

FOCUS ON

What Nurtures Italian Exports? Discovering the Opportunities of the Agrifood Value Chain

Produced by the
Economic Analysis
and Research

EXECUTIVE SUMMARY

- *Italian exports of food products and machinery for their transformation have grown at an increasing pace in the past year, with interesting prospects for future development.*
- *Half of the € 21 billion in food exports in 2015 consisted of three products: pasta, wine and cheese, and they outperformed some competitors, such as Germany and France, and the worldwide trend. Similar growth was registered for the specific machinery used to produce these three food categories, though the rate of growth was slower in this case.*
- *In a supply-chain approach, machinery and foods may be two sides of the same coin. The possibility of forming a system of these two areas of Italian production excellence opens new opportunities for pinpointing promising markets and a new road for expanding in foreign markets.*
- *Focusing on the six sectors of opportunity (pasta, wine, cheese, and pasta-, wine- and cheese-making machinery) and on four target markets (United States, China, India and Mexico), different in size but with high potential, € 400 million in additional exports could be obtained by 2019. The greatest potential for export is offered by the U.S. wine market.*

TWO SIDES OF THE SAME COIN: FOOD AND MACHINERY MADE IN ITALY

Italian exports of food products continue to grow, reaching € 21 billion in 2015. Our traditional foods have long been appreciated, that is nothing new, but their function as drivers of other sectors of excellence in the Italian production system is less known. One of these is machinery.

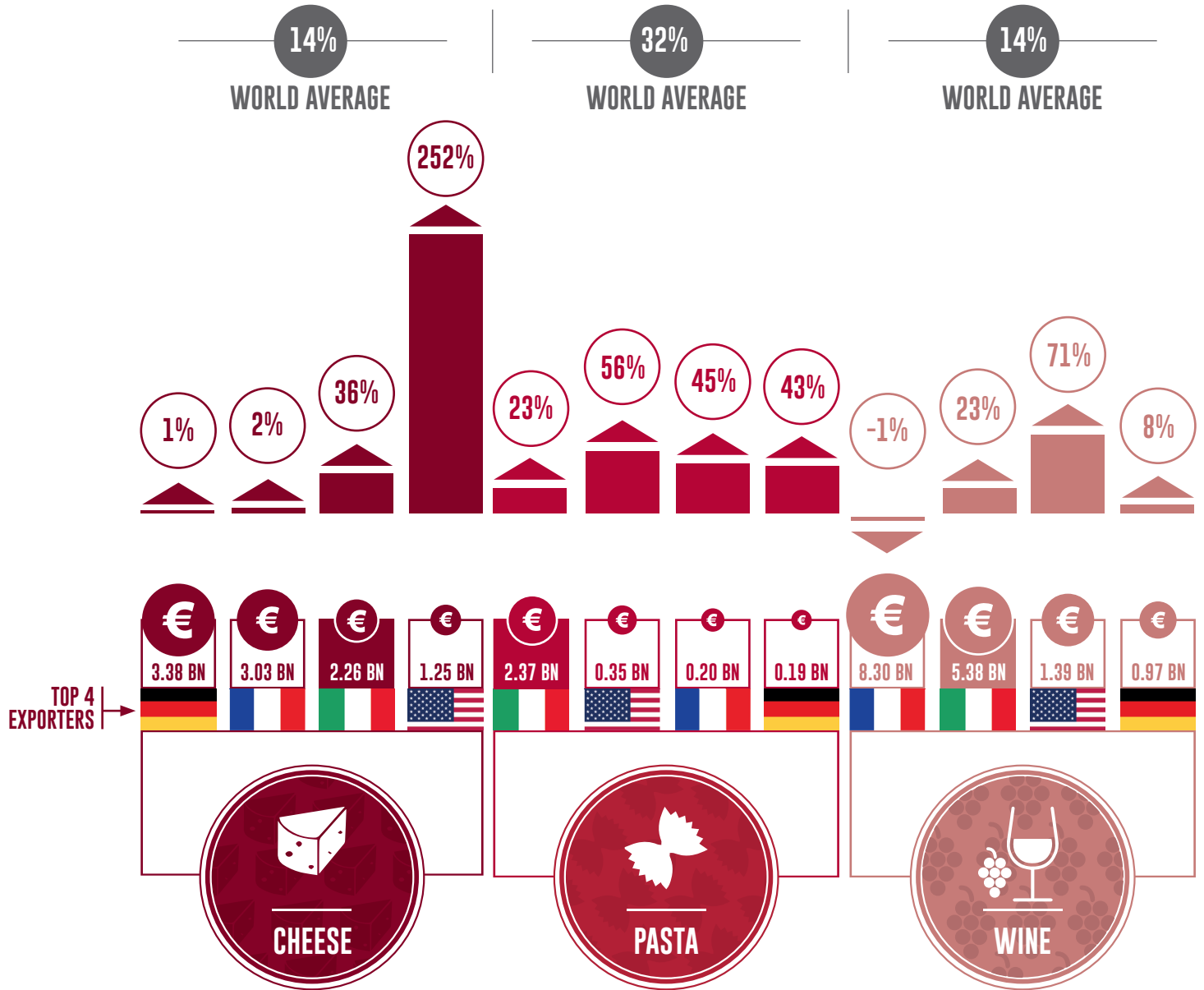
Linked to the sales of food are the sales of machinery for transforming foods, the other side of the coin less known to consumers. **Suffice it to say that in 2015 Italy exported over € 3 billion in machinery, with growth of 6.3%, closely paralleling the growth rate of the foods produced by them (+ 6.8%).** This is specific machinery with rather limited use, so it should be no surprise that it accounts for a modest share of the total Italian capital equipment sold worldwide (around 4%⁰¹). The machines for processing foods is also among those with the strongest growth: more than twice that of the total capital machinery exported last year (+ 2.7%).

PASTA, WINE AND CHEESE: WHAT'S ON THE TABLE...

Of the € 21 billion in food products exported in 2015, half concerned only three products: pasta, wine and cheese. The growth in export sales not only kept pace with world trends in recent years but even exceeded them in cheese and wine (Chart 1). These two categories performed better than our French and German competitors, which had slower growth, capturing a larger world market share. The United States is another story: sales of these products have climbed rapidly, gaining market share, but the values exported continue to be limited. One specific case is pasta, where Italy continues to be the world largest producer and exporter, outdistancing China, Turkey, Thailand and the U.S., which follow us in the top exporter ranking. The difference in our growth rates versus some of our competitors is attributable to growing interest in this food category and thus greater attraction for non-traditional producers. This trend and competition with the emerging economies also demonstrates the quest of consumers not only for pasta of higher quality, and thus higher-priced like Italy's, but also for more economical products.

⁰¹ For additional information on Italian and global trade of capital machinery worldwide, see: "RE-action - 2016-2019 Export Report", SACE, June 2016 and "Focus On: An Export Machine", SACE, October 2015.

CHART 1. Exports of food products by Italy and a few competitors. 2015 exports (€ billions), growth rate 2007-2015 ⁰²



Source: SACE processing of UN Comtrade data

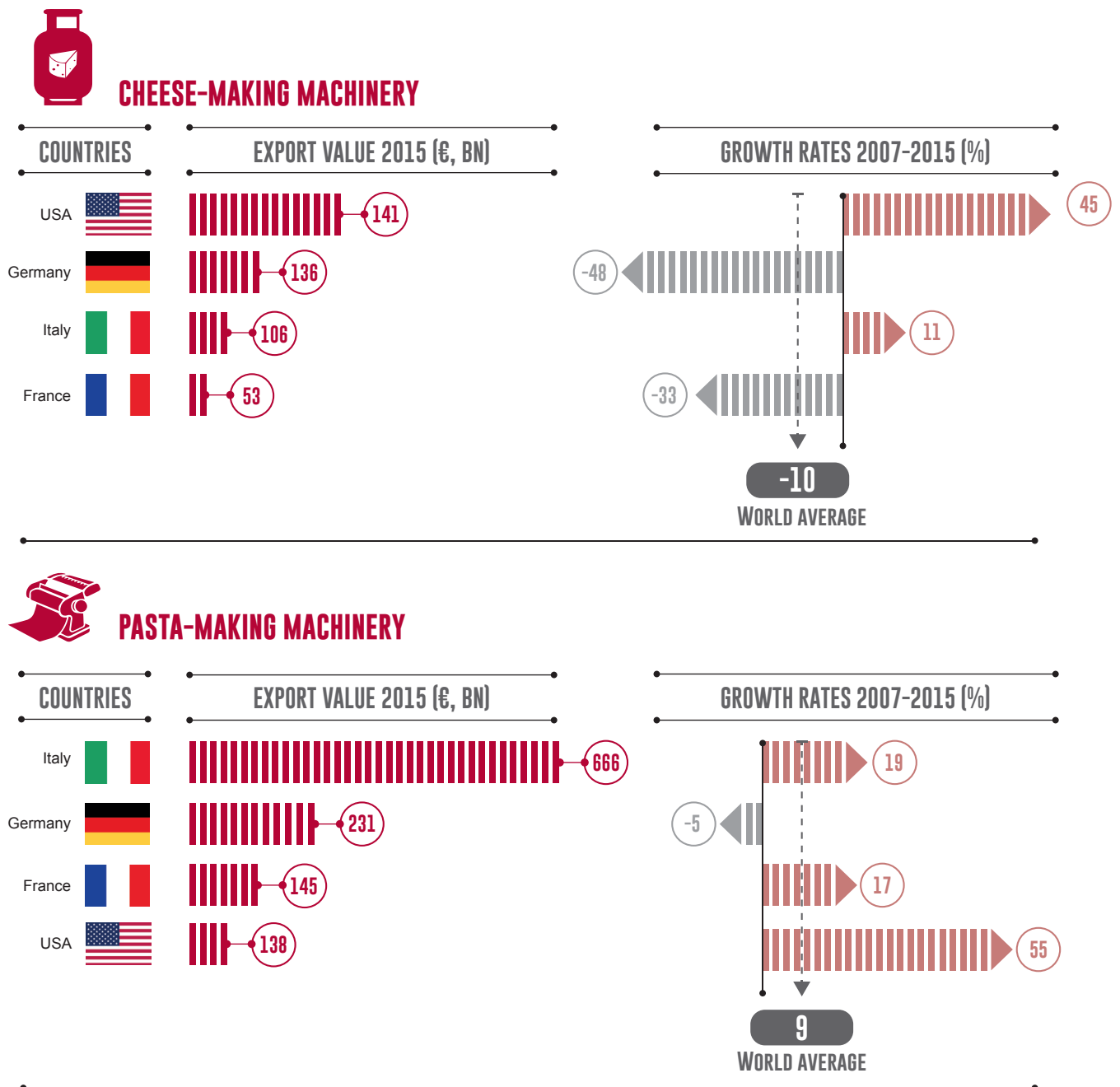
...AND WHAT VALUE IS BEHIND IT

But how are these foods produced? Apart from the essential raw materials, experience and know-how, the use of specific machinery is indispensable for making exclusive products. **Exports of our machinery for the 2007-2015 period performed at a different pace to food products, with slower growth rates if not declines** (Chart 2). Since 2007, in fact, global demand for cheese- and wine-making machinery has declined. The exports

⁰² The growth rates are computed on export values in US dollars, as from the source UN Comtrade, to avoid currency exchange distortions.

of German machinery for dairy products (no. 3 producers worldwide) dropped by half from 2007 to 2015. As for food products, exports of American machinery showed a reverse trend with respect to world statistics. Italian exports of machinery for cheese-, pasta- and wine-making were more solid than those of their French and German neighbors.

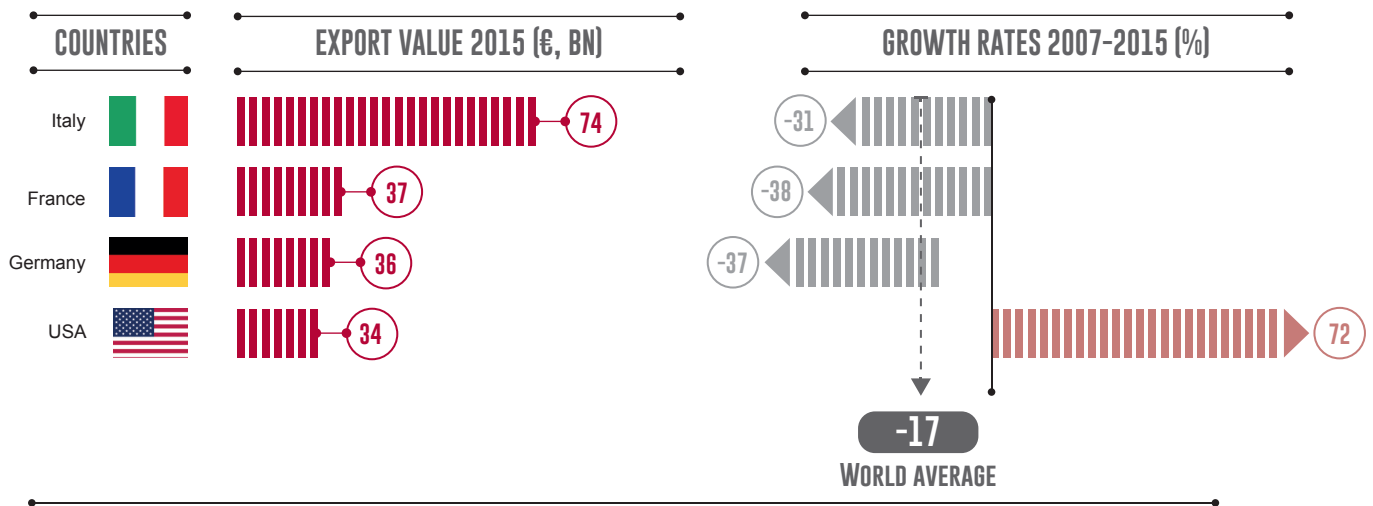
CHART 2. Exports of machinery for the food industry by Italy and a few competitors⁰³



⁰³ The growth rates are computed on export values in US dollars, as from the source UN Comtrade, to avoid currency exchange distortions.



WINE-MAKING MACHINERY



Source: SACE processing of UN Comtrade data

The growth trends of foods and food machinery have been different in recent years, demonstrating that there is not necessarily a strong correlation between the exports of the two sectors, but it is important to note that, from a system standpoint, the exports of one may indicate development opportunities for the other and vice versa.

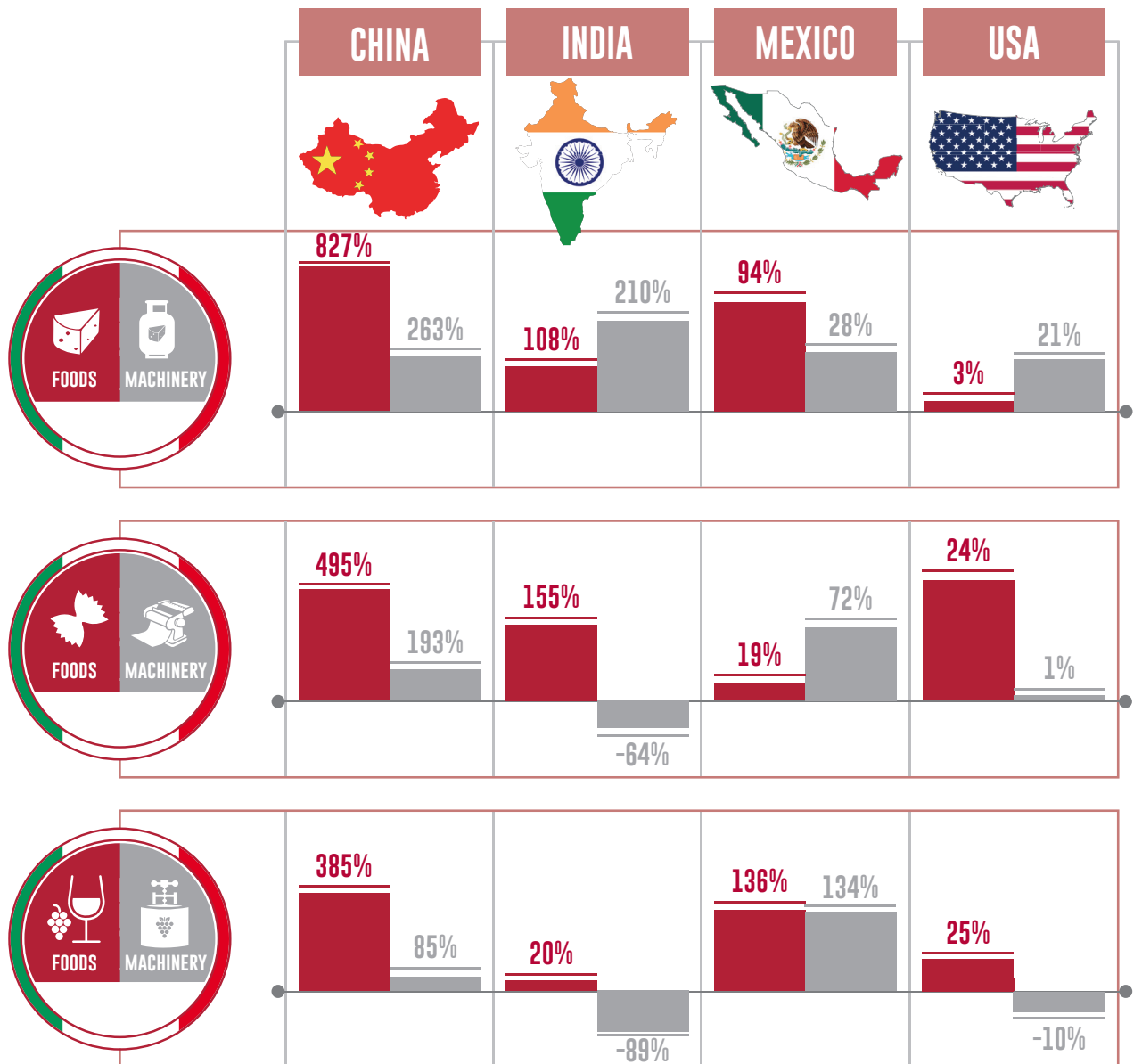
WHICH CAME FIRST, THE CHICKEN OR THE EGG?

So can we consider foods and the machinery for their production as two sides of the same coin? With a supply-chain approach, the creation of systems among Italian production excellences opens new possibilities for finding opportunity markets and new inroads for expansion into foreign markets. **The expansion of the food product market does not derive only from a greater demand for the products themselves but also from the sale of specialized machinery for their production and vice versa.**

Analyzing our recent performance in exporting cheese-, pasta- and wine-making machinery and the related food products in some of the more promising areas for sales growth—China, India, Mexico and the United States—a few clear trends emerge (Chart 3). There is a clear relationship between products sold and the machinery necessary to produce them for all four countries in the case of cheese and, more generally, for all the products considered exported to China and Mexico. Historically, it has been difficult to follow a supply-chain approach in markets like India and the United States. The underlying reasons are different and reside probably, in the former

case, in cultural factors and taste differences, while in the latter it lies in the phenomenon of competition from "Italian sounding" products.

CHART 3. Italian Exports of food products and related production machinery, by importing country (CAGR 2007-2015)⁰⁴

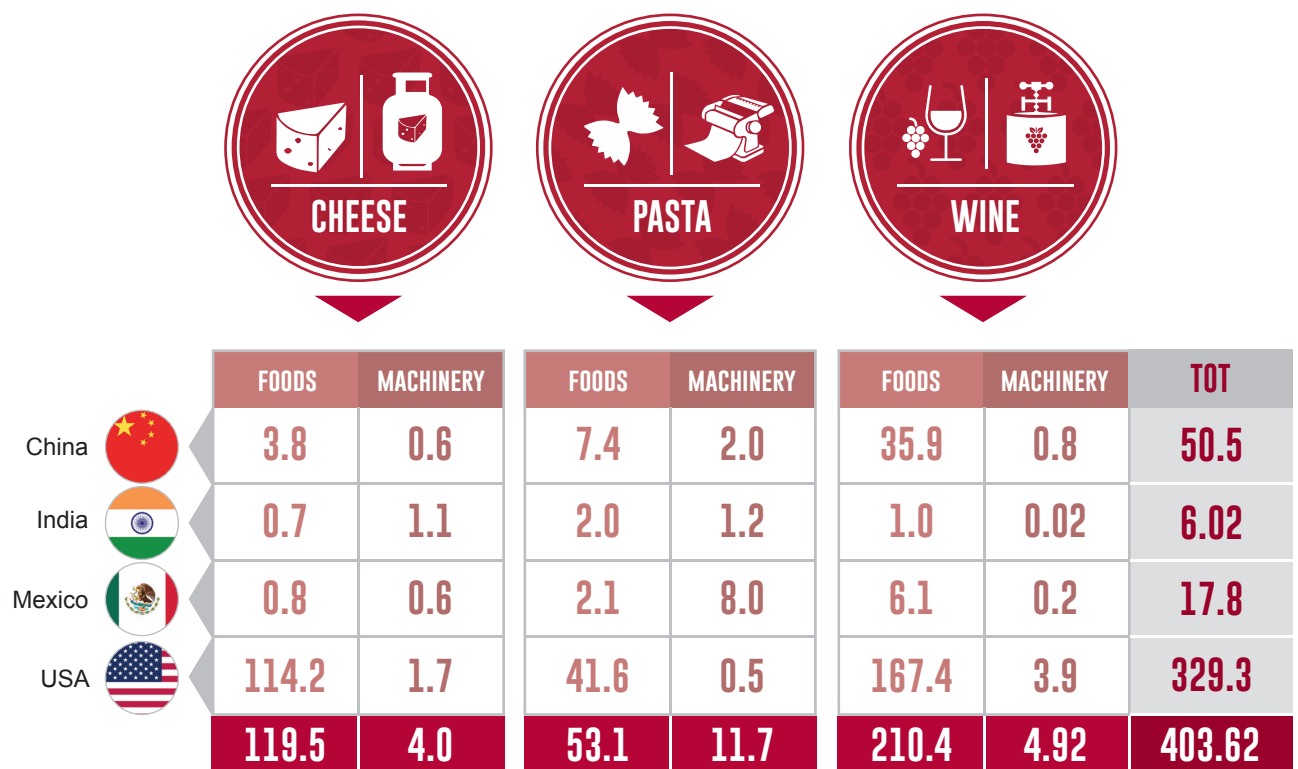


Source: SACE processing of UN Comtrade data

⁰⁴ The growth rates are computed on export values in US dollars, as from the source UN Comtrade, to avoid currency exchange distortions.

Our additional exports in 2019 in the six categories to these four countries might exceed € 400 million or 20% more than the figure for 2015 (€ 2.078 million). This additional export value is driven by the wine sector (€ 215 million) and by the United States (€ 330 million) (Tab. 1).

TABLE 1. Potential for additional Italian exports of foods and cheese-, pasta- and wine-making machinery between 2016 and 2019 (€ millions)⁰⁵



Source: SACE processing

The **Chinese market** is a natural objective, in terms of both market size and a gradual shift in consumer spending toward higher-quality products. **The growth of machinery exports in recent years has been accompanied by more than double growth for the related food products.** The greatest opportunities in terms of potential exports lie with wines, with over € 36 million in additional exports in four years (+ 40% more than in 2015). The imports of European wines, especially French and Italian, representing the premium segment, will continue to suffer the competition of lower-price competition from other countries (such as Chile, Australia, South Africa and Argentina) and from local products, which account for 80% of the market. This offers possibilities both for manufacturers of wine-making machinery and for development by wine producers of better structured internationalization through acquisitions and joint ventures with local partners. The role of Italy in the

⁰⁵ For the values of Italian exports by product and market, see the appendix.

country's imports is still limited (5% versus 44% for France) but is poised to grow thanks in part to the impetus of an agreement with Alibaba, the world's greatest e-commerce platform. The objective of the partnership, begun last year, is to promote the excellence of Italian food products against falsifications (such as parmesan and false Prosecco) and to enable Italian producers to satisfy the growing demand for foods Made in Italy from the platform's 430+ million customers. Through this agreement, Italy has been the first country in the world whose products and DOP and IGP appellations are protected on the Web⁰⁶.

India is the world's largest producer and consumer of milk, with a fast-growing cheese industry, characterized thus far by domestic production, which has benefited Italian exports of machinery. Although Indian offer less potential than other markets, the medium/long-term opportunities are positive, and Italian manufacturers may benefit from over 1 million in additional exports of dairy processing machinery in coming years. The pasta industry with related machinery also offers greater opportunities for export.

Pasta will also be the bellwether for **Mexico**, which along with India may contribute **over € 10 million in additional exports of product and machinery**, 40% more than in 2015. Food consumption in both countries will benefit from population growth and parallel growth of the middle class. Lastly, the Mexican wine market is still limited in size but is growing rapidly, as are our exports to that country. In 2015, in fact, Mexico increased its wine imports by over 10%, setting a historical record. Italy ranks sixth among the trading partners in this sector, with an 8% market share, and leads the sparkling category. The Indian wine market, on the other hand, is less developed, with limited volume much smaller than that for beer and spirits (the liters of wine consumed in 2015 were 3% of the beer volume), though the growth prospects are good.

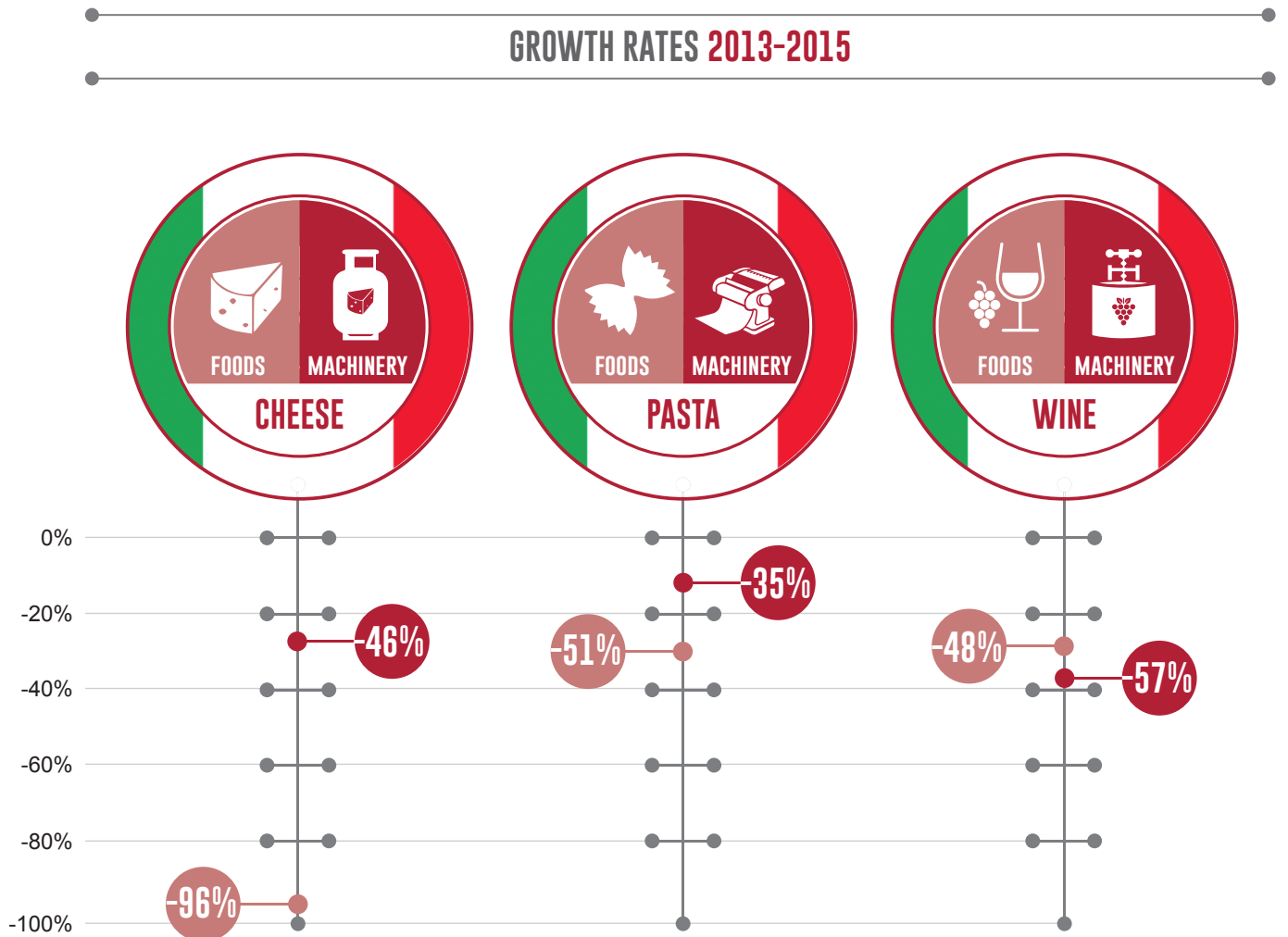
The same applies to the **United States**, one of principal markets for Italian producers in all food categories. The products with the greatest additional exports are cheese and wine (€ 116 and 117 million, respectively). **The characteristics of the American cheese market make it attractive but at the same time restrict the development of Italian imports.** For food products, exports are limited by rigid regulations and by "fake Italian" competition, which especially for cheese penalizes with lower quality and more competitive prices and the promotion of "consumer de-education" to recognize the original products (like the famous parmesan cheese). While some barriers still exist for products, but do not prevent our exports from reaching significant results in the medium-long term, they may prove advantageous for machinery manufacturers. The American cheese market, for example, is mostly supplied by local producers, presenting further development opportunities for cheese-making machinery and technology.

In summary, therefore, the United States market offers great opportunities, while China, Mexico and India are high-potential countries that require greater effort (especially India). A special, opposite case is **Russia. The ban on the import of some food products the country introduced has had a highly negative impact on our food exports (55% less in 2015 compared to 2013) but also on capital machinery (- 37% in the same period).** And not only Italy has suffered: total Russian imports in the two sectors declined by 39% and 40%, respectively, compared to pre-sanction values. Our exports of both food products affected by the embargo, such

⁰⁶ Since the start of the agreement, it has been possible to prevent the monthly trade of 100,000 tons of false Parmigiano-Reggiano, ten times the production of the original product, and 13 million bottles of false Prosecco. Regarding trademark regulation, Alibaba ensures its customers that when they purchase Italian products they are original.

as cheese, and products not directly affected by the restrictions, such as pasta and wine, and related machinery have not been unscathed (Chart 4). Machinery exports might benefit from a government-promoted program of import substitution, replacing imported products with local production. There are still some opportunities in neighboring markets that are tooling up to make products to replace those under embargo and that require the machinery to produce them.

CHART 4. *Italian Exports of food products and machinery for food processing to Russia: CAGR 2013-2015*



Source: SACE processing of UN Comtrade data

ONE SECTOR, TWO GROWTH OPPORTUNITIES

The development of outlet markets for our leading food products can be achieved not only through stronger promotion of the products, through traditional and other distribution channels, and pursuing production, sales and distribution strategies to suit the specific markets, but might also be enhanced through the effect of the "other" Made in Italy: machinery. A greater possibility of exporting food-processing machinery may, in fact, mean greater demand for the products in the foreign market, and thus a channel for developing our food excellences and expanding the overall market. **Focusing on just three products (cheese, pasta and wine) and on four target markets, we could increase current exports by over € 400 million by 2019.** At the same time, markets that have historically purchased Italian pasta-, wine- and cheese-making machinery are also markets to cultivate for the food products, which will find a consuming public already inclined toward certain tastes and cuisine. An expanding opportunity to exploit.

It is important to **proceed with a supply-chain approach** that provides penetration room also for SMEs. To promote this, **SACE has created an advisory service that offers a dedicated team to find business opportunities with constant, personalized assistance.** A practical example of the support it can provide is the development of a € 25 million livestock initiative in Kenya together with 11 SMEs in the dairy product industry. Another case is the assistance provided to an Italian SME to make its first export of farm product processing machinery to the Ivory Coast, resulting from a meeting during Expo, opening the way for numerous growth opportunities in that country.

But SACE can also assist companies with credit assistance against default by the foreign counterparty, enabling them to offer extended payment terms that may favor the awarding of contracts, with numerous policies⁰⁷. With SACE, Italian companies can boost their exports!

⁰⁷ You can find all the information on our website <http://www.sace.it/en/products-and-services>

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APPENDIX

TABLE 2. Italian exports of products and cheese-, pasta- and wine-making machinery (€ mln, 2015)

		CHEESE		PASTA		WINE		
		FOODS	MACHINERY	FOODS	MACHINERY	FOODS	MACHINERY	TOT
China		9.5	2.9	18.2	5.0	88.9	1.9	126.4
India		1.9	2.6	4.9	2.9	2.4	0.2	14.9
Mexico		2.1	1.5	5.1	19.9	25.1	0.6	54.3
USA		283.0	4.3	260.6	45.2	1279.2	9.6	1881.9
		296.5	11.3	288.8	73	1395.6	12.3	2078

Source: SACE processing of UN Comtrade data

TABLE 3. Impact of potential exports 2016-2019 on Italian exports of foods and cheese-, pasta- and wine-making machinery in 2015

		CHEESE		PASTA		WINE	
		FOODS	MACHINERY	FOODS	MACHINERY	FOODS	MACHINERY
China		40.0	20.6	40.6	39.8	40.4	41.2
India		37.4	41.8	41.1	41.0	41.3	11.0
Mexico		39.0	40.4	41.3	40.1	24.3	34.8
USA		40.3	39.4	16.0	1.1	13.1	40.7

Source: SACE processing of UN Comtrade data