ITALIAN INVESTMENT POTENTIAL

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This study on Italian investment potential was undertaken at the request of the Canadian Consulate in Milan. It believed that there was significant potential for Italian investment in Canada and decided to adopt a proactive approach in its investment prospecting activities focusing on small- and medium-sized firms.

Investment Canada Research & Policy Division was asked to provide assistance in the elaboration of the Consulate's investment development strategy for northern Italy. This included an analysis of Italian investment potential, which is the present study, and a promotional/information package on the Canadian market for plastics machinery, to be completed by September 1988. This sector warranted attention as a priority by the Consulate since it is producing a large number of enquiries, offers excellent Italian capability and matches Canada's priority sectors. Indeed, plastics have been declared a priority by Industry, Science and Technology Canada (ISTC), and by the provinces of Quebec, Ontario, Alberta and British Columbia.

In developing this project, contacts were made with people involved in Canada/Italy business relations in various Canadian centres. They included representatives from the Italian Embassy, the Italian Trade Commission, the Italian banks represented in Canada, the Canadian banks represented in Italy, various Canadian and Italian industry associations, the Ontario Ministry of Industry Trade & Technology, the Department of External Affairs (DEA), ISTC and the National Research Council (NRC).

As a result of my discussions with these contacts and with reference to ISTC's investment and technology development strategies for 1988-1989, I was able to draw up a preliminary list of industrial sectors in which Italy appears to have a competitive edge. It was agreed to select those sectors dominated by small- and medium-sized firms which may be exporting to Canada but where they have not yet set up any form of investment. I thus chose nine sectors pertaining to capital goods (industrial machinery and machine tools) in which Italy ranks among the world's five or six largest exporters.

Meetings were also held in Milan in April 1988 where I collected a great deal of information related to the development of the Consulate's strategy. The people with whom I met in Italy included representatives of industry associations, banks, consulting firms and research centres. It was decided to meet with such intermediaries since they provide the most efficient way to approach small- and medium-sized firms in Italy. The meetings were held mostly in Italian in order to facilitate communication and maximize information gathering.

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EXECUTIVE SUMMARY

This study on Italian investment potential is primarily intended to assist the Canadian Consulate General in Milan in elaborating their investment development strategy for northern Italy. It points to the increasing potential for Italian investment abroad and the findings, which are summarized below, will help focus investment prospecting activities on attracting selected sectors which have the potential to add significantly to Canada's industrial base.

The study has attempted (1) to examine some of the main characteristics of Italy's economic climate of the 1980s as they relate to Italy's investment potential; (2) to provide an overview of Italy's largest and most successful industrial groups which are seeking to increase their investments abroad; and (3) to analyze a selection of Italy's leading industrial sectors which correspond to Canada's priority sectors.

(1) Italy's economic climate of the eighties.

- In 1987, Italy became the world's fourth largest economic power;
- Italians are the world's leading savers, ahead of Japan;
- Italy's market capitalization has increased significantly;
- Italy's degree of internationalization is rapidly increasing as the country prepares for the unified EC market of 1992;
- Italy's industrial structure is characterized by a small number of large firms and a large number of small- and medium-sized firms;
- Italy's industrial activity is concentrated in northern Italy;
- Many of Italy's entrepreneurial small- and medium-sized firms are seeking to expand abroad;
- Italian direct investment abroad is rising and is increasingly flowing towards Europe and North America.
- the liberalization of Italy's foreign exchange controls will help stimulate Italian investment abroad;

(2) Italy's largest industrial groups

Many of Italy's largest industrial groups, both public and private, have managed to regain profitability and are among the world leaders in their field. This has been primarily achieved through corporate restructuring, strategic partnerships and/or privatization. These large firms include IRI, ENI, and Efim which are public, as well as Fiat, Ferruzzi-Montedison, Pirelli and Olivetti which are private. Most of these groups already have interests in Canada and are actively involved in seeking various forms of additional investment abroad in order to increase their global competitive position.

(3) Selection of Italy's leading industrial sectors

Italy is traditionally a leading exporter of consumer goods such as clothes, shoes and furniture, and is renowned for its design capability. In addition to developing expertise in an increasing number of high technology areas, Italy ranks among the world's leading exporters of industrial machinery and machine tools. For the purposes of this study, nine of the latter sectors were selected and analyzed in order to provide an appreciation of their relative competitiveness and potential for investment in Canada.

(4) Conclusion

This study shows how Italy has emerged in the 1980s as a leading economic power offering significant potential for investment abroad. However, by the same token, it implicitly points to the potential for Canadian investment in Italy. Indeed, in light of the unified EEC market of 1992, it is becoming increasingly important for Canadian firms to position themselves within the European Community. Over the past year, the increasing number of high level and ministerial visits to Italy and the signing of new cooperation agreements have created a favorable climate for two-way investment between both countries.

PART 1. ITALY'S ECONOMIC CLIMATE OF THE EIGHTIES

1.1 Growth and Internationalization

1.1.1 Economic Growth

Italy has had the fastest rate of growth of the big four European economies during the past decade. By 1987, Italy's GDP overtook that of the U.K. thereby becoming the fourth largest western economy after the U.S., Japan and West Germany.

According to the OECD's estimates of purchasing power parity (the exchange rate which equates prices in selected countries), in 1987 Italy's GDP was 3% larger than the U.K.'s and slightly ahead of France. Another way of comparing living standards is to look at the ownership of consumer goods. In Italy, 76% of households have a car, compared with 58% in the U.K., 81% have washing machines and 14% have dishwashers, compared with 77% and 3% respectively of British households.

That same year, the Italian government's statistics office, ISTAT, revised upward their GDP figures. Indeed, they added 18% to their estimate of Italy's national income, reflecting roughly the size of its infamous black economy.

However, by the end of 1987, Italy's public sector debt was equivalent to 93% of GDP (it would have been above 100% had there not been an upward revision of GDP) and the government's interest bill keeps rising, from 3% of GDP in 1975 to almost 8% in 1987. Yet although public debt continues to spiral, the Italian economy has not collapsed.

This can be explained by the following factors:

(1) the Italians are the world's leading savers and traditionally have a strong aversion to debt. According to the OECD, the average Italian household saved 21% of its total income in 1986, compared with 16% for Japan, 12% for France, 11% for the U.K. and 4% for the U.S. Thus they provide a large pool of cash from which the Government can finance its deficit;

(2) unlike other governments, which have financed a large chunk of their debt abroad, only 3% of Italy's public debt is owed to foreigners. Italy's economy is therefore less vulnerable to international pressures;

(3) despite a generally inefficient public sector, the Bank of Italy remains very independent and is highly respected. This helps maintain investors' confidence. Although there have been 48 governments since the Second World War, there have been only five governors. They are appointed for life and are thus free from political retribution;

(4) tight control of both the domestic financial system and capital movements abroad has restricted competition in financial assets thus making it easier for the government to sell its bonds.

1.1.2 Financial Growth

Italy's economic boom led to one of the greatest financial explosions in recent years, particularly in 1985 and 1986. Helped by the authorization of mutual funds since 1984 and laws providing generous credit on dividends, market capitalization surged from about C$25 billion in 1982 to C$125 in 1986. In addition, new listings jumped from 134 in 1980 to 200 in 1986, and are expected to double in a few years.

In the first two years of their existence, the mutual funds at the Milan Stock Exchange have taken in about C$74 million, more than all the mutual funds Belgium attracted during the past 20 years.

Despite the dramatic increase in market capitalization during the past few years, total capitalization at the end of 1987 was equivalent to only 13% of GDP, the lowest of all the big markets (the highest are in descending order: Japan, the U.K., Switzerland, the U.S. and Canada).

Of the 200 companies listed on Milan's stock exchange, probably no more than a dozen are actively traded. Italian firms, which are traditionally family-run, are reluctant to come to the market if it means they may lose control. Just four groups, Fiat-Agnelli, IRI, Montedison-Ferruzzi and Assicurazioni Generali (Italy's leading insurer), account for two-thirds of the market's total capitalization.

1.1.3 Internationalization

In recent years, the degree of internationalization of the Italian economy has increased. Italy's volume of foreign trade has increased and Italian production is now more closely integrated with that of other countries.

Italy's imports of semi-finished products have gone up particularly steeply, reflecting the country's greater degree of integration with other economic systems. Indeed, Italian manufacturers have sought to reduce costs and improve competitiveness by incorporating in their products parts produced abroad either at a better price or with greater innovation content.

As a result, the competitiveness of Italian industry has further improved, bringing in its wake a considerable upturn in exports. In 1987, Italy had an 8% share of the world's manufacturing exports, having achieved leadership in programmable machinery and machine tools, and factory robots, in addition to traditional exports, such as shoes, clothes, leather, and jewellery.

The third part of this study is an analysis of a selection of industrial machinery sectors in which Italy ranks among the world's leading exporters and which correspond to Canada's priority sectors as determined by ISTC's investment and technology development strategies.

1.2 Industry Structure and Location

1.2.1 Industry Structure

Italy's industrial structure is characterized by a small number of very large firms and a very large number of small firms.

There is a very high concentration of ownership in the Italian economy. Indeed, eight of Italy's major groups or conglomerates control 80% of the Milan market capitalization and, moreover, they have a surprisingly high degree of interlocking interests.

Raul Gardini of Ferruzzi-Montedison, Giovanni Agnelli of Fiat, Carlo de Benedetti of Olivetti, the Benetton family, and Romano Prodi who turned around the vast, publically-owned IRI-Stet empire and privatized substantial chunks of it, are the real public heroes of Italy today. Other dynastic names include the Pirellis of the tire and cables group, the Falcks of the steel concern as well as Motta and Alemagna in the food industry and Bonomi in finance and real estate.

These rich super performers are a mixed lot reflecting the diversity of their country. Many of their fortunes are new, acquired in the last five to 10 years. Even if inherited, these fortunes are apt to have multiplied in recent years. The common denominator appears to be flair, sheer drive and an ability to sense an opportunity before others see it, as well as a pinch of luck.

Italy's magic success formula, reflecting the country's industrial structure, is flexible manufacturing through a vast network of small firms able to respond swiftly to changes in market tastes.

Benetton, which now has 4,000 fashion stores in 60 countries, is a classic example of the decentralized structure of the industry: firms sub-contracted to smaller firms, which in turn sub-contract to others. Thus, although Benetton has fewer than 2,000 employees on its books, most of its garments are made by 150 small firms, employing 8,000 people among them.

This structure combined with the latest technology and manufacturing processes, and superior design capability has enabled Italy's clothing industry to maintain its competitive edge despite increasing competition from the newly industrializing countries. Indeed, clothing and textiles exports have increased from 10% of Italy's total exports in 1970 to 13% in 1986.

1.2.2 Location

Companies in northern Italy account for some 75% of the country's industrial and commercial activity with the vast and flourishing network of small- and medium-sized establishments responsible for over 35% of direct exports.

The region of Lumbardy, in particular, is one of the most heavily industrialized and wealthy regions of the country. Today it accounts for 30% of Italy's export sales and, according to the Bank of Italy, total deposit funds in Lumbardy amount to a fifth of the national total.

Milan, which anchors the nation's northern industrial band stretching east-west from Turin to Trieste, and north-south from Genoa to Bologna, is Lumbardy's capital and is generally considered to be the nation's economic capital.

The region's other eight provinces, however, are also industrialized. The Brescian metallurgical and machine tools industry is considered one of Lumbardy's strengths. Varese is known for shoes and textiles, while neighbouring Como has silk and furniture making. Even provinces which are considered agricultural, like Cremona, Mantova and Pavia have developed significant industrial bases.

The province of Milan, which includes the city and surrounding communities in the middle of Lumbardy, accounts for 28% of Italy's national income and less than 7% of its population. It also has a huge and growing agricultural production around which a vast transformation industry has developed. Foreign firms including Unilever and Nestlé are present among an extensive list of firms making foodstuffs.

Milan is the traditional headquarters for Alfa Romeo, Pirelli, Montedison and Falck steel. Milan houses Italy's stockmarket and its large banks (all but two of the 34 foreign banks operating in the country are based in Milan). It also has the main companies in Italian broadcasting, publishing, advertising, design and fashion.

Milan excels in attracting and supporting small- and medium-sized companies. Each of its 200,000 enterprises employs an average of 89 people. Only one in a thousand has more than 500 workers. Small garment factories, for example, are geared up through computer-aided design programs to switch production overnight to meet an order for the next day. Nowhere else, boast the Milanese, are urgent orders met so fast.

It should also be noted that many of the owners of Italy's great wealth live and operate in small provincial cities. Brescia, Verona, Modena, Pavia, Como, Treviso, Ravenna and Parma are among the many lesser known northern cities which can boast hundreds of prosperous and often new industries each. Moreover, many of the provincial rich have names that mean little outside their towns or villages.

1.3 Strengths and Weaknesses

1.3.1 Strengths

There have been 48 governments since 1945 and yet Italy's economy works despite continuous political instability.

This can partly be explained by taking into account Italy's hard-working, strongly entrepreneurial, small- and medium-sized business class, which grew rapidly throughout the 1970s and 1980s, and now numbers more than a million official and unofficial businesses. According to Nadio Delai, director of Censis, a private think tank in Rome, many of these firms have gone international, or are interested in going international.

One of the great strengths of the Italian economy has traditionally been the powerful entrepreneurial spirit which has spawned hundreds of thousands of small businesses in virtually every manufacturing and service sector. With 586,000 companies with fewer than 99 employees, they are truly the "backbone of the economy".

According to Istat, the government statistical office, and Confindustria, the Italian employers' association, some 30.6% of all workers in manufacturing industry were employed by companies with between 20 and 99 employees during the 1981-84 period. That amounts to around 1.7 million workers, yet this figure does not take into account a further 2.7 million workers employed by 1.2 million artisans' workshops.

The artisans, often working in family businesses, are a main factor behind the success of Italian jewellery, gold, silver, leatherworking, embroidery, glassworking, furniture, pottery, shoemaking, and clothes manufacturing, to mention just a few sectors.

Small businesses, meanwhile, range from basic activities such as foods, textiles, and mechanical work to medium technology activities such as precision engineering, small-scale electronics and component production for heavy industry.

And then there is the newest generation of small businesses, those developed in the last 10 years and already successful in high-technology fields such as semi-conductor components, robotics and even artificial intelligence.

In the 1981-84 period, the rate of job creation among small businesses stood at a cumulative 1.5%. This compares with a cumulative decline in the number of jobs among medium and large companies (those with more than 200 employees) of 5.2%. These figures speak eloquently of the dynamism of small entrepreneurs. So does the export capacity of small- and medium-sized businesses: it represents around 36% of the total of Italy's exports, a larger quotient than the region of Lumbardy.

1.3.2 Weaknesses

Despite its "second renaissance" the Italian industry is been held back by several factors:

(1) the government's huge budget deficit, which is almost as big as the U.S.'s on some definitions, even though the U.S. economy is seven times larger;

(2) the large productivity gap between private industry and public services;

(3) the antiquated and over-regulated financial system, both in banking and the stockmarket;

(4) a negative current account. Although it registered a surplus in 1986 for the first time in three years thanks to improved terms of trade as oil prices and a fall in the U.S. dollar, in 1987 the current account was back in deficit.

(5) rigid hiring and firing laws, hefty employers' social security contributions, and widespread price controls. However, one way large firms can get around these rules is to expand abroad rather than at home.

By 1992, the EEC's goal for creating a single internal market for goods and services, Italy will have to liberalize its banking system and free the movements of capital abroad.

Foreign exchange controls are already been relaxed. In 1987, some controls were scrapped and more will go in October, 1988. Italians will be free to invest in foreign bonds and shares, although they will still be barred from holding a foreign bank account. However, the government still retains the right to reimpose temporary controls for balance of payments or currency reasons.

Italy is, therefore, ill-prepared for the integration of financial markets and the liberalization of capital movements in the EEC in 1992 and several factors put its banking system at a disadvantage compared to its European counterparts:

(1) Italian banks have probably been the most heavily regulated. Banks are restricted to a narrow field of activities and the opening of bank branches is tightly regulated. As a result, Italy has only 2.3 branches per 10,000 people, half the number in the U.S. and the U.K., and a third of that in West Germany and France;

(2) years of strict regulation has suppressed competition and encouraged inefficiency. Also, cash still plays a dominant role in the economy, not just because of the black economy but because people are reluctant to accept cheques.

(3) Italian banks have been left behind in their use of new technology. Eighty percent of the banking system is state controlled and Italian banks are relatively small compared with those in other European countries.

In the unified EEC market of 1992, the principle of "mutual recognition" will allow, for example, a West German bank to operate in Italy according to West Germany's more liberal banking law. This would give foreign banks a huge advantage, forcing the Bank of Italy to relax its rules.

There is also concern that Italy is too dependent on low-tech exports and that it is relatively weak in high-tech industries such as computers and biotechnology. The share of high-tech products in Italy's total exports is about half that in France or the U.K.

This can be explained by two main factors:

(1) Italy spends very little on R&D. In 1985, R&D expenditures as a percentage of GDP amounted to only 1.3% (which is just behind Canada), about half that in most other advanced industrial countries, and;

(2) there is a lack of venture capital available due to years of tight credit controls.

Another potential weakness of the Italian industry is that there are so few large firms. In 1986, only eight Italian non-oil firms were in the world's top 500, compared with 38 in West Germany, 28 in France and 53 in the U.K. Also, only 10 firms account for 80% of Italian exports.

Large firms, such as Fiat, Olivetti and Montedison, have been able to use the stockmarket to raise equity to repay debt and finance new productivity boosting investment. However, small firms have had more of a struggle to raise money and this has restricted their ability to invest in modern machinery and to expand.

Traditionally, Italian banks prefer to lend to their larger customer and small- and medium-sized family-run firms are reluctant to float their shares on the stockmarket for fear of losing control. In general, Italian entrepreneurs prefer to own 100% of a small firm than a third of one three times bigger.

As attitudes toward going public change and new merchant banks emerge, smaller firms' access to finance will improve. For example, both Benetton and Stefanel (another family-owned fashion firm using the same franchizing formula) have gone public during the past two years. This has allowed them to expand abroad. Benetton now has 4,000 shops around the world, and Stefanel has 700, with plans to have a total of 1,550 shops (450 of them abroad) by 1990.

1.4 Direct Investment

Both foreign investments in Italy and Italian investments abroad are on the increase. Indeed, the last fifteen years have seen worldwide direct investments grow at a faster rate than either the GDP and total investments of industrial countries, or than international trade as a whole.

Together with the traditional controlling investments, alternative investment forms, such as minority holdings and "non equity" agreements based on cooperation, have been growing rapidly. In addition, small- and medium-sized firms are also playing a more important part in this general pattern.

Foreign participation in Italy's manufacturing sector is lower than in any other western industrialized country, with the exception of Japan. The same is true of Italian manufacturing investment abroad. Italian investment abroad is concentrated in informatics, office equipment, followed by petroleum, pharmaceuticals and plastics and rubber manufacturing. The foreign presence in Italy is concentrated in the same areas.

At the end of 1985, there were 1,203 Italian businesses with foreign shareholders. They had an annual turnover of C$52 billion and employed some 404,500 people. Italian investors, on the other hand, had an interest in 688 businesses abroad, involving a turnover of C$24 billion and 232,000 employees. Italy's exchange controls liberalization will undoubtedly provide further stimuli for the Italian industry's on-going internationalization process.

Not surprisingly, Italian investment abroad predominantly originates from firms in the north of the country, which is also the destination of most inward investment. It is dominated by a small group of companies just as Italy's industrial structure is dominated by a handful of large groups at one extreme and a host of highly enterprising, but small, often family-run businesses at the other.

At the end of 1985, 15 groups, comprising 55 companies, accounted for 87% of the employment and 92% of the turnover of companies in which Italians have invested. Only 10 groups accounted for virtually all the overseas companies which are controlled by Italian capital.

For much of the post-war period, Italian manufacturing investment abroad was developed on a joint-venture basis in developing countries. Large Italian communities are found Latin America and in particular Brazil, where Italian investments (including a large Fiat operation) employ 21.5% of the total "Italian" overseas workforce, followed by France with 11.3% and Spain with 10.4%.

The pattern, however, has changed recently, with much more investment directed towards Europe and North America. Although still very small, Italian investment in Canada has been increasing. Between 1980 and 1985, the stock value of Italian direct investment in Canada grew from C$62 million to C$166 million and increased its relative position from 0.1% to 0.2% of total foreign direct investment in Canada.

PART 2. ITALY'S LARGEST INDUSTRIAL GROUPS

2.1 Public Groups

Italy's state-owned mega-holding companies are: IRI, ENI, and Efim. Included among their more than 1,000 subsidiaries are some of Italy's largest and most prominent firms. The turnover of these three big industrial groups accounts for almost 10% of GDP.

2.1.1 IRI

The biggest group is IRI (Istituto per la Ricostruzione Industriale), the Institute for Industrial Reconstruction. It is a unique group of public companies which are also open to private participation. In 1987, IRI had total sales of C$49 billion and a profit of about C$530 million. It is the 11th largest company of the world and the third largest outside the U.S.

IRI controls a web of 467 companies, which make everything from steel to weapons, telephones to food. It also operates a fundamental part of Italy's service industries and infrastructure, including highways, air travel and banking.

When Romano Prodi, a former professor of industrial policy at Bologna University, became IRI's chairman in 1983, the group was threatened as steel, shipbuilding and maritime transport activities were generating heavy losses. He reorganized the company, by restructuring the losing units and selling a minority stake in many enterprises on the Milan stock market. By 1986, the group became profitable, for the first time in 13 years.

One of IRI's biggest success stories is Italtel, part of STET, an IRI subsidiary, and Italy's leading manufacturer of telecommunications equipment. Ms. Marisa Bellisario, Italy's most famous businesswoman, managed to turn this money-losing company into a profitable company.

IRI is currently looking for international partners for its subsidiary Italtel as well as for other service areas such as banking. Indeed, IRI controls Banca Commerciale Italiana, Credito Italiano, Banco di Roma and Banco di Santo Spirito.

Foreign partnerships will provide the means for IRI's ability to confront the competition of a single European market. It has used this strategy in the past, making alliances with such global companies as IBM, McDonnell Douglas, Boeing, Thomson S.A., Aérospatiale, Toshiba, MBB, Embraer, Plessey and Philips, among many others.

If growth through investments is one means of preparing for the future international market, the achievement of a dominant position in exports is another. The activities of the IRI group make up about 8% of Italian exports and about 50% of its exports are in high-technolgy areas.

IRI is focusing on three principal areas for its future development:
- infrastructures required for communications and transportation;
- plant engineering, public works projects and land development;
- sectors in which advanced technology is the main factor in production.

In the engineering field, Italstat, STET, Ansaldo, Societa Italiana Impianti, are expected to grow more than 15% a year. In the aerospace sector, Aeritalia, and Selenia-Industrie Elettroniche Associate, should grow at the rate of 20% a year. Selenia is a major supplier of radar, air traffic control, and electronic countermeasure equipment to world markets.

Aeritalia is the leading company in Italy capable of developing modern and sophisticated combat and transport aircrafts, major sub-systems for space applications, avionics, optical equipment and aerospace instruments. It is among the world's leaders in composite materials, and is well-placed in Europe with its work on pilotless aircraft. The development of new materials for conventional aircraft is one of the fields on which Aeritalia is concentrating its research as well as the application of new motors such as the prop-fan.

Alitalia is one of the state-controlled monopolies which will have to face competition for the first time in 1992. Today, it is in a favourable position to face the challenge. Indeed, Alitalia is the 10th largest international carrier in the world ranked by total global traffic. It has recovered from a run of losses in the 1970s and early 1980s and although it suffered a wave of strikes, Alitalia reported an 18% profit rise to C$78 million.

2.1.1 ENI

ENI dates back to the period right after the Second World War when Italy needed its own oil company in order to remain independent from the U.S. giants. So the state created Ente Nazionale Idrocarburi (ENI), which today is the third largest multinational outside the U.S. after B.P. and Shell, and the seventh largest oil company in the world.

In 1987, the ENI Group had a turnover of over C$33 billion, slightly down from the previous year, but with a 10% increase in its profit of C$72 million.

ENI has some 300 subsidiaries, almost half of which are outside Italy, and today its interests go far beyond buying crude oil, refining and selling oil products. For example, Enichem operates in the chemical industry while Nuovo Pignone, Saipem and Snamprogetti are in the engineering and services sector. Some 80% of Nuovo Pignone's compressors are exported.

The heart of the group remains Agip which is concerned directly with petroleum and its derivatives. The companies in the group include Agip, AgipPetroli, Snam and AgipCarbone. They are variously engaged in the purchase of crude oil, oil prospecting and production, refining,

nuclear fuels, natural gas, solar energy, coal mining and distribution, and research related to all these sectors. Agip managed to obtain the permission from the British government for exploring in the North Sea.

Another group, that of Nuovo Pignone, Snamprogetti, Saipem, is concerned with construction of machinery and engineering relative to refineries, oil wells, platforms, pipelines and so on. Enichem, one of the group's most important branches, is active in a variety of chemical fields that range from oil chemistry to synthetics, pharmaceuticals, and other chemical products.

The ENI Group also includes companies in textiles, textile machinery, non-ferrous metals, ceramics and abrasives. However, in accordance with a general trend in Italy's state holding companies, ENI recently privatized some of its textiles activities.

It is part of the group's strategy to seek more and more joint ventures, particularly in the chemical field. Recently, ENI signed an agreement with Montedison for the creation, by the end of July, of a joint chemical company that would combine both the public and private sectors in this field. The new chemical giant would have annual sales of C$14 billion and employ 50,000 people.

Last year Enichem entered a joint venture with ARCO Chemical of the U.S. for the production and commercialization of dylark resins in Europe, and thermoplastic rubbers in North America. Another joint venture was formed by these two companies for the production of special thermoplastics in the U.S. and technoresins in Europe.

ENI has a participation in Technomare, a company which is among the best in the world for designing offshore oil platforms as well as machines which work at great depths under water with a high degree of robotization. ENI is also trying to apply technology from the field of physics and its scientific committee has among its members the Nobel Prize winner Carlo Rubbia.

These are just a few examples of projects and joint ventures that the ENI group is engaged in all over the world which range from lead substitutes for gasoline in Venezuela to pipelines in Iraq and Turkey, from offshore oil production in China to gas turbines in Algeria.

2.1.3 Efim

Efim was created in 1962 with the principal purpose of assuring the development of the mechanical industry, and to support the growth of employment in the country's depressed south. The group is devoted solely to manufacturing and exports 40% of its production.

Some of Efim's firms have a leading share of the European market in their industrial sector.

The Augusta Group is one of these market leaders. It works in the aeronautics field, and expects that its 1987 profit will be double 1986's C$17 million. It is close to being the European leader for helicopter production. Its project for the production of the Tonal helicopter, a third generation, multi-role machine, is the result of a joint venture between Augusta, the U.K.'s Westland, Holland's Fokker and Spain's Casa, manufacturers which form the Joint European Helicopter Company based in Rome.

Augusta's EH 1010 helicopter which can transport 35 passengers is a 50/50 joint venture with Westland. The A109 helicopter is a flying ambulance which permits doctors to perform a complete diagnosis before the patient even arrives at the hospital. One of these flies over Los Angeles, another over Rome.

Another member of the Efim group with truly European dimensions is S.I.V., a glass-maker for cars which has more than 30% of the European market, with plants in Spain, Belgium, Switzerland, Germany, France and Scandinavia. It has sales of about C$720 million, and had a profit of C$44 million, more than double the previous year's.

S.I.V. produces glass for the building industry and laminated strengthened glass for automobiles and other vehicles. The company has conducted extensive R&D to develop an auto glass which "adjusts" to outside light sources as well as interior rear view mirrors which eliminate headlight glare without distortion and without the need of the present "tilting mechanism".

S.I.V. was created 25 years ago, when engineers discovered methane in pastureland in the south (Abruzzo). The idea was to create an energy intensive factory in the south. Now, from its headquarters there, S.I.V. markets its products and technology around the world. It created a complete autoglass factory for Chrysler at Dearborn, Michigan, in 1986, a contract that was valued at C$69 million. It is also involved in building another glassmaking plant in Spain, at the French border. S.I.V. is in fact second only to France's Saint-Gobain S.A. in the European glass market.

Through its subsidiary Breda Costruzioni Ferroviarie, Efim is Italy's largest producer of public transportation equipment. Among the latest innovations which it is interested in introducing to the North American market is its "Dualbus". This is an ecological bus which works on ordinary gas during most of the day, but during busy hours uses an alternative fuel to avoid excessive pollution. Thus, it prevents city centres from being clogged by air pollution during peak hours, while avoiding the high cost of alternative fuels by switching to gas for most of the day. It is presently been used by many commuters to travel to work in Seattle, Washington.

2.2 PRIVATE GROUPS

2.2.1 Fiat

Despite the transformation in Italian industry, one thing remains the same: business is still dominated by a handful of powerful families and individuals. The Agnelli family, which owns 40% of Fiat, Italy's largest private sector company, remains at the centre of power.

The subsidiaries of IFI, the Agnelli family holding company, include Rinascente, a department store chain, Prime, Italy's second largest mutual fund, and stakes in banking, publishing and television. Add these to their stake in Fiat, and the Agnelli interests account for a quarter of the Milan bourse.

The Fiat group, which is Italy's largest publicly-traded industrial group, representing 17% of the total share value on the Milan stock exchange, is into many sectors of the Italian economy. In 1986, cars accounted for only 50% of the group's turnover of C$36 billion (4% of GDP), the rest included components, commercial vehicles, factory automation, aviation, telecommunications and financial services.

The purchase of Alfa Romeo from the state in 1987 has given Fiat a virtual monopoly on the production of cars in Italy since it also owns Lancia, Ferrari and Autobianchi. (It should be pointed out here that Italy is the only European country which does not have any anti-trust laws). Fiat has 60% of domestic car sales, more than any other European carmaker has in its home market, and is sixth in the world car league.

The Fiat Auto Group has 16.1% of the European market, with sales of around C$20 billion. It regularly disputes the number one spot with Volkswagen, and at the moment seems to be ahead. This year Fiat came out with a new model called the Tipo. The name means the type or the character. It is a sporty, midsize compact, designed to compete in an area of the market where Fiat has been weak up to now, and which has been dominated by Volkswagen's Golf model.

Fiat does not only make the small, practical cars for which it is best known, but also most other kinds of car, from the original Uno, of which more than 3,000 are produced every day, to the prize- winning Ferrari, luxurious Lancia and sporty Alfa Romeo.

In the 1990s, Fiat will try to bring its sales up to about C$53 billion. Its strategy will be twofold: Europeanization, and reinforcement of its automobile operations. Europeanization will be achieved by encouraging closer cooperation, joint ventures, or mergers with other complementary European companies, while at the same time pursuing a policy of making acquisitions where this strengthens the core business. For example, Fiat recently signed an agreement with France's Matra S.A., forming a joint venture Ufima, of which Fiat owns 65%.

Fiat's Sorin Biomedica S.p.A., which leads in the field of bio-medicine, is the only manufacturer of artificial heart valves outside the U.S. It is one of only three companies in the world to have developed a complete line of diagnostic tests for viral hepatitis A and B, as well as one of the first European companies to have produced a diagnostic kit to determine the presence of HTLV (AIDS) antibodies. Sorin's activities include the production of carbon pirolite, a sort of synthetic diamond used to make artificial heart valves and the manufacture of semi-permeable membranes for kidney machines.

Fiat's Comau devises automated, flexible construction systems as well as new, automated production systems for a range of manufacturing industries: car making, petrochemicals, and aeronautics among them. It has chosen to emphasize integrated production systems, applying the latest electronic and laser technologies to all stages of production from manufacturing to testing and control.

The result is a complete line of products: robotized mechanical assembly systems, industrial robots, computerized warehouses, automatic conveyor systems, which now totally equip many plants of the world. Exports represent well over half of Comau's turnover and, in addition to its five Italian plants, its full product line is also carried by a U.S. subsidiary, Comau Productivity Systems, in Detroit.

2.2.2 Ferruzzi-Montedison

The Ferruzzi group, headquartered in Ravenna and managed by Mr. Raul Gardini, is considered Europe's largest multinational operating in industrialized agriculture with holdings extending to Argentina, Uruguay, Paraguay, Brazil and the U.S.

Today the Ferruzzi group has taken control of the chemical company Montedison, one of the most hallowed citadels of Italian industry and finance. The combined Ferruzzi-Montedison group is second only to Fiat in Italy with a turnover of around C$25 billion and interests spanning publishing, insurance, and retailing.

For the combined group, 1988 will be a year of consolidation of a series of acquisitions that took place in 1987. Indeed, in the wake of its takeover by Ferruzzi, Montedison began a wave of acquisitions. In 1987, Montedison bought 80.3% of Himont Inc. of the U.S., the world leading producer of polypropylene. Added to Montedison's existing production this will now total 20% of the world market in this field.

Another purchase was that of Spanish Antibioticos S.A., that country's biggest pharmaceuticals producer. Montedison also added 25% of the Farmitalia-Carlo Erba company, of which it held 75%. Another acquisition was that of Italy's Total, owner of about 2,500 gas stations.

Executives at Montedison are confident that the concentration of the group's attention and interests on fields in which it is already strong will in the long run strengthen the group as a whole and increase its competitiveness. These fields include polymers, chemicals and pharmaceuticals, together with Ferruzzi's vast agricultural (including food-processing), shipping and cement empire.

2.2.3 Pirelli

Pirelli, founded 116 years ago, is a household name around the world today when it comes to high-quality automobile tires. The company rates fifth in the world as a tire producer, a climb in a very few years from eighth place. But tires only account for 44% of the company's output. Some 38% includes cables of all types, and the remaining 18% is accounted for by a variety of other products ranging from motor vehicle and industrial components to consumer products. The Pirelli Group is controlled by Pirelli & Co., an investment company, through three holding companies, two of which are in Switzerland. The group has 125 factories in 16 countries in Europe, North and South America, Australia and Africa, and 70% of turnover is produced outside of Italy. Last year, sales equaled C$7.4 billion, 18% more than in 1986, and profit rose to C$232 million from C$196 million.

Although cables are unglamorous and mostly invisible products, they are highly-sophisticated and Pirelli is an unchallenged leader in this sector. The bright star in the cable firmament is optical fibre technology. The optical fiber which replaces the copper is a thin thread of glass or plastic which conducts light. Such new technology offers the basis for a whole new concept of cables for communications and is emerging as the fundamental technology for information transmission systems.

This development has prompted Pirelli to participate in a series of companies able to produce entire systems which make use of fibre optics. Thus, Pirelli took a stake in Litel and David Systems of the U.S., in FOCOM of the U.K., in Velec of France, and in ITP Automazione of Italy.

A recent event that has received a lot of publicity was the bid by Pirelli to take over Firestone of the U.S. After long and difficult negotiations this project fell through, but Pirelli moved on to a secondary project, the acquisition of another U.S. company, Armstrong Tire Co. Armstrong produces tires of all types, mainly as replacements, sold through Sears Roebuck retail outlets.

Pirelli plans to raise its share of the U.S. market from 6.5% to 9% making use of the Armstrong plants in California, Iowa and Tennessee. Armstrong's volume is about C$530 million a year and it has 3,000 employees. Pirelli plans to invest about C$133 million in Armstrong to increase production of tires for cars and light vehicles. With the addition of the Armstrong facilities, Pirelli will reach sales of C$4 billion, thus ranking fifth in the world after Goodyear, Michelin, Bridgestone/Firestone and Continental.

2.2.4 Olivetti

When Carlo De Benedetti took over Olivetti just over a decade ago, it was a moribund typewriter company with a well-known name but few other assets for the future. Today Olivetti is a thriving computer and office-equipment manufacturer. It is Europe's top producer of office and information technology, and the world's second largest producer of professional personal computers. Sidelines include everything from software to office furniture, to industrial automation and even traditional manual typewriters.

Olivetti has 59,000 employees and revenues of over C$7.74 billion. It has research and development laboratories in the U.S., France, Switzerland, Spain, the U.K., Singapore and, of course, Italy. With its three main holding companies: CIR, Cofide and Cerus, the group last year had sales of over C$18.4 billion, with interests ranging from food to financial services and banking. Nearly three quarters of the group's turnover is generated outside Italy, and more than half the employees in the world are not Italian.

Olivetti's global outlook has been emphasized with the strengthening of its international distribution network which now employs more than 20,000 people. In addition, a whole network of international alliances, starting with AT&T in 1983, reinforces this outlook.

The attempted takeover of Société Générale, Belgium's largest firm, only just failed, but it gave a measure of the group's weight and power. Immediately upon his return to Italy, Mr. De Benedetti acquired the Bologna based Credito Romagnolo and in mid-April Olivetti bought a majority interest in the Norwegian information technology group, Scanvest-Ring A/S.

PART 3. SELECTION OF ITALY'S LEADING INDUSTRIAL SECTORS

3.1 PLASTICS AND RUBBER MACHINERY

3.1.1 Industry Structure

The plastics and rubber machinery sector covers the machines necessary to transform thermoplastic and thermosetting plastics and rubber. The main segments are: injection moulding machines (40% of production in 1986) and extrusion machines (18.4%). Other much smaller segments include: blowing machines, compression machines and thermoforming machines.

In 1986, total production amounted to C$1.4 billion. There were between 200 and 250 major firms in this sector employing around 10,000 people. Most of these firms have under 50 employees and only three have over 250 employees.

The injection moulding machines segment is highly concentrated. Indeed, the four largest account for 50% of production.

Within the extrusion machines segment there are about 57 firms, of which the four largest account for 43% of production.

3.1.2 Major Firms and Location

The plastics and rubber machinery sector is essentially located in Lumbardy (over two thirds of total employees), particularly in the provinces of Varese, Milan and Brescia. Other important regions are Piemonte (particularly the province of Turin) and Emilia Romagna.

The leading injection moulding machine firm is: Sandretto, which acquired Metalmeccanica Plast and now accounts for 25% of production. Other major firms in this segment include Negri Bossi, MIR, Triulzi, BMB, BM, IDRA, Remu, and Italtech.

Major extrusion machine firms are: Amut (21.5% market share), Bandera (21%), Dolci (13.6%), Bausano (10.5%), Pomini Farrel (8.4%), and Prandi (7.3%).

Other major players include the blowing machines firms, Moretti and Triulzi; B.M. Biraghi (which has 30% of compression machine production); Thermoforming (with 45% of thermoforming machine production) and the major exporters Sandretto, Negri Bossi, MIR, and Pomini Farrel.

3.1.3 Competitive Position

Italy is the third major producer of plastics and rubber machinery after West Germany and Japan. It used to be in second position but was surpassed by Japan in 1983.

In terms of export performance, Italy has managed to maintain its market share despite the emergence of Japan while leading countries such as France, the U.K. and the U.S. have lost market share. Italy is now in third position after West Germany and Japan.

3.1.4 Major Markets and Competition

In 1985, the six largest world markets for plastics and rubber machinery were China (13.4%), the U.S. (13.4%), France (6.2%), the U.K. (6.1%), West Germany (4.7%) and Canada (4.4%). Among these the fastest growing market, by far, is China followed by the U.S. and then Canada.

In 1985, Italy's major export markets were: China (12.6%), France (10.3%), the USSR (8.8%), the U.K. (8.4%), the U.S. (7.1%), West Germany (4.5%), Venezuela (3.6%), and Spain (3.4%).

Italy's major competitors in this sector are large West German firms such as: Kraus-Maffei, Demag, Klochner and Badenfeld and large Japanese firms such as: Mitsubishi and Toyota.

3.2 PACKAGING MACHINERY

3.2.1 Industry Structure

The packaging machinery sector includes mainly machines for parcelling and packaging (73% of exports in 1986) and machines for cleaning, drying, labelling and filling (26.3%).

In 1985, this sector produced about C$1 billion of which around 62% was exported.

The main markets for these products are: the food industry (40%), the tobacco industry (20%) and the chemical-pharmaceutical industry (20%).

In 1981, there were 485 firms in this sector employing 11,663 people with an average number of employees per firm of 24. As much as 90% of the firms have under 50 employees.

3.2.2 Major Firms and Location

Firms producing packaging machines are mainly concentrated in Emilia Romagna (45% of firms) and Lumbardy (30%). They are also located, to a lesser extent, in Veneto and Piemonte.

The major firms in this sector are SASIB, O.C.M.E., CO.MA.CO, and GD. SASIB is part the CIR group, and has acquired Tito Manzini, Garibaldo Ricciarelli, Filippo Fochi, and CO.MA.CO Food SpA. O.C.M.E. SpA controls Italco, Imea and PPG. Other strategic firms include Sitma SpA, Simonazzi SpA, MAB, BFB, Automac and IMA which has acquired Zanazi SpA, Farmatic Srl and Farmomac Srl.

3.2.3 Competitive Position

Italy, with a market share of 18% in 1984, is the world's second largest exporter of packaging machinery after West Germany (36.8%). They are followed by the U.S. (8.8%), Switzerland (7.9%), Sweden (6.2%) and Japan (5.8%). Although the U.S. is the world's third largest exporter it is at a disadvantage compared to Italy insofar as it is not able to cover its own market's needs.

3.2.4 Major Markets and Competition

The western world's largest markets for packaging machinery were, as of 1984, the U.S. (22.8%), the U.K. (13.1%), France (12.5%), Canada (10.4%) and West Germany (9.1%).

In 1986, Italy's total exports in this sector amounted to C$959 million. Its major markets were: the U.S. (17.8%), France (12.7%), West Germany (9.3%), the U.K. (9%), China (5.9%), Switzerland (4%), Spain (3.1%) and the USSR (2.8%). Among these markets it is worth noting that, in recent years, the U.S. portion has been dropping while the Chinese portion has been increasing.

West Germany's major markets were, in 1985, the U.S. (11.8%), France (9.3%), the U.K. (8.8%), the Netherlands (6.1%) and China (5.9%).

3.3 FOOD PROCESSING MACHINERY

3.3.1 Industry Structure

The food-processing machinery sector includes machines for producing canned food, wine, dairy products, sweets, pasta, bakery products, meats, etc. In terms of production, the four main segments are: machines for baking (16.5%), machines for canned food (14.8%), machines for processing meats (14.3%), and machines for wine (13.9%).

In 1986, total production in this sector amounted to Cdn$1.4 billion. There were about 1,134 firms employing 14,681 people, with an average number of employees per firm of about 13.

3.3.2 Major Firms and Location

The great majority of firms in the food-processing machinery sector are located in Emilia Romagna, Lumbardy, Piemonte and Veneto. More specifically, wine producing machines are mainly in the Piemonte and Veneto regions while machines for the dairy industry are mostly in Lumbardy (Lodigiano) and Emilia Romagna (Parmense).

Some of the firms in the food processing machinery sector include FMC Food Machinery Italy S.p.A., Tecnindustria S.n.c., Tecnofood S.r.l., Zanichelli Meccanica S.p.A., Officina Mecanica Pellacini Sergio & Figli S.a.s., Bertuzzi Alberto S.p.A. and Alfa Laval.

3.3.3 Competitive Position

With a 13.9% market share in 1985, Italy became the world's second largest exporter of food processing machinery after West Germany (17.6%). Italy was thus able to surpass the U.S. which is now in third position, followed by Austria, the Netherlands, the U.K. and Switzerland.

3.3.4 Major Markets and Competitors

Major world markets for food-processing machinery which are growing rapidly include: China, the U.S., the USSR, Egypt, Czechoslovakia and Bulgaria.

Italy's export markets for food processing machinery is highly diversified since, in 1985, 21 countries accounted for 70% of exports.

The most noticeable competitor, other than West Germany whose market share has actually been decreasing, is Austria which has managed to climb from the world's ninth to fourth largest exporter.

3.4 WOOD-WORKING MACHINERY

3.4.1 Industry Structure

The wood-working machinery industry includes three main segments: machines for primary wood-working, classical machines for secondary wood-working, and special machines for secondary wood-working.

In 1986, Italy's production of wood-working machinery amounted to about C$1 billion, of which 72% was realized abroad. The special machines segment accounted for 60-65% of total production while 15-20% was accounted for by the classical machines and machines for primary wood-working segments.

In 1985, there were 283 firms operating in the entire sector, employing 9,868 people, with an average of 34.9 employees per firm.

The wood-working machinery sector tends to be relatively concentrated: the four largest firms represent about 27% of production while the next four only represent about 9%.

3.4.2 Major Firms and Location

Both in terms of number of firms and production value, these firms were concentrated in three main regions: Emilia-Romagna (38.35% of production), Lumbardy (26.5%) and Veneto (18.6%).

Major firms include: S.C.M. Macchine Speciali, Giben impianti SpA, Cefla Scrl, G. Stefani SpA, and Alberti.

3.4.3 Competitive Position

Italy is the world's third largest producer of wood-working machinery, after the U.S. and West Germany and the second most important exporter after West Germany. In 1985, their export market shares were 25% and 29.4% respectively. The next largest exporters -- Japan (6.6%), the U.S. (6.4%), and Finland (5.8%) -- are far behind.

In terms of technology, Italy is in a leadership position when it comes to primary machines for wood-slicing and leave-stripping. When it comes to machines for chipboard working, competition with West Germany is very tight but Italy tends to excel in machines for squaring, boring and lacquer coating.

3.4.4 Major Markets and Competitors

The major markets for wood-working machinery are: the EEC (27%), North America (21%), other Western European countries (14%) and the Eastern Bloc countries (12%). Among these, both the North American and the Eastern bloc markets are expected to increase their imports.

Italian exports in this sector are mainly destined to the above mentioned markets: the EEC (34%), North America (15%), other Western European countries (11%), and the Eastern bloc countries (8%).

Italy's main competitor in these markets is West Germany which has the following market shares: the EEC (34%), North America (14%), other Western European countries (21%), and the Eastern bloc countries (11%).

3.5 TEXTILE MACHINERY

3.5.1 Industry Structure

In 1985, the Italian textile machinery sector was comprised of spinning machines (33.6%), machines for improving the quality of fabrics (21.4%), knitting machines (20.7%), weaving machines (19%), and sewing machines (5.3%).

About 200 firms account for 75-80% of the industry's total production and employs around 28,000 people. There is a predominance of small firms with under 50 employees (86% of all firms).

3.5.2 Major Firms and Location

In terms of the number of firms, the textile machinery industry as a whole is concentrated in Lumbardy (56.2%), Piemonte (16.4%) and Tuscany (14.4%).

In the spinning machine segment there are 68 firms of which 18 are specialized in that sector. The leading groups are Savio, Sant' Andrea di Novara, Marzoli and Octir which together account for 50% of production.

In the machine segment for improving the quality of fabrics, there are 75 firms of which 24 are specialized in that sector. The leaders are: Reggiani, Mezzera, Mecanotessile and Scardassi which together account for only 17% of production.

In the knitting machine segment there are 29 firms of which 16 are specialized in that sector. The leaders are Lonati, Protti, Santoni and Irmac which together account for 48% of production.

In the weaving machine segment there are 34 firms of which 10 are specialized in that sector. The leaders are Nuovo Pignone, Vamatex, Somet and Fimtessile which together account for 88% of production.

3.5.3 Competitive Position

Among the industrialized nations, Italy is the fourth largest exporter of textile machinery after Germany, Switzerland and Japan, and the second largest market after the U.S.

Italy's export performance is strongest in machines for improving the quality of fabrics, followed by weaving machines and spinning machines.

3.5.4 Major Markets and Competitors

Fifty-five percent of Italy's exports of textile machinery go to OECD countries of which 26% to the EEC, 13% to the rest of Europe and 12% to the U.S. The remaining 45% go to non-OECD countries, particularly to NICs.

Italy's major export markets for sewing machines are the U.S., France and Germany; Turkey, France and OPEC for spinning machines; OPEC, France and Germany for weaving machines; Germany, Switzerland and France for fittings; and France, Germany and the U.K. for improving machines.

Japan is the leading exporter in sewing machines, with a 40% market share, followed by Germany (about 27% of market).

Germany leads in the exports of spinning machines with a 36% market share.

Switzerland leads in the exports of weaving machinery (23.7%), followed by Japan and Germany which together have a 20% market share.

Germany leads in the exports of machines for improving the quality of fabrics (35%), followed by Italy with 14%.

Germany and Switzerland both lead in the exports of fittings with market shares above 20%.

3.6 MACHINE TOOLS

3.6.1 Industry Structure

This is a highly diversified sector which covers a vast range of machinery necessary to produce machines.

Overall there are about 2,284 firms operating in this sector employing around 28,200 people. Over 80% of these firms have less than 100 employees and the average number of workers is about 70 per firm.

3.6.2 Major Firms and Location

Most of the firms tend to be located in northern Italy, particularly in Lumbardy, Emilia-Romagna and Veneto.

The two major Italian groups producing machine tools are Comau and OCN. They have been experimenting cooperation with large user firms such as Fiat and Olivetti. Other smaller firms which have been successful abroad are M.C.M. and Sigma.

3.6.3 Competitive Position

With a 5.6% market share in 1986, Italy was the world's fifth producer of machine tools following, in order of importance, Japan (23.9%), West Germany (18%), the USSR (12.6%) and the U.S. (8.6%).

With a market share 7.2% in 1986, Italy has managed to maintain its fifth position in the world exports of machine tools following, in order of importance, Japan, West Germany, East Germany and Switzerland.

3.6.4 Major Markets and Competitors

In 1986, 68.2% of world consumption of machine tools originated from the four major European countries (Germany, the U.K., Italy and France accounting together for 21.8%), the USSR (17.5%), the U.S. (14.7%) and Japan (14.2%).

The main markets for Italy's machine tools is the EEC (33.7% of exports in 1985) with a particular emphasis on West Germany (15%) and France (10%). The other two major markets are north America (15.4% between the US and Canada, up from 8.7% in 1980) and the Eastern bloc countries (13%).

As mentioned above, Italy's main competitors in this sector are Japan, West and East Germany, and Switzerland. In recent years, Japan has surpassed West Germany, thus becoming the world's largest exporter of machine tools.

3.7 AGRICULTURAL MACHINERY

3.7.1 Industry Structure

Agricultural machinery includes two subsectors: tractors and agricultural machines. The latter subsector can be further divided between small agricultural machinery and harvesting machinery.

The tractor segment is the largest and has the highest level of concentration. In 1986, there were seven firms with around 9,400 employees. These included two large groups which together employ 8,300 workers, three small firms with less than 100 employees and one foreign firm, Massey-Ferguson.

The small agricultural machinery segment is not as highly concentrated. It includes 100 firms with a total of 3,400 employees. The three largest firms, with over 200 employees, account for 39% of production.

The harvesting machinery segment includes 230 firms. It is more highly concentrated since the four largest account for about 45% of production.

3.7.2 Major Firms and Location

Agricultural machinery firms are concentrated in Emilia-Romagna, Lumbardy and Veneto. Those three regions account for three quarters of the industry's employees.

Italy's tractor production is dominated by two large groups: Fiat Trattori (part of Fiat Agri) and the SAME group which includes SAME Trattori and Lamborghini Trattori.

The three largest firms producing small agricultural machinery are Goldoni di Carpi, BCS di Abbiategrasso, and Pasquali di Calenzano.

The most important harvesting machinery firm is Laverda (part of the Fiat Agri group) which covers 32% of Italy's production.

3.7.3 Competitive Position

Among OECD nations, Italy is the fifth largest exporter in the tractor segment after Germany, the U.S., Japan (the emerging competitor) and the U.K. It is in third position in the agricultural machines segment after the U.S. and Germany.

Fiat supplies 53% of the Italian tractor market. It is the leader of the European market with a market share of 15% and second to Massey-Ferguson in the world with a share of 12%.

The SAME group is the second largest tractor producer in Italy with a 25% market share.

3.7.4 Major Markets and Competitors

Italy's main markets for all agricultural machinery are in order of importance: France and Germany. Exports of tractors are concentrated in Europe. They are weak in the U.S. where Japan has become by far the largest supplier followed by the U.K. and Germany.

3.8 PRINTING MACHINERY

3.8.1 Industry Structure

The printing machinery sector includes four main segments: printing machines (57% of total production in 1986), paper and cardboard finishing machines (32%), machines for the composition and preparation of moulds (6.5%), and bookbinding machines (4.5%).

In 1986, Italy's printing machinery sector was valued at C$890 million, of which 67% was exported. It was composed of 150 firms employing 7,450 people, with an average size of 50 employees per firm.

The sector is quite highly concentrated. The four largest firms account for 34.8% of exports and 25.2% of the domestic market, while the eight largest firms account for 44.9% of exports and 36.5% of the domestic market.

3.8.2 Major Firms and Location

In terms of the number of firms in this sector, they are mainly located in Lumbardy (64%), Piemonte and Liguria (15%), and Emilia Romagna (11%).

The major firms producing printing machines are Cerutti (largest firm), Nebiolo (medium-sized firm), Rotomec and Rotostar.

Those producing paper and cardboard finishing machines are Vega, Agnati, Curioni and Rotomec.

Those producing machines for the composition and preparation of moulds are Acigraf and Simoncini.

The leading firm in bookbinding machines is Bonelli.

3.8.3 Competitive Position

In 1985, Italy was the was the world's sixth largest exporter of printing machinery with a market share of 5.3%, following West Germany (37.6%), the U.S. (12.2%), Japan (11.7%), the U.K. (11.5%) and Switzerland (8.1%).

If one considers the printing machines segment, Italy is in a leadership position in the production of rotogravure machines with its large firm Cerutti.

3.8.4 Major Markets and Competitors

In 1985, Italy's main areas of exports of printing machinery were the EEC (36.3%), the remaining OECD countries (38.4%) and the Eastern bloc countries (11.8%).

With by far the largest world market share, West Germany is the absolute leader in this sector.

In printing machines, West Germany's Heidelberg is a world leader while in paper and cardboard finishing machines, Switzerland's Bobst is a world leader.

3.9 LEATHER, TANNERY AND FOOTWEAR MACHINERY

3.9.1 Industry Structure

The leather, tannery and footwear (LTF) machinery sector includes three main subsectors: leather footwear machines, synthetic footwear machines, and tannery machines.

In 1986, the entire sector had a production valued at C$1.2 billion and included 778 firms employing 8,850 workers. The average number of employees per firm was 11.

Leather footwear machines is the largest segment with 720 firms and 6,400 employees producing C$747 million.

Synthetic footwear machines is the smallest and youngest segment with 18 firms and 950 employees producing C$225 million of which 75% is exported. This segment is highly concentrated since the three largest firms account for 45.5% of employment.

Tannery machines is also a relatively small segment with 40 firms and 1,500 employees producing C$225 million of which 60% is exported.

3.9.2 Major Firms and Location

The production of LTF machines is concentrated in four regions: Piemonte, Lumbardy, Veneto and Tuscany. Vigevano, in the province of Pavia and the district of Lomellina are particularly well renowned footwear centres.

Torielli is the most important firm specialized in the production of footwear machinery. SIDECO, which is related to Torielli, is a multifunctional firm capable of offering "packages" of integrated machines as well as customer services.

In leather working machines, Italy's two world leading firms are Officine Meccaniche Poletto (200 employees) and Rizzi (150 employees). In addition, Italmacchine and Cogolo are two large engineering firms operating in this sector.

3.9.3 Competitive Position

Italy is, by far, the most important exporter of LTF machines among the OECD countries with a 48% market share in 1985, followed by West Germany (26%).

3.9.4 Major Markets and Competition

In 1985, the major world markets for LTF machines were: the USSR (9.1%), the U.K. (5.1%), France (4.7%), West Germany (4.6%), China (4.4%) and the U.S. (3.8%). Among these China is the market which has been growing the most rapidly.

Italy's exports of LTF machines are concentrated among a group of six countries: the U.K. (5.6%), Spain (5.4%), France (5.4%), Portugal (5.2%), China (5.2%) and the U.S. (5%). It is worth noticing that Italy was late in entering the important USSR market while West Germany has been very successful there.

Together Italy and West Germany make up 75% of total LTF machine exports in the OECD. However, if one considers specifically the leather footwear machines segment Italy must beware of emerging competitors such as Brazil and Taiwan.

CONCLUSION

This study on Italian investment potential was produced by Investment Canada's Research and Policy division at the request of the Canadian Consulate in Milan to assist them in the elaboration of their investment development strategy for northern Italy.

The study has achieved three main objectives:

(1) it has examined some of the main characteristics of Italy's economic climate of the eighties as they relate to the country's investment potential;

(2) it has provided an overview of Italy's largest industrial groups, many of which have a presence in Canada and are seeking to increase their investment activities;

(3) it has analyzed a selection of industrial machinery sectors in which Italy is among the world's leading exporters and which correspond to Canada's priority sectors.

Although this study was originally prepared to assist with the promotion of Italian investment in Canada, it will be of interest as well to Canadian investors considering investing in Italy. In light of the unified EC market of 1992, it is becoming increasingly important for Canadian firms to position themselves within the European Community. Indeed, by 1992 as the EC removes its internal barriers to trade competition will heighten.

Over the past year, there have been an increasing number of high level and ministerial visits from Canadians to Italy. In addition, a memorandum of understanding was signed in February 1988 between ISTC's Minister Robert de Cotret and ENI and more recently, in August 1988, an economic and industrial cooperation agreement was signed between Canada and Italy by the Canadian Amdassador to Italy, Claude Charland, on behalf of the Minister for International Trade John Crosbie, and Italy's Minister of Foreign Trade, Renato Ruggiero.

The latter agreement seeks, in particular, to encourage the creation of joint ventures, technological cooperation, licensing agreements, joint research and development, and cooperation in third country projects. In addition, a joint working group will be established to define and examine current issues and concerns. As a result of such initiatives, a most favorable climate is being created for the promotion of two-way investment between both countries.

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