANO REGGIANO	CHEESE			
CONS. SPECK ALTO ADIGE	CHEESE	3	750,000	375,000
CONS. FORMAGGIO ASIAGO	HAM			
CONS. GRANA PADANO	CHEESE	2	1,236,000	618,000
CONS. SAN DANIELE	HAM			
FLORCONSORZI	PLANTS & FLOWERS	3	2,500,000	1,250,000

Other local food promotion initiatives include programs by national governments, local governments and other quasi-governmental institutions that may be granted public funds for the promotion of food products in EU and extra-EU markets. Such measures however are subject to the so-called “EU State aid” discipline. The basic principle is that any state aid for the agricultural sector must be compatible with the Community's common agricultural and rural development policies and with the Community's international obligations, in particular the WTO Agreement on Agriculture. Therefore Italy, as any other EU member state, has to notify the EU Commission whenever it intends to grant public funds (other than EU funds) for promotion or other activities. The Commission evaluates the proposed measures on the basis of a set of agreed guidelines and publishes a decision. In particular, promotion activities cannot be company specific, but they have to benefit all the companies of an area, such as farms that produce geographic indications, organic products, and the like.

In 2005 the EU Commission approved 57 Italian state aid programs (out of 585 in total EU wide); 5 of them are food promotion and advertising measures co-financed with public funds. They were as follows:

Numb.	Proponent	Description	Amount
45/2005	Autonomous Province of Bolzano	Creation of a registered quality mark for local companies; Promotion of geographic indications through advertising (TV and magazines) and participation at trade shows; Sharing of certification expenses.	3 million Euros Duration unlimited
49/2005	Tuscany Region	Creation of a quality mark for organic production of the area; Co-financing of promotion and communication expenses. ***Higher contribution for promotion on extra-EU markets***; Sharing of certification expenses.	12 million Euros Duration not decided
199/2005	Valle D'Aosta Region	Sharing of costs incurred for certification of EU registered geographic indications	n.a. Until 2011
259/2005	Italy – Ministry of Agriculture	Development of EU protected geographic indications, organic productions and similar in the country; Traceability; Controls.	4.3 million Euros in 2005
326/2005	Veneto Region	Sharing of expenses for foreign market research for cheese; Sharing of expenses for advertising campaign	1.57 million Euros in 2005 Duration 6 years

Although the examples above were approved in 2005, it is very likely that there are numerous similar initiatives currently operational that were approved in the past. Further details and a complete list of EU approved state aids can be found at: http://www.europa.eu.int/comm/agriculture/stateaid/decisions/list_en.htm

ITALY
Foreign Market Promotion Expenditures for Ag, Fishery and Forest Products, 2004

				Target Markets	
Currency Unit (Euro in Millions)	**Gov't**	**Industry**	**Total**	**U.S.**	**Other Cntys**
Agricultural Products	**12,0**	**12,0**	**24,0**	**6,0**	**18,0**
Fishery Products	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
Wood Products	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
AG/Fish/Wood TOTAL	**12,0**	**12,0**	**24,0**	**6,0**	**18,0**

				Target Markets	
Currency Unit (US $'s in Millions*)	**Gov't**	**Industry**	**Total**	**U.S.**	**Other Cntys**
Agricultural Products	**15,4**	**15,3**	**30,7**	**7,7**	**23,0**
Fishery Products	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
Wood Products	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
AG/Fish/Wood TOTAL	**15,4**	**15,3**	**30,7**	**7,7**	**23,0**

(*Exchange Rate: U.S. $1 = Euro 0.78113)