

# ESPORTARE LA DOLCE VITA

The untapped potential of “beautiful and well-made”  
consumer goods on international markets

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REPORT 2019



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The untapped potential  
of “beautiful and well-made”  
consumer goods  
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Report 2019

This Report has been prepared by the staff of the Economic Research Department, Confederation of Italian Industries (in Italian: Centro Studi Confindustria) with the contribution of SACE SIMEST and the Manlio Masi Foundation.

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## Foreword

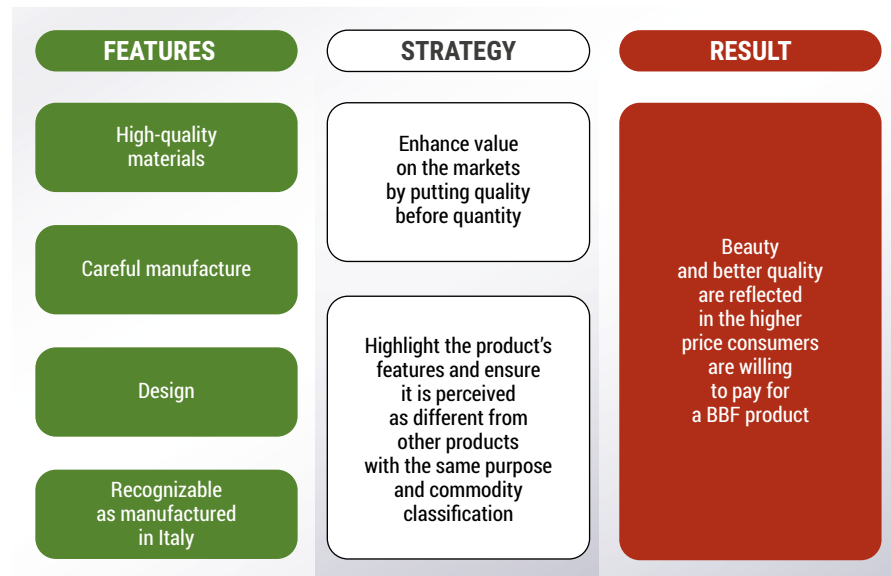
Now in its tenth edition, *Esportare la dolce vita* has changed shape. Compared with past editions, which had always focused on products in the so-called three-Fs – Fashion, Food and Furniture – the Report has now expanded its focus. First, the Report now considers a wider range of products. From this year on, the production perimeter extends to all products intended for final consumption. This makes it possible to conduct the analysis using better defined assumptions, isolating an important component of Italian exports of manufactured goods, one which reflects the problems of the firms that produce them. In fact, the products that compose the aggregate of final consumption goods share common characteristics, both in terms of the organizational structure of the companies that produce them, and in terms of their commercial features, given the different target consumers to which they market their products.

The process of delineating the perimeter of the study involved moving in concentric circles: within the set of exported goods, the aggregate corresponding to final consumption goods was first isolated, and then a second subset was identified which corresponds to those goods whose exports have relatively high average unit values for Italy (higher than the 75th percentile of the distribution of average export unit values of each of those goods for all the countries considered in the analysis). In so doing, a core of exported goods was identified which places Italy in a position of relative advantage in terms of the “quality” of its exports. This set of goods, which are those in which Italy is the leader in terms of quality, corresponds to what the Report has this year defined as ‘beautiful and well-made’ (in Italian *bello e ben fatto* - BBF). These are all those products that are distinguished by their design, care, quality of materials and craftsmanship, and that contribute to spreading the image of the Italian way of life throughout the world.

Important changes were also made in measuring market potential: a new method was adopted - Export Potential Analysis and Development (ExPANd). The main difference is the focus on the performance of countries similar to Italy. The factors considered when comparing the different exporting countries include: per capita income, prices (average unit values), the degree of specialization, the degree of export diversification, the substitutability of exported goods, market shares and geographical distance. In summary, growth margins are found wherever there are exporting countries with characteristics that are similar to those of Italy and that outperform Italy. The Manlio Masi Foundation’s ExPANd methodology was developed by Tullio Buccellato and Enrico Marvasi in a research project launched in 2012 and coordinated by Beniamino Quintieri.

# EXECUTIVE SUMMARY

**The concept 'beautiful and well-made' as an expression of Italy's uniqueness** BBF (*bello e ben fatto*, literally translated as beautiful and well-made) embraces all those products that exemplify Italian excellence in terms of design, attention to detail, high-quality materials and careful manufacture. Such goods exist in all branches of production, but the majority of them can be found in sectors more closely linked to aesthetics and creativity. In this respect, BBF is the most recognisable expression of the Made in Italy brand, encapsulating the best-known features of the Italy's cultural heritage, traditions, landscapes and works of art and helping to build an image of Italian manufacture (Graph A).



**Graph A**  
**Bello e ben fatto**  
**(beautiful and well-made):**  
**what are the main features?**

In this respect, BBF products not only represent a large share of Italy's world exports, they also drive all Italian exports as their value goes way beyond the purely economic.

**Italy in world markets** Italy is among the top 10 in the global ranking of exporting countries, coming in seventh place. Its position improves considerably if we look only at the ranking for consumer goods, where Italy comes third after China and Germany. This position applies to a highly diversified basket of goods: Italy comes at the very top in terms of balanced distribution of exports among the various products.

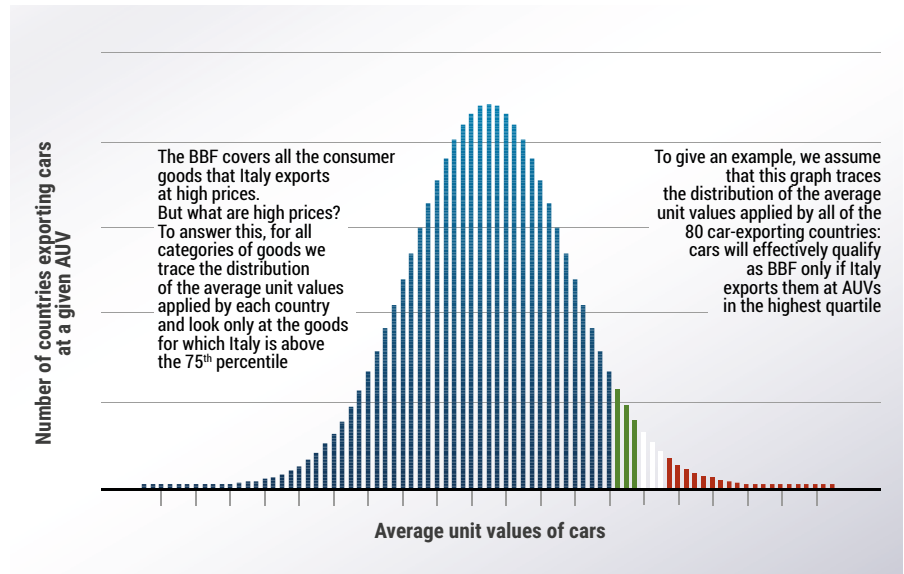
This is largely attributable to BBF products, which incorporate all the consumer goods of excellence that Italy is able to export at high prices (Graph B).

**BBF: the consumer goods of excellence that Italy exports** Generally, the new emerging economies' participation in world trade (and first and foremost that of China) has magnified both the scale and the volume of production of many of the goods traditionally manufactured by Italian firms, initially in the food, textile and footwear sectors, but subsequently also in sectors requiring more complex production processes and linked to longer production chains. This has led to increasingly fierce competition on international markets, forcing Italian firms to adopt new productive and commercial strategies.

Over the years, Italian manufacturing has succeeded in realising an overall quality upgrade that has allowed it to avoid price competition from the emerging economies and focus increasingly on the supply of goods with higher value added. The results obtained by BBF products are the outcome of this process, which has progressively increased the range of goods in the upper segment of the market.

## Graph B BBF: consumer goods of excellence exported by Italy

(Hypothetical frequency distribution of car exporters by level of average unit values)



**BBF is worth €86 billion...** BBF products represent 15.6 per cent (2018, last available figure) of Italy's total exports and are spread across all the main sectors of Made in Italy, although predominantly in the so-called three-Fs – Fashion, Food and Furniture. Italian products of excellence go mainly to advanced markets, which overall take up some three quarters of them, equivalent to just under €70 billion. The remaining quarter is exported to the emerging countries, which owing to their rapid growth (both demographic and economic) and despite their still lower weight, offer relatively greater scope for expansion, even though the risks remain higher.

**... but potentially there could be nearly €45 billion more in the future** The study set out in the Report allows us to obtain a measure of Italy's export untapped potential for BBF products against which we can evaluate the scope for improving the current position. This potential is calculated by estimating how much current market shares could increase with respect to those of competitors similar to Italy as regards production cost structure and product quality.

**The importance of quality** What protects BBF products against fierce price competition (consider the impact of Chinese exports) is their distinctive quality, which puts them in a separate market with respect to other goods officially grouped in the same commodity categories. Many BBF products are in a market of their own, reserved to segments where there are very few competitors, mostly in advanced countries with similar cost structures to Italy. In this respect, the BBF products that Italy exports (which typically target sophisticated consumers, focus on quality, and convey an emotional value) are competing with those produced by the most developed competitors, operating in niches that are protected from countries with lower costs.

### **Advanced countries and emerging countries present different challenges**

The first have larger markets and greater demand for BBF products (they have higher per capita income). Demographic and economic trends in the mature economies of the advanced countries evolve relatively slowly and so the way to achieve growth is by trying to poach market shares from competitors or at the very least by holding on to existing shares: with large volumes, even low growth rates may offer a chance of significant expansion, especially for small and medium-sized firms. Although the emerging markets are on average smaller in terms of economic size (apart from China and India), they are growing at a faster pace and they offer Italy greater potential to increase its exports (they are less saturated with Italian exports than with the exports of competitors like Germany and France).













**Which are the best markets to target?** The way to achieve the potential for export growth is through commercial penetration of the countries and sectors with the greatest scope for expansion. This is a game to be played on several boards at once, with different opponents depending on the geographical areas and sectors concerned. The aim of this Report is to provide an overview of the ones worth taking on and the type of competition encountered there.

Table A illustrates, for the top five advanced countries and the top five emerging countries in terms of export potential, which sectors are the most important, which countries are Italy's main competitors in those particular markets, and what factors determine the amount of export potential (specifically: size of margin to be exploited compared with existing level, market growth, compatibility of demand structure in the destination markets with supply structure of Italian BBF products).

The driver of exports in the advanced countries is the notable presence of shared tastes and standards, reflecting very similar cultural contexts. These are also the main countries with which Italy has economic, political and strategic relations, and hence particularly close geo-economic ties. The most important

**Table A - The countries with the greatest potential for Italian BBF products\***

(Ranking of the top 5 advanced countries and top 5 emerging countries according to Italy's export potential in billions of euros)

Country	Untapped potential (bn euros)	Main sectors	Main competitors by country/sector
<b>TOP FIVE ADVANCED COUNTRIES</b>			
 USA	8.2	Wood and furniture Hides and leather Motorcycles Textiles-clothing	China, Canada, India China, France, India UK, Germany, Japan China, Indonesia, India
 Germany	3.3	Footwear Electrical engineering and electronics	China, Poland, Spain Belgium-Luxembourg, UK, South Korea
 Japan	2.6	Textiles-clothing	China, Indonesia, India
 United Kingdom	2.5	Glass and ceramics Boating**	Spain, Portugal, France Netherlands, Spain, Germany
 France	2.1	Food and beverages	Spain, Germany, Netherlands
<b>TOP FIVE EMERGING COUNTRIES</b>			
 China	3.3	Chemicals, pharmaceuticals and cosmetics Electrical engineering and electronics Motorcycles Food & beverages	France, UK, Japan USA, Canada, UK UK, Japan Spain, South Korea, Japan
 United Arab Emirates	1.3	Hides and leather Textiles-clothing Footwear	France, India, Greece China, India, Bangladesh China, Netherlands, India
 Qatar	0.8	Boating**	Germany, Bahrain, UAE
 Saudi Arabia	0.8	Wood and furniture Glass and ceramics	China, Germany, USA Spain, Egypt, China
 Russia	0.6	Hides and leather Footwear	China, Greece, Germany China, Germany, Turkey

\*The growth potential and the main competitors for each market are identified using the *Export Potential Analysis and Development* (ExPANd) methodology of the Fondazione Manlio Masi, which was developed by Tullio Buccellato and Enrico Marvasi as part of a research project begun in 2012 and coordinated by Beniamino Quinteri.

\*\* Data on the boating sector reflect distortions caused by transits in logistic hubs. Hence the figure for the UK may conceal purchases by other countries as well. In the case of Qatar, too, the fact that the two main exporters to this destination are Arab countries might be due to transits via logistic hubs.

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

## EXPORT UNTAPPED POTENTIAL IN BILLIONS OF EUROS



ADVANCED  
33.5



EMERGING  
10.9

countries are the United States (€8.2 billion), Germany (€3.3 billion) and Japan (€2.6 billion). Among the emerging economies, the main markets are China (€3.3 billion), the United Arab Emirates (€1.3 billion), Qatar (€0.8 billion), Saudi Arabia (€0.8 billion) and Russia (€0.6 billion). The United States, China and Germany are without doubt the leading markets for export opportunities, but for different reasons: China because of its size and growth, Germany because of the compatibility between demand and supply, and the US owing to a balanced combination of both factors. The margin for improvement in exports to Japan, which is large in absolute terms, is offset by the fairly limited growth prospects of import demand.

**Export potential in the most dynamic markets** This shows the countries that are of particular interest, not so much because of the size of the margin for export growth as because the market is expanding rapidly. This is the case of India (€0.2 billion of potential exports), to which Italy exports relatively little and whose size and outlook for growth set it among the most interesting markets. Russia, too, given its size and above all the compatibility between demand and supply, offers significant export opportunities.

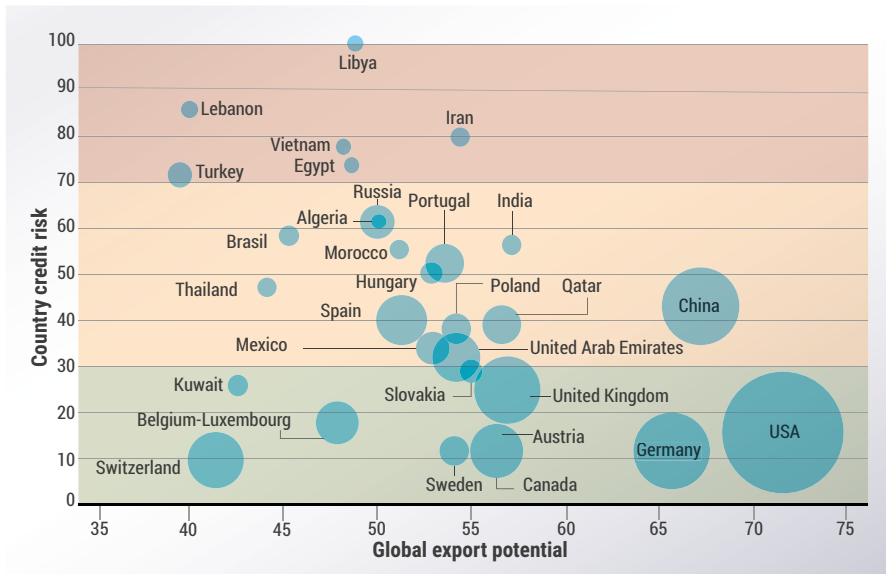
**In some of Italy's fundamental partners there are risks to achieving export potential** The analysis of export potential is accompanied by an analysis of the risk that each market presents (Graph C). Clearly, this type of representation (risk-potential) aims to offer a simple interpretation of the results, and in a complex world it is important to avoid drawing clear-cut conclusions. First, the averages are the outcome of a variety of information. For example, while there may be certain types of risks and opportunities at the aggregate level, some partners or sectors could move against the trend. Consider China, which offers a high degree of reliability as a sovereign partner, but increased risk in the case of transactions with banks and non-financial companies because of their notoriously high debt level. A similar argument applies to Russia, where very sound public finances contrast with the possibility of problems in some corporate sectors and in the banking industry. There are other emerging countries that are important trade partners of Italy, such as Brazil and India, whose macro-economic fundamentals indicate that they are unlikely to experience the crises that overtook Argentina and Turkey in 2018, but which on the other hand need to be approached with caution. In Argentina, for example, the public debt has ballooned recently and economic growth is still weak, with all that this entails for business. In India, the banking system is experiencing problems owing to the increase in accumulated bad debts in recent years. Yet both markets are still strongly protected. The economic situation in other major destinations for Made in Italy products is fairly negative for a variety of reasons (Iran and Turkey): it will be some time before they once again offer greater export potential and less risk. The global situation is in constant flux, with the result that the outlook for some countries and sectors may change rapidly. The group of advanced countries that represent the most promising outlets for Italian BBF exports is also the group presenting the least risk.

**Trade tensions generate uncertainty and could be detrimental to many BBF products** Increasing protectionist tendencies threatens to harm many BBF sectors and reduce their potential export growth in many markets, first and foremost the US. A worrying symptom is the recent introduction of customs duties following the WTO's ruling, which threatens to trigger various forms of retaliation, with unforeseeable consequences. Although for now Italy is not among the worst affected countries, some products linked to the BBF sector have already been affected (for instance, Parmesan and other cheeses, citrus fruit, salami and cured meats and spirits will be subject to 25 per cent duty).

**In an increasingly unpredictable context, agreements guarantee certainty and stability of trade flows** At a time of bitter trade tensions, Europe's response has been unequivocal, as reflected in the words of, among others, Cecilia Malm-

## Graph C Evaluating export potential in relation to risk

(The relation between credit risk and global export potential, 2017, 2018, 2019)



Note: The credit risk indicator calculated by SACE (Italian export credit agency) is the result of the average of the risk of non-payment by sovereign, corporate and banking partners to which an Italian exporter is exposed in a given market. The indicator is based on a point system ranging from 0 (minimum risk) to 100 (maximum risk).

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

ström, former European Commissioner for Trade, when she said 'there is no protection in protectionism'. The trade agreements signed by the EU in recent years have successfully encouraged firms (European and Italian) to enter strategic markets. Agreements have a positive effect on trade, especially for small and medium-sized firms, which benefit most from their impact in terms of simplifying entry into markets and lowering production costs.

**Italy needs to increase e-commerce** Although Italy is among the top ten countries for online sales, it lags farthest behind its main competitors (which are also its main markets). In terms of percentage of GDP, Italy (at 17 per cent) is closer to China (16 per cent) and India (15 per cent) than to the other advanced countries, which range from South Korea's 84 per cent to France's 28 per cent. BBF products need to be displayed in dedicated virtual marketplaces that highlight the features that distinguish them from similar, but not excellent, goods and, more importantly, from counterfeits. Milan Polytechnic's observatory on e-commerce has underlined that the largest online sales are in the food and clothing sectors, two of the threeFs, which are the pillars of BBF. The challenge is both huge and unavoidable.

**BBF counterfeits cause serious harm to the Italian firms** Imitations are often found among non-BBF products, counterfeits that fraudulently exploit the brand name and customer loyalty of some makes of goods. The counterfeit industry has become massive, particularly in Italy's BBF sectors. Italian products are among those most in demand worldwide, partly thanks to the attraction of the Made in Italy brand, and therefore they are among the most frequently imitated. A particularly worrying trend is that of sound-alikes and look-alikes of Italian products: imitations, notably in the agri-food sector, whose name or packaging has Italian connotations. This practice, which debases the image of product quality and tricks less attentive consumers into thinking they are buying an original Italian product, causes the BBF sector to lose market shares (and damages its image). BBF counterfeiting not only causes material damage to Italian firms, it also makes it more difficult to measure the BBF phenomenon and undermines some of the relative statistics; it is possible that Italy's shares are distorted downward.



# 1. ITALY'S CONSUMER GOODS INDUSTRY AND 'BEAUTIFUL AND WELL-MADE' (BBF) PRODUCTS

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## 1.1 The scope of the 2019 EDV report: consumer goods excellence<sup>1</sup>

'Beautiful and well-made' (in Italian *bello e ben fatto* - BBF) describes a whole group of products that offer a distinctive Italian value added, thereby achieving higher prices than competitors' goods on the international markets. The reference aggregate used in the analysis – consumer goods in the BBF category – is identified through a succession of phases that are described below.

**Why final goods?** Consumer goods are chosen as reference aggregate because they share a number of specific features, relating not only to the organisational characteristics of the companies marketing them, but also to commercial factors, i.e. the exact type of consumer targeted. Although such goods belong to very different categories, they nevertheless have many features in common (final consumer target, focus on quality, brand perception, distribution strategy, etc.). With this starting point, the analysis rests on objective, specific and clearly defined premises to single out a specific, major component of Italy's exports of manufactured goods.

By definition, therefore, the firms falling within the EDV's new perimeter are all downstream of the production process. The degree of complexity of process management naturally varies from one sector to another and according to the scale of production, ranging from small craft firms making goods for niche markets to groups in high-tech sectors that handle long chains of suppliers to bring the assembled goods to market for final consumers.

To be able to tap potential consumers on foreign markets companies need well-known and well-publicised brands that set them apart from the competition, which can be fierce in some areas and at times even dishonest (for example, forgery and sounding of Italian brands and products). Brands also need to have a presence on the major online shopping sites, and companies must adopt sophisticated advertising strategies targeted to their customers' profiles. As a result, there is a growing demand for professionals specialising in the various fields of digitalisation. And with the digitalisation of the economy, production and market are becoming increasingly interconnected, so that many customers have the option to personalise their purchases even before production.

**The focus is still on BBF** Starting from this initial perimeter consisting of final goods, we can identify the subset of BBF products simply by focusing on the aggregate of all the goods that Italy sells abroad with the benefit of a 'quality premium'.<sup>2</sup> Specifically, BBF goods are those whose average unit value (AUV) is equal to at least the 75<sup>th</sup> percentile of world distribution (i.e. the highest quartile).<sup>3</sup> A few examples suffice to clarify the concept of BBF: high-quality food products made using fish, wine and other spirits; essential oils or other cosmetic products; hides and leather industry goods such as bags, gloves and belts; Made in Italy clothing, spreading the BBF emblem around the world via the fashion industry; household goods that rely increasingly on elements of good interior design; furniture, lamps and even mattresses; yachts and boating products, often incorporating other BBF goods which they constantly

### FEATURES OF BBF

#### HIGH-QUALITY MATERIALS



#### CAREFUL MANUFACTURE



#### DESIGN



#### RECOGNIZABLE AS MANUFACTURED IN ITALY



<sup>1</sup> Compared with previous editions of *Esportare la dolce vita* (EDV - Exporting the Dolce Vita), which provided an unbroken overview of goods in the three Fs category (Fashion, Food, Furniture), this Report adopts different criteria of analysis. First of all, the range of products considered at the start is broader: as of this edition, all products destined for final consumption are included in the perimeter.

<sup>2</sup> The quality premium is measured by the prices at which a product is sold on international markets, as indicated by average unit values.

<sup>3</sup> For a detailed description of the methodology used, see the Methodological Note.

showcase; and also watchmaking and other high-tech and precision instruments sold directly to final consumers.

The steps followed to identify the BBF aggregate are described in Graph 1.1. The starting point is the commodity classification used in the United Nations' Harmonized System (HS), which contains just over 5,000 product categories traded by more than 200 countries. Italy exports 4,577 (90 per cent) of these products; about 881 (one fifth) are final goods in the BEC (Broad Economic Categories) classification, and 467 (more than half of the final goods) are BBF products, that is goods for which Italy enjoys a substantial quality premium.<sup>4</sup>

**Graph 1.1**  
**Outlining the perimeter**  
**of BBF (beautiful and well-made)**  
**in 3 steps**  
*(Number of the product categories*  
*exported by Italy)*



Source: calculated by CSC based on UN-Comtrade data.

## 1.2 Step one: Italy's total exports

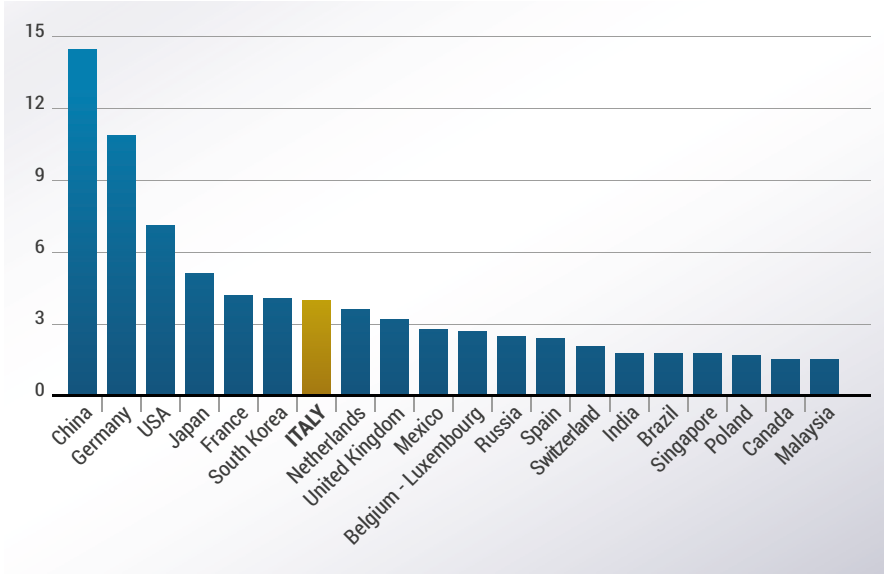
Exports play a crucial role in Italy in supporting demand levels: in 2018 they totalled 555 billion current euros, equal to about one third of GDP. This indicates that Italy occupies an important position on international scenario in terms of market share (Graph 1.2): in fact, with a share of just under 4 per cent, Italy is seventh in the world ranking of manufactures exporters, behind South Korea (4.1 per cent) and in front of the Netherlands (3.6 per cent). This is an astounding result for a country of some 60 million inhabitants with virtually no raw materials, directly linked to a highly developed – and highly competitive – manufacturing industry (Italy also ranks seventh in the world in terms of share of manufacturing value added<sup>5</sup>).

<sup>4</sup> Both classifications are used by the United Nations International Trade Statistics Division: the Harmonized System (HS) is used to classify goods traded on international markets at several levels of disaggregation (from a single-digit number to identify a macro-sector to the six-digit numbers of individual goods categories); the classification by Broad Economic Categories (BEC) ranks each product by its final use (for instance, distinguishing capital goods from consumer goods).

<sup>5</sup> On this point see, Centro Studi Confindustria, *Dove va l'industria italiana*, May 2019.

## Graph 1.2 The top 20 exporting countries

(Exports of goods in current dollars, % market share, 2017)

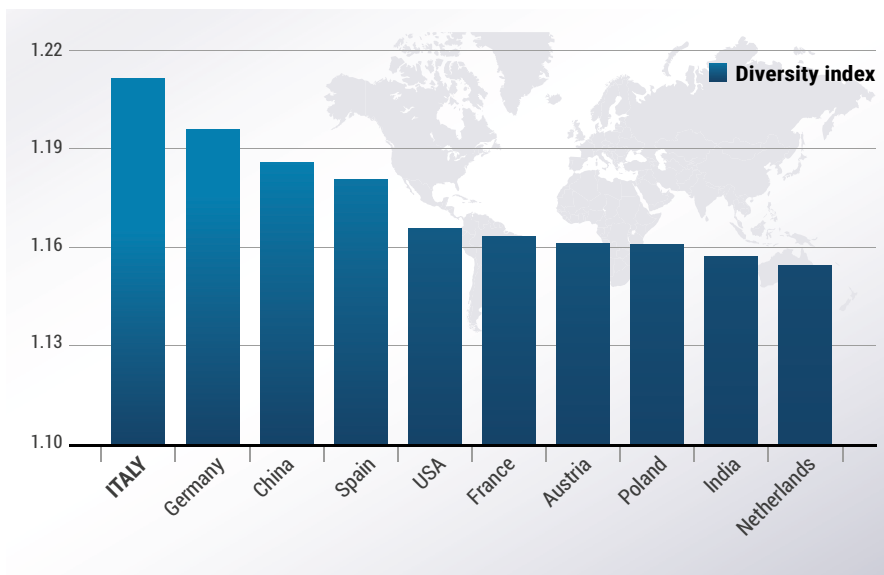


Source: calculated by CSC based on UN-Comtrade data.

**A very varied mix of products** The basket of goods exported by Italy is therefore extremely diverse and in 2017 (latest available data) covered 90 per cent of the products appearing in the UN-Comtrade database, which has by far the most sectorially disaggregated data on world trade.<sup>6</sup> The Centro Studi Confindustria (CSC) has calculated a diversity index that also takes into account the way that the value of Italian exports is distributed among the various product categories.<sup>7</sup> Italy ranks first for degree of diversification, ahead of Germany and China (Graph 1.3). The variety of goods making up the basket of Italian exports directly reflects the very rich pool of skills that Italian manufacturing is able to call on. A high degree of diversification makes Italy less vulnerable

## Graph 1.3 Italian exports are the most diversified in the world

(Inverse of Gini coefficient calculated on export values in 2017 current dollars for six-digit HS products)



Source: calculated by CSC based on UN-Comtrade data.

<sup>6</sup> The database used is based on information gathered by the customs authorities of the various countries, harmonised using the methodologies and standards recommended by the United Nations.

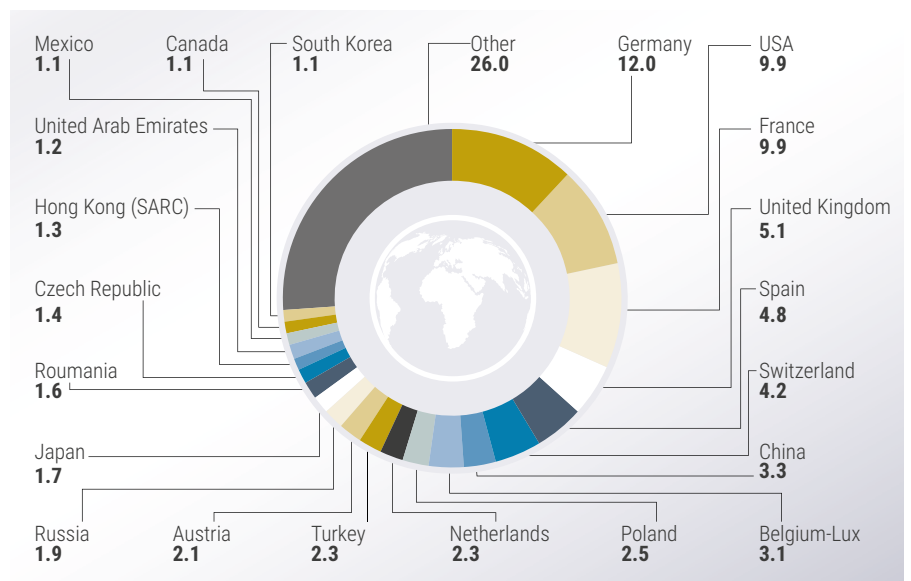
<sup>7</sup> The degree of diversification is calculated using the inverse of the Gini concentration coefficient.



to shocks affecting specific branches, as in the case, for example, of the financial sector: more diversified asset portfolios are bound to reap steadier benefits over time.

**The EU and the US are the main destination markets for Made in Italy products** More than half of Italy's export of goods go to the single European market (51 per cent, Graph 1.4). Within Europe, Germany is the leading destination market (11.9 per cent), followed by France (9.9 per cent). The United States remain the largest non-EU market with a share of 9.9 per cent, while first place among the emerging markets goes to China (3.3 per cent). Although the advanced markets, Italy's traditional trading partners, continue to play a leading role in terms of weight, since the mid-1990s, the import of the emerging countries has been expanding at a considerably faster pace in terms of growth, especially since 2001, when China joined the WTO.

**Graph 1.4**  
**Italian export destinations**  
 (% weight of total exports  
 in current dollars, 2017)























Source: calculated by CSC based on UN-Comtrade data.



## 1.3 Step two: consumer goods exports. Italy compared with the rest of the world

**Italy's share of the international consumer goods market** If the focus is narrowed to consumer goods only, Italy's ranking becomes even higher. Of the 984 products recorded as consumer goods in the BEC classification, Italy exports almost 90 per cent (881). This increased degree of diversification corresponds to a significantly larger market share than in the case of total goods exports; in fact, Italy ranks third in the world, with a share of 5.5 per cent of the total value of consumer goods traded, right behind China (18.3 per cent) and Germany (12.4 per cent).

Thus, consumer goods represent a far larger part of our exports (32.4 per cent of the total) than they do in other countries (29.8 in China, 26.9 in Germany, 18.1 in the US and 30.2 per cent in France, against a worldwide average of 23.6 per cent; Table 1.1).

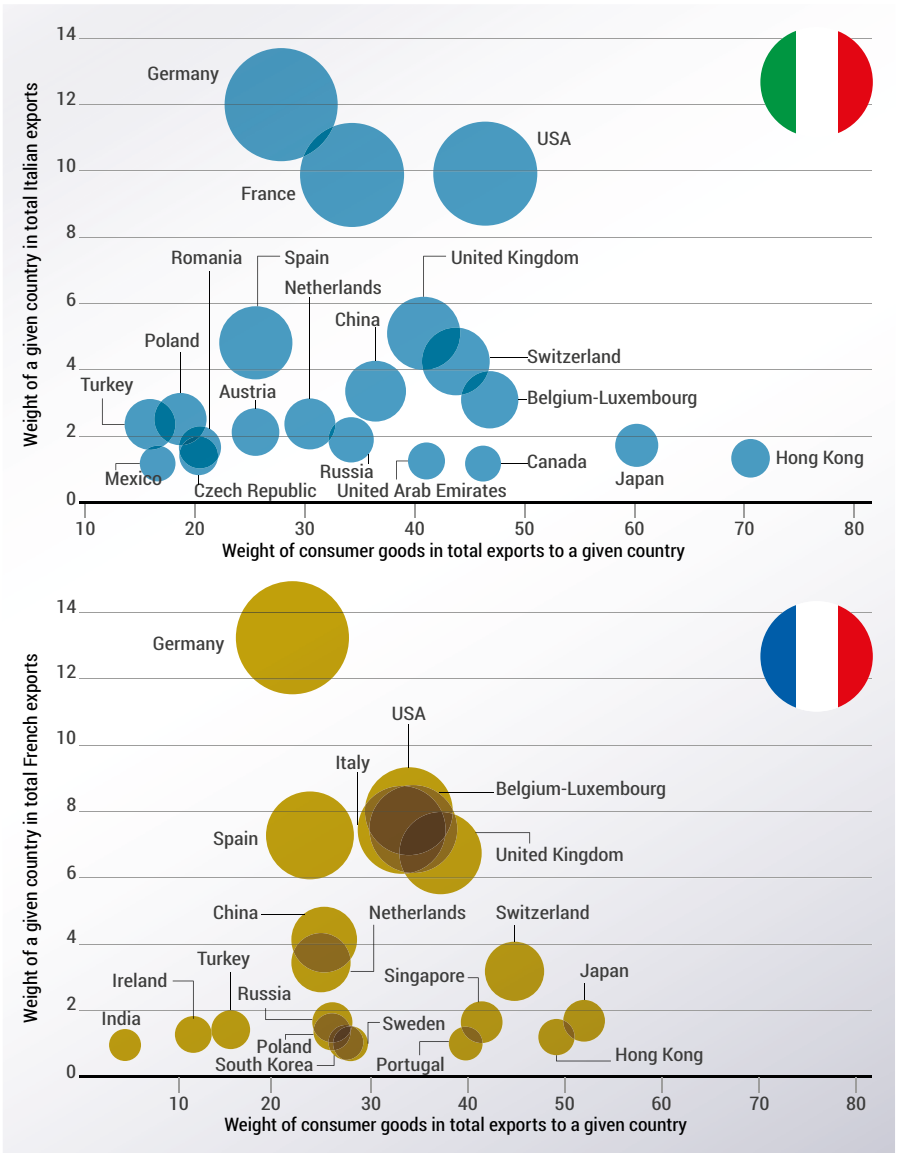
Ranking	Country	% share of total world consumer goods	% share of world exports	% weight of consumer goods in total exports
1 <sup>st</sup>	 China	18.3	14.5	29.8
2 <sup>nd</sup>	 Germany	12.4	10.9	26.9
<b>3<sup>rd</sup></b>	 <b>ITALY</b>	<b>5.5</b>	<b>4.0</b>	<b>32.4</b>
4 <sup>th</sup>	 USA	5.4	7.1	18.1
5 <sup>th</sup>	 France	5.3	4.2	30.2
6 <sup>th</sup>	 Japan	5.0	5.1	22.9
7 <sup>th</sup>	 United Kingdom	4.2	3.2	30.6
8 <sup>th</sup>	 Spain	3.3	2.4	32.2
9 <sup>th</sup>	 Netherlands	3.1	3.6	20.2
10 <sup>th</sup>	 Belgium-Luxembourg	3.0	2.7	26.1
11 <sup>th</sup>	 Mexico	2.9	2.8	24.9
12 <sup>th</sup>	 Switzerland	2.6	2.1	29.1
13 <sup>th</sup>	 India	2.4	1.8	31.5
14 <sup>th</sup>	 South Korea	2.3	4.1	13.5
15 <sup>th</sup>	 Canada	2.3	1.5	34.4
16 <sup>th</sup>	 Poland	2.2	1.7	29.5
17 <sup>th</sup>	 Turkey	2.0	1.3	35.7
18 <sup>th</sup>	 Czech Republic	1.6	1.3	27.2
19 <sup>th</sup>	 Ireland	1.5	0.9	38.1
20 <sup>th</sup>	 Indonesia	1.3	21.2	1.4
	<b>World</b>	<b>100.0</b>	<b>100.0</b>	<b>23.6</b>

**Table 1.1**  
**Consumer goods exports**  
(% share in current dollars, 2017)

Source: calculated by CSC based on UN-Comtrade data.

**The markets for Italian export of consumer goods and total exports** A clearer view of the destination of exports of Italian consumer goods is provided in Graph 1.5, which compares our country's overall exposure to different market areas, i.e. the weight of a given market in Italy's total exports (vertical axis) and the share of exports to that market consisting only of consumer goods (horizontal axis). The first 20 markets are considered, which alone account for over 70 per cent of the total value of Italy's export of consumer goods. The graph also indirectly provides some information on the direction of Italian trade within global value chains.

**Graph 1.5**  
**French and Italian total exports and consumer goods exports**  
*(% share, current dollars, the size of the bubbles represents the value of exports, 2017)*



Source: calculated by CSC based on UN-Comtrade data.

Italy's main export markets are Germany, France and the US. In reality, Italy's trade with the two main European markets is not in consumer goods but in intermediate or investment goods. Germany alone takes 12 per cent of Italian exports, of which 27.8 per cent is represented by consumer goods; in France, is directed 9.9 per cent of Italian exports, of which 34.3 per cent is represented by consumer goods.

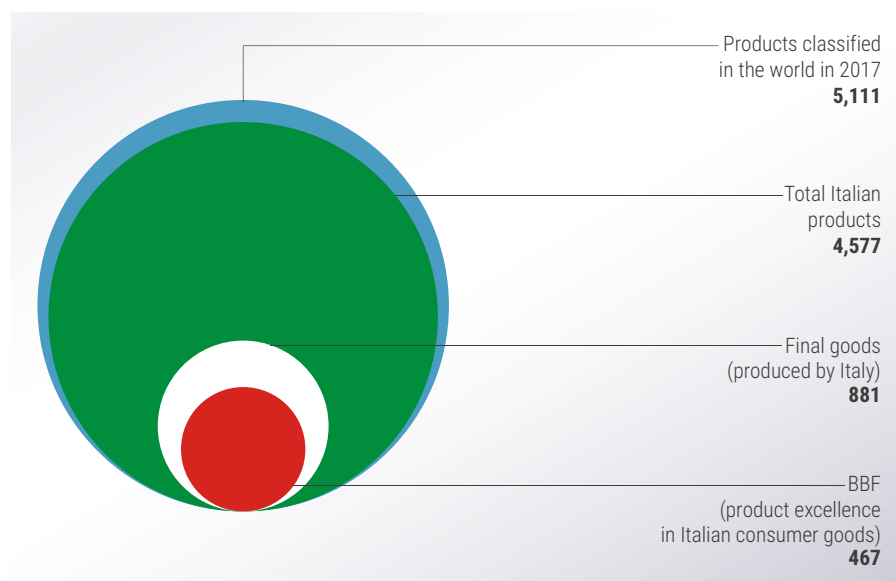
Comparing the position of Italy's main trading partners with that of the main partners of another European country such as France, it emerges that the role of Germany – as for the other European countries – is mainly that of importer

of intermediate goods, reflecting the German economy's central role in undertaking final assembly for production lines throughout the European continent.

In the case of Italy, the weight of consumer goods is particularly evident in the United States (46.5 per cent of Italian exports). Another destination where consumer goods clearly dominate is Hong Kong, at over 70.6 per cent (maybe a counterpart of what happens in China, where the share of consumer goods is 36.5 per cent). Nevertheless, a substantial share of exports to Hong Kong will be re-exported to other countries owing to the historical role of its hub port at the centre of some of the main trade routes: according to World Trade Organization data, in 2018, 98 per cent of Hong Kong's exports were re-exports. The only other major market where consumer goods dominate is Japan (60.3 per cent of Italian exports).

## 1.4 Step three: how many consumer goods are BBF?

In order to identify statistically how many individual products meet the requirements of the BBF concept (quality of materials and production process, industrial craft, emotional value to consumer), we need to reach a high level of sector disaggregation. Hence, after separating consumer goods from the rest, we need to narrow down the field to products of excellence, goods for which Italy enjoys a quality premium with respect to its main competitors (Graph 1.6).



**Graph 1.6**  
**BBF products in relation to total products traded in the world**

(Number of products, 2017)

Source: calculated by CSC based on UN-Comtrade data.
















**Identify excellence ...** The first step is to narrow down the focus to the goods exported by each country that have an AUV above or equal to the 75<sup>th</sup> percentile of the distribution of all countries exporting that particular good. In other words, we need to isolate the distribution quartile consisting of all the competitors whose exports enjoy a quality premium (Table 1.2).<sup>8</sup> Initially, this is done for all goods exported, consumer and otherwise. For example, Germany exports 4,548 products of which 1,199 command high prices on international markets, meaning that more than one in four products exported by Germany

<sup>8</sup> For a more detailed explanation of the methodology used to select the codes, readers are referred to the Methodological Appendix.

achieve excellence. The country with the largest number of products achieving excellence in absolute is Switzerland, with 3,108 products out of 4,480 (70 per cent of goods exported). It is followed by Japan, the United Kingdom, Finland, France, Austria, and in seventh place Italy with 1,535 products out of 4,577. It is interesting to note that an Asian country like Indonesia also occupies a major position, exporting 3,461 types of goods of which 1,336 are exported with AUVs in the 75<sup>th</sup> percentile and a share of the value of world exports equal to 2.1 per cent.

**Table 1.2 – Italy ranks fifth for share of excellent consumer goods exported**

*(Number of products and shares in current dollars, 2017)*

	Goods exported	Exported goods over 75 <sup>th</sup> percentile of average unit values	Consumer goods exported	Excellent consumer goods	% market share in total value of excellent consumer goods traded worldwide (ranking variable)
 Germany	4,548	1,199	873	200	21.6
 France	4,480	1,638	876	359	11.7
 Switzerland	4,203	3,108	861	730	10.9
 USA	3,320	972	454	117	9.3
 <b>Italy</b>	<b>4,577</b>	<b>1,535</b>	<b>881</b>	<b>467</b>	<b>7.1</b>
 United Kingdom	4,620	1,928	879	235	5.9
 Ireland	3,416	1,440	814	232	5.3
 Netherlands	4,537	1,008	871	119	5.0
 Belgium-Luxembourg	4,574	1,075	873	178	4.2
 Japan	3,948	2,018	790	540	2.2
 Indonesia	3,461	1,336	760	249	2.1
 Austria	4,140	1,586	845	371	1.6
 Sweden	3,715	1,129	824	296	1.6
 Canada	2,656	611	395	166	1.5
 Poland	4,407	625	865	113	1.1
 Czech Republic	4,368	966	865	178	1.0
 South Korea	4,259	1,164	833	205	0.8
 Hungary	3,810	1,014	824	197	0.7
 Finland	3,593	1,646	829	438	0.6
 Spain	4,573	853	873	122	0.5

Source: calculated by CSC based on UN-Comtrade data.

... then combine it with information for the subset of consumer goods... To identify the subset of BBF products, a concept that will be used in the report only with reference to Italy, we must first narrow the perimeter to the subset of consumer goods excellence. As we saw earlier regarding Italy's specialisation in consumer goods, in this case, in terms of number of consumer goods excellences exported, Italy, with 467, ranks third after Switzerland (730) and Japan (540).

In terms of the value of its market share, Germany is well in the lead with just 200 products, commanding more than one fifth (21.6 per cent) of the entire market for consumer goods of excellence, a result that reflects German leadership in the global automotive market. France and Switzerland follow with 11.7 and 10.9 per cent respectively. The US is an interesting case, coming fourth with a 9.3 per cent share and just 117 categories of product exported; this could be due not only to the automotive sector, but also to the electronics and IT product industries.

The large variety of excellent products exported by Italy despite its relatively smaller market share compared with countries such as Germany and the US bears out the hypothesis that Italian firms operate in niche markets, where consumers have sophisticated tastes, can recognise and appreciate differences in quality and will pay higher prices than for products with similar functions but of a different nature as to design, performance, duration, material and other characteristics and therefore geared to another type of consumer.

With 467 products and a 7.1 per cent share of world exports of this subset of goods, Italy ranks fifth. This is a middling result, in the sense that it is better than Italy's position in terms of total world shares, where it ranks seventh, but worse than for consumer goods as a whole, where Italy comes third.

It is worth noting that, with the exception of Indonesia, for the time being none of the other major emerging Asian economies figure among the top 20: India is 22<sup>nd</sup>, Malaysia 23<sup>rd</sup> and China 24<sup>th</sup>.

... to obtain the BBF aggregate Briefly, the perimeter of 'beautiful and well-made' products is given by the total consumer goods produced by Italy regarded as excellent owing to the high average unit values at which they are exported: a total of 467 goods for a value of 86.4 billion euros at current values.<sup>9</sup>

**In which sectors are the majority of BBF products found?** Table 1.3 gives details of how the range of BBF products is divided between the main Made in Italy's sectors. Food, Furniture and Fashion are the sectors with the greatest product excellence among consumer goods. The textile and clothing industries have the highest number in absolute of BBF codes: almost all the consumer goods in this sector achieve product excellence (239 out of 296). Other components of the fashion industry follow: the hides and leather industry with 21 products out of 22 and footwear with 17 out of 25. In the food and beverages industry, more than a third of consumer goods achieve product excellence (45 out of 127). The furniture manufacturing industry is also well represented in terms of BBF with 22 categories of consumer goods out of 32 deemed excellent.

In addition to the traditional three Fs, Italy also exports consumer goods in sectors that are included in the BBF category because they achieve values above the 75<sup>th</sup> percentile mark. They include 8 products in the chemicals, pharmaceuticals and cosmetics sector, 10 in the glass and ceramics industry and 5 in the boating industry. Lastly, some of the goods designated BBF are high-tech products: 18 in the watchmaking and precision instrument industry

<sup>9</sup> The estimate is based on ISTAT 2018 data distributed between countries and sectors in the proportions calculated on the basis of UN-Comtrade 2017 data.

## THE SECTORS IN WHICH BBF IS PRESENT

FOOD AND BEVERAGES



CHEMICALS, PHARMACEUTICALS AND COSMETICS



WOOD AND FURNITURE



HIDES AND LEATHER



TEXTILES AND CLOTHING



FOOTWEAR



GLASS AND CERAMICS



ELECTRICAL ENGINEERING AND ELECTRONICS



MOTORCYCLES



BOATING INDUSTRY















OPTICAL INSTRUMENTS, CLOCKS AND WATCHES AND PRECISION INSTRUMENTS



and 6 in the motorcycle industry. The number is important in order to understand the perimeter of BBF products, but it does not necessarily indicate the level of export values that each goods category represents: for example, sectors such as the boating industry with just 5 BBF products out of 467 may in practice have a much greater weight in total BBF exports in value terms (the weight of each sector is analysed in the following chapter).

**Table 1.3**  
**Sector breakdown of BBF**  
*(Number of products, 2017)*

Sector	Total products exported by Italy	Consumer goods	Number of BBF products
 Food and beverages	618	127	45
 Chemicals, pharmaceuticals and cosmetics	632	51	8
 Wood and furniture	124	32	22
 Hides and leather	56	22	21
 Textiles and clothing	775	296	239
 Footwear	25	25	17
 Glass and ceramics	90	17	10
 Electrical engineering and electronics	254	47	14
 Motorcycles	72	20	6
 Boating industry	16	5	5
 Optical instruments, clocks and watches and precision instruments	192	54	18
 Other	1,723	185	62
<b>Total</b>	<b>4,577</b>	<b>881</b>	<b>467</b>

Source: calculated by CSC based on UN-Comtrade data.

# *The viewpoint of the entrepreneurs*

**Davide Bollati**  
*President of Davines SpA*



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**At what point in the company's life did you feel a need to expand abroad and what has been the main factor behind your success in the various markets?**

Actually, I've always been interested in foreign markets: as a student, the Erasmus programme broadened my views and my cultural experience, pushing me in the direction of corporate internationalisation. I would say that the cultural aspect was the main driver of Davines's success in foreign markets. For example, when I joined the laboratory as a young man, we decided to speak only English in order to have immediately, and naturally, an internationally oriented approach.

**What changes have you had to make in the company's organisation to succeed on international markets?**

Don't forget that my company, Davines, has been in the marketplace since the '90s, when the containers were prepared for exports. In 2000 we began to seek a foothold in foreign markets, initially with the Italian manager section and then with the resident manager section, before opening branches, of which there are now six. I think it's important to make constant changes and to adopt a strategy of being actively present in order to monitor the various markets effectively. We've changed from sell-in to sell-out, focusing on market shares and local sales. The changes we are now making are associated with the growth of what might be described as a small multinational.

These changes stem from the type of personalisation that the company has pursued, progressing from the straightforward exports of the '90s, as I said, to the opening of branches since 2000, and now the personalisation of markets with specific, multifunction based local hubs.

**What main obstacles did you encounter and what type of support would you like the public sector to provide in the future?**

I would say they were not so much obstacles as difficulties. They include the fact that Davines has had to do everything on its own, not being part of a district system. The Made in Italy beauty sector is mainly made up of contractor companies, which are clearly competitive and well established. However, it's not yet considered to be a premium sector and it is still viewed as being small. There's clearly been an improvement in recent years, with a more visible reputation.

As regards support, I think work needs to be done on communicating the Made in Italy brand, which includes cosmetics, though not in the traditional way, which mainly consists of international fairs, but through cultural forms

and elements in order to highlight the intangible values that have made Italy great in the world. The French, for example, are very good at this.

I don't think that the project 'Exporting the dolce vita' is simply a commercial approach; it's a system that emphasises our best practices. From our museums, to our landscape, to the humanistic heritage, we need active communication designed to convey the image of Italy and its wealth.

I would ask Confindustria to be braver: to promote a better industrial policy and the best possible policy to improve the approach to sustainability as well. I would cite the examples of Andrea Illy and Altagamma, but there are still too few.

Briefly, I would like the authorities to be able to convey and maximise the value of what is intangible. And I would like Confindustria to have the courage to make a clear choice. We've had sixty governments in sixty years and we've realised that the role of the system of industry federations should be more than to maintain relations with politics: it shouldn't be simply an employers' union, it should be a real driver of economic policy. For example, Italy needs to lobby on the China-US row, it needs to increase its role and credibility within the European Union, and we should not forget to emphasise our historical and cultural values.

**Your company has always been identified with sustainability. How can this characteristic make you competitive?**

Sustainability is without doubt an aspect of competitiveness, I believe. This is why we've become a certified B corporation. We are now in the Anthropocene and our economic models have changed. We need to switch from shareholder value to stakeholder value and so to a new system of contact with consumers. It's no longer enough to think in terms of GDP, we need to look towards a regenerative economy, moving from an unsustainable model to a model of sustainable growth, one that regenerates to combat the social problems of climate change. It is an acknowledged fact that changing to a green economy generates more jobs (look at the case of Enel, as a small example, and especially ENI, both of which are working on this aspect). Consumers demand an approach based on sustainability. Just consider the importance of the green parties in France and Germany, while in Italy the green movement is disorganised and inefficient. Let's not forget that China is very active in this area. Italy needs to focus on its history and on development so that it doesn't have to play catch-up with the international economy. The circular economy is not new in our country; since the post-war years we have succeeded in making the recycling of rags and paper an industry. So, of course, my company's competitiveness comes from a strongly rooted approach based on sustainability, which is clearly recognised by the various markets.



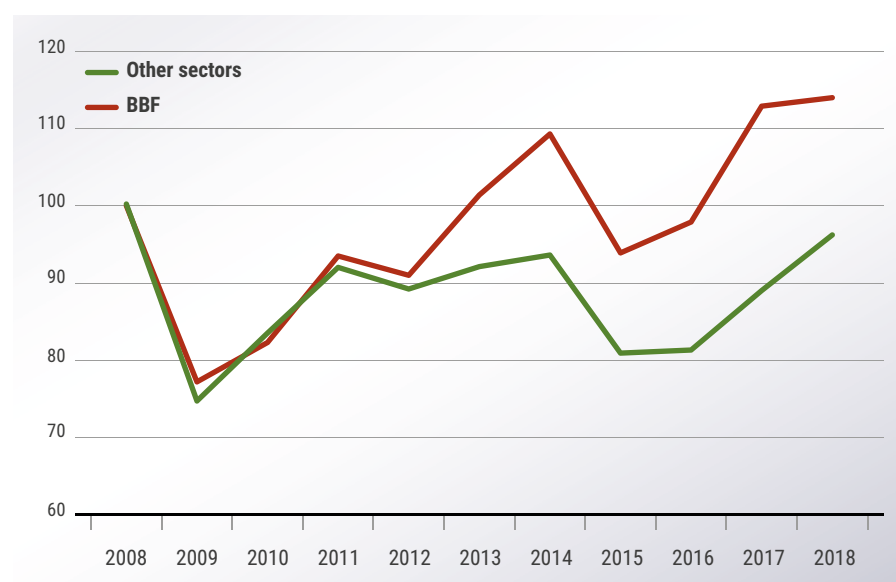
## 2. ‘BEAUTIFUL AND WELL-MADE’ (BBF) PRODUCTS: TRENDS AND MARKETS

2.1	Trends in BBF products	31
2.2	The main exporters of BBF products beyond Italy	32
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## 2.1 Trends in BBF products

### BBF products have recovered rapidly compared with the pre-crisis period.

Starting in 2011, luxury consumer goods exported from Italy have recovered more quickly than other goods. While in 2018 other Italian export sectors were still at 96 per cent of the peak level recorded in 2008, the BBF aggregate was already 14 per cent higher than the pre-crisis export level (Graph 2.1). The more rapid recovery may be due to the different type of target consumer for BBF goods. The target customer is typically upper middle class, a customer base that has continued to grow thanks to demographic and economic trends in emerging countries. In general, this type of goods is intrinsically less affected by the consequences of a fall in demand during a crisis because the target consumer has a higher income on average. The five emerging markets with the largest number of wealthy consumers are China (175 million), India (70 million), Russia (30 million), Brazil (28 million) and Indonesia (23 million). Overall, the market consists of more than 460 million potential consumers.<sup>1</sup>



**Graph 2.1**  
**The reactivity of BBF products after the crisis**

(Italy, exports in billions of current dollars, base year 2008=100)

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

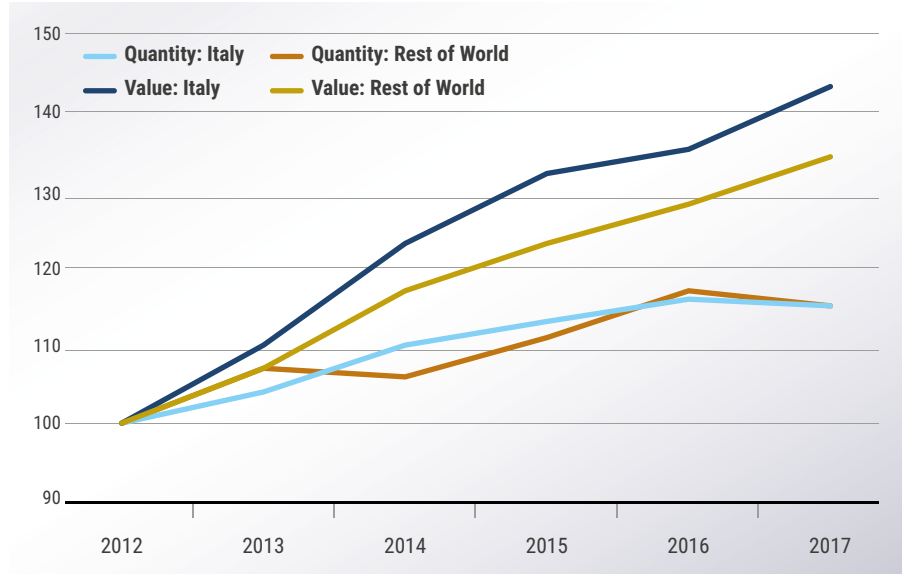
**The key to success? Quality over quantity** The results obtained in the BBF sector are mainly due to the quality of the goods. These goods are often produced in limited quantities or as niche products and are intended for a more informed type of consumption that is less dependent on the elasticity of demand with respect to the price. These goods, while comparable in terms of functionality and merchandise category to other goods sold at much lower prices, are perceived as having a value that makes them distinct and incomparable, and are often associated with an emotional value that tempers any reasoning based solely on economic rationality. Graph 2.2 illustrates the trend in BBF exports in terms of quantity and value over the period 2012-17 (including the global BBF market, which is the sum of BBF exports produced by each country).<sup>2</sup> Setting the value for 2012 at 100, exports of Italian BBF products performed much better in terms of value than BBF exports from the rest of

<sup>1</sup> See *Esportare la dolce vita*, Confindustria Economic Research Department, June 2018 (only in Italian).

<sup>2</sup> For each country, only consumer goods with an average unit value equal or above the 75th percentile of the distribution of the various countries that export the given good.

## Graph 2.2 The higher quality of BBF products

(Exports: current dollars and quantities  
in tonnes, base year 2012=100)



Source: calculated by CSC and the Manlio Masi Foundation on UN-Comtrade data.

the world over the entire period, while the trends were similar with regard to quantity. To the extent that average unit values reflect a 'quality effect', this outcome demonstrates that, during the reference period, Italian exporters increased the average value of their BBF products in comparison with the rest of the world. Against a backdrop of intense international competition, this greater ability to 'set the price' is associated with an increase in the quality of exports.

## 2.2 The main exporters of BBF products beyond Italy

**Italian BBF and its competitors: when quality distinguishes the product** Who are Italy's main BBF competitors? To answer this question, the perimeter of the foreign BBF market must first be identified in order to compare it with Italian BBF exports. The same products found in the Italian BBF sector are exported by many other countries to international markets; however, these products do not always fall within the country's BBF sector (i.e. products with an AUV above the 75th percentile of the price distribution for that product) and therefore may not directly compete with Italian BBF products. What makes BBF products immune from stiff competition in terms of volume, especially from China, is the distinct qualitative element which places them in a market context that differs from that of the other products that are formally classified in the same merchandise category. In fact, these products make their own market in protected niches that have a limited number of competitors, sold mostly in advanced countries with cost structures that are more similar to that of Italy.

This implies that, even though two products are in the same merchandise class, there is a significant difference between an article of clothing produced with low-quality materials and one that is produced using high-quality materials and careful craftsmanship. Not only do the two products have different characteristics, but their consumption is driven by different types of considerations: the first is more tied to a price rationale while the other to the level of quality. Therefore, it is important to differentiate between competition from other countries within the BBF context (where the focus is on the final consumer, quality and the emotional value placed on the product by the con-

sumer) from competition that stems from products that are not high-end and meet a demand that differs from that of BBF products and, hence, have a lower price point.

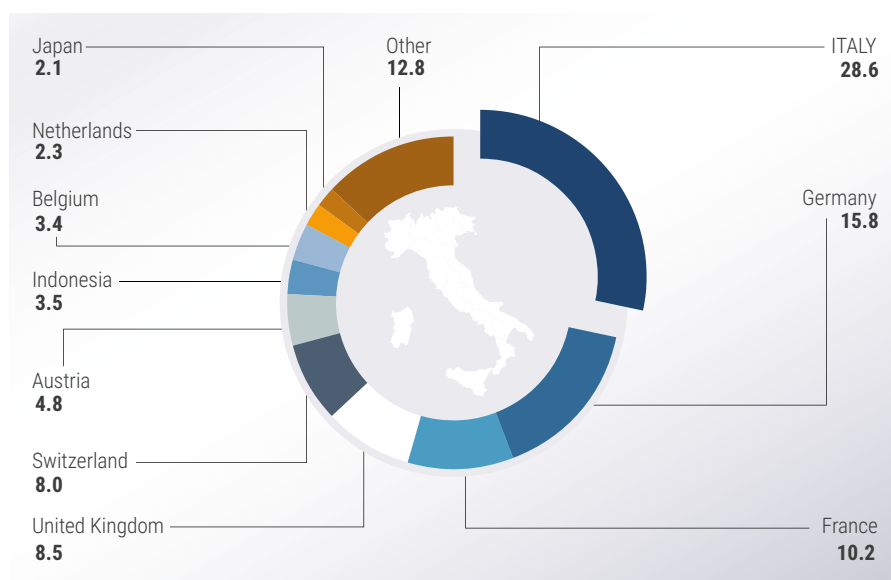
Graph 2.3 illustrates the market share of Italy's main competitor countries as regards the BBF products exported by Italy.

Some BBF-exporting countries, such as Italy's main European partners and Japan, have a production structure that is similar to that of Italy; the only emerging Asian country that is comparable is Indonesia, especially referring to its textile-apparel and its footwear sector.

Competition from emerging Asian countries such as China or Vietnam, which in recent years has posed a big challenge for Italy's productive system, is less significant vis-à-vis BBF products. Indeed, these countries are very big exporters of the non-BBF goods considered herein and are not among the main exporters of accessible luxury products. However, this situation may change: if Asian producers are able to improve the quality of their exported products, and start to directly compete in BBF market segments, their already developed presence in destination markets could serve as a significant advantage.

Germany is Italy's main competitor in a large number of markets. It is a country whose products have a cost and quality structure that is comparable to that of Italian products, albeit with some differences: in the boating industry and electronics sector, German AUV is higher than Italy's, while in the textile and clothing sector, Italy has the higher AUV.

Compared with France, Italy instead competes in a smaller number of markets (mainly Germany, the United Kingdom and Spain), but with a similar composition in terms of sector and pricing. Specifically, it competes with France in the traditional BBF sectors: food, textile and clothing, and leather goods.



**Graph 2.3**  
**Italy's main BBF competitors**

(% share of BBF export in current dollars, 2017)

Source: calculated by CSC and the Manlio Masi Foundation on UN-Comtrade data.

**Counterfeit BBF goods cause significant damage to Italian firms, and are an obstacle in calculating statistics** However, there is another aspect to bear in mind: oftentimes imitation BBF goods are hidden among non-BBF goods. These counterfeit goods try to fraudulently benefit from the branding and from the trust that some labels have earned from their customers. The size of the counterfeiting problem has reached significant proportions, especially in the Italian BBF sector. Indeed, Italian products are among the most highly demanded products in the world, partly thanks to the attraction of the 'Made in

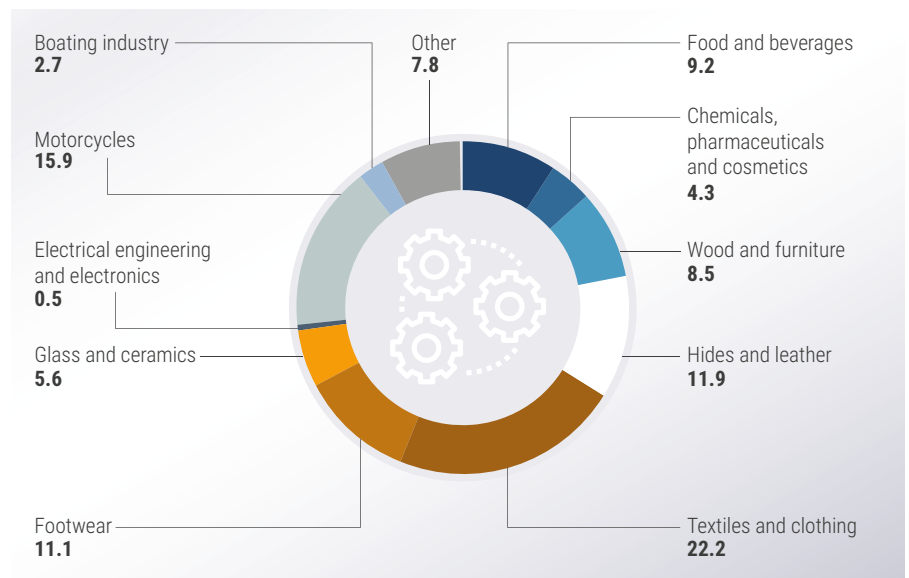
Italy' brand, which consequently leads to them being among the most imitated. According to EUIPO data,<sup>3</sup> counterfeiting generates more than 8.6 billion euros in damages each year, equal to 8 per cent of direct sales.<sup>4</sup> The 'Italian sounding' phenomenon is especially worrisome, which is when a product is imitated – especially in the agro-food sector – through the use of a product name or type of packaging that seems Italian. This practice, which tarnishes the image of the products' quality and tricks less-careful foreign consumers into believing that they are buying an authentic Italian product, results in a loss of market share for BBF products (and also damages their reputation). The counterfeiting of BBF goods, in addition to causing material damage to Italian firms, renders it even more difficult to measure the phenomenon itself, making it so that some of the statistics that track it are less reliable; presumably the Italian share is downward biased.

### 2.3 Competitors by sector

**The structure of the BBF sector** Products in the fashion sector account for more than 45 per cent of Italian exports of BBF products (Graph 2.4). Considering the traditional 'three Fs' as a whole (food, furniture and fashion), the share reaches about 63 per cent of the exported total. This means that BBF products go beyond the three Fs: indeed, some of the BBF goods exported by Italy are high-end mechanical goods, such as motorvehicle products, which alone account for 16 per cent of the total.

What is the share of BBF products to total exports by sector? BBF products account for 81 per cent of exports in the footwear sector, 65 per cent in hides and leather, and 55 per cent in textiles and clothing. These sectors are also those with the highest number of BBF codes overall. The share of BBF prod-

**Graph 2.4**  
**The traditional sectors**  
**dominate BBF exports**  
*(Italy, % share in current dollars,*  
*average 2015-17)*



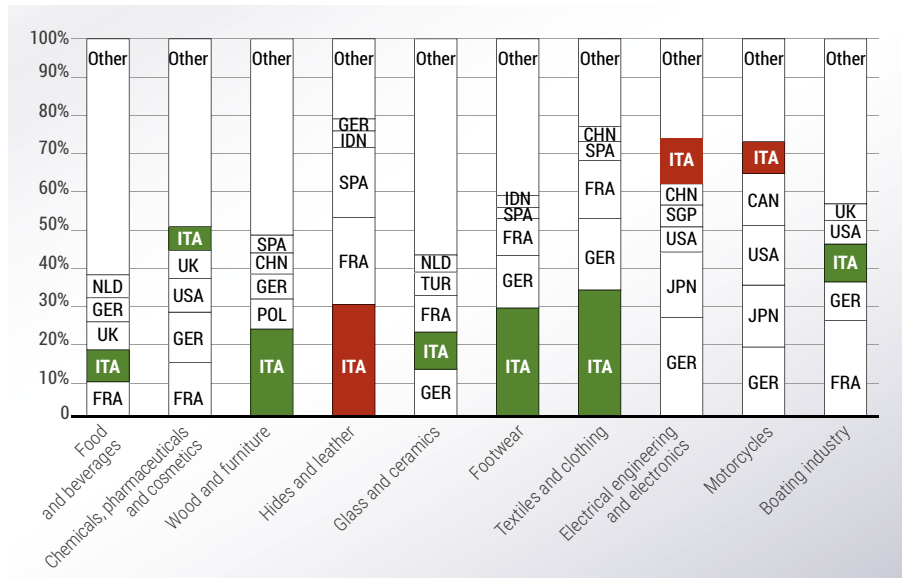
Source: calculated by CSC and the Manlio Masi Foundation on UN-Comtrade data.

<sup>3</sup> EUIPO: European Union Intellectual Property Office (2019): Relazione sullo stato delle violazioni dei diritti di proprietà intellettuale (Report on the infringements of Intellectual Property Rights).

<sup>4</sup> The estimates were calculated on the assumption that, in the absence of counterfeit products, consumers would purchase the same quantity and type of patented product. Costs were estimated both directly (a decline in sales and the resulting decline in profits) and indirectly (the impact on firms' R&D investment).

ucts in total exports is high in other sectors as well: they account for 44 per cent of wood and furniture products, 57 per cent of glass and ceramics, and 40 per cent of products in the boating industry.

**Who are the main competitors by sector?** Graph 2.5 illustrates, for each BBF sector (see Chapter 1), the five largest global exporters of BBF goods in 2017. Each column in the graph represents a different sector. Moreover, a green box indicates an increase in Italy's market share in the sector over the last two years while a red box indicates a decline.



**Graph 2.5**  
**BBF: Italy's main competitors by sector**

(First 5 competitors by sector)

In green the sectors where Italy has improved its share over the period 2015-2017, in red the ones where Italy's position has worsened. IDN stands for Indonesia.

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

Among the sectors considered, Italy has the highest market share in the following sectors: wood and furniture, hides and leather, footwear, and textiles and clothing. These are the most significant Italian BBF sectors in terms of size. Italy is second in terms of global exports in the food sector and in the glass and ceramics sector, the other two well-established sectors in the BBF segment. With the exception of the electrical engineering and electronics sector, Italy always ranks among the top five exporters. In all the sectors considered, excluding hides and leather and motorcycles, over the last two years Italy has improved its position, gaining market share.

In recent years, Italy has either increased or substantially maintained its market share in the food and beverage sector in most markets. Despite a price level that is similar to that of its major competitors (France, the United Kingdom and Germany), Italy has succeeded in increasing its sales volume, especially in markets outside Europe, capitalizing on their growing demand for high-quality products.

In contrast, there is greater heterogeneity among the various markets in the wood and furniture sector: while Italy is the top exporter in the European market, standing far ahead of its competitors, outside Europe – with the exception of Russia – Italy's share varies, partly for the greater geographical distance and the different regulatory frameworks of the various markets. China is one of Italy's competitors, having succeeded in improving the quality of its products, thereby putting pressure on the more established exporters like Italy, France and Germany, especially in emerging markets. Poland's position as the second largest exporter reflects the presence of foreign subsidiaries of western firms, especially German, that have moved part of their production process to Poland.

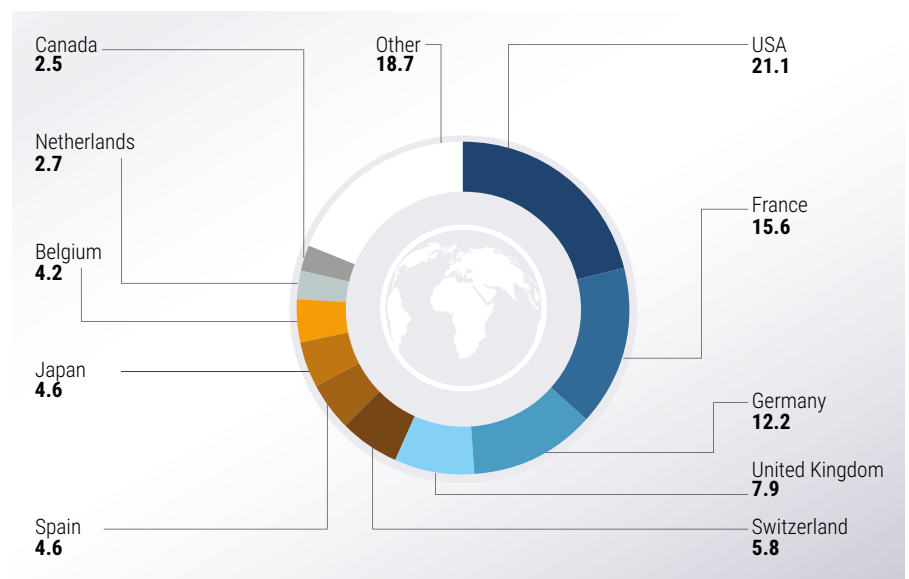
**Advanced markets are the main outlet for BBF goods, but the share of BBF goods sold in emerging markets is growing** Some 80 per cent of exported BBF products are sold in the advanced markets, while only 20 per cent reaches the emerging markets. These figures are explained by the very nature of BBF goods, which are by definition intended for sophisticated customers capable of purchasing relatively expensive products. Apart from differing in size, the two markets also face different problems (and challenges): indeed, while the advanced economies try to increase their market share mainly by eating away at that of their main competitors, the more rapidly expanding emerging economies try to find new growth strategies, for example adapting to tastes that differ greatly from those of European and Western customers. However, these two markets should not necessarily be seen as being in contrast: in fact, the ability and expertise that Italian firms have amassed while operating in more mature markets has made it possible for them to access emerging markets that offer more interesting prospects for the future but also greater risks.

## 2.4 BBF outlet markets: the outlook of the advanced markets

**Among the advanced economies, the US and the EU absorb the majority of BBF exports** Among the advanced countries, the largest destination market for Italian BBF products is the United States, followed by the main European countries that have long served as Italy's trade partners: France, Germany and the United Kingdom (see Graph 2.6). The other non-EU countries that rank among Italy's top 10 trade partners include Japan, with a share of about 5 per cent, and Canada, with around 2 per cent.

Despite recording less rapid growth in consumer expenditure on goods compared with the emerging economies, the main reason for which the advanced markets still serve as the main outlet for Italian BBF products – apart from the higher income level – is their greater accessibility. In fact, even in the face of ever increasing uncertainty on the international markets, the advanced countries, especially European ones, have a lower level of tariffs (although trade relations with the US are rapidly changing on account of the protectionist policies enacted by the Trump administration). In addition, these countries bene-

**Graph 2.6**  
**USA and EU, the main outlet markets for BBF products among the advanced economies**  
 (% share of import from advanced markets, value in current dollars, 2017)



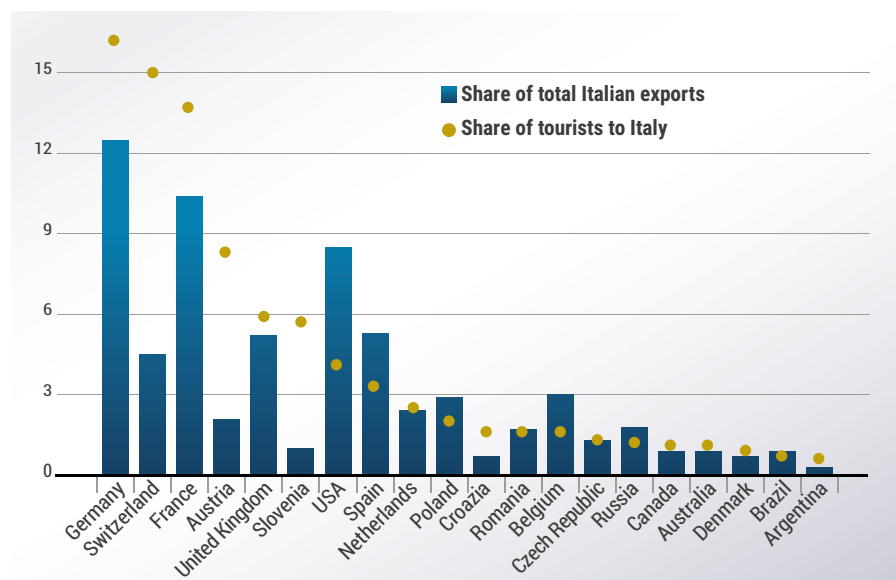
Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.



fit from wholesale and local distribution systems that are of a higher average quality and from better overall logistics, which are fundamental, especially for SMEs, since they are less capable of creating autonomous distribution systems and of using monobrand stores to access final consumers. Unlike other countries like France (especially in the agro-food sector) and Germany, Italy is still lacking a large national distribution chain (with the exception of some examples that are still too niche) that can ensure easy access to foreign markets and can help firms adapt to different cultural contexts by 'explaining' the quality of BBF products.

It is worth noting that the recent positive trends in Italian exports were driven by the very favourable performance of consumer goods, which involved sectors and markets where the BBF component is especially pronounced. For instance, there was a significant increase in exports of fashion products towards Switzerland, an important hub for this type of luxury product. Food exports also performed well, another major sector for BBF products. These are positive signs for the market prospects of Italian-made products, even if many of the factors that contributed to the recent trends may prove to be temporary, such as the stockpiling of goods in the United Kingdom on account of the uncertainties surrounding Brexit.

**Tourism drives the BBF experience** International tourism represents another important channel for the promotion of BBF products. If one compares the top destination markets for Italian-made products to the main countries of origin of foreign tourists in Italy, the group of countries is the same: Germany, France, the United Kingdom and the United States.<sup>5</sup> In fact, tourists not only purchase Italian-made BBF products while visiting Italy, but potentially also after their return to their home country and can serve as an important diffusion channel for their consumption. Distance certainly plays a bigger role in tourism flows than in trade flows: countries like Slovenia, Austria and Switzerland tend to have a very high share of tourists that visit Italy, much higher than that for trade, while the opposite could be said for the United States (Graph 2.7).



**Graph 2.7**  
**Goods trade and tourism flows go hand in hand**  
 (% share of total Italian exports and total tourists in Italy)

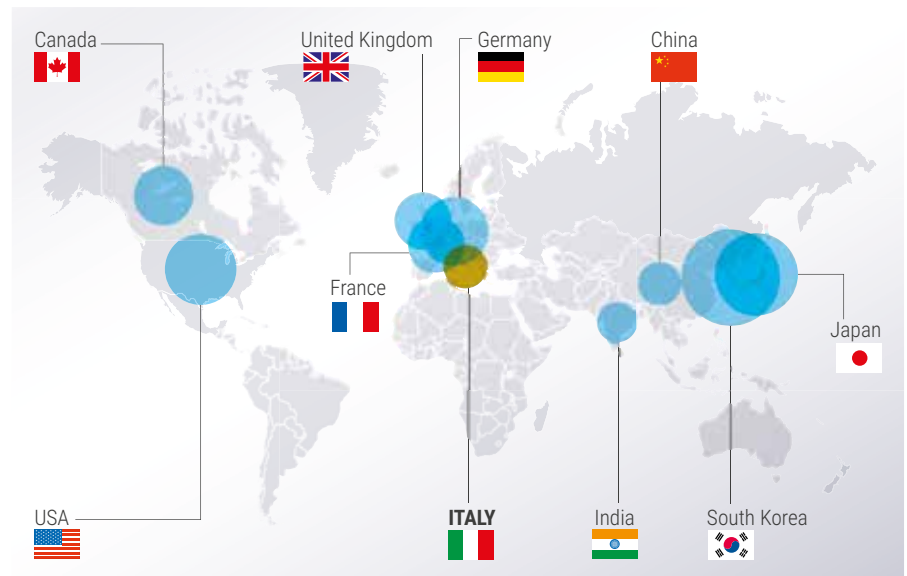
Source: calculated by CSC based on data from UN-Comtrade and the Bank of Italy.

<sup>5</sup> Source: ISTAT, 'Tourist Flow in Italy', 2017.



**The importance of virtual shop windows: Italy must increase its e-commerce sales** Although Italy is one of the top ten countries in terms of online sales, it lags behind the e-commerce sales of its main competitor countries, which are also its main outlet markets. Italy's online sales account for 17 per cent of its GDP, more in line with China (16 per cent) and India (15 per cent) than with the other advanced economies, which vary between a range of 84 per cent for South Korea and 28 per cent for France (Graph 2.8). BBF products must be advertised on dedicated websites that are capable of highlighting the features that distinguish them from similar non-BBF products and, more importantly, from counterfeit goods. Moreover, according to the e-commerce observatory of the Politecnico di Milano, the highest online sales were for furniture, food, and fashion products, i.e. the three Fs which serve as the pillars of the BBF sector. The challenge is as big as it is inevitable.

**Graph 2.8**  
**E-commerce:**  
**Italy ranks in the top 10,**  
**but lags far behind**  
**the advanced countries**  
*(Total e-commerce sales as % of GDP)*



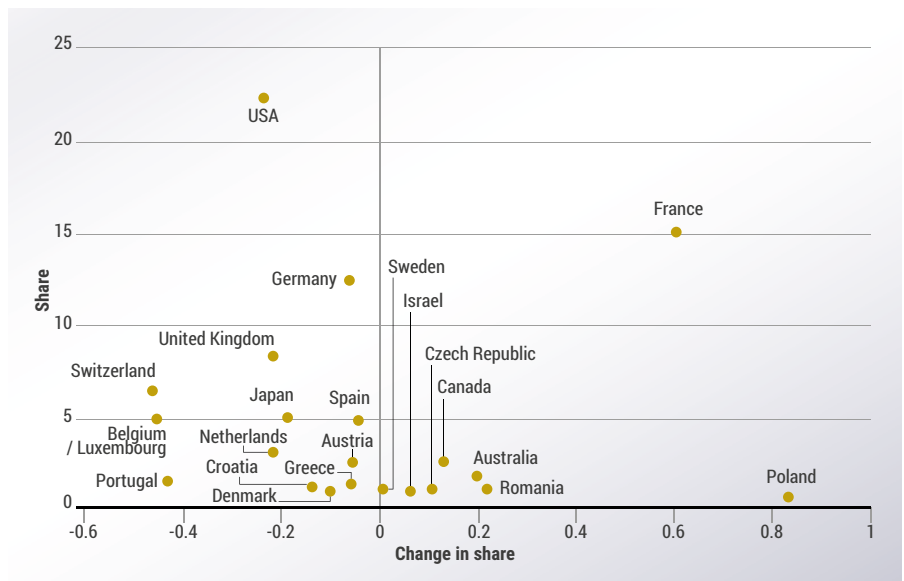
Source: calculated by CSC and the Manlio Masi Foundation based on UNCTAD data.

**What are the destination markets?** With regard to the individual outlet markets, the United States ranks first, absorbing just under a quarter of Italy's BBF exports. Among the advanced countries, the United States has the largest market, with a population of more than 320 million residents, and the highest purchasing power, with a disposable income per capita of 37,000 euros. However, these figures alone cannot explain the success of Italian BBF products in this country: indeed, taking into account total Italian exports, the United States falls to third place with 9.9 per cent of Italian exports, a much lower share than that for BBF exports. Another reason may be consumers' greater appreciation for quality and for characteristics like craftsmanship. Also worth mentioning is the success of marketing campaigns and the recent agreements, especially in the food and beverages sector, with large distribution channels. The sectors that export the highest values to the United States are the motorvehicle sector, the textile and clothing sector, and the footwear one. Instead, the fastest growing sectors are chemicals and food.

Even France, Italy's long-standing BBF competitor especially in relation to fashion and food, is a relatively important destination market for BBF products, more so than for Italian exports as a whole, mainly on account of the alignment between consumer tastes and the type of products being exported. Fashion products are some of the most highly exported goods, both those in the textile and clothing sector and those in the leather and footwear sectors, which have been the fastest growing sectors over the past two years.

In contrast, Germany is relatively less important as a destination market for BBF goods. Taking into account total exports, Germany is Italy's most important partner with a share of almost 13 per cent. In this market however, Italian BBF products face stiff competition from Swiss BBF products, which are favoured partly on account of the similarities between the cultures and histories of the two countries, especially as regards food, eyewear, watchmaking and precision tools.<sup>6</sup> The main sectors are the textile and clothing sector and the food sector, while those experiencing the highest growth in recent years are the boating industry and the chemicals sector.

**BBF market shares expand in France and contract slightly in the US** How have Italy's market shares changed in recent years and how are they trending in the advanced countries? Graph 2.9 shows the relative importance of each export market for the Italian BBF products on the vertical axis, and, on the horizontal axis, the change in market shares between 2015 and 2017. From this we can see where Italy's shares have increased and where they have decreased. Of the main markets, the relative importance of France as an export market has risen, while Germany has remained essentially stable and that of the US has fallen by a very small amount owing to the fact that it is less accessible, since it has different and stricter standards and regulations than those applicable to intra-European trade.



**Graph 2.9**  
**Market shares rise in France, fall in US**  
*(The Italian BBF export in current dollars, % share in 2017 and change in % share 2015-2017)*

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

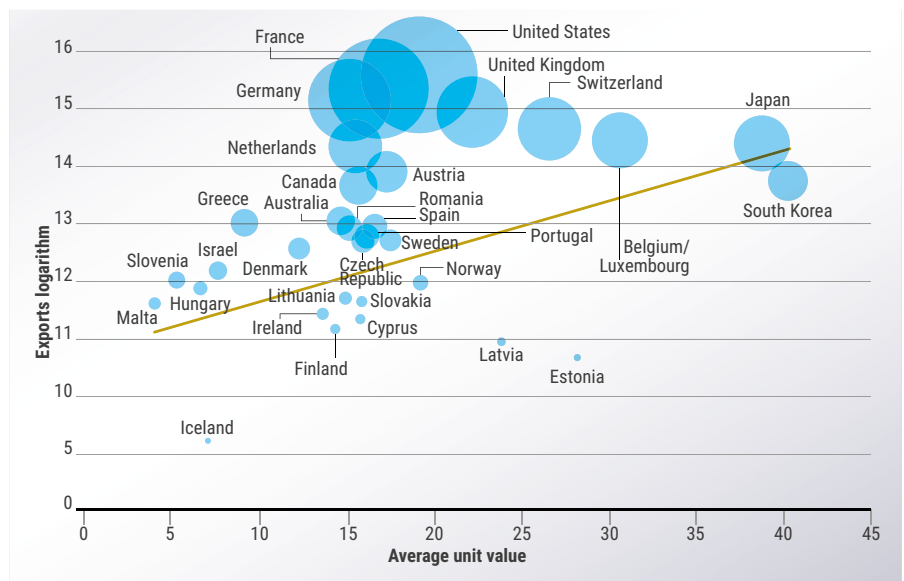
Among the other advanced countries, Italian BBF sales have improved in all the Eastern European countries, in particular Poland and Romania which in recent years have increased their consumption of Italian products of excellence, especially in the textile and clothing, leather and footwear sectors.

**South Korea and Japan are among the advanced economies in which products are sold at the highest prices** Among the markets in which Italy sells its products of excellence, which have the best price outlook? And how strong is Italy's presence in those markets in which people are willing to pay more? To answer these questions, the AUV level of BBF exports is compared with the

<sup>6</sup> However, it must be borne in mind that in recent years Switzerland has served as a logistical hub for re-exports, especially for luxury goods, meaning that not all Swiss exports are actually produced in Switzerland. An important example of this is the case of the 'Ticino Fashion Valley', which became a fundamental trade hub for many Italian and German luxury brands.

**Graph 2.10**  
**BBF prices vs quality**  
**in the advanced countries**

*(Exports in current dollars, size of balloon based on the percentage of Italy's total exports to the advanced countries, 2017)*



Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

The relationship between AUV and BBF exports appears to be a positive one. It is an indicator of how well Italian BBF products are positioned: on average, Italy exports more to countries in which consumers are willing to spend more for Italian products. Looking at all BBF exports, the markets that pay the most for Italian products are South Korea and Japan, followed by Belgium, Switzerland and the United Kingdom. In South Korea the highest AUVs are found in the textile and clothing sector and in the food sector. In Japan as well, the textile and clothing industry has the highest AUV differential, followed by leather goods and the yachting industry. In Belgium and Switzerland, chemicals, pharmaceuticals and cosmetics reign, benefiting from a price premium, which is better than the sector average.

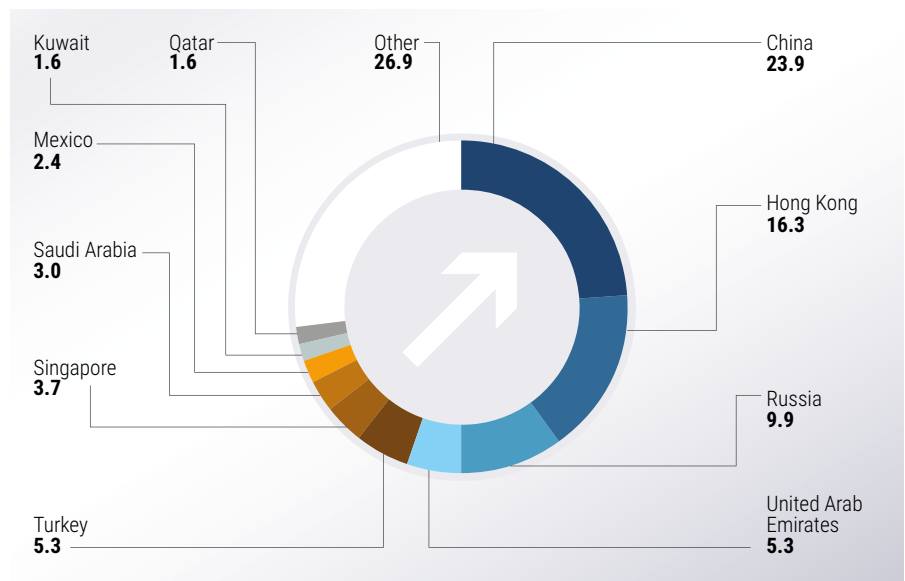
**2.5 BBF outlet markets:**  
**the outlook in the emerging markets**

**China, Hong Kong and Singapore alone account for 50 per cent of BBF exports to emerging markets, while BBF to India has continued to decline**

Although the advanced markets - Italy's traditional trade partners - continue to play a primary role, since the mid-90's the share of exports to the emerging countries has grown rapidly. Since 2001, the year in which China joined the WTO, imports have grown at an average annual pace of 8.2 per cent in the advanced countries, while imports have increased at more than triple that rate (25.5 per cent) in the emerging countries. In addition, in recent years the recession has taken a toll on the lifestyle and purchasing power of consumers in the advanced countries, while the emerging countries have experienced significant social transformation, such as greater urbanization and women participation in the labour market, improvements in the level of education, and the development of "outgoing" tourism, factors that have accelerated the process of consumption upgrading. This however poses a challenge for Italian BBF exporters: it means they must understand the needs of an emerging middle class that will have cultural, political and social characteristics that differ

greatly from our own, despite the consumption standardization that has been occurring for decades.

Among the emerging countries, the main export markets (Graph 2.11) are in Asia, with China at the top of the list, followed by Hong Kong and Singapore (these three countries alone represent 50 per cent of Italian BBF exports to emerging markets), then Russia, which is trailed by the Middle East (mainly the United Arab Emirates, Saudi Arabia, Kuwait and Qatar). Although Italy has been able to overcome the challenges posed by new target customers in these markets, in others – such as India or Indonesia, countries that have strong middle-class growth rates – Italy’s presence is still below the market potential.



**Graph 2.11**  
**China, Hong Kong and Russia**  
**are the main emerging markets**

(% share of BBF import from emerging markets in current dollars, 2017)

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

**In China Italian BBF sales are strong, but our competitors are doing even better** The most significant emerging market for Italian BBF products is China, which represents 13 per cent of total Italian exports to emerging countries and 24 per cent of Italy’s BBF exports, thanks to the recent rise in domestic consumption. At the sector level, China mainly imports textiles and clothing products and hides and leather from Italy. In recent years, exports of motorvehicles and glass and ceramics have experienced notable growth. Graph 2.12 shows that, however, Italy ranks only fifth in the list of main BBF exporters to China, coming in after Germany, the US, Japan and the United Kingdom. Germany exports almost four times as much as Italy in BBF sectors of excellence. This result is heavily influenced by Germany’s leadership in the automotive market.

Hong Kong accounts for 5 per cent of total Italian exports to emerging countries and 16 per cent of BBF exports. However, in the last few years, Hong Kong has gradually established itself as a hub for export trade, especially for the fashion sector, serving only as a transit point for sending goods to final consumers in other countries in the area.

In recent years Russia has registered a moderate, but positive rate of growth. Rising oil prices and exports are, in fact, bolstering economic activity, despite an environment in which uncertainties tied to international sanctions weigh heavily. Food products have been especially hard hit by Russian counter-sanctions through, for example, the discriminatory treatment of imported wines in favour of domestically-produced wines, which are subject to a com-

### Graph 2.12 Italy lags behind in BBF exports to China

(Market shares of Chinese imports of BBF, current dollars, 2017)



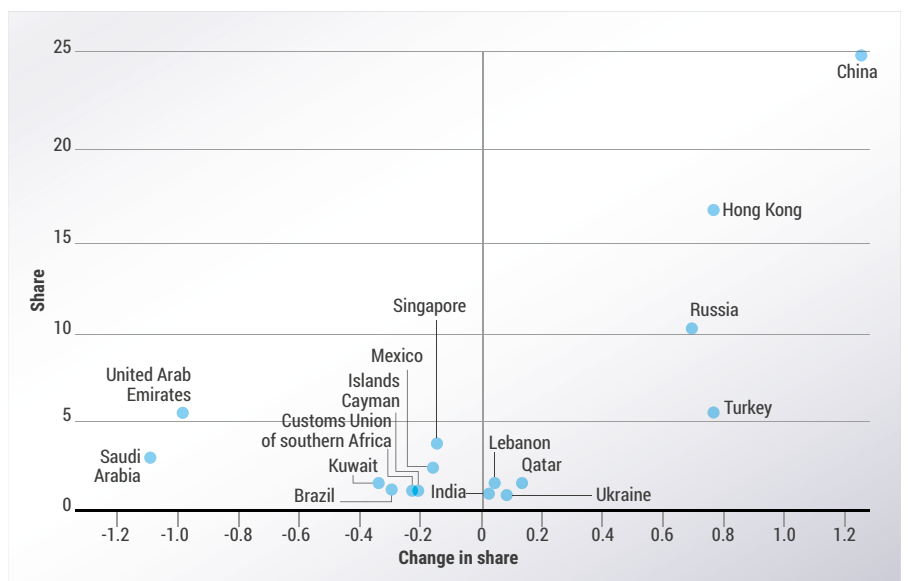
Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

plex system of excise duties that are linked to the country in which the wine is produced. Despite these difficulties, Italian products of excellence have managed to maintain their market shares, especially in the fashion sector.

Among the Arab countries, the United Arab Emirates continues to be the top destination market, driven in part by demand linked to Expo 2020. The UAE also represents an important commercial showcase for BBF products given the large inflow of regional and international tourists (in Dubai alone there were 15.9 million overnight stays in 2018, making it the fourth most visited city in the world thanks in part to its extensive network of airline connections). In addition, in recent years the country has been able to establish itself as an important commercial platform, functioning as a distribution hub for Middle Eastern and Asian markets. The sectors with the highest presence are wood and furniture as well as textiles and clothing, but in the last few years the glass and ceramics sector has been the most vibrant.

### Graph 2.13 Market shares rise in China, Hong Kong and Russia

(The Italian BBF exports in current dollars, % share in 2017 and change in % share 2015-2017)

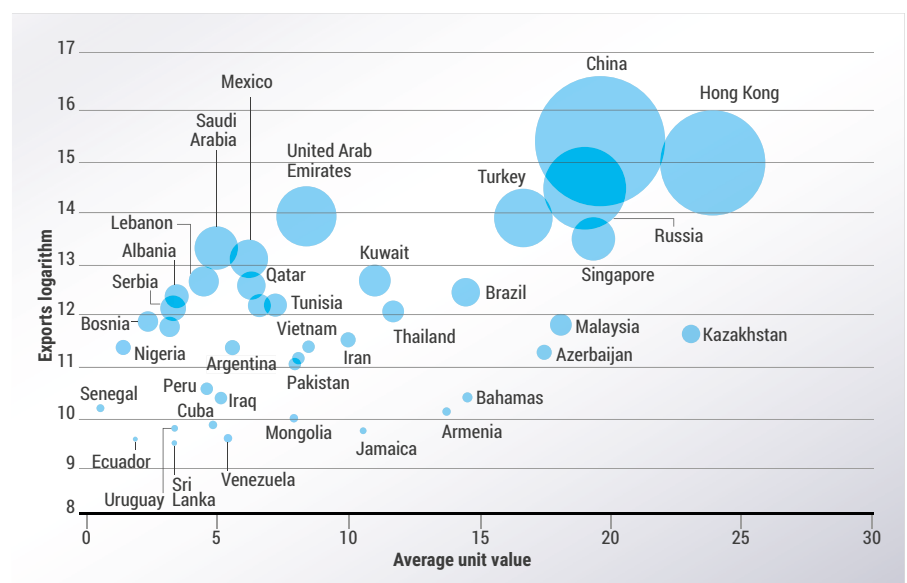


Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

**Performance improves in China and Hong Kong and falls off in the United Arab Emirates** Graph 2.13 replicates the information already reported in Graph 2.9 for the advanced countries, showing just the markets that have a share of at least 1 per cent of total exports to the emerging markets. Although India is a fast-growing country, the results still fail to meet expectations because of high tariffs and strong regulatory barriers, an average per capita income that remains low and consumer tastes that do not yet align with BBF products. Not surprisingly, the countries that have become more important are in East Asia, driven by favourable growth in consumption in the last few years. Despite recent international tensions, the Russian market is also gaining importance, thanks to successful advertising campaigns by Italian brands and their ability to instil in consumers a perception of quality. By contrast, the Middle Eastern market has proven to be a disappointment in recent years, largely due to the recent less-than-stellar economic performance (on average, real GDP growth in the last two years has barely broken 1 per cent).

**The quality effect is much stronger than the price effect in the emerging markets** Even in the emerging markets, there is a positive relationship between AUV and the value of exports (Graph 2.14). Despite an AUV that is on average lower than that for the more mature economies, owing to the different spending capacities of consumers in the two groups of countries, Italian BBF exports are nonetheless well positioned. The emerging market with the highest average prices was Hong Kong, followed by China, Russia and Kazakhstan. The latter is an interesting case because, despite the high prices, the amount of BBF exports is still modest: this represents another opportunity for Italy, because this country's willingness to spend on quality is still not adequately being met.

At the sectoral level, China has the highest AUV in the textile and clothing sector, followed far behind by the United Arab Emirates and Russia. Instead, for the food industry, Singapore reports the highest average prices followed by the Persian Gulf nations: Saudi Arabia, Qatar, Kuwait and Bahrein. The sector that in recent years has seen its export prices rise the most is the boating industry, which recorded an increase in price-premium, especially in the Arab countries.



**Graph 2.14**  
**BBF prices vs quality**  
**in the emerging countries**

*(Exports in current dollars, size of balloon based on the percentage of Italy's total exports to the emerging countries, 2017)*

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.



# *The viewpoint of the entrepreneurs*

**Emilio Mussini** ◀

*President of the Promotional Activities Committee  
of Confindustria Ceramica (Federation of Ceramic Industries)*

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**At what point in the company's life did you feel a need to expand abroad and what has been the main factor behind your success in the various markets?**

At the beginning of the millennium we became aware that competition was shifting from the single market/country basis to a global reach and that the real competition would no longer be with local players but with international giants. So it would not be enough just to export in order to be a leader beyond our borders, we needed to be present at an international level and be ahead of the game in terms of innovation. Our mission thus became to open factories abroad (we were one of the first Italian ceramic manufacturers to do so) and to invest massively in technology; we decided to finance this major strategic move by listing the company in 2004. In the meantime we had already self-funded our first move abroad, a factory in Portugal to diversify our geographical risk in Europe, but we believed it was essential to focus on the US, which was already our biggest export market, by opening there too. Over the years, our strengths abroad have been our specific presence in key markets, our maximisation of highly skilled and efficient production hubs, and the development of commercial organisations dedicated to given areas.

**What changes have you had to make in the company's organisation to succeed on international markets?**

Our starting point was our export propensity, which has always been strong among the companies in the Group, while our commercial organisations have always been geared to finding the best solutions for different foreign markets and for our various business partners (dealers, designers, contractors, company buyers). We then began to adapt our model by making a series of strategic acquisitions (in Portugal, in the US, as well as a joint venture in India) that led us to evolve into a true multinational group, which continues to be coordinated from Italy (where the head and heart of product design and technological innovation also remain) while our assets are spread internationally. Our plan is to tackle our further expansion by continuing to rationalise our international structure. This means greater synergy between assets in Italy, the two sites in Portugal and the one in the US, centralising general and research functions, and leaving the final product development phase abroad according to the needs of the specific market. Thus, whereas previously we operated through three totally independent poles, on the model of silos, nowadays we aim to have extremely close coordination between centre and periphery to avoid wasting energy and to enhance our stylistic image, which must be recognisable and distinctive wherever we sell.

**What main obstacles did you encounter and what type of support would you like the public sector to provide in the future?**

The main difficulties we encountered during this process of internationalisation were chiefly of a cultural nature, when we sought to run our foreign units with local management coordinated by a small Italian staff on the spot.

On the other hand, we found the public administration in both America and Portugal to be extremely helpful and attentive and we would like the same to happen in Italy so that we can expand our domestic assets, which is crucial if we are to remain world leaders for technology and design.

Lastly, there is need for a stable and long-term plan for the renovation of Italy's buildings in the interests of safety and sustainability.



# 3. POTENTIAL FOR BBF

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### 3.1 Analysis of untapped export opportunities

In this chapter we analyse the potential market for Italy's BBF exports. In this context Italy is well positioned on international markets and its BBF firms are very competitive and are often leaders in their respective fields. Nevertheless, there are plenty of markets in which Italian firms are outperformed by competitors with similar characteristics. Therefore, it is important to understand how Italy can further increase its exports.

**Untapped export potential: a measure of the export growth that may be achieved given the performance of Italy's most similar competitors** For each of the more than 467 Italian BBF products and for each destination market, we have identified exporting countries that, having characteristics similar to those of Italy, are able to achieve better export results. The factors taken into consideration in comparing the different exporting countries are based upon the principal measures adopted in the economic literature and include per capita income, prices (average unit values), degree of specialization, degree of diversification of exports, substitutability of goods exported, market shares and geographical distance. Using this data, it is possible to construct a measure of the additional exports that could be achieved by comparing Italy's performance with that of its most similar competitors. The existence of a positive differential between potential exports and actual exports indicates that there are growth margins in penetrating foreign markets.

The analysis of export potential and growth margins is the subject of the first part of this chapter (Sections 3.2 and 3.3). The advanced markets and the emerging markets are described separately so that the information is clearer.<sup>1</sup> This decision was made because the countries included in the two groups have very different characteristics: the mature economies of the advanced countries have large markets and high disposable income and BBF holds a relatively solid position; vice-versa the emerging countries, with some exceptions, have much smaller domestic markets and an average lower disposable income (but with classes of *nouveau riche* that are very interested in Italian-made products). In these countries Italian BBF products still have a certain growth margin, both for reasons tied to economic development and for historical and cultural reasons (such as, for example, the work still to be done to bring Asian consumers closer to the wine culture). The growth potential analysis presented in the first part of the chapter offers a framework that looks at export supply at product level, i.e. the theoretical potential for Italy to increase exports taking into account the structure of the market and how Italy's competitors are positioned for each BBF product and destination country.

In the last part of the chapter (Section 3.4), additional considerations in regards of the destination market level are added to the analysis. Once the existence of untapped potential is ascertained, it is necessary to evaluate the export opportunities and whether this potential can be achieved in whole or in part in the medium/long-term. To assess export opportunities at country level, two other indicators are used with the growth potential analysis: the first looks at demand, taking into account the growth outlook for imports for the various markets; the second assesses the compatibility between the demand for imports and the supply of Italian exports. The work to be done and the challenges that await not just BBF firms but the entire country in the coming years will involve transforming potential into reality.

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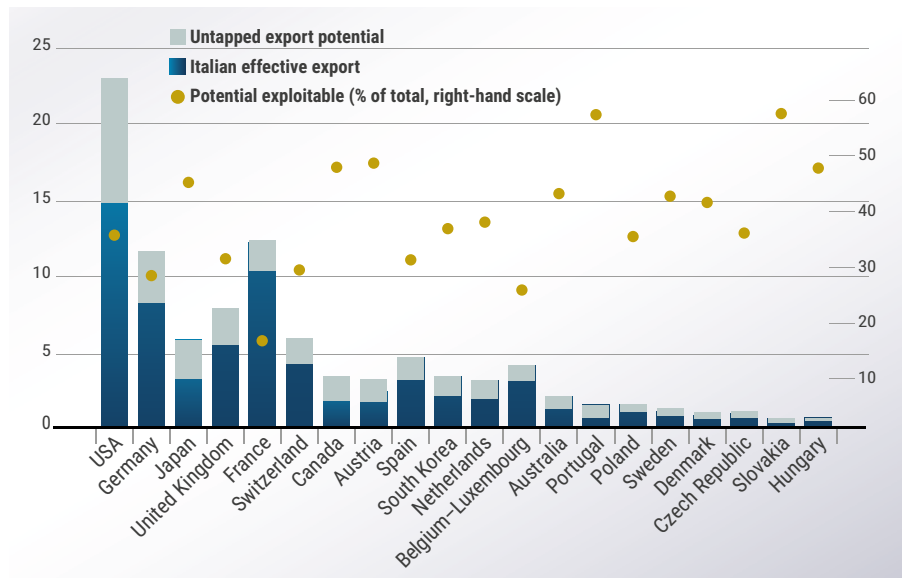
<sup>1</sup> For the most part, the IMF classification is used; the only difference regards EU countries that the IMF continues to view as emerging economies (e.g. some countries in Eastern Europe) and that in this report are treated together with the advanced ones.

## 3.2 Advanced markets

**The United States is the market with the highest potential in absolute terms, with €8.2 billion in potential additional exports** Graph 3.1 shows the export potential<sup>2</sup> for BBF in the main advanced markets.<sup>3</sup> From the graph we can observe that the high growth potential in the US largely depends on the size of the market. It is possible to increase exports to the US not just because of the characteristics of Italy's commodities, but also because a small improvement in our ability to penetrate the US market would mean a significant increase in exports. The graph shows four other countries of interest: Germany (€3.3 billion in potential additional exports), Japan (€2.6 billion), the United Kingdom (€2.5 billion) and France (€2.1 billion). The interest in these countries derives from the fact that they are relatively large and rich, as well as close from a geoeconomic and cultural point of view.

**Graph 3.1**  
**USA key by volume,**  
**high potential in Canada**  
**and Japan**

(Actual and potential BBF exports in billions of euros, 2018; the countries are listed in order of untapped potential)



Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

The analysis points to ample potential that can still be exploited, just under 50 per cent of the total for Canada and Japan and 40 per cent for South Korea. Austria is also a country of interest (€1.5 billion in exploitable growth potential), even if it is not a particularly large market, because it is wealthy and it borders Italy. The analysis reveals that Italian exporters are under-represented in Austria, but they could attain better results given the characteristics of similar competitors. In this market, for historic and linguistic reasons as well, Italy suffers from the strong presence of Germany. It is difficult, by comparison, to assess Italy's potential in the United Kingdom, which is an important market for Italy in terms of both potential and actual exports. Obviously

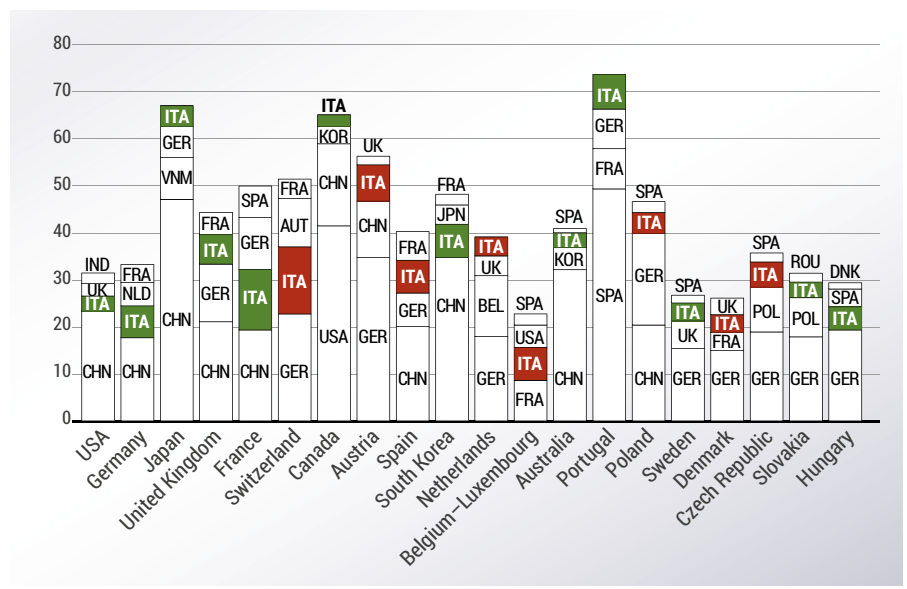
<sup>2</sup> The overall or total potential can be seen as the sum of two components: a part already exploited (actual exports) and a part yet to be exploited. The untapped margin expressed as a sum of total potential has a value of between 0 and 100. If Italy's actual exports equal potential exports, the margin is 0 since all the available potential has been exploited; in this case, Italy's performance is optimal as compared with similar competitors.

<sup>3</sup> The top twenty markets, both advanced and emerging, for Italian export potential are shown. In this way the emphasis is placed on the main markets with the largest margins for increasing exports, setting aside markets that, while of interest, are secondary by volume. However, this type of analysis can be used when greater detail is needed, including for the purposes of identifying niche markets that, while small in size, offer high potential and in which Italy is barely present or absent altogether.

there is still a high amount of potential to be exploited, but the possibilities for translating this into actual exports is strongly hindered by the uncertainty surrounding Brexit and the performance of the pound sterling. Recent events give us hope that at least the uncertainty will dissipate in early 2020, but the possible consequences are not yet clear.

Overall, with regard to the advanced markets, the analysis indicates that the growth margins are larger in countries in which Italian exports have traditionally been under-represented, that is, in markets where the export potential has not yet been adequately exploited. This is often the case for relatively small markets, such as Portugal (€0.8 billion in possible additional BFF exports) Slovakia (€0.3 billion) and Hungary (€0.3 billion), to which Italy could export more given its characteristics.

**China, Germany, US, France and Spain are among the main competitors in the BFF merchandise categories** To better understand the origin of export growth potential, it helps to know the structure of the markets and the main competitors. Competitors are limited to those countries whose characteristics are similar to Italy's<sup>4</sup> and who export the categories of products that correspond to Italian BFF goods. The approach followed enables us to not decide in advance who the competitors are but let the data "do the talking": the list of countries varies by product and market. Graph 3.2 illustrates the aggregate data and provides an overview at country level. Italy's main competitors in the various markets are China and Germany and, in some cases, the US, France and Spain. The presence of Germany is not surprising, while the actual degree of direct competition between Italy and China needs further examination. In any event, the analysis suggests that China is one of the leading export countries in the same product categories as Italian BFF goods. In addition, some of China's characteristics are similar to those of Italy, which indicates that there is a certain degree of competition.



**Graph 3.2**  
**China and Germany among the main competitors in the categories of BFF products, but ...**

(% market shares of BFF imports of each country for Italy and its top three competitors; the countries are listed in order of untapped potential, 2017)

Note: green= increase in Italy's share; red = decrease. Change in shares between 2015 and 2017. Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

<sup>4</sup> As clarified at the start of the chapter, similarity is based on seven pillars: per capita income, price (average unit value), degree of specialization, degree of export diversification, substitutability of exported goods, market share and geographical distance.

**Although Italian excellence continues to be in niches that are rather well protected, the 'upgrading' of Chinese products should not be underestimated**

In the United States, Italy's main competitors in its BBF product categories are China, the United Kingdom and India; of these, China's market share is far the largest, at more than 20 per cent. Although Chinese products may be targeted to market segments that differ from those targeted by Italy, such a significant presence in the same product categories is something to keep in mind. Obviously, there are similarities such as the geographical distance, making transport costs towards the US similar for both Italy and China, and the sectoral specializations. However, there are also significant differences. On the one hand, Italy still has a much higher per capita GDP and, in the US (and elsewhere), Italy benefits from the positive effects of its reputation for making high quality products. On the other hand, China can still count on low labour costs, albeit to a lesser extent than in the past. Trying to deduce the actual degree of competition is therefore very complex, but the underlying message is clear: China is one of the leading exporters of products that correspond to Italian BBF product categories and it may start to compete for market share in sectors that are important to Italy.

**The free trade agreements protect and recognize Made in Italy brands, helping to reach export potential**

Although there may be qualitative differences between products, a comparison of market shares indicates that in the BBF market there is still spare room for Italian exporters. Take Canada for example, where, in addition to China, the US is also on the list of Italy's main competitors, as can be expected given its geographical proximity. A particularly fitting example is that of using Italian-sounding names for products that are not from Italy (they are often from North America), products that imitate the look and name of some typically Made in Italy products and that, in some cases, may constitute unfair competition or contain information that is misleading for less attentive consumers. Even if the quality of the products differs and the market segments do not overlap perfectly, since they are in the same merchandise categories, Italian exports would clearly benefit (in this sense there is growth potential in this area as well) if the information were correct and the designations of origin were respected. Among the benefits and changes included in the recent free trade agreement with Canada, a large number of typically Italian products are protected and recognized.

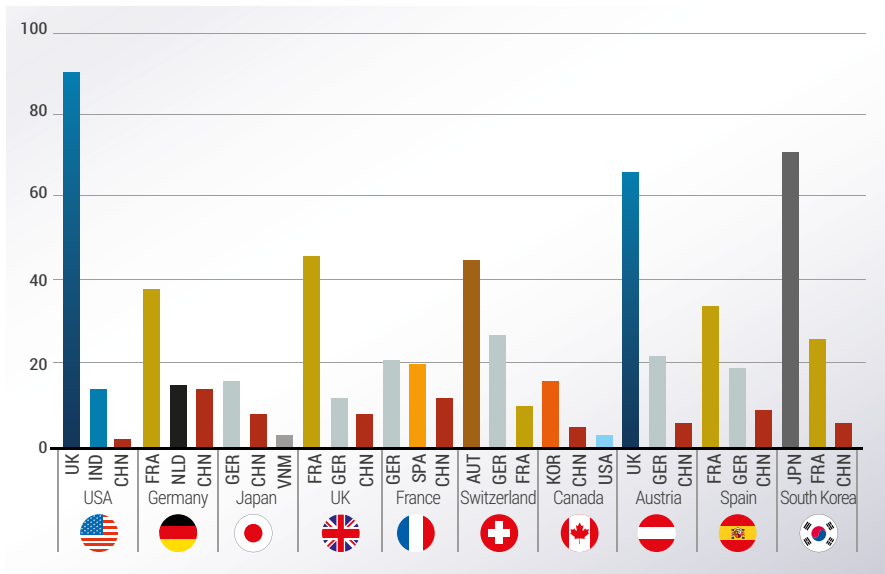
The focus up until now has been on the BBF market share of Italy's main competitors. As has been stated, however, the degree of competition can vary because of the different characteristics of the exported goods and of the exporting countries. Even if this aspect is difficult to measure, since the analysis was conducted at the level of the individual product, it is possible to calculate for each competitor the share of its exports out of total BBF exports for which it actually overlaps with Italy. To this end, it is important to identify only those BBF products in which an exporter is among Italy's top competitors and to consider the share of these products out of the competitor's total exports so as to obtain a measure of how much each country actually competes with Italy. The results are shown in Graph 3.3.

**Italian BBF products are not currently in direct competition with China**

In the US, China is the competitor with the largest market share in the BBF merchandise categories, but only 2.5 per cent of its exports overlap with those of Italy. In contrast, the United Kingdom has a market share that is slightly lower than Italy's, but almost 90 per cent of its exports are of BBF products that overlap with those of Italy (consider, for example, the difference between Italian, English and Chinese footwear). The graph shows the importance of Germany, with which Italy competes in a large number of markets, and, most notably, the importance of France, with which it competes in a smaller number of markets (Germany, the United Kingdom, Spain) but in those with a relatively high degree of overlap.

### Graph 3.3 ... Italian BBF competes most strongly with Germany, France and the United Kingdom

*(Italy's top three competitors in each of the ten most important BBF advanced markets; share of goods that overlap with Italy as a percentage of total exports by country of origin, 2017)*



Each bar shows how much of competitor's export actually overlaps with products exported by Italy in that geographical market. Percentages are computed referring to the value of total export from the country of origin.

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

#### The sectors with the highest potential growth are: textiles and clothing; motorcycles; chemicals, pharmaceuticals and cosmetics; food and beverages; wood and furniture

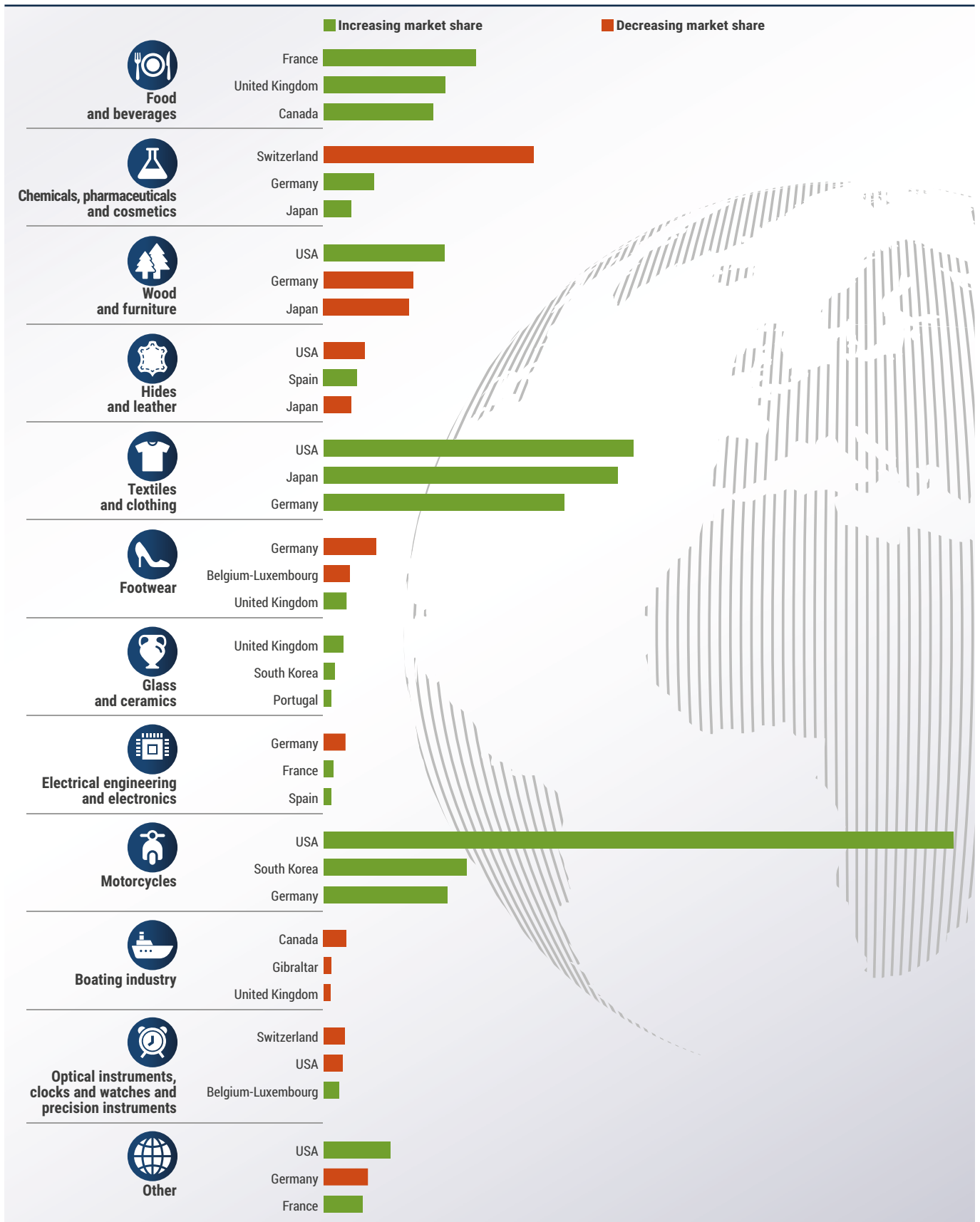
The previous analysis revealed that the top three advanced markets for growth potential are the US, Germany and Japan. The US is among the main markets for export potential in many sectors (Graph 3.4): motorcycles (the most important sector for export potential), textiles and clothing, optical and precision instruments, wood and furniture, leather goods and other products. In Germany, by contrast, the sectors with the highest potential for Italian exports are motorcycles, chemical and pharmaceuticals, wood and furniture, electronics and other products. The potential in Japan is higher in chemicals and pharmaceuticals and in wood and furniture, and there is an upward trend in market shares.

Growth potential is particularly high for some merchandise categories. One example is the chemicals and pharmaceuticals market in Switzerland. This comes as no surprise: this market is ample and is one in which Italy's participation is relatively meagre, while the significant presence of exporters with characteristics similar to Italy's indicates that Italian exporters may be able to compete in this market. The extent of the potential that has not yet been exploited mirrors the breadth of this market compared with Italy's current position, as can be seen by comparing market shares: Italy is moderately positioned with a share of 12.8 per cent, but Austria has a share of 69.6 per cent of total Swiss imports in this sector.

In the case of the food sector, the top three markets for export potential are France, the United Kingdom and Canada. While Italy is well positioned in France and the United Kingdom and is competitive with Spain and France, respectively, in Canada, its main competitor is the US. Finally, in the industries that are traditional of the 'Made in Italy' brand (hides and leather, footwear, textiles and clothing, wood and furniture), there are margins for export potential in the US, Germany and Japan, but at the same time Italy must compete with China's strong presence and, as concerns footwear, that of Vietnam. By contrast, there is a great deal of potential in the chemical and engineering sectors (chemicals and pharmaceuticals, electronics, motorvehicles, precision instruments), where Italy is still weakly positioned, in a context in which competition arrives from developed countries on the cutting edge of technology.

### Graph 3.4 – Untapped margin in advanced countries: motorcycles, textiles and clothing among the highest potential sectors

(The untapped margin in euros is calculated as the distance from the potential, the change of the shares is calculated between 2015 and 2017)

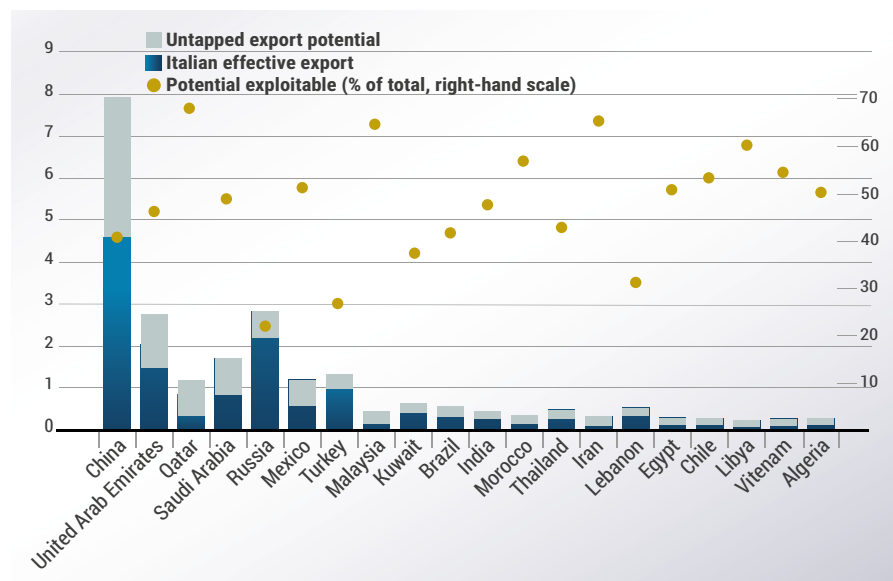


Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.



### 3.3 Emerging markets

Italian BBF exports in emerging markets are much less than those in the advanced markets. This phenomenon is somewhat normal, and is partly due to the fact that advanced countries have larger markets in which consumers have greater disposable income, and also because of the more limited presence of Italian exporters. Graph 3.5 shows the actual and potential exports for Italy in the main emerging markets; the countries are ordered by export potential in billions of euros so as to emphasize the markets that are most promising in absolute terms.



**Graph 3.5**  
**Large potential in China and the Middle East**

(Actual and potential BBF exports in billions of euros, 2018; the countries are listed in order of untapped potential)

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

**The top market for export potential is China, with €3.3 billion in possible additional exports** This is due in large part to the size of the market. It should be noted that BBF growth potential is very high: it is more than 70 per cent of the amount already achieved (€4.6 billion).

**The potential in the US is three times that of China, compared with an actual export level that is four times higher** In comparing China with the US (see Graph 3.1), it is worth noting that the untapped potential (i.e. the additional exports that can be obtained) reflects the difference in the economic size of the two markets: actual BBF exports to the US are slightly more than three times those to China (almost €14.8 billion compared with €4.6 billion), while the untapped potential follows a factor of 2½ (is €8.2 billion in the US compared with €3.3 billion in China). In the emerging markets, Italy still has relatively small market shares which can grow, and there are competitors with characteristics that are similar to those of Italy who have recorded better results in exporting of BBF goods. In addition, the emerging economies are often more dynamic and economic development and growth are generally higher than those of the mature economies, such that new opportunities open up year by year.

**The United Arab Emirates, Qatar and Saudi Arabia: BBF export potential worth almost €3 billion** The growth margins for BBF exports are very high in the United Arab Emirates (€1.3 billion), Qatar (€0.8 billion) and Saudi Arabia (€0.8 billion). The Italian BBF sector could practically double its presence in terms of export volumes in these markets.

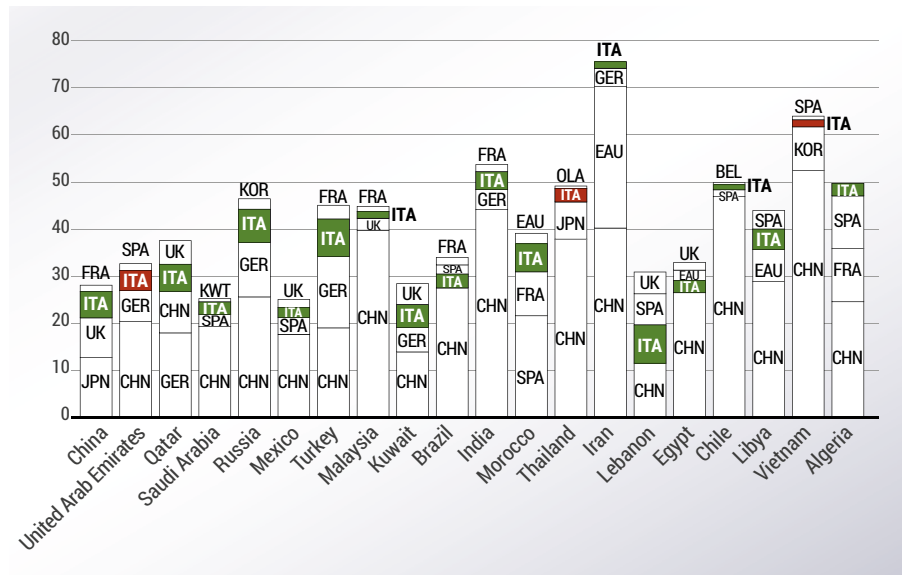


**The Russian Federation is among the main emerging markets** Russia is a market with an already strong Italian BBF presence (€2.2 billion) and remains one of the leading markets for export potential as well (€0.6 billion in possible additional exports). Italy historically enjoys a relative solid position in this market and this is seen in the fact that, among the main emerging markets, Russia has one of the lowest growth margins, with about a 25 per cent share of total potential still to be exploited.

**In the emerging world China is the main exporter and competitor in the BBF product categories** The cross-analysis of Italy's competitors in the emerging markets and in the BBF product categories offers rather clear results. Graph 3.6 shows the market shares of Italy and the first three competitor countries. In the emerging markets, China is undoubtedly Italy's main competitor in terms of BBF exports, followed by Germany, France and Spain; with regard to the markets of China and Thailand, it is followed by Japan. The only markets in the top twenty where China is not the competitor with the largest market share are Morocco and Qatar, where the main competitors are Spain and Germany respectively. China's dominant presence as an exporter of products in the Italian BBF product categories warrants some reflection: a large part of the foreign demand is satisfied by Chinese rather than Italian producers, at times with lower levels of quality. It follows that Italian exporters stand to achieve better results if they are able to more effectively reach consumers in emerging markets. If Italy wants to increase its export levels, it must learn how to attract those consumers that are currently focused on other countries but who may appreciate the quality of Italian products. It is difficult to understand which levers to use and that is the challenge faced by entrepreneurs; some fundamental factors include marketing and communication channels and distribution and pricing strategies.

**Graph 3.6**  
**China is the main exporter in BBF product categories but ...**

(% market share of BBF imports of Italy's top three competitors in the emerging markets, the countries are listed according to the level of untapped potential, 2017)



Note: green = an increase in Italy's share; red = a decrease.

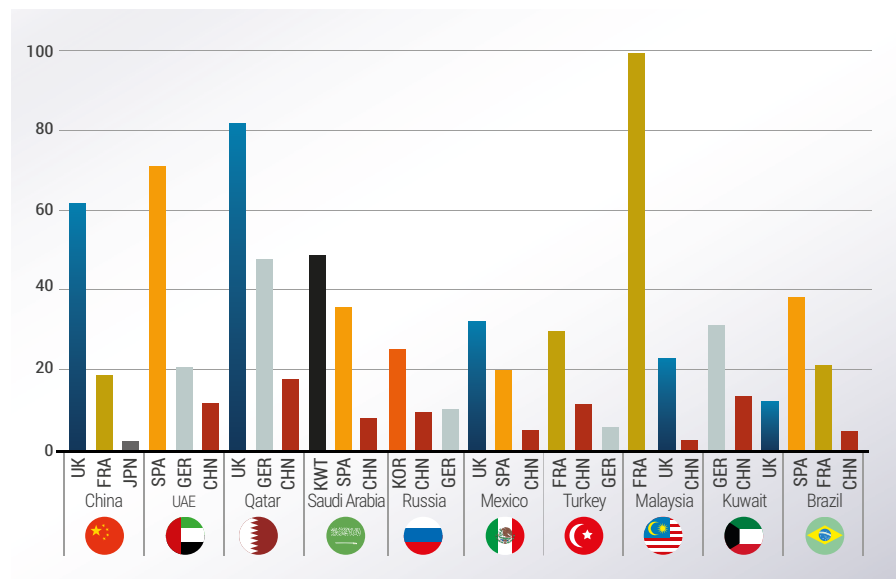
Change in shares between 2015 and 2017.

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

**Italy's main BBF competitors are the United Kingdom, France, Spain and Germany**

Italian exports and Chinese exports do not compete directly because most Chinese products are not considered products of excellence, even if they are in the same product categories as Italian exports. As highlighted for the advanced markets, the comparison between market shares is useful in quantifying the potential market in terms of BBF product categories, but it does not necessarily capture the degree of competition among the var-

ious countries, whose exports may have different characteristics. Graph 3.7 shows the degree of overlap with the Italian BBF sector by market and main competitor. This measure indicates the extent to which each competitor's exports actually overlaps with Italian exports by type of good and by country characteristics. As expected, China's weight declines, precisely because Italian productions do not compete directly with Chinese ones even if they are in the same product categories. On the other hand, the overlap with the United Kingdom, France, Spain and Germany is very significant. These countries again emerge as actual competitors and as similar exporters, and they often manage to achieve better results.



**Graph 3.7**  
**... Italian exports overlap with those from the United Kingdom, France, Spain and Germany**

*(Italy's top three competitors in each of the ten most important BBF emerging markets; % share of goods that overlap with Italy as a percentage of total exports by country of origin, 2017)*

Each bar shows how much of competitor's export actually overlaps with products exported by Italy in that geographical market. Percentages are computed referring to the value of total export from the country of origin.

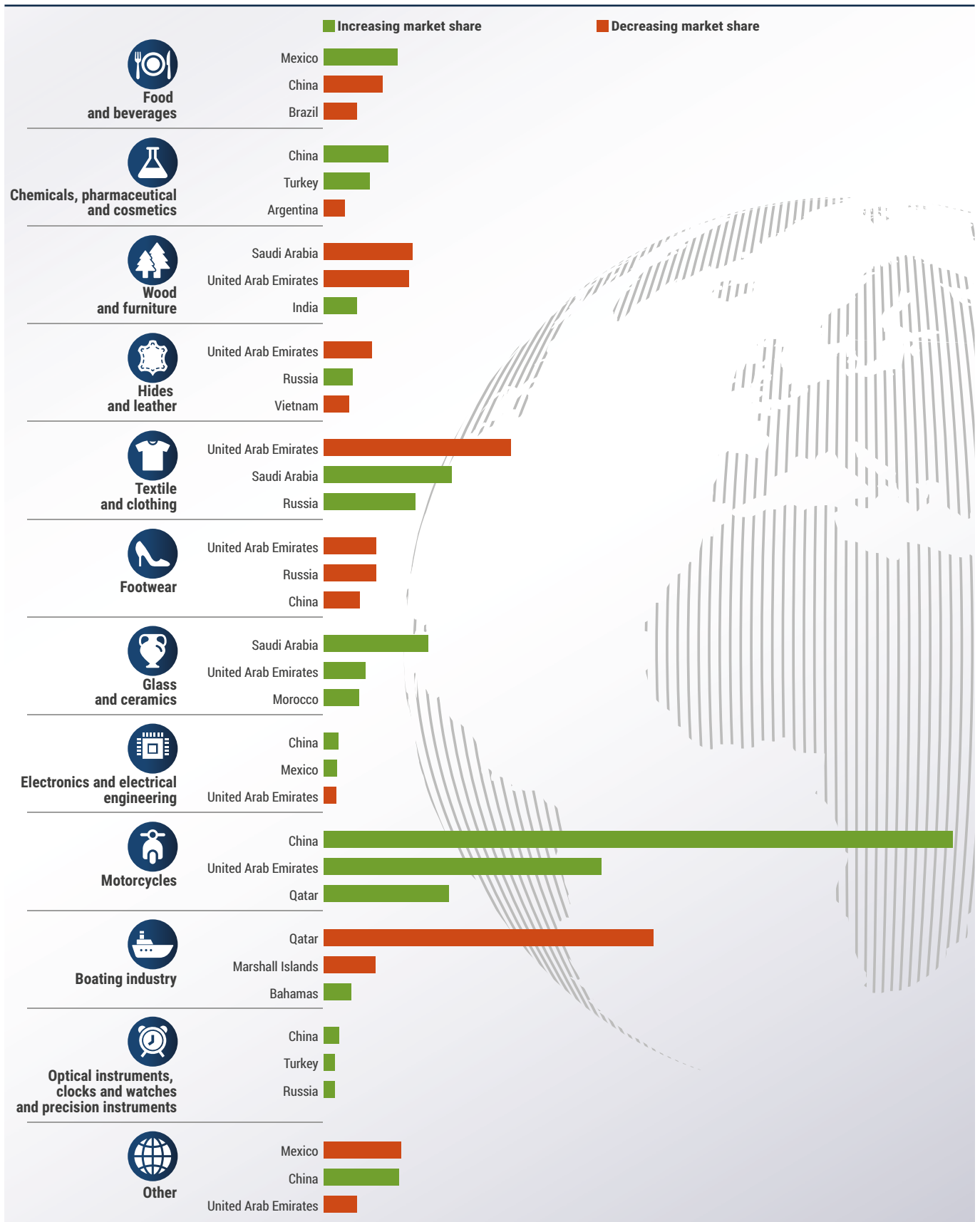
Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

**Motorcycles, textiles and clothing: the most important sectors with the highest growth potential in the emerging markets** The results for the main sectors and for the emerging markets are shown in Graph 3.8. The motorcycle industry offers the greatest growth potential. This is largely on account of the Chinese market, in which Italy competes with the United Kingdom, Japan and Austria. The Chinese market is also among the most important in terms of growth potential in the chemistry, food, footwear, eyewear and precision instruments sectors. It should be noted that, in the Chinese market, Japan and France are often among the similar countries with which Italy competes. The second most promising growth market is the United Arab Emirates, especially with regard to the motorcycle, textile and clothing, and wood and furniture sectors. However, other countries also offer interesting growth prospects. Qatar ranks third among the emerging markets in terms of growth potential, which is almost wholly concentrated in the yachting industry (in addition to the motorcycle sector). The sectors with the highest potential in Saudi Arabia are textiles and clothing, glass and ceramics, and wood and furniture. The last two sectors are shared by Saudi Arabia and the United Arab Emirates, signaling more generally the potential for growth for these sectors in the Middle East, where consumers have high purchasing power; however, these sectors are heavily guarded by Chinese exporters. In the Russian market the greatest growth potential is in the fashion sector.

The graph also illustrates the upward or downward trend in Italy's market share in the various import markets. There was a spike in the trend for the motorcycle sector, which is also the sector with the highest growth potential.

### Graph 3.8 - Untapped potential in emerging countries: motorcycles, textiles and clothing among the highest potential sectors

(The untapped margin in euros is calculated as the distance from the potential, the change of the shares is calculated between 2015 and 2017)



Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade data.

Eyewear and the glass and ceramics sector also exhibit positive trends. In contrast, there was a downward trend in one of the sectors in which Italy is traditionally stronger, the footwear sector, where Italy is facing tough competition from emerging countries, especially China, Vietnam and Indonesia. Other sectors with unimpressive trends include food, wood and furniture and yachting.

### 3.4 Export opportunities – an overview

Analyzing the export potential of the various advanced and emerging markets makes it possible to identify the areas in which Italy has export growth margins in relation to the potential demand for BBF products. The market-sector detail helps to identify, for each of the main markets, the sectors with the highest growth potential and the competitors which, because of their export supply and characteristics, compete with Italy for market share. The possible export growth potential quantified by this analysis is a measure of the distance that separates Italy from optimal performance in the medium term.

Actually nearing the growth potential depends on the country's overall competitiveness and on exporters' ability to seize the available opportunities. Therefore, while it is important to identify the areas with the highest export potential in order to understand where attention should be directed, this alone is not enough to increase Italy's presence in foreign markets; indeed, a case by case basis assessment is needed to understand the ease with which this is possible, and to identify the risks and opportunities in each market and sector. This section provides an initial analysis in this regard.

**Export opportunities: assessing the capabilities and possibilities for exploiting growth potential** To more concretely define export opportunities at market level, the growth potential measure (calculated at the individual product level, in percentage terms) is flanked by two other country-level synthetic indicators. The first indicator captures the similarity between the structure of Italian exports and the market demand for imports, and serves the purpose of assessing the trade compatibility of two countries: supply and demand compatibility is high when the composition of a country's exported products is very similar to the composition of the partner country's imported products.<sup>5</sup> Instead, the second indicator captures market growth prospects, giving greater weight to large and rapidly expanding markets.<sup>6</sup>

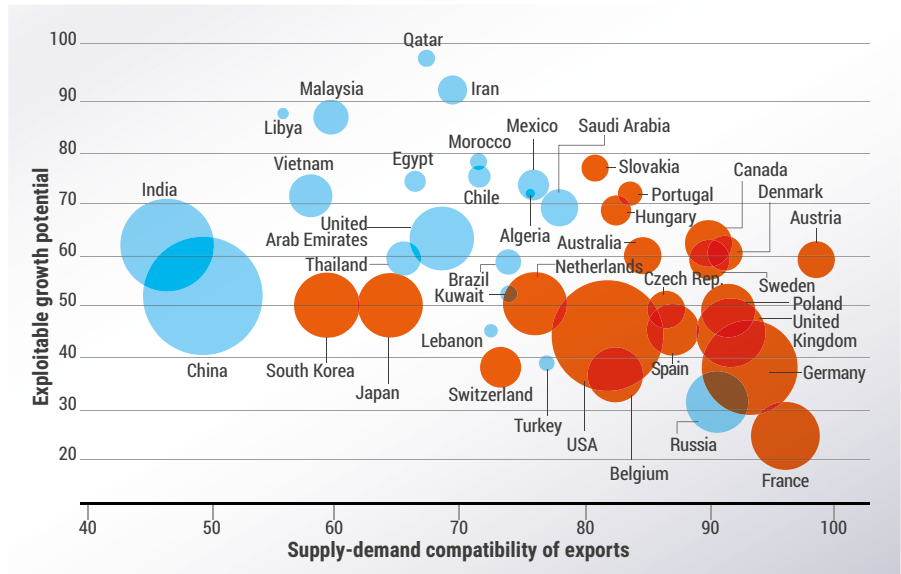
**Highly compatible with advanced markets ...** In the advanced markets Italy's position is more established and has less untapped growth potential, but their large size and the rise in demand can have a remarkable boost effect on exports. The results are summarized in Graph 3.9. From the picture that emerges, there is a clear distinction between the advanced and emerging markets: the former, which tend to be larger in size and in estimated import growth (balloon size), are highly compatible with the structure of Italian exports, in that they largely seek goods that Italy is able to offer and, at the same time, have a slightly lower exploitable potential, given that these are mature markets in which Italy has an established presence.

<sup>5</sup> The indicator is based on the Finger-Kreinin index applied to Italy's exports and to the destination market's imports. The index compares the composition of exported and imported products and assumes a value of 0 if there is no overlap (some products are exported, others are imported); vice versa, the index assumes a value of 100 if the overlap is perfect, i.e. the composition of exports exactly matches that of imports.

<sup>6</sup> The indicator is based on a forecast of the increase in imports of the destination markets in 2022. The index is normalized to 100 for the country with the largest expected increase in imports.

**Graph 3.9**  
**Supply and demand compatibility**  
**in the advanced markets,**  
**but high exploitable**  
**growth potential**  
**in the emerging markets**

(Per cent normalized indices; balloon size = increase in imports in 2022)



Red: advanced markets. Blue: emerging markets.

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade and IMF data.

... **but not with emerging markets** China and India present opportunities thanks to the size and growth of their markets but their compatibility with Italian exports is still low. The other emerging markets are characterized by high potential and average compatibility, but they are penalized by a level of demand that is still relatively low.

**Russia is an exception: it is highly compatible with Italian exports** Russia's share is rather consolidated, but its demand dynamics are still uncertain. Russia is a particularly interesting case in that, unlike the other emerging markets, it is very compatible with Italian exports and the growth prospects for its imports are moderate: although the exploitable potential is not among the highest, this emerging country offers concrete export growth potential but, at the same time, presents factors of uncertainty and instability.

**A summary: the ExPANd index** Exploitable export potential, supply and demand compatibility and market growth prospects are the three main pillars of this analysis. One way of providing a synthetic overview and summarizing the results described thus far is to create a normalized composite indicator (the ExPANd index) which quantifies export opportunities on a scale of 0 to 100. The index summarizes the data gathered so far and therefore relies on: (i) supply, i.e. the exploitable potential as measured by the analysis at individual product level and by analyzing the markets in which Italy competes with its main competitors with similar characteristics; (ii) demand, and in particular the import growth prospects in the various markets; and (iii) supply and demand compatibility, measured on the basis of the similarities between the composition of Italy's exported products and the composition of imported products of the destination markets.

The market classification for export opportunities based on the ExPANd index is presented in Table 3.1. The top three markets are the US, China and Germany. The data make it possible to identify the reasons for which these countries are at the top of the list: 1) the US has a balanced combination of the three characteristics (moderate exploitable potential, large size and/or market growth and it is compatible with the structure of Italian exports); 2) China is in the top positions mainly due to the size of its market and to its import growth prospects; and 3) Germany is at the top thanks to its extremely high compatibility with Italy's export supply.

**Table 3.1 - Market ranking by export potential**

	UNTAPPED POTENTIAL (1)	SUPPLY-DEMAND COMPATIBILITY (2)	MARKET GROWTH PERSPECTIVES (3)	OVERALL POTENTIAL EXPAND (Average 1,2,3)
United States	44	83	87	72
China	52	51	100	68
Germany	38	95	64	66
United Kingdom	45	93	34	57
India	62	48	61	57
Qatar	100	69	12	57
Iran	94	71	6	57
Canada	63	91	16	57
Austria	58	100	10	56
Slovakia	78	82	5	55
Poland	49	93	20	54
United Arab Emirates	64	70	29	54
Sweden	60	91	11	54
Denmark	61	93	9	54
Portugal	73	85	14	54
Hungary	69	84	6	53
Saudi Arabia	70	79	10	53
Mexico	75	77	7	53
Malaysia	88	61	9	53
Netherlands	51	77	29	52
Australia	60	86	10	52
France	24	98	33	52
Morocco	79	73	12	51
Spain	45	88	19	51
Chile	76	73	14	51
Algeria	73	77	1	50
Russia	31	92	27	50
Czech Republic	50	88	10	49
Libya	89	57	1	49
Egypt	75	68	13	49
Japan	50	66	30	49
Vietnam	72	59	13	48
Belgium - Luxembourg	36	84	22	47
South Korea	50	61	30	47
Brazil	59	75	5	46
Thailand	60	67	8	45
Kuwait	53	75	12	43
Switzerland	38	75	12	41
Lebanon	45	74	1	40
Turkey	39	78	12	40

Source: calculated by CSC and the Manlio Masi Foundation based on UN-Comtrade and IMF data.



# The viewpoint of the entrepreneurs

**Massimo Perotti**  
President of Sanlorenzo SpA



## **At what point in the company's life did you feel a need to expand abroad and what has been the main factor behind your success in the various markets?**

I took over Sanlorenzo in 2005 from the original owner Giovanni Jannetti. I worked alongside him for a year, learning the key values which, over the years, have helped the company to set itself apart from others in the boating industry: quality, attention to detail, bespoke production, simplicity of style and timeless elegance.

These values have turned Sanlorenzo into a brand of excellence within the Made in Italy sector and have ensured its success on international markets, from America to Asia and especially in Europe.

I realised immediately that it was important to guide the company towards internationalisation so that we could offer our unique project approach to new markets. In the space of four years, our staff numbers have risen from 75 to 200, as well as 600 independent employees, and gross revenue has gone from 40 to 200 million euros despite the crisis that has overtaken the Italian boating industry at the time.

## **What changes have you had to make in the company's organisation to succeed on international markets?**

Opening up to international markets has obviously increased production volumes over the years. To handle the demand while maintaining exceptionally high quality and a 'bespoke' service we have improved the company's structure and acquired new production sites, adding to the boat building yard at Ameglia another at Viareggio, which manufactures glass-fibre yachts over 100ft. In 2016 we also acquired a huge boatyard at La Spezia, where Sanlorenzo Superyacht is located, and we opened a centre for the research and development of new models at Massa Marittima.

A very important role has been, and still is, played by Sanlorenzo's brand representatives around the world.

Distribution is the crucial link between boatyard and customer: it offers customers a point of reference and reliable assistance in planning a wholly bespoke yacht and it's the building yard's alter ego in face to face encounters with customers. This is a highly dedicated task that allows no room for oversight and no margin of error.

This is why we decided not to entrust this function any longer to multi-brand agents, but to create real Sanlorenzo 'embassies' to spread our philosophy around the world, specifically located in key markets for the international yachting sector and managed directly by us.

**What main obstacles did you encounter and what type of support would you like the public sector to provide in the future?**

Unfortunately, bureaucracy is still a great impediment for business and customers, even in situations where there might be good opportunities for local development. One example stands out, but it is only the latest. Many of Sanlorenzo's customers move around in private jets or helicopters. We have a local airport, at Luni, which is virtually unused. Of course, it's a military airport, but we were willing to invest to turn it into a clean, organised, well-run airport, taking care of all the costs, from restructuring passenger terminals (we've already drawn up plans with an excellent architect), to maintaining the grass areas and general cleaning. Despite all of this, we are unable to go ahead with a project that would bring huge benefits to the whole area and obviously stimulate quality tourism.

This is where Confindustria should come in: as a facilitator in situations like to one described, helping firms to overcome all the red tape that so often discourages them from investing locally. In other words, it should interface between private and public sectors, oiling the cogs and encouraging collaboration in all areas to speed up any immovable obstacles caused by complicated bureaucracy.



# 4. TRADE AGREEMENTS: THE BENEFITS FOR BBF PRODUCTS

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## 4.1 The European Union as promoter of free trade<sup>1</sup>

In the phase of stagnation that has characterized multilateral trade in recent years, the European Union – which is tasked with setting the trade policies of the Member States – has promoted free trade by negotiating and signing many bilateral treaties, both among individual States and with other blocs of countries. In terms of scope and depth, these treaties touch upon key aspects of trade relations and, as a result, the internationalization of large firms and small and medium-sized enterprises (SMEs). SMEs are most affected by trade barriers. To overcome them, they may need to make significant investments in terms of time and resources. These agreements also have a high symbolic value – acting as a message in favour of open markets – and a high strategic value – as they try to shape the rules of international trade by orienting them towards the globalization process. In this historical moment characterized by bitter trade tensions, Europe's response has been quite clear and is well reflected by the expression used, among others, by Cecilia Malmström, former Trade Commissioner for the European Commission: 'there is no protection in protectionism'.

It is clear that this type of agreements may stimulate trade with partner countries and offer new business opportunities for Italian firms, obviously including those that export BBF products. However, it must be specified that these agreements should be assessed on an individual basis and at sectoral level. Moreover, their effects normally unfold over time, as the tariffs are gradually removed and regulatory convergence takes shape. In addition, it must be borne in mind that the EU's trade agreements, and their potential benefits, affect all 28 Member States.

In this Chapter, the focus will be on three agreements signed by the EU in recent years – the one with Canada (the 26<sup>th</sup> destination market for Italian good exports and the 11<sup>th</sup> outside the EU), the agreement with South Korea (the 22<sup>nd</sup> and 9<sup>th</sup> market respectively) and the agreement with Japan (15<sup>th</sup> and 6<sup>th</sup>) – in order to identify whether and which benefits these agreements have had (and may have) on Italian exports, especially for BBF products. Specifically, Section 4.2 exploits the available data to capture the effects that these agreements have had. A more broad-spectrum analysis was only possible for South Korea, thanks to the longer observation period which also made it possible to assess the performance of BBF exports to Seoul. Instead, for Canada and Japan, preliminary indications were drawn from the limited data available and attention was given to the opportunities that may emerge for BBF products in the coming years (Section 4.3).

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<sup>1</sup> The analysis was carried out by SACE SIMEST using official data and documents from the European Commission

## **BOX n. 4.1**

### **What are the terms of the European Union's trade agreements?**

#### **Removal of tariff barriers...**

The main goal of the trade agreements signed by the European Union is to eliminate most of the tariff barriers (duties) on the goods traded with its counterparts, which may occur gradually for some product categories considered to be more 'sensitive'.

#### **...and non-tariff barriers**

In addition to the removal of 'traditional' barriers like tariffs, these agreements also aim to eliminate non-tariff measures. These have often slipped through the nets of the World Trade Organization's (WTO) agreements and have characterized the protectionist wave in the years following the global financial crisis. Indeed, these tools are more difficult to identify and quantify: for instance, sanitary and phytosanitary measures, the local content requirement,<sup>1</sup> technical standards, rules for customs clearance, and so on. Their presence makes it more difficult for firms to choose the markets on which to focus, given the complexities in accurately estimating their costs. The European Commission's negotiations have often brought about positive results in this regard, for instance, through the implementation of simplified customs procedures and the reciprocal recognition of standards,<sup>2</sup> with practical and significant benefits for firms. A concrete example of this is the standardization of technical requirements included in some recent agreements, which has made it possible for European products to be subject to the same set of requirements, both within the EU and in partner countries, making it possible for European countries to avoid having to retest and re-certify their goods before selling them outside their borders.

#### **The recognition of typical products and protection from the 'Italian sounding' phenomenon**

Another feature that has characterized the EU's trade agreements, especially the more recent ones, is the recognition of geographical indications (*indicazioni geografiche*), namely of European agricultural products (often of Italian origin), and the safeguards against imitations thereof. These products include wine, cheese and cured meat, which represent the excellence of the 'Made in Italy' brand throughout the world.

#### **Not only the trade of goods**

The focus of the Commission has become increasingly more broad, partly thanks to the breaking down of trade obstacles in the trade of services (financial services, postal and courier services, telecommunications and transport services) and partly because public procurement market has become more accessible (less bureaucratic, greater access to information).

<sup>1</sup> Provisions that provide for the obligation to produce at least a certain percentage of the product or service in the country in which it is to be sold.

<sup>2</sup> Specific characteristics that a product must have in terms of planning, labelling, packaging, etc.

## 4.2 The trade agreements with South Korea, Canada and Japan: the measures envisioned and the effects on trade

The trade agreements between the EU and South Korea (in effect since 2011), Canada (2017) and Japan (2019) are agreements at which both the policy maker – for the trade benefits derived there from – and exporting firms – in virtue of the non-negligible importance of these countries as outlet markets for Italian-made products – should look with great interest. But what are the terms of these agreements? Table 4.1 outlines the main points and identifies potential implications for BBF products.

**Table 4.1 - The EU's trade agreements with South Korea, Canada and Japan** (continued on the next page)




	 <b>EU – South Korea</b> <b>European Union – South Korea Free Trade Agreement</b>	 <b>EU – Canada</b> <b>Comprehensive Economic and Trade Agreement (CETA)</b>	 <b>EU – Japan</b> <b>Economic Partnership Agreement (EPA)</b>
<b>In effect since</b>	1 July 2011 <sup>1</sup>	21 September 2017 <sup>2</sup>	1 February 2019
<b>Tariff barriers</b>	70 per cent of tariff barriers were removed on European products as of the effective date of the agreement, going up to 98.7 per cent once the agreement is fully in force (after 5 years). <sup>3</sup>	About 98 per cent of the tariff barriers were removed on European products as of the effective date of the agreement, going up to 99 per cent once the agreement is fully in force.	More than 90 per cent of the tariff barriers were removed on European products as of the effective date of the agreement, going up to 97 per cent once the agreement is fully in force.
<b>Savings for European firms and implications for Italian BBF exports</b>	Starting from the first year of the agreement's entry into force, the import duty savings for the EU are estimated at €850 million; once fully implemented, €1.6 billion a year. Thanks to the agreement, several Italian BBF products can now be sold in Seoul without tariff barriers. This also affects many Italian-made products of excellence, such as those in the food and beverage sector (where duties for countries without a trade agreement with South Korea are as high as 30 percent), hides and leather goods, textile and clothing, footwear, glass and ceramics, electrical engineering and electronics, and wood and furniture.	Once fully implemented, EU companies will save up to €590 million in duties per year. Potential benefits for Italian exporters of BBF goods are expected in the food and beverage, textile and clothing, hides and leather goods, footwear, wood and furniture, and glass and ceramics sectors. Many of the BBF items included in these sectors started benefitting from an elimination of duties in September 2017, i.e. from the entry into force of the agreement (see Section 4.3).	Once fully implemented, European companies will save up to €1 billion a year in customs duties, of which €134 million on wine and €174 on leather goods and footwear. Italian BBF companies that sell processed food products, beverages, and textiles and clothing can now export many products to Japan without duties. Other BBF exporters will instead have to wait for the progressive removal of tariff barriers that will occur in the coming years: this is the case for various products in the hides and leather goods sector, as well as in the footwear sector, which, before the agreement, faced duties of up to 30 percent (see Section 4.3).

<sup>1</sup> This is the first trade agreement signed by the EU with an Asian country as well as the first among the "new generation" agreements of the EU. Besides the abolishment of duties applied to the majority of traded goods, the agreement foresees a greater liberalization of services, investments and public procurement.

<sup>2</sup> In order for the agreement to fully and definitively enter into force, the national parliaments (and in some cases even the regional ones) of the EU Member States must ratify the agreement. Areas that do not yet benefit from the agreement include those related to investment protection and the portfolio investment market.

<sup>3</sup> Rice and other agricultural products are outside the scope of the agreement.

**Table 4.1 - (continued from the previous page) The EU's trade agreements with South Korea, Canada and Japan**

	 <b>EU – South Korea</b> <b>European Union – South Korea Free Trade Agreement</b>	 <b>EU – Canada</b> <b>Comprehensive Economic and Trade Agreement (CETA)</b>	 <b>EU – Japan</b> <b>Economic Partnership Agreement (EPA)</b>
<b>Geographical indications</b>	165 geographical indications are recognized and protected from imitations; the Italian ones include 16 food products, including high quality cured meats and cheeses, and 22 beverages, mostly wines and other spirits of international renown. <sup>4</sup>	143 geographical indications are recognized and protected from imitations (of which 41 are Italian). <sup>5</sup> Italian exporters of BBF foods and beverages also benefit from this agreement, including exporters of cured meats, cheeses, vinegars and excellent wines.	205 geographical indications are recognized and protected from imitations; the Italian ones include 18 food products and 26 beverages. <sup>6</sup> Among them there are several Italian products of excellence in the wine and cured meat sectors.
<b>Non-tariff barriers</b>	The elimination of non-tariff barriers mainly benefited the automotive, pharmaceutical and electronic sectors. For example: South Korea now recognizes many European standards and certificates in the electronics sector as equivalent to its own, with a substantial reduction in bureaucratic burdens; in addition, exporters of pharmaceutical products and medical devices can now count on greater transparency with regard to pricing decisions.	The agreement includes simplified customs procedures and standardized technical standards. These standards refer to specific characteristics which a product must have (design, labeling, packaging, etc.) and products can be subjected to mandatory conformity assessment procedures (inspections and certifications). The parties have agreed to the mutual acceptance of conformity assessments carried out by institutions located in the EU and vice versa. For spirits such as gin, vodka and whiskey and for all EU wines, CETA contains measures to mitigate the difficulties arising from the Canadian system of provincial monopolies for the sale of such beverages.	The mutual recognition of standards will benefit, for example, exporters of motorvehicles, food and beverages, medical devices, electronic devices, chemical and pharmaceutical products and textiles. With regard to sanitary and phytosanitary measures, the agreement aims to simplify the approval processes but without lowering safety standards or requiring the parties to change their internal policy choices on issues such as the use of hormones or genetically modified organisms.

<sup>4</sup> The 16 Italian agri-food indications include: traditional balsamic vinegar of Modena, Parma ham, Parmigiano Reggiano, and Mozzarella di Bufala Campana; among the 22 Italian drinks: Chianti, Barolo, Franciacorta and Grappa.

<sup>5</sup> The complete list of Italian products is as follows: traditional balsamic vinegar of Modena, balsamic vinegar of Modena, cotechino Modena, zampone Modena, bresaola della Valtellina, mortadella Bologna, Prosciutto di Parma, Prosciutto di S. Daniele, Prosciutto di Modena, Provolone Valpadana, taleggio, asiago, fontina, gorgonzola, Grana Padano, Mozzarella di Bufala Campana, Parmigiano Reggiano, Pecorino Romano, Pecorino Sardo, Pecorino Toscano, red oranges of Sicily, capers of Pantelleria, kiwis of Latina, lentils of Castelluccio di Norcia, apples from Alto Adige, Südtiroler Apfel, peaches and nectarines from Romagna, pachino tomatoes, red radicchio of Treviso, ricciarelli of Siena, Riso Vialone Nano Veronese, Speck Alto Adige, Südtiroler Markenspeck, Südtiroler Speck, Veneto Valpolicella, Veneto Euganei and Berici, Veneto del Grappa, Culatello di Zibello, Garda, Lardo di Colonnata.

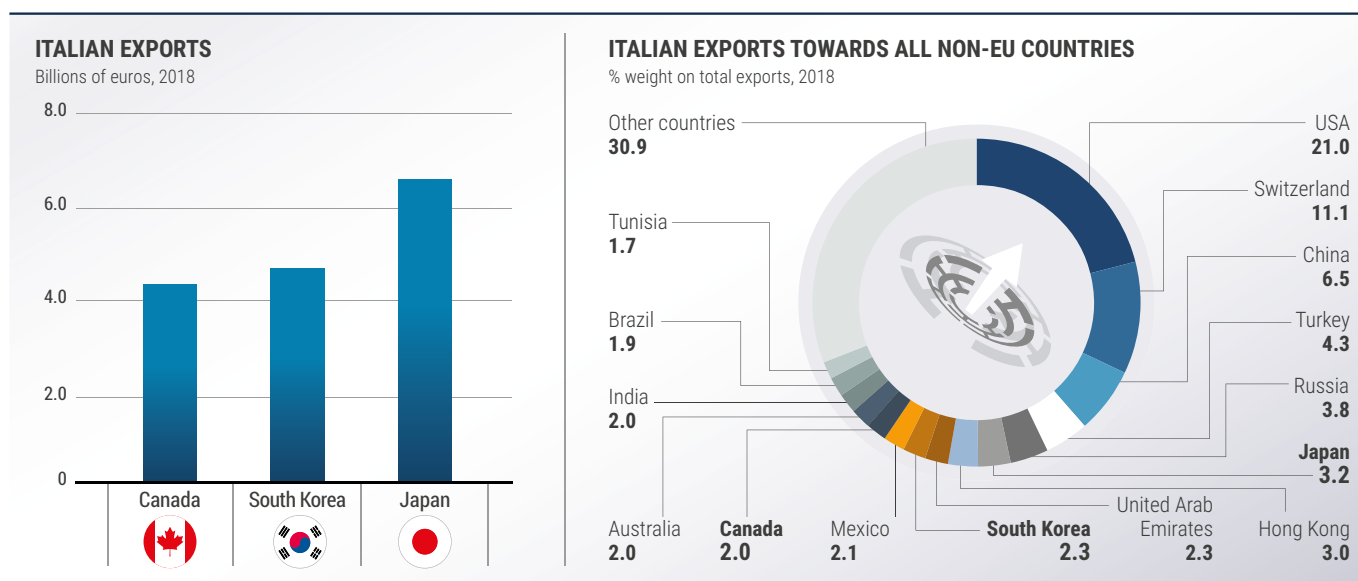
<sup>6</sup> Of the more than 200 recognized geographical indications, around 130 concern wines, beer and other spirits. The following denominations are included among the Italian wines: Asti, Barbaresco, Bardolino, Bardolino Superiore, Barolo, Bolgheri, Bolgheri Sassicaia, Brachetto d'Acqui, Acqui, Brunello di Montalcino, Campania, Chianti, Chianti Classico. The protected Italian geographical indications include: Bresaola della Valtellina, Mortadella Bologna, Prosciutto di Parma, Prosciutto di San Daniele, Prosciutto Toscano and Zampone Modena.

**Canada, South Korea and Japan are the geographical areas that in 2018 imported more than €15 billion of Italian goods**, equal to 7.5 per cent of total Italian exports outside the European Union (Graph 4.1).<sup>2</sup>

A dual comparison can help to illustrate the effects of the trade agreements with these countries. The first comparison looks at the sales performance of Italian-made products in the three markets before and after the agreements.<sup>3</sup> The second comparison examines the differences in the trend for total Italian exports and whether those differences existed even before the entry into force of the agreements.

### Graph 4.1 - Italian exports towards Canada, South Korea, Japan and all non-EU countries

(Billions of euros; left-hand figure, percentage weight on total non-EU exports; right-hand figure, 2018)



Source: calculated by SACE SIMEST based on ISTAT data.

First, it should be noted that in the period immediately following the entry into force of the agreements, the value of Italian exports grew significantly and at a rate that was almost always higher than that observed in the periods immediately preceding the agreements:<sup>4</sup> this growth was clear and sudden in the two Asian countries (although the growth rate in South Korea has slowed over time) and more gradual in Canada (Graph 4.2). It should also be noted that, in the post-agreement period, Italian exports to these markets have generally increased at a faster rate than the total one, a dynamic that had rarely occurred in the periods immediately preceding the entry into force of the agreements.

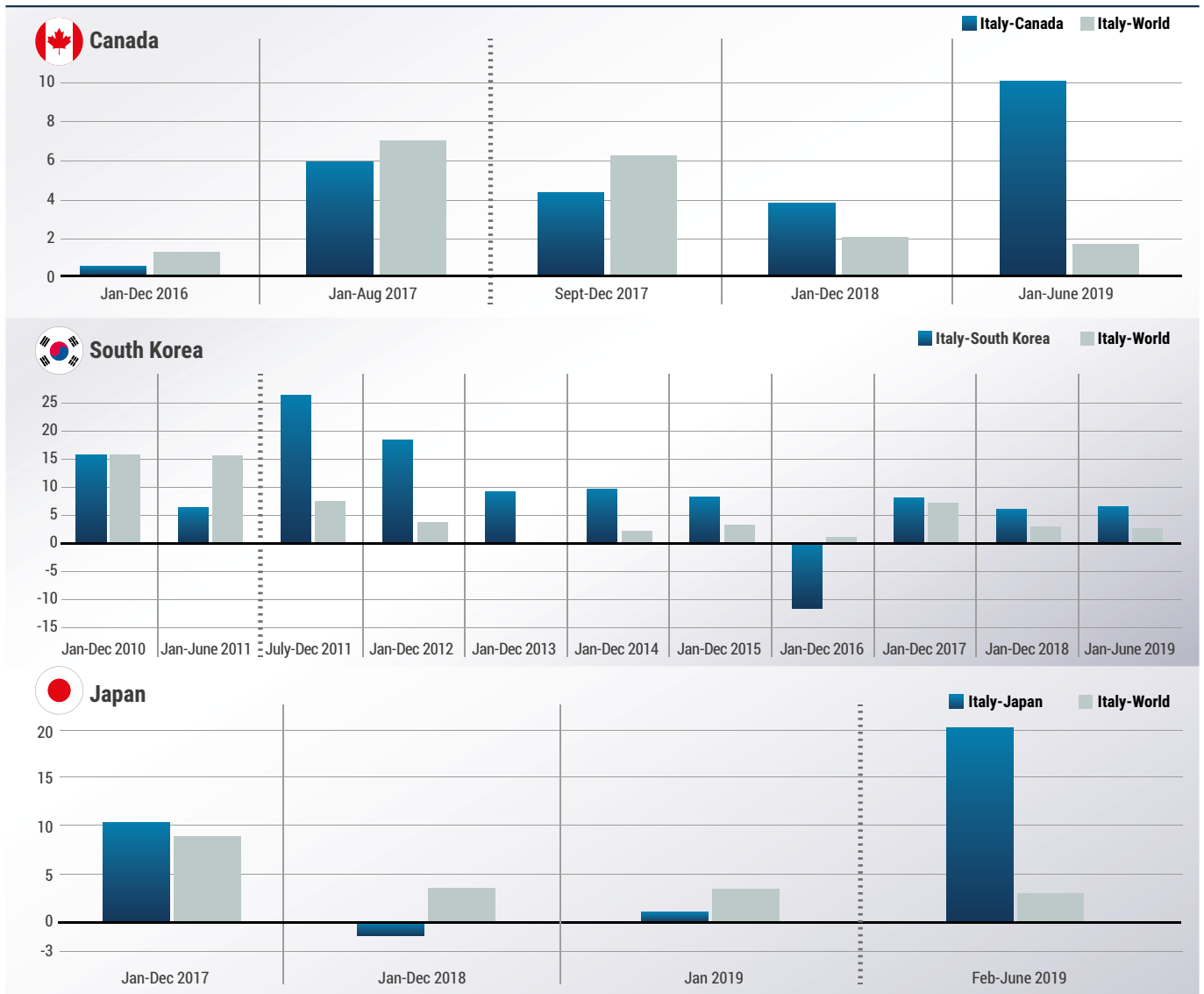
<sup>2</sup> EU exports to Canada (Japan) also help to support 13,000 (15,000) Italian companies that export to Canada (Japan) and 63,000 (89,000) jobs in Italy (source: European Commission).

<sup>3</sup> As mentioned, this comparison is only significant in the case of South Korea.

<sup>4</sup> If on the one hand this could signal an 'expected effect' on the part of exporters in order to take advantage of the measures envisaged by the agreements, on the other hand, this could be an example of the benefits of the agreements. Furthermore, in Japan the increase in the VAT rate from 8 to 10 per cent, starting from October 2019, may have contributed to accelerating Italian sales to Tokyo before its introduction.

## Graph 4.2 - Comparison of Italy's export trend towards Canada, South Korea, Japan and World

(Percentage change with respect to the same period of the previous year)



Note: the negative export data for Italy for goods sold to South Korea in 2016 felt the effects of the bankruptcy of Hanjin Shipping, a firm active in the transport and shipping sector, which filed for bankruptcy in 2016, with about 90 undocked ships.

The dotted line indicates the entry into force of the agreements.

Source: calculated by SACE SIMEST based on ISTAT data.

As mentioned above, data on exports to South Korea allow for a broader analysis. A comparison of the growth rate of Italian exports to Seoul in the pre-agreement (2003-2010) and post-agreement (2011-2018)<sup>5</sup> periods demonstrates that performance was similar and equal, on average, to 6.2 per cent. Even Italy's market share in the country remained substantially stable<sup>6</sup> (from 1.3 per cent in 2003 to 1.2 per cent in 2018) and still well below that of Germany (4.1 per cent, up from 3.8 per cent in 2003).

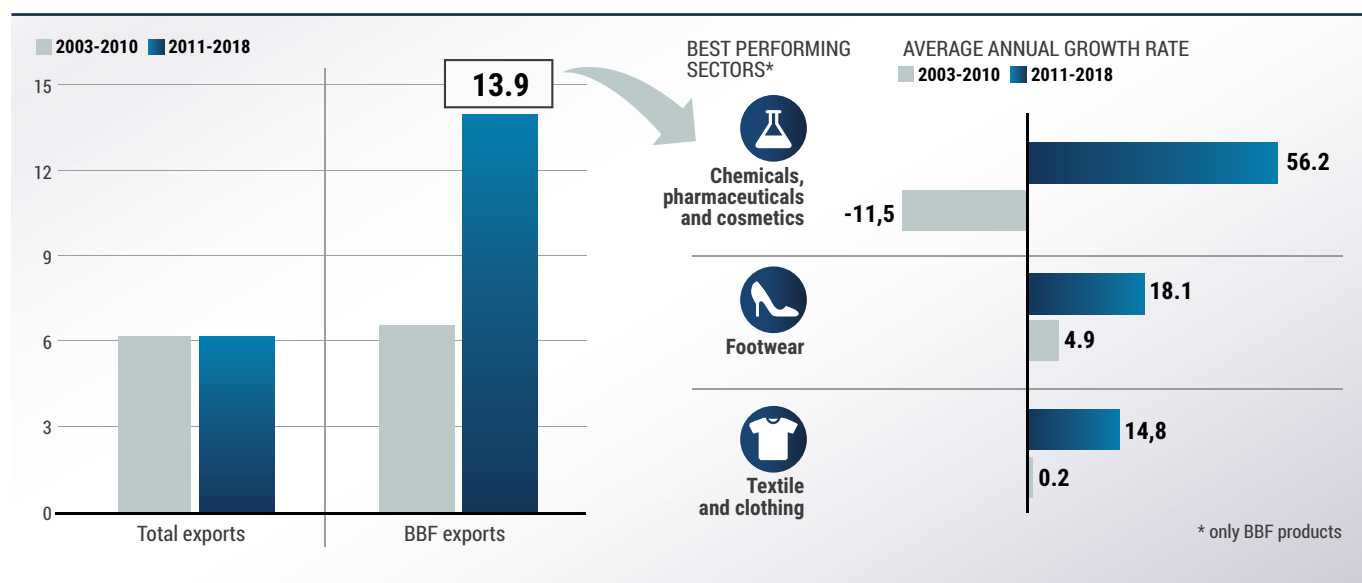
<sup>5</sup> Although the agreement entered into force on 1 July 2011, all of 2011 was considered in calculating the growth rate since this approximation is not particularly relevant for purposes of the analysis.

<sup>6</sup> As a whole, however, the EU has increased its market share in South Korea (from 2 per cent in 2006 to 2.5 in 2016) and turned the trade deficit with South Korea into a surplus.

The data also make it possible to analyze the dynamics of Italian BBF exports and, in this regard, the performance was rather encouraging. In fact, the average annual growth rate in Italian exports to South Korea doubled, rising to 13.9 per cent in the period 2011-2018 compared with 6.7 per cent in the period 2003-2010. This was mainly thanks to the performance of leather goods, textiles and clothing; the performance of the chemical, pharmaceutical and cosmetics sector was also very positive, although this sector was less important in terms of the share of total BBF exports (Graph 4.3).

### Graph 4.3 - Italian exports to South Korea

(Average annual percentage change)



Source: calculated by SACE SIMEST based on UN-Comtrade data.

The data analyzed so far seem to indicate that the EU's free trade agreements may have somewhat helped to strengthen Italian sales to partner countries, even if only in the period immediately following their entry in force. The case of South Korea can be seen as an example of how such agreements may not be sufficient to guarantee better performance in the long run and in comparison with the national average, even though they offer Italian companies the chance to seize new opportunities thanks to the reduction of tariff and non-tariff barriers. However, these dynamics can be read as an invitation to Italian firms to better seize the sectoral opportunities that derive from this agreement, as was done by BBF exporters to South Korea who, according to the data, reacted more dynamically than other Italian exporters.



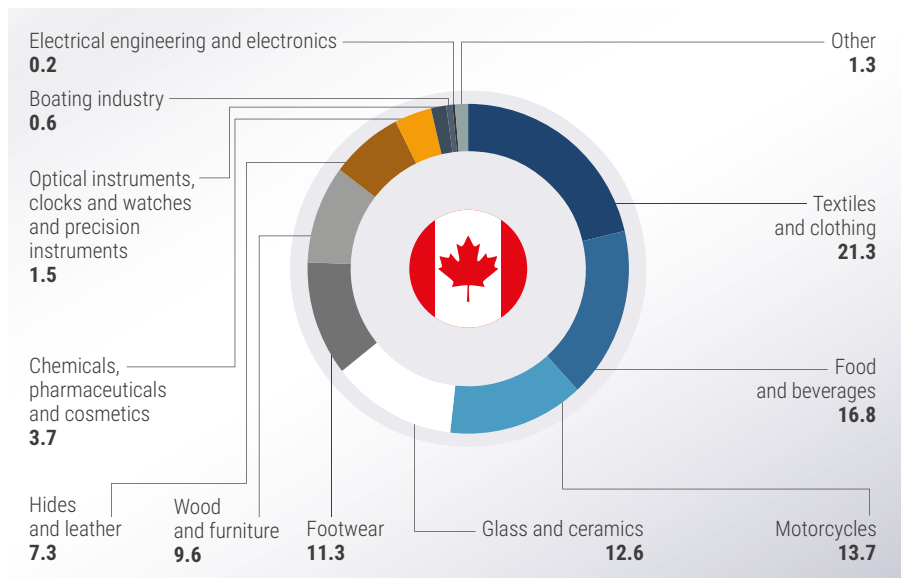
### 4.3 Trade agreements with Canada and Japan and the benefits for the BBF sectors

To capture the potential of the most recent trade agreements with Canada and Japan, we have to “exploit” some forecasting exercises, since the final data (i.e. that for the post-agreement period) cover a short or very short period. Although the European Commission’s forecasts were formulated for the EU as a whole and were not broken down by individual country, we can try to determine the implication for Italian exports of BBF products by analyzing the sectoral composition of Made in Italy sales and by identifying the high-quality products that are primarily exported in the two markets.

In 2018, BBF exports amounted to about €1 billion in Canada and more than €2.3 billion in Japan. At the sector level, sales made in Canada were mainly in textiles and clothing, food and beverages, motorvehicles and glass and ceramics (Graph 4.4). In Japan three sectors were responsible for two thirds of Italian exports: textiles and clothing, hides and leather and motorvehicles (Graph 4.5).

**Graph 4.4**  
**Italian exports of BBF products to Canada**

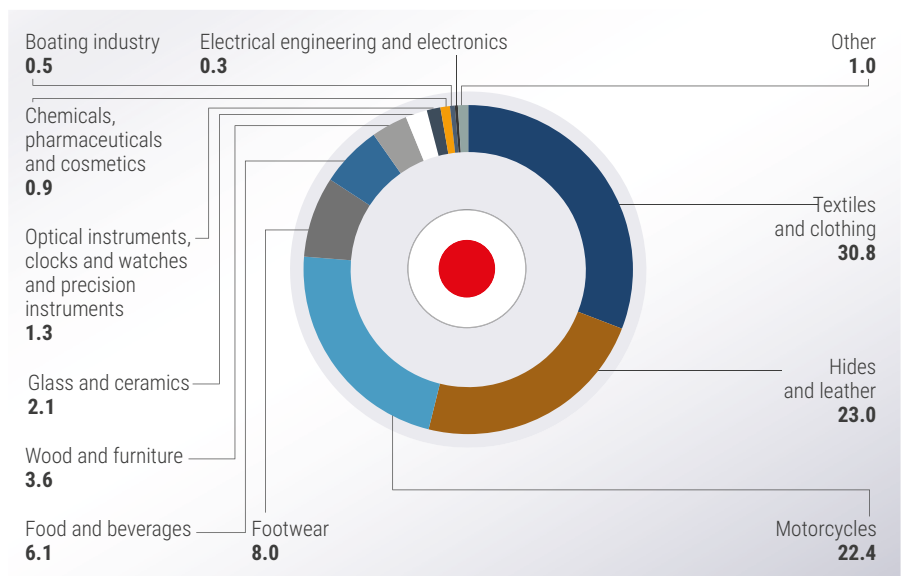
(Percentage of total Italian exports of BBF products to Canada, 2018)



Source: calculated by SACE SIMEST based on ISTAT data.

**Graph 4.5**  
**Italian exports of BBF products to Japan**

(Percentage of total Italian exports of BBF products to Japan, 2018)



Source: calculated by SACE SIMEST based on ISTAT data.

**What is the outlook for BBF firms exporting to Canada?** According to the European Commission, the reduction in “tariff” and “non tariff” barriers through the agreement with Canada should increase the EU’s GDP by about €2 billion per year, once the deal has been fully implemented. In addition, trade between the EU and Canada is expected to increase by at least 8 per cent per year (equal to about €12 billion in additional trade by 2030), divided rather equally between the parties (i.e. roughly €6 billion each).<sup>7</sup> The increase in European exports to Canada is expected to be distributed fairly generally across the sectors. Of these, the most significant increases are expected in clothing, leather goods and textiles (respectively, +145 per cent, +79.8 per cent and +46.9 per cent) and in dairy products (+132 per cent), precisely those sectors that were mainly hit by Canadian customs duties prior to when CETA came into force (Graph 4.6).<sup>8</sup>



Source: calculated by SACE SIMEST based on European Commission data.

**Graph 4.6**  
**The impact of CETA on EU exports and Italian BBF products that could benefit under the agreement**

(% change, 2030, comparison with the "no agreement scenario")

<sup>7</sup> The European Commission also stressed that the models used to estimate the effects of these agreements tend to be conservative and therefore could underestimate their impact. This is because, for example, they do not take account of the synergies that could be created in the value chain, by other trade initiatives and current and future investment or greater protection of geographical designations and intellectual property rights. The Commission’s quantification of the expected benefits take account of just some CETA provisions. Not all the benefits can be adequately quantified using the methodologies and data available. A recent analysis by the IMF (2016), based on a sample of 104 pairs of countries for the period 1983-1995, indicates that trade agreements increase exports by an average of 80 percentage points over 10 years.

<sup>8</sup> A recent study on the effects of CETA also estimates the impact on the Italian economy. The data confirm the favorable outlook for both GDP, albeit moderate (+0.2 per cent), and for exports (+16.9 per cent). The expected increase in the latter is higher than that of imports (+14 per cent), which the bilateral trade balance between Italy and Canada should improve. As regards the sectors, positive outlooks at national level for exporters of dairy products (+201.2 per cent), textiles, clothing and leather products (+109 per cent) are confirmed. For more information see: L. Salvatici, “Gli accordi commerciali e l’Italia: il caso del CETA”, 2019.

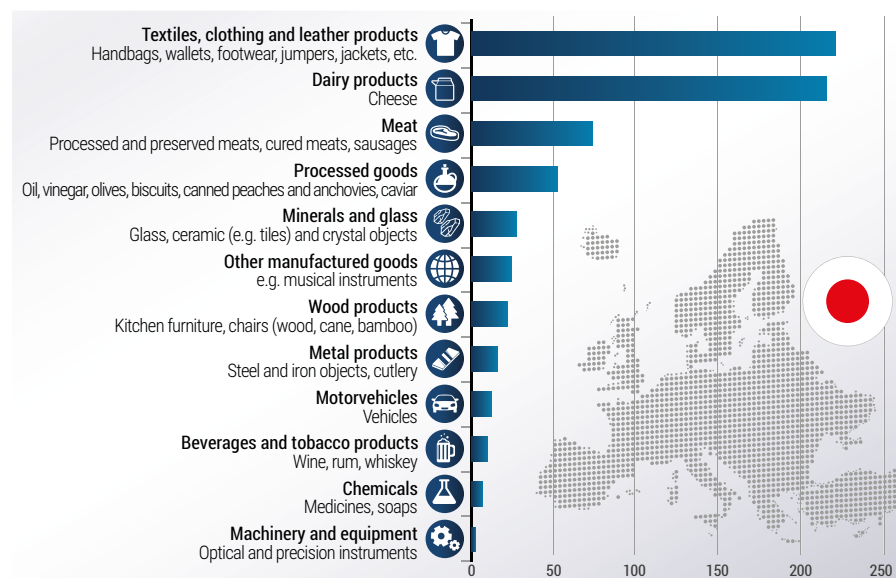
**Given these forecasts, what are the expected implications for BBF exporters?** Many of the Canadian tariffs on BBF goods have been completely abolished since the deal came into force. This is the case, for example, for the trade barriers on textile and clothing, footwear, and hides and leather products, which reached 18 per cent. This could encourage growth in exports of dresses, suits, jumpers, jackets, purses, wallets and shoes of various kinds. Customs duties were also removed on BBF food products such as bread, pastries, biscuits, vinegar, prepared or preserved hams and meats, sausages and cured meats. Other sectors that have benefited from the lifting of trade barriers are wood products and furniture (that faced duties of up to 9.5 per cent) and stone and ceramic materials (up to 8 per cent). Therefore new room could open up for Italian exporters of products such as wooden kitchen cabinets and furniture; bamboo, cane or osier furniture, and ceramic flags and paving, hearth or wall tile, and so on (see the Appendix to the chapter).

Additional "savings" could arrive in the form of the elimination of non-tariff barriers like, for example, provisions for the mutual recognition of conformity assessment certificates. This measure enables firms that plan to export to Canada to test their products just once in Europe, where they can obtain a certificate that is also recognized in Ottawa. This would be particularly beneficial for exporters of machinery, equipment and toys. For spirits such as gin, vodka and whisky and for all wines from the EU, CETA contains a number of measures designed to ease the difficulties posed by the Canadian system which grants provincial monopolies on the sale of these beverages. In this respect, among the deal's provisions are the following: the number of Canadian private wine store outlets, which are an alternative to the Provincial Liquor Board monopolies, will be frozen; the cost of service differential fee, imposed at the provincial level by the Liquor Boards, shall no longer be applied based on volume but on the value of the good, thereby eliminating discrimination against EU products (which in general are of higher value) and against the firms that sell them since they will no longer have to bear costs that are higher than those imposed on Canadian products for the same "service". It also calls for eliminating Canada's requirement that imported distilled spirits be blended with local spirits before bottling (which, in the past, made it impossible to place geographical indications on the label). CETA also incorporates existing agreements on wines and spirits signed in the past by the EU and Canada (the 1989 Trade and Commerce in Alcoholic Beverages Agreement and the 2003 Wines and Spirits Agreement); this means, for example, that the dispute resolution mechanism will apply to the provisions concerning wines, with the relative consequences as to their effective application. Another example of the removal of non-tariff barriers is that of the pharmaceuticals sector, which should benefit not just from the fact that inspections carried out in the EU by any Member State authority are accepted by Canada, but also from the (optional) recognition of inspections conducted by the other party in third countries. This is important, for example, if we consider that around 40 per cent of the medicinal products sold in the EU come from abroad, as are 80 per cent of the substances used to produce pharmaceuticals.



**What is the outlook for BBF firms exporting to Japan?** The European Commission's estimates on the deal with Japan paint a likewise rosy picture. The reduction in trade (and other) barriers through the agreement should ensure €33 billion in higher GDP for the EU in 2035 (the year in which the agreement is expected to be fully implemented), compared with a scenario in which the agreement had not been signed. This corresponds to additional GDP of 0.14 per cent for the EU countries. It is expected that this improvement will be accompanied by an increase in European exports to Japan of more than €13 billion during the same period (+13.2 per cent). There are also expected significant benefits in agriculture and food products – 85 per cent of the EU's agriculture and food products, once the agreement is fully in effect, will no longer be subject to customs duties upon entry in Japan – and in textiles, clothing

and leather products. However, these are the sectors in which small and medium-sized enterprises engage most heavily in trade between the countries. Furthermore, there are no significant “losses” expected in specific sectors, including automotive, and, in some sectors, the opportunities will be particularly great: for processed food products, for example, the expected increase is around 52 per cent; for dairy products, 215 per cent; for textiles, clothing and leather products, 220 per cent (Graph 4.7).



Source: calculated by SACE SIMEST based on ISTAT data.

**Graph 4.7**  
**The impact of EPA on EU exports and Italian BBF products that could benefit under the agreement**

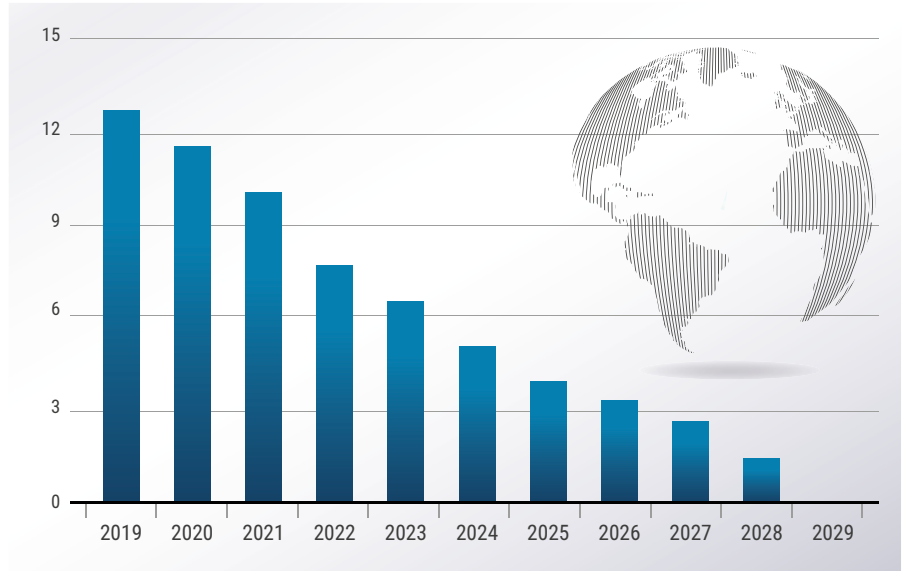
(% change, 2035, comparison with the “no agreement scenario”)

Many of the BBF products in the textile and clothing sector – which before the Economic Partnership Agreement (EPA) entered into force faced tariffs of up to 11 per cent – may benefit from the total abolition of customs duties as early as 1 February 2019. For hides and leather products and for footwear, the customs duties – which reached as high as 30 per cent – will be progressively eliminated (Graph 4.8). Tariff barriers will also be gradually abolished for a variety of food products, such as breads, pastries and biscuits. The duties on hard cheeses (equal to 29.8 per cent) will be progressively reduced until they are entirely duty free (and for unlimited quantities) as of 1 April 2033. As of that date as well, tariff exemptions will be granted for 20,000 tonnes of fresh cheeses (such as mozzarella, processed cheeses, flavoured cheeses and soft cheeses). The Japanese duties on wines took effect the date the agreement entered into force. Numerous other BBF products, including wood and furniture, chemicals, pharmaceuticals and cosmetics, glass and ceramics, already enjoyed low or no duties, even prior to the agreement (see the Appendix to the chapter).

The removal of non-tariff barriers will lead to additional benefits. For example, as concerns the labelling of textiles, in March 2015 Japan adopted the international labelling system for textiles, a system similar to that used in the EU. Therefore, textile labels no longer need to be changed on every single item that is exported to Japan. EU companies will also benefit from the recognition of standards affecting, most importantly, the exporters of motorvehicles, as well as food and beverages, medical devices, electronic equipment, chemicals and pharmaceuticals and textiles. In more concrete terms, this means that European automobiles will be subject to the same requirements in the EU and in Japan and it will not be necessary to test and certify them again in order to be able to sell them in the other’s territory: for example, hydrogen-powered vehicles approved in the EU can be exported to Japan without any further modifications. The deal also includes a safeguard clause that allows the EU

### Graph 4.8 Progressive removal of duties: an example

(Product: handbags with outer surface  
of leather or of composition leathers;  
HS Code 4202.21.11)



Note: the percentages of the upper extremity of the histogram indicates the customs duty on the product.

Source: calculated by SACE SIMEST based on ISTAT data.

to reimpose duties in the event Japan does not effectively remove non-tariff barriers. Furthermore, with regard to pharmaceuticals, quasi-drugs and cosmetics, as of 1 January 2016 the cumbersome notification system, which had hindered trade, was abolished.

Exporters can check whether the trade agreement has removed or will remove barriers on the products they sell by referring to the HS code<sup>9</sup> for their product and seeing whether they have met the requirements, such as the rules on origin. They can do this by consulting the European Commission's Market Access Database (MADB), available online for free, which indicates whether the product is subject to custom duties, the period over which they are scheduled to be abolished and the existence of other import restrictions (such as quotas). Exporters merely need to input the country to which they plan to export and their product code to pull up the information. It is also important to know that EU exporters are required to register with the Registered EXporter system (REX)<sup>10</sup> in the case in which the value of the goods sent is higher than €6,000. To summarize, an exporter needs to identify the product code; check in the MADB whether there are any tariff or non-tariff barriers; check whether the rules on origin have been respected; and register with REX if sending shipments worth over €6,000.

<sup>9</sup> The Harmonized Commodity Description and Coding Systems (HS) is an international system for classifying each single product using a numerical code. This code is used in trade between countries to make it easier to clearly and quickly identify the goods transported.

<sup>10</sup> REX is the system of certification of origin of goods that is based on a principle of self-certification by economic operators. All Italian companies that would like to export to Canada and Japan and would like to take advantage of the respective trade agreements must register with REX. Registration is needed to certify the EU origin of the product exported. An Italian exporter (or reforwarder) who intends to register with REX must submit an application to its district customs office. Once the exporter has received a REX number, it can use it to export to all countries that require it under preferential trade agreements.

## 4.4 New trade agreements on the horizon: the Mercosur case

The trade agreements signed by the EU in recent years have contributed, to some extent, to encouraging European (and Italian) companies, especially SMEs, to look for business abroad. SMEs in particular most appreciate the advantages these agreements offer, since they simplify entry into such markets and lower the costs of their products to the final customer.

Brussels is currently carrying out a variety of negotiations with other geographical areas. This could lead to further trade deals with potentially positive effects for Italian firms, including BBF exporters, as has been presented in the cases of Canada, South Korea and Japan.

One especially important negotiation that is under way is that with Mercosur,<sup>11</sup> Italy's 7th most important trading partner outside of the EU and to which over 13,000 Italian firms export products (of which 79 per cent are SMEs).<sup>12</sup> On 28 June 2019 the parties reached a political agreement on the economic component of the bilateral association agreement, namely the EU-Mercosur Trade Agreement. It is the most important agreement signed by the EU up until now in terms of number of inhabitants (773 million, compared with 639 million for EPA and 550 million for CETA) and in terms of "savings" on customs duties: €4 billion for European firms, compared with €1 billion in the case of Japan and about €600 million with Canada. This is not surprising considering that the Mercosur countries,<sup>13</sup> especially Argentina and Brazil, are notably protected markets: the average tariff imposed by both equal 13.4 per cent.<sup>14</sup> The highest duties are placed on textiles and clothing (between 23 and 35 per cent), motorvehicles (19 per cent), beverages and tobacco products (17 per cent), and footwear and leather products (15 per cent); as already observed, many of the goods in these sectors are full-fledged Italian BBF.

**What is the outlook for exporters to Mercosur?** Italian exports are mainly concentrated in the tariff range of 10 to 15 per cent with 89 duty lines corresponding to 41.9 per cent of the country's exports.

The sectors that are penalized by the high average tariffs (15-35 per cent) are those relating to consumption goods, food products, and engineering and engines for the motorvehicle sector. Thanks to the agreement, 91 per cent of European goods exported to Mercosur will be duty free in the span of 10 years at most. Other sectors that will benefit from liberalization, with certain exceptions, are the chemical and pharmaceuticals industry, textiles and clothing, and leather footwear. As for the automotive sector, especially for passenger transport vehicles, liberalization will be gradual and will require about 15 years. The agreement also provides that, once fully in place, 93 per cent of EU agricultural and food products can access the Mercosur market duty free; for example, olive oil (transitional period of 15 years), wine excluding bulk wines (8 years, 12 years for sparkling wines), spirits (4 years), canned tomatoes (10 years) and pork (10 years). Other products on which tariffs will be lifted, but for which the transitional periods have not yet been published, are canned peaches, malt, frozen potatoes, coffee, non-alcoholic beverages, chocolate and biscuits.



<sup>11</sup> The analysis that follows is based on data and information provided by Confindustria.

<sup>12</sup> Over 98,000 jobs have been created in Italy by selling to the area.

<sup>13</sup> The member countries are Argentina, Brazil, Paraguay and Uruguay.

<sup>14</sup> This percentage is much higher than that for the United States and EU (respectively 3.4 and 5.2 per cent), and also for other important emerging countries such as China (9.8 per cent) and Russia (6.8 per cent).

BBF exporters can also benefit from the reduction in tariff and non-tariff barriers. They will also gain from the recognition and protection of geographical indications: in fact, there are 355 products recognized and protected by the agreement (of which 57 products of excellence Made in Italy, including wines, cheeses and cured meats), some of these will have to undergo a transition period of between 5 and 10 years.



## Appendix

Tables A1 and A2 identify the main Italian BBF products that are exported to Canada and Japan, using the European Commission's classification system. The last two columns illustrate the current tariff level and the level that would apply without the agreement, consistent with the Most-Favored Nation (MFN) principle.<sup>15</sup>

**Table 4.2 - The effects of CETA on EU exports to Canada and the potential implications for BBF products**

(Percentage changes and changes in millions of euros, 2030)

Sectors (European Commission Classification)	% change	Change € mln	Main Italian BBF products exported to Canada			Canadian duties on EU imports	MFN Tariff (% of FOB value)
			HS code	BBF products included in the aggregate	BBF sector		
<b>Clothing</b>	145%	414	620311	Suits; men's or boys', of wool or fine animal hair (not knitted or crocheted)	Textile and clothing	0%	18%
			620193	Anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles; men's or boys', of man-made fibres, other than those of heading no. 6203 (not knitted or crocheted)	Textile and clothing	0%	17%
			620331	Jackets and blazers; men's or boys', of wool or fine animal hair (not knitted or crocheted)	Textile and clothing	0%	18%
			620293	Anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles; women's or girls', of man-made fibres, other than those of heading no. 6204 (not knitted or crocheted)	Textile and clothing	0%	18%
			620342	Trousers, bib and brace overalls, breeches and shorts; men's or boys', of cotton (not knitted or crocheted)	Textile and clothing	0%	17%
			620193	Anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles; men's or boys', of man-made fibres, other than those of heading no. 6203 (not knitted or crocheted)	Textile and clothing	0%	17%
			620520	Shirts; men's or boys', of cotton (not knitted or crocheted)	Textile and clothing	0%	17%
			620213	Coats; women's or girls', overcoats, raincoats, car-coats, capes, cloaks and similar articles, of man-made fibres, other than those of heading no. 6204 (not knitted or crocheted)	Textile and clothing	0%	18%
			420310	Apparel; articles of apparel, of leather or of composition leather	Hides and leather goods	0%	13%
<b>Dairy products*</b>	132%	300	210500	Ice cream and other edible ice; whether or not containing cocoa	Food and beverage	0%**	up to 9.5%**

Continued on the next page >

<sup>15</sup> The Most-Favored Nation principle requires each WTO member country to apply the lowest duty granted to a specific partner to the other member countries. This means that if a country grants a reduction of duties on specific products to a member of the WTO, they will have to extend that reduction to all other members as well. It is essentially a principle of non-discrimination of trade partners. However, some exceptions are allowed, such as when a country adheres to a free trade agreement that applies only to goods traded within the area. "Favorable treatments" are also allowed for developing countries. Finally, a country can discriminate against products from specific countries that are considered "traded unfairly" or services, but only under strict conditions.



Continued from the previous page >

Sectors (European Commission Classification)	% change	Change € mln	Main Italian BBF products exported to Canada			Canadian duties on EU imports	MFN Tariff (% of FOB value)
			HS code	BBF products included in the aggregate	BBF sector		
<b>Leather goods</b>	79.8%	216	420221	Cases and containers; handbags (whether or not with shoulder strap and including those without handle), with outer surface of leather, of composition leather or of patent leather	Hides and leather goods	0%	10%
			640399	Footwear; n.e.s. in heading no. 6403, (not covering the ankle), outer soles of rubber, plastics or composition leather, uppers of leather	Footwear	0%	up to 18%
			640359	Footwear; n.e.s. in heading no. 6403, (not covering the ankle), outer soles and uppers of leather	Footwear	0%	up to 18%
			420231	Cases and containers; of a kind normally carried in the pocket or in the handbag, with outer surface of leather or composition leather or of patent leather	Hides and leather goods	0%	8.5%
			640419	Footwear; (other than sportswear), with outer soles of rubber or plastics and uppers of textile materials	Footwear	0%	up to 18%
			420221	Cases and containers; handbags (whether or not with shoulder strap and including those without handle), with outer surface of leather or of composition leather	Hides and leather goods	0%	10%
			640399	Footwear; n.e.c. in heading no. 6403, (not covering the ankle), outer soles of rubber, plastics or composition leather, uppers of leather	Footwear	0%	up to 18%
			640359	Footwear; n.e.s. in heading no. 6403, (not covering the ankle), outer soles and uppers of leather	Footwear	0%	up to 18%
			640391	Footwear; n.e.s. in heading no. 6403, covering the ankle, outer soles of rubber, plastics or composition leather, uppers of leather	Footwear	0%	up to 18%
			640419	Footwear; (other than sportswear), with outer soles of rubber or plastics and uppers of textile materials	Footwear	0%	up to 18%
<b>Meats</b>	61.5%	55	160241	Meat preparations; of swine, hams and cuts thereof, prepared or preserved (excluding homogenised preparations)	Food and beverage	0%	up to 9.5%
			160100	Meat preparations; sausages and similar products, of meat, meat offal or blood, and food preparations based on these products	Food and beverage	0%***	up to 12.5%***
			160249	Meat preparations; of swine, meat or meat offal (including mixtures), prepared or preserved, n.e.s. in heading no. 1602	Food and beverage	0%	up to 12.5%
<b>Textiles</b>	46.9%	182	610910	T-shirts, singlets and other vests; of cotton, knitted or crocheted	Textile and clothing	0%	up to 18%
			6110	Jerseys, pullovers, cardigans, waistcoats and similar articles; knitted or crocheted	Textile and clothing	0%	up to 18%
			611011	Jerseys, pullovers, cardigans, waistcoats and similar articles; knitted or crocheted, of wool or fine animal hair	Textile and clothing	0%	up to 18%
			611012	Jerseys, pullovers, cardigans, waistcoats and similar articles; knitted or crocheted, of fibres from kashmir (cashmere) goats	Textile and clothing	0%	up to 18%
			611019	Jerseys, pullovers, cardigans, waistcoats and similar articles; knitted or crocheted, of fine animal hair other than that of kashmir (cashmere) goats	Textile and clothing	0%	up to 18%
			611020	Jerseys, pullovers, cardigans, waistcoats and similar articles; of cotton, knitted or crocheted	Textile and clothing	0%	up to 18%
			610910	T-shirts, singlets and other vests; of cotton, knitted or crocheted	Textile and clothing	0%	up to 18%
<b>Beverages and tobacco</b>	1.5%	32	220421	Wine; still, in containers holding 2 litres or less	Food and beverage	0%	up to 4.68 cents/l
			220410	Wine; sparkling	Food and beverage	0%	0%
<b>Wood products</b>	24.5%	123	940161	Seats; with wooden frames, upholstered, (excluding medical, surgical, dental, veterinary or barber furniture)	Wood and furniture	0%	up to 9.5%
			940360	Furniture; wooden, other than for office, kitchen or bedroom use	Wood and furniture	0%	up to 9.5%
			940340	Furniture; wooden, for kitchen use	Wood and furniture	0%	up to 9.5%
			940171	Seats; with metal frames, upholstered, (excluding medical, surgical, dental, veterinary or barber furniture)	Wood and furniture	0%	up to 8%
			940382	Furniture; of bamboo	Wood and furniture	0%	up to 9.5%
			940383	Furniture; of rattan	Wood and furniture	0%	up to 9.5%
			940389	Furniture; of cane, osier, or similar materials (other than bamboo or rattan)	Wood and furniture	0%	up to 9.5%
			940180	Seats; n.e.c. in heading no. 9401, (excluding medical, surgical, dental, veterinary or barber furniture)	Wood and furniture	0%	up to 9.5%
			940320	Furniture; metal, other than for office use	Wood and furniture	0%	up to 8%

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Sectors (European Commission Classification)	% change	Change € mln	Main Italian BBF products exported to Canada			Canadian duties on EU imports	MFN Tariff (% of FOB value)	
			HS code	BBF products included in the aggregate	BBF sector			
<b>Automotive</b>	17.8%	880		Vehicles; spark-ignition internal combustion reciprocating piston engine				
			870324	cylinder capacity exceeding 3000cc	Motorvehicles	3.8%	6.1%	
			870323	cylinder capacity exceeding 1500cc but not exceeding 3000cc	Motorvehicles	3.8%	6.1%	
<b>Minerals (non-metallic)</b>	16.5%	96	6907		Glass and ceramics	0%	up to 8%	
			690721		Glass and ceramics	0%	up to 8%	
			690722	Ceramic flags and paving, hearth or wall tiles, unglazed; unglazed ceramic mosaic cubes and the like, whether or not on a backing	Glass and ceramics	0%	up to 8%	
			690723		Glass and ceramics	0%	up to 8%	
			690730		Glass and ceramics	0%	up to 8%	
			690740		Glass and ceramics	0%	0%	
			701399		Glassware; n.e.s. in heading no. 7013, other than of lead crystal	Glass and ceramics	0%	0%
			701391		Glassware; n.e.s. in heading no. 7013, of lead crystal	Glass and ceramics	0%	0%
<b>Processed food products</b>	13.9%	199	150910	Vegetable oils; olive oil and its fractions, virgin, whether or not refined, but not chemically modified	Food and beverage	0%	0%	
			190590	Food preparations; bakers' wares n.e.c. in heading no. 1605, whether or not containing cocoa; communion wafers, empty cachets suitable for pharmaceutical use, sealing wafers, rice papers and similar products	Food and beverage	0%	up to 11%	
			190531	Food preparations; sweet biscuits, whether or not containing cocoa	Food and beverage	0%	up to 4% plus 5.42 cents in Canadian dollars per kg	
			190532	Food preparations; waffles and wafers, whether or not containing cocoa	Food and beverage	0%	up to 4% plus 5.42 cents in Canadian dollars per kg	
			220900	Vinegar and substitutes for vinegar; obtained from acetic acid	Food and beverage	0%	10%	
			160414	Fish preparations; tunas, skipjack and Atlantic bonito (sarda spp.), prepared or preserved, whole or in pieces (but not minced)	Food and beverage	0%	up to 7%	
			200570	Vegetable preparations; olives, prepared or preserved otherwise than by vinegar or acetic acid, not frozen	Food and beverage	0%	up to 8%	
			200591	Vegetable preparations; bamboo shoots, prepared or preserved otherwise than by vinegar or acetic acid, not frozen	Food and beverage	0%	0%	
			200599	Vegetable preparations; vegetables and mixtures of vegetables n.e.c. in heading no. 2005, prepared or preserved otherwise than by vinegar or acetic acid, not frozen	Food and beverage	0%	up to 14.5%	
			180631	Chocolate and other food preparations containing cocoa; in blocks, slabs or bars, filled, weighing 2kg or less	Food and beverage	0%	6%	
			160416	Fish preparations; anchovies, prepared or preserved, whole or in pieces (but not minced)	Food and beverage	0%	up to 9%	
			210320	Sauces; tomato ketchup and other tomato sauces	Food and beverage	0%	up to 12.5%	
			200190	Vegetable preparations; vegetables, fruit, nuts and other edible parts of plants, prepared or preserved by vinegar or acetic acid (excluding cucumbers and gherkins)	Food and beverage	0%	up to 8%	
<b>Metal industries</b>	12%	128	830629	Statuettes and other ornaments; of base metal other than plated with precious metal	Other	0%	6.5%	
			732393	Steel, stainless; table, kitchen and other household articles and parts thereof	Other	0%	6.5%	

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Sectors (European Commission Classification)	% change	Change € mln	Main Italian BBF products exported to Canada			Canadian duties on EU imports	MFN Tariff (% of FOB value)
			HS code	BBF products included in the aggregate	BBF sector		
<b>Transportation</b>	5.8%	192	871150	Motorcycles (including mopeds) and cycles; fitted with auxiliary motor, with reciprocating internal combustion piston engine of a cylinder capacity exceeding 800cc, with or without side-cars; side-cars	Motorvehicles	0%	0%
			890392	Motorboats; (other than outboard motorboats), for pleasure or sports, other than inflatable	Boating	0%	up to 9.5%
			871140	Motorcycles (including mopeds) and cycles; fitted with auxiliary motor, reciprocating internal combustion piston engine of cylinder capacity exceeding 500cc but not exceeding 800cc, with or without sidecars; side-cars	Motorvehicles	0%	0%
			890710	Rafts; inflatable	Boating	0%	up to 9.5%
<b>Chemical and plastic products</b>	5.4%	451	300431	Medicaments; containing insulin (but not containing antibiotics), for therapeutic or prophylactic uses, packaged for retail sale	Chemicals, pharmaceuticals and cosmetics	0%	0%
			300439	Medicaments; containing hormones (but not insulin), adrenal cortex hormones or antibiotics, for therapeutic or prophylactic uses, packaged for retail sale	Chemicals, pharmaceuticals and cosmetics	0%	0%
			340111	Soap and organic surface-active products; in the form of bars, cakes, moulded shapes, and paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent, for toilet use (including medicated products)	Chemicals, pharmaceuticals and cosmetics	0%	up to 6.5%
			330610	Oral or dental hygiene preparations; dentifrices	Chemicals, pharmaceuticals and cosmetics	0%	up to 6.5%
<b>Machinery</b>	3.1%	299	900410	Sunglasses; corrective, protective or other	Optical instruments, clocks and watches, and precision instruments	0%	5%
			900490	Spectacles, goggles and the like; (other than sunglasses) corrective, protective or other	Optical instruments, clocks and watches, and precision instruments	0%	5%
			850940	Electro-mechanical domestic appliances; food grinders and mixers, fruit or vegetable juice extractors, with self-contained electric motor	Electronics and electrical engineering	0%	up to 8%
			902139	Artificial parts of the body; excluding artificial joints	Optical instruments, clocks and watches, and precision instruments	0%	0%
			902131	Artificial parts of the body	Optical instruments, clocks and watches, and precision instruments	0%	0%
			851650	Ovens; microwave, of a kind used for domestic purposes	Electronics and electrical engineering	0%	0%
<b>Other manufacturing</b>	29.1%	83	711790	Jewellery; imitation, of other than base metal, whether or not plated with precious metal	Other	0%	8.5%
			920120	Musical instruments; pianos, grand	Other	0%	7%

\* Thanks to CETA, the share of Canadian imports of European cheeses exempt from duty has more than doubled (for more details, see madb.europa.ue).

\*\* excludes code 2105.00.92 (duty of 277 percent, but not less than 1.16 Canadian dollars per kg).

\*\*\* excludes codes 1601.00.22 (238 percent duty) and 1601.00.32 (154.5 percent duty).

Note: 2030 variations with respect to the "non-agreement" scenario. Sectoral classification of the European Commission (Global Trade Analysis Project - GTAP).

Source: SACE SIMEST calculations based on European Commission data.

**Tabella 4.3 - The effects of EPA on EU exports to Japan and the potential implications for BBF products**

(Percentage change and change in millions of euros, 2035)

Sectors (European Commission Classification)	% change	Change € mln	Main Italian BBF products exported to Japan			Japanese duties on EU imports	MFN Tariff (% of FOB value)
			HS code	BBF products included in the aggregate	BBF sector		
Textiles, clothing and leather goods	220%	5,213	420221	Cases and containers; handbags (whether or not with shoulder strap and including those without handle), with outer surface of leather or of composition leather	Hides and leather goods	up to 13.1%	up to 16%
			420231	Cases and containers; of a kind normally carried in the pocket or in the handbag, with outer surface of leather or of composition leather	Hides and leather goods	up to 13.1%	up to 16%
			611490	Garments; of textile materials (other than cotton or man-made fibres), knitted or crocheted, n.e.c. in chapter 61	Textile and clothing	0%	8%
			640359	Footwear; n.e.c. in heading no. 6403, (not covering the ankle), outer soles and uppers of leather	Footwear	up to 26.3%	up to 30%
			640399	Footwear; n.e.c. in heading no. 6403, (not covering the ankle), outer soles of rubber, plastics or composition leather, uppers of leather	Footwear	up to 26.3%	up to 30%
			420222	Cases and containers; handbags (whether or not with shoulder strap and including those without handle), with outer surface of plastic sheeting or of textile materials	Hides and leather goods	up to 13.1%	up to 16%
			6110	Jerseys, pullovers, cardigans, waistcoats and similar articles; knitted or crocheted	Textile and clothing	0%	11%
			611011	of wool or fine animal hair	Textile and clothing	0%	11%
			611012	of fibres from kashmir (cashmere) goats	Textile and clothing	0%	11%
			611019	of fine animal hair other than that of kashmir (cashmere) goats	Textile and clothing	0%	11%
			611020	of cotton	Textile and clothing	0%	11%
			620213	Coats; women's or girls', overcoats, raincoats, car-coats, capes, cloaks and similar articles, of man-made fibres, other than those of heading no. 6204 (not knitted or crocheted)	Textile and clothing	0%	up to 12.8%
			620342	Trousers, bib and brace overalls, breeches and shorts; men's or boys', of cotton (not knitted or crocheted)	Textile and clothing	0%	up to 10%
			620193	Anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles; men's or boys', of man-made fibres, other than those of heading no. 6203 (not knitted or crocheted)	Textile and clothing	0%	up to 12.8%
			610910	T-shirts, singlets and other vests; of cotton, knitted or crocheted	Textile and clothing	0%	up to 10.9%
			640391	Footwear; n.e.c. in heading no. 6403, covering the ankle, outer soles of rubber, plastics or composition leather, uppers of leather	Footwear	up to 26.3%	up to 30%
611300	Garments made up of knitted or crocheted fabrics of heading no. 5903, 5906 and 5907	Textile and clothing	0%	up to 10.4%			
620211	Coats; women's or girls', overcoats, raincoats, car-coats, capes, cloaks and similar articles, of wool or fine animal hair, other than those of heading no. 6204 (not knitted or crocheted)	Textile and clothing	0%	up to 12.8%			
Dairy products*	215%	729	210500	Ice cream and other edible ice; whether or not containing cocoa	Food and beverage	up to 27.1%	up to 29.8%
Meats	73.4%	337	160100	Meat preparations; sausages and similar products, of meat, meat offal or blood, and food preparations based on these products	Food and beverage	6.7%	10%
			160241	Meat preparations; of swine, hams and cuts thereof, prepared or preserved (excluding homogenised preparations)	Food and beverage	up to 13.3%	up to 20%
			160242	Meat preparations; of swine, shoulders and cuts thereof, prepared or preserved (excluding homogenised preparations)	Food and beverage	up to 13.3%	up to 20%
			160249	Meat preparations; of swine, meat or meat offal (including mixtures), prepared or preserved, n.e.s. in heading no. 1602	Food and beverage	up to 13.3%	up to 20%

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Sectors (European Commission Classification)	% change	Change € mln	Main Italian BBF products exported to Japan			Japanese duties on EU imports	MFN Tariff (% of FOB value)
			HS code	BBF products included in the aggregate	BBF sector		
Processed food products	51.8%	1,095	150910	Vegetable oils; olive oil and its fractions, virgin, whether or not refined, but not chemically modified	Food and beverage	0%	0%
			190590	Food preparations; bakers' wares n.e.s. in heading no. 1605, whether or not containing cocoa; communion wafers, empty cachets suitable for pharmaceutical use, sealing wafers, rice papers and similar products	Food and beverage	up to 18.7%**	up to 25.5%**
			190531	Food preparations; sweet biscuits, whether or not containing cocoa	Food and beverage	17%	20%
			190532	Food preparations; waffles and wafers, whether or not containing cocoa	Food and beverage	14%	18%
			220900	Vinegar and substitutes for vinegar; obtained from acetic acid	Food and beverage	0%	8%
			160416	Fish preparations; anchovies, prepared or preserved, whole or in pieces (but not minced)	Food and beverage	0%	10%
			200570	Vegetable preparations; olives, prepared or preserved otherwise than by vinegar or acetic acid, not frozen	Food and beverage	0%	up to 9%
			210320	Sauces; tomato ketchup and other tomato sauces	Food and beverage	up to 17.4%	up to 21.3%
			160420	Fish preparations; fish minced or in forms n.e.c. in heading no. 1604, prepared or preserved	Food and beverage	0%	up to 11%
			160431	Fish preparations; caviar	Food and beverage	0%	6%
			160432	Fish preparations; caviar substitutes, prepared from fish eggs	Food and beverage	0%	6%
Minerals and glass	26.7%	725	6907		Glass and ceramics	0%	2%
			690721	Ceramic flags and paving, hearth or wall tiles, unglazed; unglazed ceramic mosaic cubes and the like, whether or not on a backing	Glass and ceramics	0%	2%
			690722		Glass and ceramics	0%	2%
			690723		Glass and ceramics	0%	2%
			690730		Glass and ceramics	0%	2%
			690740		Glass and ceramics	0%	2%
			701399		Glassware; n.e.s. in heading no. 7013, other than of lead crystal	Glass and ceramics	0%
691390	Ceramic statuettes and other ornamental ceramic articles; other than of porcelain or china	Glass and ceramics	0%	2%			
Other manufacturing	23.7%	261	711790	Jewellery; imitation, of other than base metal, whether or not plated with precious metal	Other	0%	up to 10%
			920210	Musical instruments; string, played with a bow (e.g. violins)	Other	0%	0%
			920290	Musical instruments; string, played other than with a bow (e.g. guitars and harps)	Other	0%	0%
			950612	Ski-fastenings (ski-bindings); for snow-skis	Other	0%	0%
			920710	Musical instruments; keyboard, (other than accordions), the sound of which is produced or must be amplified electrically	Other	0%	0%
Wood products	21.8%	635	940360	Furniture; wooden, other than for office, kitchen or bedroom use	Wood and furniture	0%	0%
			940161	Seats; with wooden frames, upholstered, (excluding medical, surgical, dental, veterinary or barber furniture)	Wood and furniture	0%	0%
			940171	Seats; with metal frames, upholstered, (excluding medical, surgical, dental, veterinary or barber furniture)	Wood and furniture	0%	0%
			940382	Furniture; of bamboo	Wood and furniture	0%	0%
			940383	Furniture; of rattan	Wood and furniture	0%	0%
			940389	Furniture; of cane, osier, or similar materials (other than bamboo or rattan)	Wood and furniture	0%	0%
			940180	Seats; n.e.c. in heading no. 9401, (excluding medical, surgical, dental, veterinary or barber furniture)	Wood and furniture	0%	0%
Metal products	16.4%	443	732393	Steel, stainless; table, kitchen and other household articles and parts thereof	Other	0%	0%
			821599	Cutlery; other than plated with precious metal	Other	0%	4%
			732392	Cast iron; table, kitchen and other household articles and parts thereof, of cast iron, enamelled	Other	0%	0%
			830629	Statuettes and other ornaments; of base metal other than plated with precious metal	Other	0%	3%
			821300	Scissors; tailors' shears, similar shears and blades therefor	Other	0%	4%
Motorvehicles	11.5%	1,222	8703	Motor cars and other motorvehicles; principally designed for the transport of persons (other than those of heading no. 8702), including station wagons and racing cars	Motorvehicles	0%	0%
			870324	cylinder capacity exceeding 3000cc	Motorvehicles	0%	0%
			870323	cylinder capacity exceeding 1500cc but not exceeding 3000cc	Motorvehicles	0%	0%

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Sectors (European Commission Classification)	% change	Change € mln	Main Italian BBF products exported to Japan			Japanese duties on EU imports	MFN Tariff (% of FOB value)
			HS code	BBF products included in the aggregate	BBF sector		
<b>Beverages and tobacco</b>	10.2%	260	220840	Rum and other spirits obtained by distilling fermented sugar-cane products	Food and beverage	0%	0%
			220830	Whiskies	Food and beverage	0%	0%
			22042101	Wine of fresh grapes, including fortified wines; grape must other than that of heading no. 2009	Food and beverage	0%	112 JPY/l
			22042102	Wine of fresh grapes, including fortified wines; grape must other than that of heading no. 2009	Food and beverage	0%	15%, but not less than 67.0 JPY/l or more than 125.0 JPY/l
			220410	Wine; sparkling	Food and beverage	0%	182 JPY/l
<b>Chemical products</b>	6.9%	1,606	300439	Medicaments; containing hormones (but not insulin), adrenal cortex hormones or antibiotics, for therapeutic or prophylactic uses, packaged for retail sale	Chemicals, pharmaceuticals and cosmetics	0%	0%
			650610	Headgear; safety, whether or not lined or trimmed	Textile and clothing	0%	up to 4.8%
			401699	Rubber, vulcanised (other than hard rubber), articles n.e.c. in heading no. 4016, of non-cellular rubber	Other	0%	0%
			340111	Soap and organic surface-active products; in the form of bars, cakes, moulded shapes, and paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent, for toilet use (including medicated products)	Chemicals, pharmaceuticals and cosmetics	0%	0%
			392620	Plastics; articles of apparel and clothing accessories (including gloves, mittens and mitts)	Other	0%	up to 4.8%
<b>Machinery and equipment</b>	2%	237	900410	Sunglasses; corrective, protective or other	Optical instruments, clocks and watches, and precision instruments	0%	5%
			902131	Artificial parts of the body	Optical instruments, clocks and watches, and precision instruments	0%	0%
			850940	Electro-mechanical domestic appliances; food grinders and mixers, fruit or vegetable juice extractors, with self-contained electric motor	Electronics and electrical engineering	0%	0%
			910229	Wrist-watches; whether or not incorporating a stop-watch facility, with other than automatic winding	Optical instruments, clocks and watches, and precision instruments	0%	0%
			902139	Artificial parts of the body, excluding artificial joints	Optical instruments, clocks and watches, and precision instruments	0%	0%
<b>Electronics</b>	1%	25	852713	Radio broadcast receivers capable of operating without an external power source; apparatus (other than pocket-size radio cassette-players), combined with sound recording or reproducing apparatus	Electronics and electrical engineering	0%	0%
<b>Other transportation</b>	0.9%	15	871150	Motorcycles (including mopeds) and cycles; fitted with auxiliary motor, with reciprocating internal combustion piston engine of a cylinder capacity exceeding 800cc, with or without side-cars; side-cars	Motorvehicles	0%	0%
			890392	Motorboats; (other than outboard motorboats), for pleasure or sports, other than inflatable	Boating	0%	0%
			871140	Motorcycles (including mopeds) and cycles; fitted with auxiliary motor, reciprocating internal combustion piston engine of cylinder capacity exceeding 500cc but not exceeding 800cc, with or without sidecars; side-cars	Motorvehicles	0%	0%

\* Cheese exporters will be able to benefit, depending on the type of product traded, from a progressive tariff reduction and from the increase in duty-free quotas (for more details, see [madb.europa.eu](http://madb.europa.eu)).

\*\* Excludes typical Japanese products (such as arare, senbei and other rice-based products) for which the duty is as high as 34 percent.

Note: 2035 variations with respect to the "non-agreement" scenario. Sectoral classification of the European Commission (Global Trade Analysis Project - GTAP).

Source: SACE SIMEST calculations based on European Commission data.



# *The viewpoint of the entrepreneurs*

**Paolo Zanetti**

*Vice President of Federalimentare (Federation of Food Industries)*



## **At what point in the company's life did you feel a need to expand abroad and what has been the main factor behind your success in the various markets?**

Exporting is in the company's DNA. We were one of the first to realise the importance of exporting, ahead of our time. My grandfather had already begun to take our cheeses to the US and we were absolute pioneers on many world markets.

Because we were among the first we were able to reach agreements and establish contacts with the best importers, to get to know really well lots of markets, of people, of businesses, and this has helped the company to grow and made us a market leader in many countries.

Several factors have driven our success abroad. Certainly, the main ones have been our focus on product quality and on customer requirements.

When you are present on many markets, as we are, you need to be very flexible: every market has its specific features and it is essential to adapt to the demands of different customers.

## **What changes have you had to make in the company's organisation to succeed on international markets?**

Compared with companies that operate only on the domestic market, exporting companies – especially to non-EU markets – need to take a completely different approach and revolutionise their organisation.

It's the whole company that has to become export oriented, from quality assurance to packaging; all the areas must be able to respond to different demands and rules that change from one country to another. We have dedicated production lines for many markets, with different certifications and specific sizes and shapes.

Anyone who wants to conquer new markets must therefore be aware that they need to radically rethink the structure of the company and envisage a very high level of flexibility.

The product, what it looks like and its presentation, need to be thought out carefully and presented appropriately. And you need to be able to learn by listening to customers.

### **What main obstacles did you encounter and what type of support would you like the public sector to provide in the future?**

The tons of paperwork! One of the main obstacles we encounter is red tape, it's a sickness in Italy and it wastes time and money. A company like mine, which sells its products in many regions of Italy, has to cope with the discretionary decisions of dozens of local offices. Even within a same region different provinces sometimes behave differently. And never mind the response times, which can also vary considerably, and mean we have to go through hoops to ship a single container.

This doesn't happen in other countries! We have branches abroad and I can assure you that the public administration elsewhere is helpful and does not hinder businesses, it helps them solve problems, including by cutting down the red tape.

We need the public administration to adopt a different attitude, partly because the difficulties encountered at home are compounded by the problems stemming from the fact that every destination country has its own rules and regulations that we have to observe, which is not easy.

### **What do you think of the international agreements that the European Union is signing with several countries?**

Free trade agreements are very helpful for our exports and they make our products more competitive, partly because lower tariffs benefit countries, like Italy, that export high value added products, and partly because they lead to common rules, which help us operate and combat the problem of Italian sound-alikes.

This is why exports have increased significantly in all the countries with which the EU has signed agreements.

In addition, the agreements signed in recent years have enabled us to safeguard the main DOP (protected origin) products from imitations and we are offering the world a business culture linked to the local area and geographical origin.

However, free trade agreements are the starting point of new trade relations; they need to be applied correctly, maintained and improved as the market evolves.

Unfortunately, some people in Italy are critical of these agreements. I think it's because they receive bad publicity and because the results achieved are poorly understood. I think the industry federations could do more in this area.



# METHODOLOGICAL APPENDIX

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## Selection of the BBF codes

The objective of this Appendix is to illustrate the methodology for restricting the BBF perimeter with respect to the broader set of Italian exports. To identify the individual products that satisfy the principles inspiring the BBF concept, a high level of sectoral disaggregation is needed.

The procedure starts by observing the individual six-digit Harmonized System codes from the 1996 version; from these we exclusively select those categories of goods that are considered final consumer goods according to the Broad Economic Categories (BEC) classification. Finally, the BBF perimeter is defined by considering only those goods that Italy manages to export with average unit values equal to or greater than the 75th percentile, i.e. in the highest quartile (Graph A.1). It should be made clear that sometimes even the most detailed data cannot achieve the goal of isolating excellence. The statistical classifications commonly used are in most cases based on the commodity type of the goods rather than the quality incorporated in them.



**Graph A.1**  
**BBF code selection**  
**in three steps**

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The list of goods included in the analysis covers all sectors, although it mainly consists of goods from the three Fs, fashion, food and furniture.

## **Study of the potential – The ExPANd algorithm**

### ***Export Potential Analysis and Development***

ExPANd is a tool that makes it possible to identify areas for possible export expansion, based on the existence of a potential demand for Italian products. A great deal of information can be obtained by using this tool, from the quantification of the potential to the identification of competitors and of strengths and weaknesses.

Assessing the performance and export potential of a country is a complex operation, requiring the analysis of several aspects. Different approaches, more or less sophisticated, are possible, but in any case a term of comparison needs to be defined. For example, a relatively simple tool, which is often used to obtain a performance evaluation, is the analysis of exports at constant market shares, which uses as a term of comparison a measure of the export necessary to keep a given market quota unchanged. Alternatively, a competitor is used as a reference, chosen simply to be the best in a given market or because, based on certain qualitative characteristics, it is more similar to the country in question.

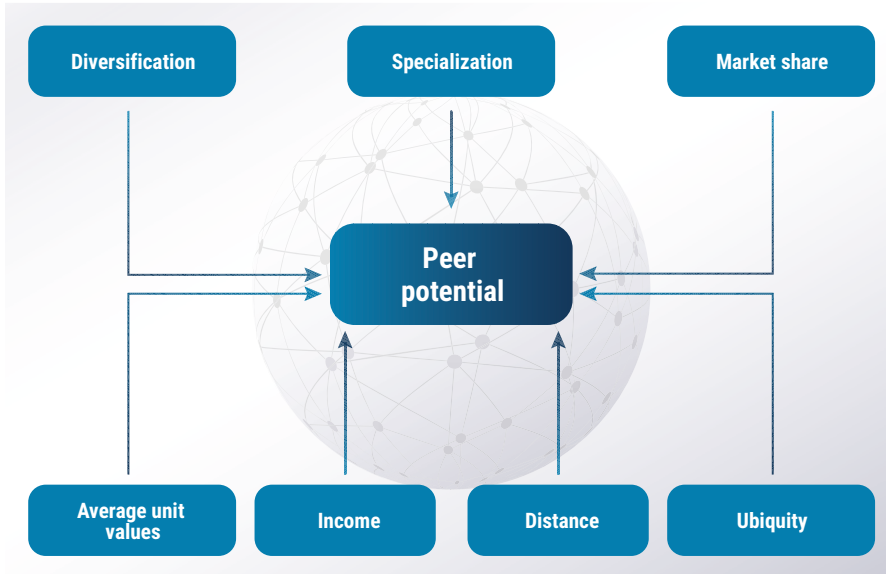
The methodology underlying ExPANd introduces an innovative aspect into the definition of the benchmark for potential, not constituted by a single pre-determined country, but by a fictitious competitor, which sometimes results from a set of similar competitors identified at the individual product level using a complex quantitative analysis process for international trade data. The exploitable potential calculated with ExPANd is independent of past performance; for this reason the analysis can be extended in order to identify export opportunities also in markets where Italy is not currently active, but where countries with similar characteristics operate.

The measure of potential deriving from the study of competitors is provided jointly with two other metrics that complete and better qualify the prospects of a given country as a possible new market. At the country level, for a more complete assessment of the potential of the markets, two other measures are added to the analysis based on the competitors: i) the similarity between supply and demand; and ii) forecasts for growth in import demand. The joint consideration of these three characteristics (gap with respect to peers, similarity and growth forecasts) allows us to complete the assessment framework for potential and summarize the information in a single indicator that provides a ranking of the markets.

**Constructing the reference benchmark** The idea is to compare the reference country with a group of countries with similar characteristics and non-inferior export performances. The first step in evaluating the attractiveness of a market is therefore to define the group of countries that constitute the reference benchmark for each product and market. To this end, the following characteristics are considered:

1. Per capita income of the exporting country;
2. Average unit values of products exported to a given market;
3. Specialization, the degree of specialization of the exporter at the product level;
4. Geographical distance, in kilometres.
5. Complexity, broken down into:
  - 5.1. Diversification (number of products exported from each country);
  - 5.2. Ubiquity of a country's export (number of countries exporting a given product);
6. The exporter's market shares, by product and market (Graph A.2).

**Graph A.2**  
**The seven variables**  
**that define the peer group**



For each market and product (6- digit HS), a group of exporting countries similar to the country in question is identified in the context of each of the reference axes. The analysis is confined to the first N competitors by degree of similarity, in order to exclude the least suitable countries as term of comparison. The group of N + 1 countries identified this way, consisting of the competitors and the reference country (in the case of EDV, Italy), is therefore the most homogeneous group of exporters possible for a given characteristic.

Peer exports is a natural benchmark for assessing export potential. Once this benchmark has been measured, we define the difference between this and the actual export of the analysed country as the "export gap", or exploitable margin.

We therefore have an export gap for each characteristic and for each product we have as many gaps as there are characteristics considered. We define the export gap at product level as the average of the gaps of the different characteristics. In the aggregation of more products, the export gap is simply the sum of the product-market gaps.

There are two main outputs from this part of analysis:

- A. A monetary gap (expressed in euros), whose domain varies between 0 (in the unlikely event that the country has higher results than its reference competitors in all the products in that particular country or that it is always the market leader), and the value corresponding to the size of the reference market itself.
- B. A percentage gap obtained by standardizing the monetary gap for the value of the potential and multiplying it by one hundred.

The two indicators provide different information: the first takes into account the absolute size of the market, while the second makes a comparison of the potential without changing the size. By comparing the two indicators, we can assess the degree of attractiveness of a given market as a synthesis of the size of the market and its degree of contestability. Both metrics can be aggregated by sector and geographical area using the results obtained at the six-digit HS code level as the reference unit.

**The similarity between supply and demand** is obtained by calculating a Finger and Kreinin index (1979)<sup>1</sup>. This index is commonly used to compare the export mix of various countries and to analyse the extent of mutual competitiveness. For the purposes of our analysis, however, the export structure of a given country of origin is compared with the import market structure, thereby obtaining a measurement of the degree of compatibility between the two. The formula is:

$$\text{Similarity}_{i,j} = \sum_{k=1}^K \min(p_{k,i}; p_{k,j})$$

where  $p_{k,i}$  is the weight of the good  $k$  in the exports of country  $i$  worldwide, and  $p_{k,j}$  is the weight of the good  $k$  in the imports of the country  $j$  from the world. This index varies by its nature between 0 and 1 (where 1 indicates the same composition), therefore, by multiplying it by one hundred, it can be directly summarized with the other two pillars to calculate a country's total potential. The index is calculated at the six-digit HS code level, so the theoretical maximum of 100 will never be achieved in practice except in the extremely rare case in which two countries have identical import and export compositions. In this case, it may be reasonable to standardize the index with respect to its highest observed value, so that the market with the highest similarity observed corresponds to the value 100.

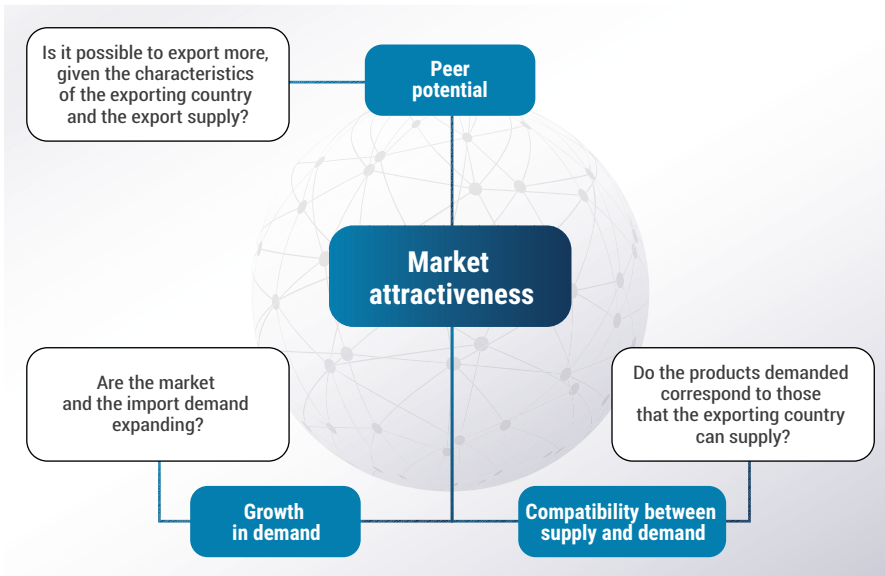
**Market growth prospects** In order to assess the potential of a new market, it is also important to consider its future prospects. This is why the analysis simply refers to the forecasts made by the International Monetary Fund on a medium-term horizon (five years). Growth is expressed in monetary terms, thus capturing not only how dynamic each market is, but also its size. In this case too it is useful to carry out a standardization rescaled to 100 with respect to the maximum value observed among all countries (since some markets may be in recession, normalization is carried out by adding the minimum to all values).

**ExPANd in brief** The concept of export potential at market level resulting from the methodology therefore rests on three fundamental pillars (Graph A.3): I) identification of the benchmark group of competitors for Italy in order to obtain an estimate of the export potential and, therefore, of the performance gap of the country in question; II) comparison between the export structure of the country of origin and the import composition of the outlet market; and III) the growth perspective of the destination market. The three elements summarized in a single parameter offer a measurement of the degree of global attractiveness of a given country or geographical area as a possible export market.

The first pillar is the most important, and is also the starting point for the analysis. The potential export is calculated on the basis of the average performance of the most similar competitors based on the seven metrics indicated in Graph A.2 at the level of each individual product. This makes it possible to calculate the monetary gap, that is the difference between potential and actual export for each product from the country of origin; the monetary gap is standardized for the potential by obtaining a percentage gap, which is higher the more there is room for improvement. The percentage gap is directly comparable with the standardized measures of similarity between supply and demand and the market growth prospects.

<sup>1</sup> Finger J. M., Kreinin M. E. (1979), A Measure of 'Export Similarity' and its Possible Uses, *Economic Journal*, Vol. 89 (356), pp. 905-912.

**Graph A.3**  
The three pillars of ExPAnD



ExPAnD makes it possible to obtain basic outputs at the product and geographical market destination level. For each product category (six-digit HS), ExPAnD enables the identification of a monetary potential, a quantification of how much this weighs compared with what has already been achieved, and the identification of the main competitors. At the geographic market level, in addition to these metrics, ExPAnD makes it possible to quantify how high a country's potential for growth in demand is and how high it is in terms of compatibility; it also provides a summary of all this information in a single attractiveness index (Graph A4).

**Graph A.4**  
The main outputs of ExPAnD

