

## ITALY

### Business Conditions Snapshot

- Italy was the first European country to be hit by COVID-19 and its economy declined sharply in 2020. The worst impacts were felt in the industrial powerhouse regions of the north.
- It will take time for the Italian economy to recover. The EU's response to the crisis, especially through its Next Generation EU program, should see significant funds flow into Italy in coming years.
- The Italian Government has announced that the money will be used to boost the green economy, digitalise public services and address social inequality. There will also be significant infrastructure investment as well as less costly but important reforms, such as streamlining the bureaucracy and speeding up legal processes.
- Italy was already receiving significant interest from foreign investors before COVID-19 struck. This is likely to continue. Australian companies such as Macquarie, Lendlease and IFM Investors are at the forefront of these investments.
- COVID-19 has had relatively limited impact on supply chains. Australia's exports to Italy have continued as normal, except for wool which has been hard hit as fashion companies delay releasing new collections.
- Italy's strengths endure. It is a market of more than 60 million consumers, the third largest economy in the Eurozone and Europe's second largest manufacturer (after Germany). Its renowned innovative and creative spirit has also endured, with many of its manufacturing companies quickly switching production to healthcare equipment that was hard to source abroad.
- Key prospects for Australian companies include road infrastructure, the broadband network and energy sectors, as well as smart city development.
- Apart from their financial resources, Australian companies have the know-how to implement major projects in these sectors. More broadly, Australian investors are generally viewed positively given their willingness to work with Italian authorities to ensure a smooth investment path and, where possible, to involve Italian investors.

#### Key facts and figures

- Population: 60.24 million (2019)
- GDP growth: 0.2 per cent (2019)
- GDP per capita: US\$40,470
- Political system: parliamentary republic
- Two-way trade: (2018–2019):
  - merchandise: A\$7.92 billion
  - services: A\$3.29 billion
- Key exports: wool, education, coal, tourism, leather and beef
- Key imports: tourism, medicaments, travel goods, passenger vehicles, heating and cooling equipment
- Two-way investment: A\$7.8 billion



# MARKET INSIGHTS

CONNECTING AUSTRALIAN BUSINESS TO THE WORLD

- As a major exporter whose economy relies in part on strong export performance, Italy supports open markets and trade liberalisation. Italian companies continue to view Australia as an important investment market in renewable energy, agrifood, infrastructure, defence and space.

## Trade and Investment Opportunities

- Several Australian companies now operate and invest in Italy.
  - Lendlease has major contracts to redevelop the Milan Expo 2015 site and the Santa Giulia site, which is also in Milan.
  - Each project is worth about A\$4 billion. Both are progressing well, including the creation of an important innovation district on the former Expo site.
- There are many other success stories.
  - Macquarie Infrastructure and Real Estate has invested in Italian gas infrastructure and renewables.
  - Goodman is developing logistical facilities for e-commerce deliveries, a fast-growing sector.
  - Chep (Brambles Group) offers innovative solutions to move goods around Italy.
  - Cochlear devices have improved the lives of many profoundly deaf Italians.
  - Rubicon Water is engaging on water management technology.
- Renewable energy is an important sector. Italy has one of the highest import dependence rates for energy and fossil fuels in Europe.
  - Strong Italian Government support for renewable energy generation resulted in Italy achieving its 2020 Renewable Energy Target in 2017.
  - The most important renewable sources are solar PV, hydro, wind and geothermal.
  - Following the cancellation of government incentives and the subsequent restructuring of the renewables sector, the industry's larger players are looking for partnerships and to expand overseas.
  - The largest investors have good awareness of Australia as a destination for FDI and R&D collaboration.
  - Industry is innovative in areas of interest for Australia, such as digitalised networks, energy storage and co-generation.
  - Italy is well-placed to take a leading role in Europe in developing hydrogen-based energy solutions, including for transport. There are already joint projects with Australia and their scope is expected to expand.



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- The agrifood sector is one of Italy's largest. It includes several world-leading multinationals, several of which also have a presence in Australia, including Ferrero and Barilla.
  - Australia is seen as a small but important importer of Italian food and beverages, as well as a supplier of key commodities such as durum wheat.
  - Several of the larger Italian food manufacturers are looking to expand and consolidate their market position in the medium term.
  - Food imports are expected to increase once the hospitality industry regains momentum – it has been hard hit by COVID-19-related lockdowns, extended closures of restaurants and hotels, and the shift to remote working.
- Italy is a global leader in the industrial machinery sector and industrial automation. Australia is viewed as an important market as well as a strategic location.
  - Italian products and technologies are present in many of the largest and most complex supply chains. Exports represent, on average, more 80 per cent of annual turnover.
  - There are promising joint venture developments in the aerospace sector and potential opportunities through the Australian Space Agency.
  - Italian companies also tend to be smaller than European competitors. The vast majority are family-owned enterprises with turnovers of between €15 million and €60 million. But they have a strong presence in key global value chains, often outperforming larger competitors.
  - The dynamism and flexibility of Italian companies enables them to pursue opportunities on a global scale.
- The enterprise technology sector accelerated digitalisation of business processes in response to the operational challenges associated with COVID-19.
  - Several key players in this sector are entering new markets, including through acquisitions, to pursue opportunities.
  - The demand for digitalisation and adoption of new technologies will likely continue across a broad range of industry sectors.
- The Italian pharmaceutical sector has one of the highest levels of investment in R&D. Many of the largest companies rely heavily on external sourcing of innovations because of the high cost and risks.
  - R&D programs largely continued despite COVID-19.
  - Australia's efficient COVID-19 management strategy and its excellence in medical research create opportunities to attract more R&D and clinical trial activity.
- Italy has traditionally been one of the largest source markets in Europe for student enrolments in Australia, attracting students across all study sectors.



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- This includes higher education, vocational education training, English Language Intensive Courses for Overseas Students (ELICOS) and secondary schools.
  - While many Italian university students chose to remain in Australia and continue their studies during the COVID-19 pandemic, there has been a notable decline in student numbers for shorter term ELICOS and secondary school study.
  - Italy is home to world-leading infrastructure companies.
  - Rail, tunnelling and dam construction are key subsectors.
  - Italy has expertise in engineering and construction, railway maintenance, safety technology and protocols development, and is the only country with two high-speed train operators (one public, one private).
  - Australia remains an attractive market for Italian infrastructure companies because of the number of ongoing, announced and 'under development' projects.
- Italian defence-related companies continue to pursue opportunities in Australia's defence and space sectors.
  - Recent business facilitation and promotional events include meetings, seminars and participation in trade fairs, which help consolidate relations with key players in the Italian space industry sector.
  - Regular (now virtual) exchanges with key Australian and Italian investors facilitate views on the business impacts of COVID-19 and facilitate ongoing projects.
  - A webinar on the Australia–Italy business relationship was organised by the Naples Chamber of Commerce and the Italian Accounting Association (May 2020) which was well attended.
  - Meetings on renewable energy investment opportunities—especially Italy's Hydrogen Challenge and Australia's Hydrogen Strategy—have been widely promoted.
- There may be opportunities for Australian companies to be involved with Italy's hosting of the 2026 Winter Olympics.
  - Part of Lendlease's portfolio in Milan includes construction of the ice hockey rink.

## Trade Policy Focus

- Australia and the EU continue their free trade agreement negotiations.
  - Italy is a founding member of the EU.



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- The Australia–EU FTA will create new opportunities for Australian businesses and drive exports, economic growth and job creation.
- Australia and Italy are active members of the G20, World Trade Organization, and Organization for Economic Cooperation and Development (OECD).
- Italy will host the G20 in 2021 and, with the UK, co-host the 26th UN Climate Change Conference of the Parties (COP26).

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*Insight current as at December 2020.*



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