

Voluntary - Public

**Clearance Office:** Office of Trade Programs (OTP)

**Date:** 6/4/2009

**GAIN Report Number:** IT9015

## Italy

**Post:** Rome

## Tomatoes Annual Report

### Report Categories:

Tomatoes and Products

### Approved By:

Jim Dever

### Prepared By:

Robin Gray

### Report Highlights:

Tomato production has remained relatively stable over the last few years. However, it is reasonable to expect that Italy may experience a dip in production when the full impact of the CAP reform is felt, likely to be in 2012. This potential dip in production may increase opportunities for U.S. exports of fresh tomatoes. The bulk of production is used for processing, as are the majority of its imports

### General Information:

#### Production

According to Italtrade.com, Italy produces more than 4 million tons of tomatoes annually, roughly 90 percent of which is destined for processing. Italy leads the EU in tomato production, accounting for 38 percent of the total EU-27. The cultivated area dedicated to

tomato production increased over the last few years by almost 8 percent, up to almost 68,000 hectares. Despite this increase in planted area, adverse weather conditions, especially in southern Italy, where there was an excess of rains in the late spring, followed by dry and hot conditions in June and July affected final yields. In 2007, the yields averaged 5.1 kg m<sup>2</sup>, the lowest yield in Europe, just below Spain with 6.5 and Greece with 5.5.

Generally, conditions in Italy allow for production of high quality and quantity tomatoes throughout the year. However, the bulk of the processing is done between the months of July and December. The cultivation of processing tomatoes is possible in many parts of Italy, but three regions account for almost 90 percent of the production. Nearly 40 percent of the production is in the Puglia region, another 40 percent is centered in Emilia-Romagna, and 10 percent in Campania. Growing conditions vary substantially between the different regions.

In the south, water is plentiful, but expensive to use. Many utilize either drip systems or sprinklers. Farm size can also vary, with some farms as small as 10 hillside hectares, which are then harvested manually, to large flat plains that cover several hundred hectares. Growers have set up cooperatives, themselves part of larger producer organizations, whose main task is to make joint offers, sign contracts with processing firms, supply seeds, fertilizers and other treatments, and own harvesters. Direct seeding is rare and only used for the cultivation of paste tomatoes, which are sown with precision sowing machines using coated seeds. For peeling tomatoes, all the acreage is planted with plug seedlings. Tomatoes for paste, less than 30 percent of volume, are all machine harvested, but those for the production of canned tomatoes are mostly harvested manually, although machine harvesting is developing rapidly. On the largest farms, which use drip irrigation, yields often exceed 100 t/ha, and average of 75 t/ha.

In northern Italy, the soil ranges from predominantly clay, to sandy-clay, to silt. The climate is ideal for tomato cultivation, with a big difference between day and evening temperatures. Production in the north is completely mechanized and hybrids are predominantly used. Approximately 90 percent of the plantings are plug-seeding transplants, but direct seeding still accounts for nearly 10 percent. Irrigation is still partly applied by sprinklers, with coiled hose water guns, but drip irrigation has become widespread. The harvest is totally mechanized with self-propelled Italian harvesters. Average yields in this area are 65 t/ha.

In Italy the tomato processing industry is comprised of passata, sauce and pastes and, as in the U.S., it is distinctly separate from the fresh-market industry. Specific characteristics differentiate the tomatoes entering the two markets: fresh-market varieties are juicier and harvested prior to being ripe, while processing varieties contain higher percentages of solids, are vine ripened and typically have a thicker skin.

Processing tomatoes are mostly produced on a contractual basis. Historically, the relationship between farmers and the processing industry within Italy has been difficult. Payments to farmers are set by agreement between farmers and industry, with adjustments to the base price for quality parameters. The digital Italian publication, [fruttaonline.it](http://fruttaonline.it), reported that on December 19, 2008, producer associations and the Italian processing industry signed the Italian national agreement on tomato price for 2009. The base price was fixed at 79.50 Euro per ton, the same as last year's price. In addition, the agreement included a forfeit reduction – which involves a maximum price curtailment of 20 percent, instead of 25 percent, and an exemption rise from 2 percent to 3 percent. The reaction of the Italian farmer's organizations varied. According to industry sources, when the yield per hectare is higher (i.e. above 65 tons per hectare), income to farmers barely covers production costs. As a result, future planted acreage is likely to be reduced.

Another important factor for Italian production, is transportation costs. Since fresh fruits usually have to travel long distances from the field to the processing plant, these costs can be significant. However, new alternatives are always under consideration, like the Agrexco Agro-Train to Europe. This project currently involves train shipment directly from fields in Israel to EU customers. The cold chain system is designed to minimize truck traffic on the highways, cause less harm to the environment, lower transport costs and increase the proceeds for the farmers in Israel. If this venture is successful, some of its logistics may be applicable to the intra-Italy transportation sector.

Aside from the World Processing Tomato Council (WPTC), within the Mediterranean region, the industry is organized under AMITOM. AMITOM is an association gathering professional organizations of tomato processors in the Mediterranean region. For the last twenty years, this international association has been collecting and storing technical and economic data and information on processing tomatoes, from research to final sale. To that effect, AMITOM works in a variety of areas, and regular meetings bring together delegations from the member states, making up the executive committee. AMITOM

currently includes eleven member states – five European Union (EU) countries: France, Greece, Italy, Portugal, and Spain; six non-EU countries: Algeria, Israel, Jordan, Morocco, Tunisia, Turkey, and three associate members: Malta, Syria, and the United Arab Emirates. Italy is the biggest tomato processor within AMITOM, accounting for almost 50 percent of AMITOM tonnage. Since the creation of AMITOM in 1978/79, Italian production has more than doubled, the biggest increase in Europe, after Spain.

## **Consumption**

Six out of ten Italian families have changed their food habits due to the significant increases in food prices. The average Italian family spends 466 Euro per month to eat, more than a 6 percent increase from last year. Fruit and vegetable consumption accounts for almost 17 percent of all purchases in Italian supermarkets, according to an Italian farmers association. However, during the first six months of 2008, there was a drop in the volume of food consumption compared with the same period last year. Specifically, fruit consumption dropped by almost 3 percent, and vegetable consumption by 1 percent, due to these increases in food prices.

To combat the high prices of fruits and vegetables, one Italian wholesale market launched a new initiative through which consumers in Rome can buy their vegetables online, reducing the final price by up to 20 percent. So far, the initiative has been well received with 611 consignments recorded between April 29<sup>th</sup> and May 9<sup>th</sup>. The wholesaler plans to extend the project to the whole country.

Almost 1.5 million tons of fresh tomatoes are destined for fresh consumption in Italy. Although the fresh consumption market is a substantially smaller percentage of Italy's overall production, it has seen some interesting, new developments. Historically, distribution of tomatoes for fresh consumption in Italy is controlled primarily by smaller shops. However, Italy is slowly following the trend seen in the rest of Europe to increasing patronage of larger hypermarkets and discounters. Also, private labels are having more and more of a role in distribution. Finally, the market for fresh-cut fruits and vegetables in southern Europe and particularly in Italy, has seen a dramatic increase. One of Europe's leading fruit and vegetable processors, Conserve Italia Group, is expanding into the fresh-cut sector. Moreover, Italian growers are now a major supplier of the raw materials that fresh-cut processors use all over Europe.

## Trade

Italy is both a major exporter and a major importer of tomato products, primarily because there is a tremendous amount of intra-industry trade. Italy imports a substantial quantity as inputs for further processing. After the U.S., China is a major source for these imports. Most of the tomato product imports into Italy are reprocessed and re-exported. The 2004 labeling regulations (see discussion under Policy section), intended to favor domestic Italian production by identifying the source of the input tomato, have not resulted in any significant reduction of imports, from China or elsewhere.

Italy's export market has seen some recent shifting. Declines in some of their more traditional markets, such as Germany, have been offset by increases to markets in Eastern Europe and Russia. While Italy is one of the world's leading exporters of processed tomato products, in order to meet both domestic consumption requirements and a fairly stable export demand, growing imports have been needed. China's emergence as a high-volume, low-cost producer is being felt as traditional exporters are being displaced in global markets. Interestingly, China's largest paste market is Italy, where the paste is reprocessed for further use.

<b>Italian Exports of Fresh Tomatoes</b> (HTS 070200) Data: Year-to-Date/Jan-Jan						
	<b>2007</b>		<b>2008</b>		<b>2009</b>	
	<b>Value U.S. \$</b>	<b>Qty Tons</b>	<b>Value U.S. \$</b>	<b>Qty Tons</b>	<b>Value U.S. \$</b>	<b>Qty Tons</b>
<b>World</b>	28,289,126	13,717	13,114,032	4,991	16,574,588	8,267
<b>Germany</b>	13,847,095	6,288	3,959,093	1,360	5,637,772	1,544
<b>Austria</b>	3,188,261	1,654	2,187,947	889	2,410,792	1,193
<b>Switzerland</b>	1,290,374	516	1,122,171	311	1,277,053	422
<b>United Kingdom</b>	3,307,030	1,220	610,122	166	1,080,114	344
<b>Hungary</b>	514,172	353	425,006	271	1,002,915	590

<b>Italian Imports of Fresh Tomatoes</b> (HTS 070200) Data: Year-to-Date/Jan-Jan
--

	2007		2008		2009	
	Value U.S. \$	Qty Tons	Value U.S. \$	Qty Tons	Value U.S. \$	Qty Tons
<b>World</b>	5,763,097	4,125	8,610,710	6,051	9,146,783	7,598
<b>France</b>	1,242,573	1,031	2,296,891	1,829	2,756,355	2,628
<b>Spain</b>	3,209,440	2,074	4,290,075	2,918	2,207,126	1,920
<b>Israel</b>	0	0	0	0	2,133,277	1,450
<b>Germany</b>	322,278	221	945,493	511	910,975	475
<b>Morocco</b>	736,405	660	577,072	562	711,362	919

Italian Exports of Prepared Tomatoes (HTS 2002) Data: Year-to-Date/Jan-Jan						
	2007		2008		2009	
	Value U.S. \$	Qty 1,000 Tons	Value U.S. \$	Qty 1,000 Tons	Value U.S. \$	Qty 1,000 Tons
<b>World</b>	99,654,374	131	134,592,255	137	129,154,879	113
<b>Germany</b>	19,598,706	29	27,409,058	30	27,214,221	26
<b>United Kingdom</b>	19,438,853	25	26,089,356	26	20,478,628	18
<b>France</b>	9,730,159	13	13,450,125	14	14,327,955	12
<b>Japan</b>	4,573,809	6	6,659,619	8	8,018,315	7
<b>Switzerland</b>	2,077,802	2	4,883,864	4	5,421,776	4

Italian Imports of Prepared Tomatoes (HTS 2002) Data: Year-to-Date/Jan-Jan						
	2007		2008		2009	
	Value U.S. \$	Qty 1,000 Tons	Value U.S. \$	Qty 1,000 Tons	Value U.S. \$	Qty 1,000 Tons
<b>World</b>	18,680,179	32	14,486,844	17	17,399,557	16
<b>U.S.</b>	0	0	4,961,510	5	9,098,906	8
<b>China</b>	16,205,428	28	7,475,579	9	7,226,138	6
<b>Spain</b>	1,995,972	3	647,163	.7	806,626	1
<b>Israel</b>	0	0	114,672	.1	169,656	.5
<b>Greece</b>	192,686	.3	66,143	.1	47,334	.1

Import and export data come from Global Trade Atlas.

## **Policy**

The EU support measures under the Common Agricultural Policy (CAP) for tomato production were reformed by the EU as of June 12, 2007. The reform aims to bring the sector into line with the CAP while leaving individual Member States free to approach the target gradually. For the tomato sector, the document provides for far-reaching reform of intervention mechanisms, as it does for other processed fruit and vegetables. This will strongly affect farmers' and processing company investment. The current EU aid system will be replaced by decoupled payments, as is already happening in other sectors. But, in order to prevent destabilization of the chain, which currently receives high levels of support (subsidies account for approximately 50 percent of revenue), the EU reform allows each member state to reach total decoupling gradually and provide for a "soft landing." This was also done for products such as tobacco and olive oil. Each state was allowed to couple aid for industrial tomatoes for a transition period within certain economic constraints. These constraints require that coupled aid must not exceed 50 percent of the national ceiling for the sector and they can only be extended for a maximum period of four years, up to December 31, 2011. These options were discussed within the Italian Ministry of Agriculture, where the main farmers' associations, with the important exception of Coldiretti, cooperatives, food industry workers and two processing companies belonging to Federalimentare proposed a 50 percent decoupling over three years and complete decoupling in the fourth.

In Italy, this sector is strongly dependent on coupled aid. It is anticipated that the impact of the change will cause farmers to decrease acreage dedicated to tomatoes. Complete decoupling could lead many farmers to abandon industrial tomato growing in favor of other crops such as cereals and fodder, which entail lower production costs. The potential fall in output raises important issues of stability of supply for the Italian processing sector. The sector's survival will be tied to its ability to bear likely price increases necessary to support production in Italy. In order to remain competitive in international markets, the processors will need to lower processing costs and orient production towards higher value added products. Clearly, given the increases in cultivation noted earlier, the CAP reform has not yet caused an immediate decrease in acreage. However, this could largely be attributable to the permitted phase-in adjustments. Therefore, it is reasonable that we may not see an impact on cultivation until 2011.

Also, the EU CAP reforms do not allow farmers who receive decoupled payments to plant secondary crops before August 15. However, Italian tomato producers are allowed to petition the EU commission to move the deadline to July 15, a move that could flood the domestic market and trigger strong opposition from Italy's tomato processors. (GAIN IT4039)

Another important policy factor is Italy's labeling requirement. In order to offset the growing increase of Italian imports of horticultural products and as part of the "Made in Italy" campaign, in 2007 Italy implemented country of origin labeling requirements for produce. (See GAIN Report IT7006) This law seemed to be largely the result of rising concern among Italian farmer and tomato processor associations over rising imports of tomato paste from China. Imports of tomato paste into Italy rose by 115 percent in the five years to 2005, with China accounting for 79 percent of the current total. A share of the product from China is imported under a temporary import regime at zero duty for reprocessing and re-exporting. Italian producers claim that some processing plants are using the Chinese paste as an ingredient for products that are then marketed as "Made in Italy" – whether they are re-exported as required for the duty reduction, or not.