

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Italy

Food Processing Ingredients

2013 Italian Food Processing Ingredients Sector

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Report Highlights:

The Italian food-processing industry continues to be highly fragmented, and depends almost entirely on raw material imports, most of which come from other EU countries. Italian consumers continue to prefer fresh products rather than canned or frozen. In Italy, the 10 leading food-processing companies account for around 40% of sector sales, and growth areas include chilled ready meals, frozen pizza, soups, and healthy foods.

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Market Summary

Italy is the third-largest economy in the euro-zone, with an estimated GDP of \$1.863 trillion, and a per capita GDP of \$30,600. Agriculture is one of Italy's primary industry sectors, accounting for 32% of GDP. The most important products are grains, sugar beets, 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, cheese, 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'.

Italian Agricultural Imports

Italy is a net importer of agricultural products. In 2012, U.S. agricultural exports to Italy totaled \$922 million and agricultural imports from Italy totaled \$3.5 billion. The U.S. mainly imports processed food products from Italy and exports commodities to Italy. 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, are 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 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 for footwear, seafood for the restaurant sector, and tobacco for cigarettes. While consumer-ready products also do succeed in this market, there remain technical barriers to trade, particular for meats and products containing genetically modified ingredients, that hamper market access.

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.

Bilateral Ag Trade 2012

Total U.S. Exports to Italy: \$922 million

Tree Nuts: \$177 million
Wheat: \$137 million
Fish products \$80 million
Hides & Skins \$65 million
Red Meats \$64 million
Hardwood Lumber: \$55 million

Total U.S Imports from Italy: \$3.5 billion

Wine: \$1,536 million
Olive Oil: \$535 million
Cheese: \$291 million
Snack Foods \$128 million
Coffee \$70 million
Forest Products \$75 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.

Exchange Rate: EURO per U.S. Dollar

Average 2012: €0.777 = \$1.00

Source: European Central Bank

Italian Food-Processing

Like the Italian retail sector, the 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. Italy depends heavily on imports, most of which come from other EU countries. 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. In 2012, canned food sales reached \$2.5 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. 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.

In recent years fish processing, conserved and fish-based product production have declined partly because the Italian processing industry only utilizes a few species (anchovies, sardine, and mackerel). The seafood-processing sector in Italy is now mainly in preserves, and specifically tuna based preserves. 2012 frozen fish sales were €840 million.

Chilled Food Processers

Chilled processed food remains highly fragmented in Italy, as companies commonly focus on specific categories (for example processed meat). In 2012, sales of chilled processed food rose by 4% reaching €11.4 billion. In 2012, fresh cut fruits showed the highest value growth followed closely by chilled soup - both of which increased by more than 7%. Chilled processed food, as well as frozen food, continued to see healthy growth during the economic downturn. Chilled processed fish/seafood performed well in 2012, particularly chilled smoked fish, with smoked salmon driving the category.

Quality, convenience, and innovation have offset the impact of declining consumer disposable incomes and driven sales of chilled products, which are generally appreciated for their freshness,

typically low calorie content and health-related values. An increasing trend for natural ingredients and ingredients perceived to offer health benefits, together with convenience, has helped this sectors' growth. Chilled soup was the best performing category during 2012, followed by prepared salads and chilled fish and seafood. Prepared salads, developing along similar trends to fresh cut fruits, also performed well in 2012, benefitting from the ongoing trend for healthy, low-calorie and convenient food.

As in other packaged food categories, Private Labels saw a significant increase in share in 2012, due to advertising campaigns by major food retailers promoting their value-for-money products.

Private labels accounted for around 28% of total chilled processed food value sales in 2012, and have proven popular not only among price-oriented consumers but also among a wider consumer group, as such products have focused more on quality and convenience of use. Retail promotions were one of the key drivers of purchasing private label products.

Chilled food processors are mainly Italian manufacturers, with a few international groups playing a minor role. Chilled meat production in Italy is a highly competitive and well-developed sector, as ham production has a long tradition in Italy. Italian consumers seek traditional, domestically produced ham and meat products; however, there is growing competition from foreign cheaper imported products (mainly from South America and Eastern Europe).

Sales of Chilled Processed Food by Category: Volume 2009-2012 - '000 tones	2009	2010	2011	2012
Chilled Fish/Seafood	15.07	15.60	15.91	16.0
- Chilled Coated Fish/Seafood	3.26	3.34	3.30	3.3
- Chilled Processed Fish/Seafood	6.96	7.22	7.29	7.5
- Chilled Smoked Fish/Seafood	4.85	5.04	5.32	5.3
Chilled Lunch Kits	0.17	0.17	0.16	0.2
Chilled Pizza	6.73	6.82	6.51	6.5
Chilled Processed Meat	497.25	527.33	534.87	562.7
Chilled Ready Meals	21.99	22.84	23.54	25.1
Chilled Soup	2.03	2.11	2.23	2.4
Chilled/Fresh Pasta	144.41	152.00	153.02	153.5
Fresh Cut Fruits	1.26	1.37	1.41	1.4
Prepared Salads	86.55	90.44	97.41	97.9
Chilled Processed Food	775.46	818.69	835.07	865.7

Source: Euromonitor ISTAT, Industry, Media reports

Sales of Chilled Processed Food by Category: Value 2006-2012 - EUR million	2009	2010	2011	2012
Chilled Fish/Seafood	339.96	361.64	378.36	394.1
- Chilled Coated Fish/Seafood	55.40	57.31	58.08	57.4
- Chilled Processed Fish/Seafood	120.84	126.94	131.32	137.2
- Chilled Smoked Fish/Seafood	163.72	177.39	188.96	199.4
Chilled Lunch Kits	2.29	2.24	2.24	2.1
Chilled Pizza	44.44	44.51	44.00	43.3
Chilled Processed Meat	7,815.12	8,178.52	8,509.75	8,954.0
Chilled Ready Meals	220.34	230.36	241.71	259.2

Chilled Soup	12.15	12.89	14.14	15.1
Chilled/Fresh Pasta	743.71	791.68	823.74	838.6
Fresh Cut Fruits	13.04	13.84	14.60	15.9
Prepared Salads	734.30	780.19	836.91	860.6
Chilled Processed Food	9,925.34	10,415.89	10,865.45	11,382.9

Source: Euromonitor ISTAT, Industry, Media reports

Frozen Food Processors

The economic turndown slightly affected the Italian frozen food processors, and 2012 frozen processed food sales were €2.9 billion. Frozen food in Italy has gained popularity, as consumers are slowly realizing that frozen is also healthy (like fresh food), but much more practical and affordable. In 2012, per capita consumption of frozen food was 16 kilos, compared to the average for Western European countries of 23 kilos. The main consumer in Italy is young families who are concerned with convenience and affordability.

Frozen processed fish was by far the best performing category in 2012, followed by pizza, vegetables and ready meals. A growing niche market are frozen processed fruits, and frozen herbs (where basil and parsley are the best sellers). Supermarkets and hypermarkets continue to lead the frozen processed food distribution, while discounters are also attracting consumers by offering a wide range of good quality products at affordable prices. Frozen processed food producers are expected to invest large sums in new product development and the introduction of healthier products over the forecast period, in order to counteract the competition posed by cheaper private label products.

Sales of Frozen Processed Food by Category: Volume 2009-2012 - '000 tons	2009	2010	2011	2012
Frozen Bakery	6.45	6.37	6.20	7.3
Frozen Desserts	3.35	3.37	3.36	3.5
Frozen Meat Substitutes	0.31	0.31	0.31	0.3
Frozen Pizza	45.94	51.69	54.73	56.0
Frozen Processed Fish/Seafood	100.49	98.38	96.01	102.9
Frozen Processed Potatoes	67.66	69.91	69.42	67.7
- Non-Oven Frozen Potatoes	56.17	58.16	57.91	56.1
- Oven Baked Potato Chips	1.26	1.32	1.35	1.4
- Other Oven Baked Potato Products	10.24	10.43	10.16	10.2
Frozen Processed Poultry	7.72	7.87	7.95	8.6
Frozen Processed Red Meat	4.50	4.57	4.50	4.7
Frozen Processed Vegetables	222.32	228.66	226.66	236.3
Frozen Ready Meals	51.18	52.26	51.68	47.0
Frozen Soup	62.27	63.83	64.76	67.2
Other Frozen Processed Food	2.18	2.64	2.70	2.9
Frozen Processed Food	574.38	589.84	588.27	604.3

Source: Euromonitor ISTAT, Industry, Media reports

Sales of Frozen Processed Food by Category: Value 2009-2012 - EUR million	2009	2010	2011	2012

Frozen Bakery	26.23	25.67	25.52	29.6
Frozen Desserts	26.50	26.57	27.11	27.9
Frozen Meat Substitutes	4.09	4.17	4.29	4.7
Frozen Pizza	275.40	318.09	347.19	345.5
Frozen Processed Fish/Seafood	785.36	790.15	800.74	840.7
Frozen Processed Potatoes	139.23	143.13	146.03	144.2
- Non-Oven Frozen Potatoes	106.97	110.02	112.33	110.9
- Oven Baked Potato Chips	3.51	3.65	3.84	4.0
- Other Oven Baked Potato Products	28.76	29.46	29.86	29.3
Frozen Processed Poultry	60.27	60.99	62.86	68.6
Frozen Processed Red Meat	40.04	40.62	41.07	44.3
Frozen Processed Vegetables	764.91	791.30	807.52	841.3
Frozen Ready Meals	340.22	344.13	346.20	322.5
Frozen Soup	183.62	176.44	174.94	189.9
Other Frozen Processed Food	20.39	25.21	26.50	28.6
Frozen Processed Food	2,666.26	2,746.46	2,809.98	2,887.6

Source: Euromonitor ISTAT, Industry, Media reports

Dried Food Processers

Rising demand for healthier, lighter, and cheaper products was the main trend for the dried food processers in 2012, with sales at €2.5 billion. In addition, a large number of consumers are becoming increasingly interested in ethnic cooking, boosting demand for new innovative segments and flavors in the packaged food market. Supermarkets/hypermarkets accounted for 72% of dried processed food retail value sales in 2012. Hypermarkets, in particular, have a significant role in dried processed food sales, because of their substantial shelf space. These outlets performed well in 2012 thanks to greater consumer attention to lower prices. Small independent grocers and convenience stores are not perceived as the best places to purchase dried processed food, as they are more expensive and less suited to bulk purchases of commodity products like pasta and rice.

Demand for both healthy and easy-to-cook products is expected to increase over the forecast period, due to the increasingly hectic pace of modern life and rising consumer health awareness.

Sales of Dried Processed Food by Category: Volume 2009-2012 '000 tons	2009	2010	2011	2012
Dehydrated Soup	3.20	3.17	3.13	3.0
Dessert Mixes	6.34	6.61	6.66	5.8
Dried Pasta	1,410.15	1,322.02	1,242.07	1,222.2
Dried Ready Meals	11.02	10.88	10.65	11.0
Instant Noodles	0.15	0.16	0.16	0.2
- Cups/Bowl Instant Noodles	0.06	0.06	0.07	0.1
- Pouch Instant Noodles	0.09	0.10	0.10	0.1
Plain Noodles	0.27	0.29	0.31	0.3
Rice	192.28	186.89	179.17	171.6
Dried Processed Food	1,623.40	1,530.01	1,442.17	1,414.2

Source: Euromonitor ISTAT, Industry, Media reports

Sales of Dried Processed Food by Category: Value 2009-2012 EUR million	2009	2010	2011	2011	2012
Dehydrated Soup	37.83	37.15	36.95	36.95	36.1
Dessert Mixes	54.29	56.00	58.27	58.27	49.4
Dried Pasta	2,208.36	2,050.46	1,980.95	1,980.95	1,985.3
Dried Ready Meals	74.11	73.04	73.83	73.83	74.8
Instant Noodles	1.51	1.72	1.88	1.88	1.8
- Cups/Bowl Instant Noodles	0.57	0.69	0.78	0.78	0.7
- Pouch Instant Noodles	0.94	1.03	1.10	1.10	1.1
Plain Noodles	2.83	3.06	3.37	3.37	3.7
Rice	347.65	334.26	332.02	332.02	333.7
Dried Processed Food	2,726.57	2,555.69	2,487.26	2,487.26	2,484.8

Source: Euromonitor ISTAT, Industry, Media reports

Italian Food Consumption

Italy has a deeply rooted love and appreciation for food and wine. According to ISTAT, in 2012 Italian consumers spent €220 million on food and drink, of which €145 million on groceries and €75 million in the food service industry (restaurants, bars, take away). While Italian consumers 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 have created a need for 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.

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 \$80.5 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. Beef, cheese, poultry, and processed food products containing biotech ingredients are not present in the Italian market due to significant trade barriers.

Advantages and Challenges for U.S. Exporters to Italy	
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	U.S. exporters have significantly higher

food and drink in terms of value, and there is a reliable affluent consumer base for such products.	transportation costs and time lags than most other European countries, given the distance between Italy and the United States.
Lifestyle changes have increased demand for processed, convenient foods.	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.	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 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 do. 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 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.

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	End-Use Channels
Cargill SRL	Grains, oil seeds, sweeteners	Retail, HRI
Kraft Foods, Inc.	Snacks, beverages, cheese, convenient meals	Retail, HRI
Barilla Holding SpA	Bakery products, ice cream, snack bars, pasta, dried processed food, sauces, dressings and condiments	Retail, HRI
Unilever Group	Oils and fats	Retail, HRI
Consorzio del Prosciutto di Parma	Meats, cooked and cured	Retail, HRI
Ferrero Group	Confectionery, bakery products, dairy products, spreads	Retail, HRI
Nestlé SA	Snack foods, non-alcoholic drinks	Retail, HRI
Lactalis Groupe	Dairy products	Retail, HRI
Parmalat Group	Dairy products (94% of revenue), bakery products, oils and fats, sauces, dressings and condiments, spreads	Retail, HRI
Perfetti Van Melle Group	Candy, gum	Retail, HRI
Campari Milano SpA	Spirits, wines, soft drinks	Retail, HRI
Danone, Groupe	Dairy products, bottled water, baby food	Retail, HRI
Finpesca	Fresh and processed fish and seafood	Retail, HRI

Source: Euromonitor ISTAT, Industry, Media reports

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