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Italy-Canada agri-food trade under CETA:
the case study of Italian Food Canada Inc.

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Index

Introduction

The Comprehensive and Economic Trade Agreement (CETA) provided the opportunity to European Union and Canada to benefit from mutual trade. It is based on the idea of creating a market free from barriers and tariffs, facilitating business relationships between the two global actors. The cooperation between Canada and EU is key in order for both to foster their economies. The dissertation aims at introducing CETA and its application in real business case. It defines the Agreement, starting with an overview of the circumstances in which its negotiations were initiated with a brief background of trade relations between Canada and the EU throughout history; It will be focused on its development and implementation, demonstrating how it can be considered a "modern" agreement for the 21st century era. It explores the effects that CETA had on trade of goods, services and foreign investment, providing numbers and graphs aimed at giving a clear overview of the concrete benefits of its implementation. The application of CETA will be exemplified through a more in-depth analysis of the agricultural and agri-food sector, defining the rules regulating it and standards of import and export for both Canadian and EU market. The analysis identifies impacts CETA had on the agricultural and agri-food industry, while pointing out current challenges and specifications. The agri-food market has been experiencing challenges in the last decade, due to different external and internal pressures. As a consequence, even agri-food trade under an economic agreement has been affected. Harvesting issues along with changes in consumers' nutritional habits and higher attention on sustainability questioned the current CETA provisions. Worldwide trade of agri-food products is affected by domestic and international issues along the supply chain, impacting production, distribution and consumption of agricultural goods. As a consequence, EU, especially Italy, and Canada agri-food trade is subject to a progressive change towards the implementation of sustainable practice to more efficiently manage the exchange of these products. Hence, there is a growing interest in initiating new negotiations to foster agri-food trade on both sides of CETA involved parties. The text will then introduce the study of the case of Italian Food Canada Inc, a Canadian subsidiary of Coop Italian Food which works as an affiliate of Coop Italia. It highlights the process of doing business in an overseas country and all the difficulties it carries, as well as analyzing the role of CETA in such market. It then provides insights on import and export activities between the two regions concluding with a study on the competitive advantage that the agreement provides. The case study gives a concrete example of the exploitation of the CETA agreement from Coop Italia, the largest food cooperative of Italy, for the creation of a Canadian subsidiary, Italian Food Canada. The brand-new company based in Toronto takes advantage of the benefit provided by the agreement and aims at providing Canadian consumers with authentic Italian food, fulfilling an unmatched need of Italian food products at affordable prices, guaranteeing high-quality standards. Italian Food Canada can count on the well-established supply chain provided by Coop Italia, which translates in a net of producers and manufacturers, agencies for food standards compliance and operations management for shipments. The future of the company is still subject to a marginal level of uncertainty, but IFC has a long way ahead to make improvements. The existence of CETA facilitated the choice of entering a foreign market and it is plausible to think other businesses will follow the same path, even though it is still crucial to take into consideration the challenges that may arise as a consequence of doing business and developing a supply chain overseas.

Chapter 1: Analysis on the Comprehensive Economic Trade Agreement: past, present and effects on trade.

This paper begins by introducing the Comprehensive Economic and Trade Agreement, a trade agreement between Canada and the European Union aimed at fostering mutual economic and social benefit between the two regions. It starts by providing an overview of the circumstances in which its negotiations were initiated and then developed, up to the point of its implementation in 2016. It provides a brief background of trade relations between Canada and the EU throughout history; It gives a perspective on what brought Canada and the European Union to mutually agree on cooperating on trade, even though being geographically away from each other. The first chapter will then explore the effects that CETA had on trade of goods, services and foreign investment, providing numbers and graphs aimed at giving a clear overview of the concrete benefits of its implementation. It continues with a more in-depth analysis of the agricultural and agri-food sector, defining the rules regulating it and standards of import and export for both Canadian and EU market. It identifies impacts CETA had on the agricultural and agri-food industry, while pointing out current challenges and specifications.

1.1 The path towards the Agreement

Globalization has always had a huge impact on worldwide trade since its very beginning. Countries have historically been interested in developing agreements that could be mutually beneficial under economic, social, and political perspectives.

As part of two different continents, European Union and Canada have experienced years of negotiations to define a suitable trade agreement that would mutually help them thrive as global players.

The negotiation between these two actors began when the then European Atomic Energy Community, the EURATOM, and Canada agreed on the cooperation of peaceful uses of atomic energy. This was the very first trade agreement put in place between these two was called "Framework Agreement for Commercial and Economic Cooperation" twenty years later. Economic cooperation was, indeed, explained as a factor of potential mutual benefits, especially when based on agreements that functioned as landmarks between parties. The Framework Agreement for Commercial and Economic Cooperation was, in fact, developed to become a collection of pillars set up to structure the cooperation between EU and Canada. For instance, it currently incorporates agreements on topics such as Education and Training, Custom Cooperation, Science and Technologies, all in one framework. The last agreements settled as part of this framework is the Wine and Spirits Agreement that was finalized in 2004 (Farfard & Leblond, 2013).

It helped EU providing chances of dialogue with an industrialized Country, concerning different economic aspects.

This agreement was headed by the Joint Cooperation Committee (JCC) that operated as a forum. Its role was, and still is, to facilitate the interrelationship between the two global actors.

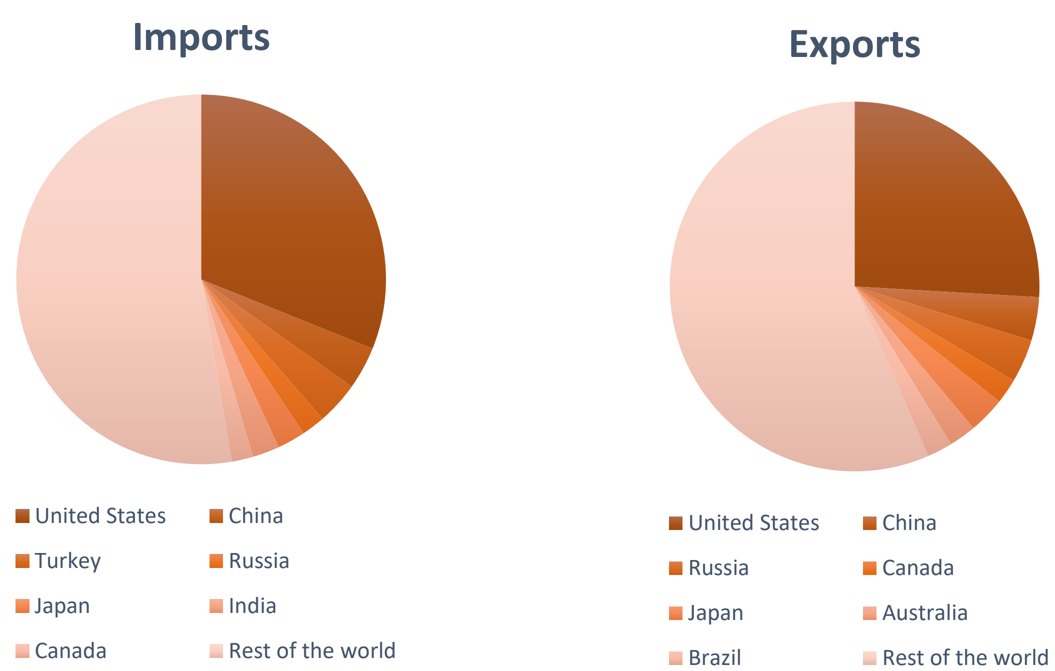
The different perspectives on the interest of a bilateral agreement between the two global behemoths are interesting. On one side, Canada had the opportunity to develop a trade that involved multiple countries at the same time while the EU could take advantage of Canada's closeness to North America to expand its market. Canada and North America, in fact, had already put in place agreements to free the trade between the two countries. It is also important to take into considerations the general trend around which negotiations for CETA took place (Merrifield, 2012).

As mentioned before, globalization played a crucial role for both the Government of Canada and the EU. The overall wave of enthusiasm in becoming global players impacted the involved actors extremely, until the point where it was necessary to individually move towards cooperation rather than lag behind. Canada and the EU, indeed, were willing to initiate a mutual path in reach of one another, following the World Trade Organization advice on pursuing "multilateral trade liberalization".

Among the other reasons why mutual trade negotiation initiatives seemed the logic path to follow, the history between the Canadian government and EU is influential. From Canada's point of view, it was essential to seek a trade liberalization agreement with the EU being the latter his second second largest trading partner, obviously behind the neighbor United States (D'Erman, 2016). The European Union accounted for 9.4% of Canada's total external trade in goods in 2014. For the same year, vice versa, EU could count on the Canadian market for or 1.7% of its total external trade in goods in 2014 (Government of Canada, 2021).

Graph 1.1 shows the analysis of the trading partners of EU in 2014 for services. Not considering the half rest of the world, Canada is the sixth import partner in the industry of service for the EU and the seventh for exports. This situation explains that before the agreement, these two regions' trade was already well established and as a consequence, they already began a process of understanding the respective foreign market and adjust their own. Also, it is clear that introducing a trade agreement would seem natural. A trade agreement was beneficial for both sides under an economic point of view as it translated in more potential customers to be reached out.

Graph 1.1.1: EU-28 International exports and imports of services by main partners.



Source: Eurostat, 2014

Therefore, both national GDPs could increase. Canada could expand its market to around 500 million potential new customers, representing a boost in Gross Domestic product of about $19 trillion US Dollars (Government of Canada, 2021).

While Canada’s interest in a bilateral agreement with the EU is obvious, the EU’s interest in Canada is less evident, as Canada was only the EU’s twelfth largest trading partner. Throughout the years, however, Canada became one of the most important partners for EU in the trade of goods. In 2014, as the Figure 1.1 from Eurostat shows, the EU exports towards Canada exceeded the import by 10.5 points. The trend is clearly rising when moving towards today and mainly, after the implementation of the agreement in 2017, and exports grow at an even higher pace than imports, rising up until almost 40 billion Euros in 2019. They then experience a decrease when approaching 2020 as a consequence of pressures coming from the agricultural sector (harvesting issues) and transportation congestion that led delays in products being delivered.

Cooperating under an economic agreement while pursuing global trade for goods and services has as its first consequence a rapid and powerful economic growth (Hoekman, 2015). The cooperation between the two players in terms of trade was a strategic move also in view of the threat imposed by emerging markets as China.

The EU, as a matter of fact, became more committed to establish global trade agreements in order to foster its economy and position in the global market. The same holds true for Canada, that identified an opportunity to negotiate economic cooperation during the summit held in Berlin in 2007. The summit aimed at classifying both costs and benefits of establishing a trade cooperation through a joint study. The study was called “Joint Study on Assessing the Cost and Benefits of a Closer EU-Canada Economic Partnership” and was made public in October 2008. The considerations that have been made were based on the consequences of liberalizing the market eliminating barriers for the trade. Such barriers of entry or tariffs on imported goods and services have always been in place up until that moment.

The delineation of benefits arising from a partnership between the two global players stands also on the idea that the economic potential of EU and Canada, both individually and together, was also a direct aftereffect of their regulation of import and export activities. Cooperation would have meant to align the governmental guidelines on trade to help fostering domestic markets while trading internationally. Furthermore, the Joint Study helped highlight the individual strengths of EU and Canada, finding in the former a crucial partner for the trade of metal, transportation and electronic equipment and in the latter, benefit for chemical and transportation sectors. These were basically the premises on which CETA was initiated (Hübner, Balik, & Deman, 2016).

Negotiations started eventually to take place during the same year, starting from another summit held in Quebec during the same year, 2008. In fact, it is in this conference that the Canadian government and the EU were even more influenced in pursuing economic cooperation. It outlined the matters on which it would have brought benefits to while examining the potential negotiations to be undertaken.

The following year, the "Canada-EU Joint Report: Towards a Comprehensive Economic and Trade Agreement" was released and stand is on one main pillar: trade liberalization. The officiality of the beginning of negotiations between the two parties can be found later that year, in fall 2009, at the Prague Summit, where both parties formally started working together on an economic cooperation project.

1.2 The implementation of CETA and its influence in the mutual trade between Canada and EU

It is in September 2013 that Canada and the EU decided to write the Comprehensive Economic and Trade Agreement and four years later, on September 21st, 2017, it entered into force.

The agreement is “a progressive state agreement” that focuses on providing mutual social and economic benefits. It aims at creating a common market to allow for mutual cooperation and advantages. It stands on the development of business and economic opportunities while protecting workers and entrepreneurs, the environment, and the society. It works under binding obligations, meaning that Canada, as well as Countries that ratified the agreement, are obliged to follow its regulations. As mentioned, the ratification process from both parliaments is necessary in order for EU and Canada to fall under the CETA and exploit the rights and obligations that come along. It is a process that starts with the approval of the agreement itself. It represented and still represents the broadest attempt by the EU to implement a bilateral trade agreement (Leblond, The economic partnership agreement between Canada and the EU is still on track, 2008).

CETA represents a milestone in cross-countries trade mainly for the width of areas in which it removed barriers and tariffs. It allows for the liberalization of the market, granting the almost total elimination of duties and tariffs and increasing working opportunities for both markets. It is essential in the generation of new businesses opportunities, economic growth and increase jobs. The CETA Agreement is intended to serve Canadian and EU consumers by fostering the import/export activities. It eliminates 98% of custom duties and import tariffs and it is expected to remove 100% duties on goods and services before 2030.

CETA is the collection of a series of benefit and its most valuable pillar is generating growth. First, it removes almost all tariffs. This is the basis on which the agreement stands and the most remarkable element to consider. Before CETA, EU could only count on 25% of duty-free Canadian product categories while now it is approaching the totality of elimination of tariffs. It is intended to become 99% duty-free products as there are negotiation on the wave of duties on grains and seafood products. Not having to pay tariffs as well as facilitating the trade such that products are exported more smoothly is the most crucial impact that the agreement has on the Canadian companies. It is believed that this condition, approaching 99% of elimination of tariffs, could increase exports from Canada to EU of about 1.4 billion US dollars by the next five years (Chambers ad Partners, 2017).

The reduced tariffs that CETA provides, make Canadian producers, manufacturers, and exporters more competitive in the EU market. In fact, they can count on the realization of huge cost savings as a consequence of the CETA, making it possible to not only expand their market but also offer more affordable and accessible prices to consumers.

This implies that they can take an advantage over other exporters still facing EU tariffs. It is an enormous opportunity for all those high-tariff markets such as the one of food and beverages.

Furthermore, the agreement that eases the trade between the two parties, permits the expansion of Canadian businesses as well as the facilitation of labor mobility. This is directly connected with the fact that professionals and qualified workers are given the opportunity to work internationally in an easier way, as well as sharing expertise and knowledge. Moreover, the possibility of mobilizing workers increases the chances of a business to thrive in a foreign market and in this case, allows EU to have Canadian employees directing activities of a new company and vice versa, exploiting Canadian expertise while introducing an EU model.

It provides higher certainty od success of a start-up or new business project as it is possible for Canada and the EU to rely on mutually beneficial contracts and standardized procedures. Moreover, Canadian businesses established in EU or EU businesses established in Canada can take advantage of lower administrative costs and complete assistance.

The agreement is a helpful tool also for business visitors and partners and investors that can enter the territory for a shorter amount of time as well as interns and trainers.

As a matter of fact, CETA assists the process of the creation of new markets for their goods and services both in EU and Canada. Focusing on services, telecommunications, finance and technologies are among the top categories of services that are import-export between EU and Canada and CETA allows for the facilitation of their continuous growth. EU companies are world leaders in many service industries, and it is important to state that services comprise about three-quarters of Europe's economy (European Union, 2016). For this reason, it is important to highlight that the trade of service is an extremely important asset for both parties. EU is the largest importer of services in the whole world, and it imports 15 billion dollars a year on average from Canada out of almost 900 billion dollars. Canada is actually facilitated by CETA as it can trade services to the EU at the same rates and treatments of EU countries do. Another mutual benefit that companies under the agreement can benefit from is that CETA guarantees the stability of treatments for service providers. This means that any future regulation or any restriction put in place in the Canadian or EU market will not affect Canadian or EU companies operating in the foreign country. CETA indeed commits at blocking off legal provisions, adjusts or reforms that favor service suppliers from Canada and/or EU, limiting government intervention and role in the trade. As an implicit result, companies taking advantage of CETA have more certainty on future scenarios and success, other than having transparent, clear, stable rules from the starting of their operations on.

Among the others, the agreement allows for benefits such as the reduce of the costs of entering the market while providing better conditions for entrepreneur to establish their activity. In this way, companies can initiate an activity in a foreign market without facing high barriers to trade.
At the same time, it benefits consumers providing greater choice of products given the cut on duties. Prices are lower as well as the cost of goods for companies. Also, scraping out the custom duties results in higher export and lower costs of imports. The overall facilitation of selling product also includes a liberalization in the trade of services. In fact, CETA gives Canada the opportunity to enjoy financial, communications, environmental and transportation/logistic services for which EU is a powerful partner.

Trade of goods is also made easier thanks to automated procedures that allows for simpler and state-of-the-art procedures. They enable faster processing at custom border while ensuring more efficiency at the same time, resulting in quicker provision of goods for consumers and reduced costs for companies. In order to facilitate the quicker processing of goods at the border, the two regions can introduce advanced systems of goods and commodities classification, generating more convenient method to determine origin, standards and safety. Also, they can provide rules and written governing practices for any problem or complaint that may arise at the custom border. The coordination between EU and Canada, hence, decreases the impact of such non-tariff barriers. Regulation issues can be dealt through the cooperation between the two regions, the sharing of information and guidelines and recognition of standards. This holds true for certifications, tests and permissions. For instance, EU products being exported in Canada are assessed under mutually agreed rules and standards for Canada, as well as vice versa, reducing the risks, costs and mistakes while increasing conformity.

All of this is connected with the aim of allowing for more fluid movement of goods and services and higher stability for EU and Canadian companies that decide to enter the market through exporting or importing activities under CETA.

CETA agreement is considered an example of a new era agreement. As a matter of fact, it is to be recognized that it does not refer only to the mere definition of trade, such as liberalizing the market, but also will provide regulations such that it will align both EU and Canada market and let them operate on the same level. Through CETA, both parties will be able to regulate the activities between two different systems and institutions that refer also to non-trade subjects such as the foreign direct investments and the market for public procurement. CETA, among merely economic benefits, is also an agreement that it is considered, in fact, comprehensive and progressive. When defining a progressive agreement, it is essential to take into consideration the subjects of reference that have significant meaning for the society, other than the "just" economy. As a matter of fact, CETA aims at protecting people's rights at work by introducing rules and best practices to be shared by Canada and EU. It, in fact, give strong credits to trade unions and business associating, assuring a safe working sector for employees. Same holds true for environmental groups, since the agreement has the goal to commit to preserve the environment, instituting sustainability standards and CO2 emissions constraints for companies that would want to do business in the foreign country. Moreover, CETA has the objective to guarantee that the two regions stay faithful to the agreement that they have been negotiating and eventually implemented, in the sense that they will not go back on each other. Maintaining its commitment of facilitating trade, CETA considers all factor involved in the process, as well as people, organizations, and the environment.

The positive effect of a trade agreement between the two major polities can be found in the increase of export activities from the EU towards Canada. However, this is not only explained by the cut on costs for firms selling their products overseas, but also in the facilitation of aligning products' standards. As a matter of fact, the CETA allows for the so called "conformity assessment", which means that a product coming from the EU and being exported to Canada, already meets all the requirements requested by the destination market. Such requirements concern technical standards and health and safety standards. This implies that EU products found in the Canadian market have been tested and regulated in order to guarantee consumers and environment protection.

This has been a tremendous step forward as allows for easier adaptation and reduces processing times. Especially manufacturers and producers of goods for whom is even more difficult to adapt and adjust their products to different countries' standards have been facilitated by CETA through the harmonization of standards. This holds true also for Small and Medium Enterprises that have limited budgets. In fact, they can rely on lower costs of regulatory agencies and auditors, providers, and transactions at the border other than reduced costs of entering the market.

Unfortunately, the alignment of standards is not yet achieved when referring to job qualifications and professionalism. As for the current period of time, in both regions, categories of professionals such as engineers, architects, accountants and any qualification that is regulated cannot enjoy recognition in the foreign country. For instance, a EU engineer could not practice in Canada as head of project since its qualification is not automatically recognizes as such. Though, future scenarios see this limit being overcome because of the fact that CETA would help define agreements between EU and Canada in order for them to negotiate and eventually identify each other's competences. Introducing mutual agreements on professional and regulated job would open the path towards more job opportunities and sharing of know-how.

One more benefit provided by CETA refers to the possibility for EU firms to offer money for Canadian public contracts. This implies that a company from the European Union is given the opportunity to bid for contracts coming straight from the government of a foreign country, which in this case is Canada. Supplying goods and services to Canadian federal government opens the path for a company to access around 30 billion dollars every year that are destined to private companies. Municipalities and province can buy from EU companies operating in the Canadian market though bids and offers. EU is then given a competitive advantage over other trading partners, especially since it is strongly solid in areas such as roads construction, infrastructure and port sites building. This competitive advantage will become even more solid in the future as CETA establishes fully. Cities and town can also issue public contracts and it is interesting to mention that the goods and services they may buy is worth double with respect to their purchase by the federal government itself. On the other hand, though, the agreement only allows for high-valued bids, because lower valued procurement projects are reserved to local businesses in order to support local economy. Other than this, the same advantage is given to Canadian enterprises that can be considered for activities of procurement for the government of the EU. In the last years, the access to EU public contracts for companies of Canada has been increasing other than widening, in the sense that they can bid also for local projects. In fact, public utilities such as water distributors, urban transit, gas and electricity can be provided by private Canadian companies under the CETA agreement.

CETA operates in the field of trade of goods and services, but it also has a distinctive impact on foreign investments. As a consequence of providing stability of the market through the harmonization of regulations, standards and procedure, it becomes interesting from a EU or Canadian investor point of view to initiate investment activities in the foreign financial market. Along with this, the agreement defines rules of investment such that it aligns treatment of foreign investors with the domestic ones. It implies that a Canadian investor initiating financial activities in the EU market will be treated as favorably as an EU investor, as well as vice versa.

Moreover, he is entitled to be subject to protection in case of disputes. The safe environment that CETA guarantees, makes it alluring to generate investments which leads to higher financial activities and movements on both regions' markets. As an example of how CETA affects the financial sector, the threshold of the review of large foreign investment for Canada, under the Investment Canada Act, increased by 40% in enterprise value as a result of higher EU investments activities in the Canadian market. Another benefit is connected with the expansion of financial-related job creation since CETA allows for temporary transfer of seniors from one region to the other. In EU for instance, Canadian firms can settle their activities counting on the possibility to have their managers to run them. So, at once, EU gains activities that enhance its economy and Canada enters the investment sector prepared and well equipped. It all breaks down to guarantee stability for businesses, employees and the economy.

1.3 The impacts the Agreement had on trade: examples on goods, service, direct investment sectors and comparison with trade before CETA implementation

As mentioned, CETA provides a series of benefits that make it mutually convenient for Canada and EU to trade under it. The benefits of the agreement are very well explained by the boost in import and export activities that have been recorded in the years after 2017. Canada and EU traded over 60 billion euros in 2019 and reached a total increase of almost 30% with respect to trade levels of 2016, when CETA was not yet fully put in place (Priede, 2018).

Another concrete demonstration that the agreement is providing the effects for which it was designed, is that the two regions have pushed their bilateral trade by double percentage points, going from 4.4% of annual average growth rate in the five years prior implementation to about 8% in 2019.

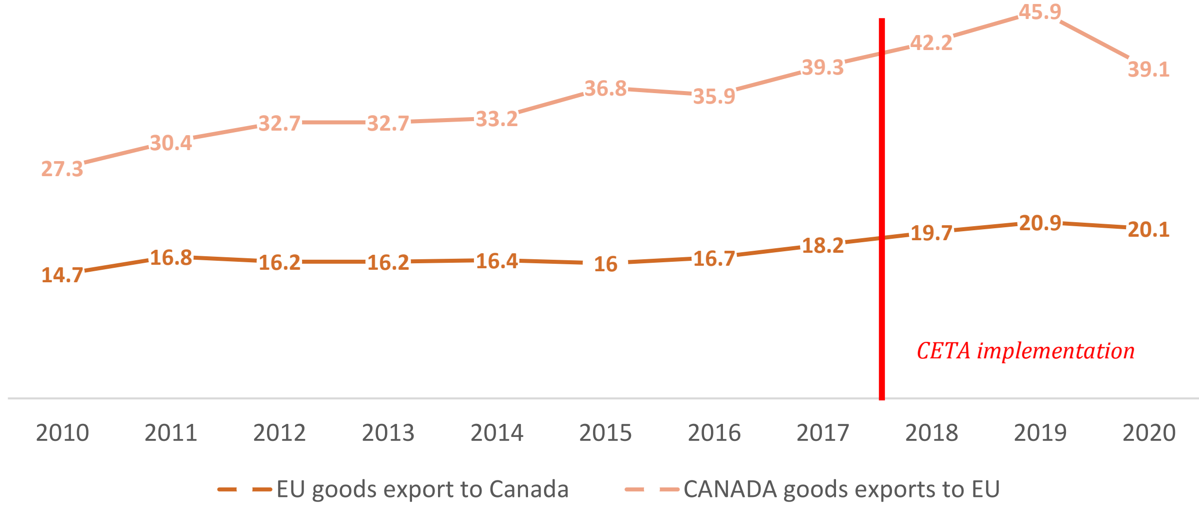
Between 2016 and 2019, Canada exports of goods to EU grew by 25%, while Canada exports to the world only increased by 13%. The same effect can be transposed for EU trade for goods toward Canada, which raised by 28%. EU exports with the rest of the world, over the same period, instead, escalated for only 17% (Global Affairs Canada and European Commission, 2021). The boost in exports has allowed more consumers to reach foreign products as much as firms could expand their market share. Enterprises have, indeed, been able to increase exports on one side and gaining experience on the other which is crucial in order to maintain the position in the market as well as stability for the firm and investors.

Graph 1.3.1: Growth in Canada-EU trade of goods

Source: Government of Canada, 2021

Canada and EU trade has eventually been benefitted by a positive balance of about 25 billion of euros, resulting in a total of about 20 billions of euros for Canada export s to EU and 45 billions for EU exports toward Canada. CETA has impacted trade in goods and services between Canada and EU to the point that the market share of the totality of EU imported products in Canada reached 11.3% in 2019, resulting in a growth of 2% with respect to 2016.

Graph 1.3.2: Canada-EU Goods Trade, 2010-2020, in €billion



Source: Government of Canada, 2021

Even though the marginal effect is notably lower, Canada market share of total imported products in the European Union improved by 0.2% after CETA ratification.

Despite the percentage may not seem substantial, it is on the contrary significant considering the fact EU importing activities depend on way more countries with respect to Canada's.

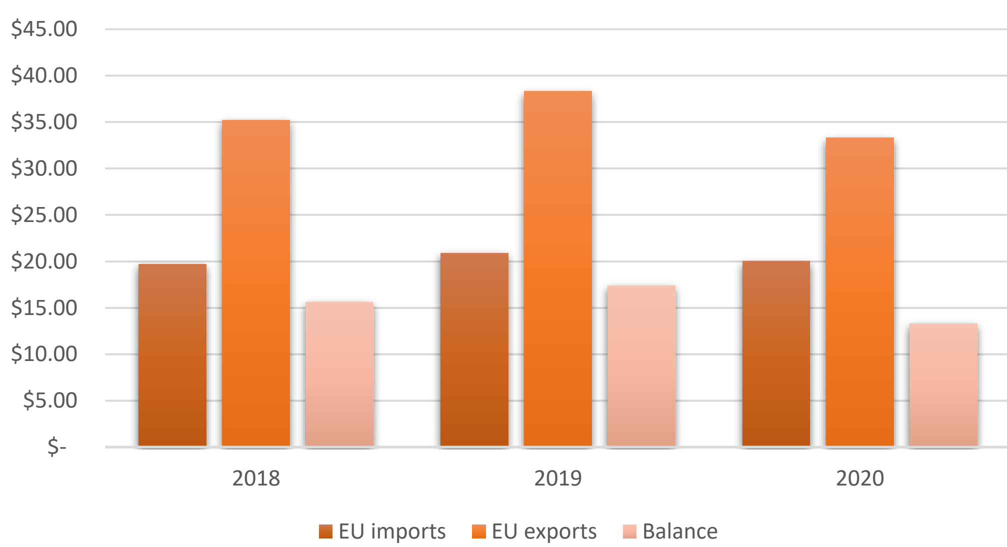
In fact, European Union is the third largest trading partner for Canada, after the United States and China, for imports and the second for exports. Canada, instead, is currently the sixteenth trading partner for EU concerning imports and the tenth for exports of goods, with more than 20 thousand million euros exported in the EU (Government of Canada, 2020).

When analyzing the value of trade between the two regions in terms of goods, services and direct investments, it is possible to highlight that EU has high exports towards Canada, and it implies a great interest for the former in ensuring a trade agreement.

Second, it is clear that the CETA has positively affected trade of both goods and services as they have both experienced a rise. Between 2018 and 2020, the value of exporting goods from the European Union reached on average 26 billion euros, while Canada enjoys an average of about 20 billion euros on the same time span.

Together, the trade of goods values about 45 billion euros, reaching 53.3 billion euros in 2020. The perspective is positive as the trade balance between the two parties is higher than 10 billion euros throughout all three years. CETA impacted also foreign investment from EU investors to Canada as it boosted stability of the market and conditions of investment in a country that directly trades with USA, providing investors less risky opportunities and more willingness to participate in the foreign financial market.

Graph 1.3.3: EU-Canada trade in goods



Source: 2021, European Commission website

Analyzing the top categories of goods that EU exports to Canada, it is possible to break them down into two sections according to two system of product classification: Standard International Trade Classification (SITC) and Harmonized System (HS). The former is a “product classification of the United Nations used for external trade statistics (export and Import values and volumes of goods)” (Eurostat, 2013).

The SITC makes it possible to compare commodities and manufactured goods on an international scale. It categorizes products according to their materials, uses, importance in the world trade and technology.

The groups it refers to are food drinks and tobacco, raw materials, energy products, chemicals, machinery and transport equipment.

EU exports to Canada in 2020 ranks first machinery and transport equipment and second chemicals. The former accounts for more than 30% exports by EU to Canada and the latter amounts at 24%.

The Harmonized System instead, was introduced by the World Trade Organization. It allocates commodities into different groups, each of which is identified with a six-digit code. It allows for more easiness in the calculation of tariffs, as well as less margin of error in the interpretation of a product’s category. This is favorable also in terms of costs as it uniforms trade procedures, policies and rules allowing for smoother the trade itself. In 2020, the EU exports to Canada, according to the HS, were mainly driven by machinery and appliances, products of the chemical or allied industries and transport equipment.

It is interesting to highlight that the same holds true also from a Canadian perspective. The exports towards EU come mainly from machineries and chemicals products.

The following figures shows the same product categories ranked as top, both for SITC and HS. This is the confirmation that the agreement is, in fact, mutually beneficial.

CETA agreement strongly impact these sectors. Pre-agreement, in 2016, the total balance of machinery traded between Canada and EU was around 9.2 million euros while chemicals accounted for 4.7 million euros. After CETA, in 2019, the same sectors recorded a trade balance of 11.8 million euros and 6.8 million euros, experiencing a percentage growth of 28.9 and 42.9 points. Along with mineral and motor vehicles and parts, they registered 40% of the total Canada-EU mutual trade in 2019 (European Commission, 2021).

The weight of the net growth in machineries trade is mostly explained by a boost in EU exports toward Canada.

In fact, the total machineries exported was 7.0 million euros in 2016 and 9.2 million euros in 2019. This is the sector that accounted for the largest increase in total value for EU, accounting for almost 32% growth.

Since the nature of the CETA agreement is not only economic, it is critical to also distinguish the trade of environmental goods, meaning all those goods connected with the aim of protecting of the environment and climate. These include products for renewable energy production, air pollution control, waste management. Canada and EU have been continuously cooperating on the provision of environmental policies throughout the years.

CETA has affected this sector too, enabling an increase in total traded environmental goods of 17.2. Analyzing this number more in depth, it is possible to highlight that EU exports accounted for 4.8 billion euros in 2016 and experienced a growth of more than 15% in 2019, reaching €5.5 billion in 2019. Canadian exports similarly, beard a boost of about 23 percentage points, growing up until 1.6 billion euros of environmental goods exported in 2019.

Apart from goods, an examination of the activities of import and export of services between Canada and EU contributes at illustrating the development of the sector itself in the last years, especially after CETA application. It is, indeed, impressive how service trade has been escalating from a balance of 1.3 billion euros in 2010 to a balance of 7 billion euros in 2020. In percentage, total services trade between the two rose by 39 points after CETA has been put in place. The growth has not been the same for both regions, though.

As a matter of facts, Canada's services exports to EU grew from 8.2 billion euros in 2020 to almost the double in the following ten years, with a substantial growth experienced after CETA implementation (almost 4 billion euros more exported from 2017 to 2018). Analyzing the other way around, instead, shows a similar increase of about the double from 2010 to 2020, but with stable pace, going from 10 billion euros of service exports to Canada to 21 billion euros in 2020.

Chart 1.3.1: Canada-EU Services Trade, 2010-2019, in €billion

	Canadian services exports to the EU, in $B	**EU services exports to Canada, in $B**
2010	$ 8,20	$ 10,50
2011	$ 8,10	$ 11,10
2012	$ 9,70	$ 12,30
2013	$ 9,80	$ 13,40
2014	$ 9,00	$ 12,50
2015	$ 10,50	$ 14,60
2016	$ 10,10	$ 15,50
2017	$ 11,30	$ 17,00
2018	$ 15,00	$ 19,20
2019	$ 13,80	$ 21,80

CETA implementation

Source: Eurostat, 2021

CETA application did not make a heavy difference for EU as it has always been an essential service importer for Canadian economy, but still, it facilitates the activities connected to them.

The service sector is in continuous tremendous growth. From 2010 until today, exports from both regions have almost doubled. EU service exports to Canada boosted from around 10 billion euros of to 20.5 billion euros, while Canada service exports to EU escalated from 8.2 billion euros to almost 14 billion euros.

This is definitely a direct consequence of the implementation of CETA agreement in 2017, which substantially facilitates the export of advanced technologies, travel and transportation. In 2020, the EU had a net positive balance of about 4 billion euros in the trade of services with Canada.

The top categories of services traded by Canadian companies to EU are transportation and travel services, which compose more than 70% of the totality of Canada's service exports.

As the following histogram shows, CETA implementation has driven the trade of Canadian transportation to EU 0.5 billion euros higher, reaching almost 3 billion in 2019.
Travel services experienced an increase of 34.5%, reaching 2.9 billion euros of services exported.
The other way around presents even higher concrete examples of the positive effect of CETA. In 2019, EU has completed exports to Canada for about 4 billion euros, approaching 30% more in comparison with 2016.
Between this span of time, transportation services exports escalated by 1 million euros while that of travel services approached almost 2 million euros more.

CETA operates in the field of trade of goods and services, but it also has a distinctive impact on foreign investments. As a consequence of providing stability of the market through the harmonization of regulations, standards and procedure, it becomes interesting from a EU or Canadian investor point of view to initiate investment activities in the foreign financial market. Along with this, the agreement defines rules of investment such that it aligns treatment of foreign investors with the domestic ones. It implies that a Canadian investor initiating financial activities in the EU market will be treated as favorably as an EU investor, as well as vice versa. Moreover, he is entitled to be subject to protection in case of disputes.

The safe environment that CETA guarantees, makes it alluring to generate investments which leads to higher financial activities and movements on both regions' markets. As an example of how CETA affects the financial sector, the threshold of the review of large foreign investment for Canada, under the Investment Canada Act, increased by 40% in enterprise value as a result of higher EU investments activities in the Canadian market. Another benefit is connected with the expansion of financial-related job creation since CETA allows for temporary transfer of seniors from one region to the other. In EU for instance, Canadian firms can settle their activities counting on the possibility to have their managers to run them.

So at once, EU gains activities that enhance its economy and Canada enters the investment sector prepared and well equipped. It all breaks down to guarantee stability for businesses, employees and the economy.

As a result of smoother and more stable foreign investment process, along with labor mobility and public contact provision on both regions, Canada and EU have initiated activities of mergers and acquisitions. CETA allows for greater cross-border business opportunities, giving the possibility to already established firms on one side and start-ups on the other, to increase economic and financial value through foreign investments in Canada or EU.

The result of M&A activities under CETA is reflected on more than one perspective. From a business point of view, the agreement permits the expansion of a business on another, foreign market, allowing companies to foster growth of economic value while taking advantage of well-developed global supply chain provided by a company that operates in the destination market. For example, European companies may find it more suitable to merge with a Canadian company to reach the North America market rather than initiate merging activities with a US company. This holds true also for non-EU companies investing in Canadian ones as they could take advantage of EU market access as well as the American one. US companies themselves may be attracted by cross-border investments in EU or Canadian market to more easily do business under CETA (Young, 2011). Canada, consequently, gains a very crucial position in the global trade as it may function as a “pass” for EU to access North America and vice versa for US, resulting in increase of M&A activities and subsequent higher economic value. It is to be considered a luxurious position since EU and US together make up the largest market in the world. CETA is, therefore, a source of value for Canadian business, both big enterprises and small companies because it gives the latter an opportunity to enter a broader market and grow.

Other than the possibility to count on a strong supply chain in a foreign market, a driving force of M&A activities is, as a matter of fact, the elimination of tariffs. On one hand, companies from countries other than Canada or outside EU may consider acquire or getting acquired by an EU or Canadian business in the interest to enter and participate in a tariff-free market. Furthermore, they may plan to do so as a consequence of the objective to gain a competitive advantage over other companies doing business in the two regions. On another perspective, it is true that CETA allows for the provision of public contracts. It means that mergers and acquisitions could also interest infrastructure companies as well as construction or consulting firms.

Furthermore, CETA impacts on cross border purchase of companies’ activity is also to be assigned to the recent rise of the Canadian threshold of foreign investment by EU. The government increased the limit of more than the double it, bringing it from 600 billion dollars to 1.5 billion dollars yearly, provoking an immediate decrease of publicly traded companies under the control of Canadian government sight.

This eases the path for investors coming from EU and willing to invest in Canada businesses, fostering activities of financial investments, acquisitions and mergers (Government of Canada, 2021).

1.4 Canada and EU on agricultural sector: the role of the Agreement

Both regions account for a great part of their economy on the agricultural sector. Canada, on one side, is a global player in the agricultural sector, with a well-established industry and connected success. It is based on specific policies and procedure that regulate the sector and the agri-food market in order to guarantee protection of the primary sector, environment and producers as well as consumers. It aims at continuing to provide world class production standards, maintaining its reputation of quality and innovative products.

Canada is to be considered a provider of best practices in the agricultural sector since it has consistently positioned itself as a pillar and main player of agri-food products in the global trade. Its high-quality standards made it become a leader in constant growth.

Canada is recognized as having one of the strongest food safety systems in the world. Standards and regulations are provided by the CFIA, the Canadian Inspection Food Agency which is responsible for guaranteeing the respect of food safety rules and certifications, according with constantly changing consumer preferences and food hazards.

European Union, on the other side, considers the agricultural sector to be the driving force of its food economy. EU food is perceived as the “safest food supply in the world”, with high-quality standards and rules of food origins that guarantee producers and consumers protection.

The EU is, moreover, the world's largest importer of agriculture and agri-food products, registering in 2016 a total of 163 billion euros worth in imports, adding up to the 16% of total agriculture worldwide. With respect to Canada, instead, it is its fourth largest export market for agriculture and agri-food (Viju & Kerr, 2011).

Given its importance, EU also provides for assistance on agricultural and agri-food products imports to non-EU countries, safeguarding importers and consumers with the help of international organizations. There are, in fact, specific requirements applied to products exported to the EU, regardless CETA. The agreement indeed does not interfere with EU sanitary and regulatory requirements. The main obligation for food exporters to enter EU agri-food market is to provide products produced in a specific establishment registered at the Canadian Food Inspection Agency. The CFIA registration must always accompany the product. Meat products instead have to be produced in a facility approved by the EU.

In the end, products must always contain nutritional information that are well specified in the label with a precise font size.

The implementation of a trade agreement between these two parties has definitely affected agriculture and agri-food sectors, increasing opportunities for both regions to access the respective market. CETA eliminated tariffs on the 94% of agricultural products, providing to producers and exporters the possibility to have a competitive advantage in operating in a foreign market with domestic products. This has been also possible thanks to the alignment of standards given by the agreement, even though both Canada and EU had similar high-quality agri-food regulations. As per mutual agricultural trade between Canada and EU, it is possible to quantify it as almost 10% of the total trade between the two.

CETA application made this trade even stronger, resulting in an escalation of almost 14% from pre-CETA to post-CETA, in 2019. In terms of percentage growth of agri-products traded after CETA application, a growth of almost 28% has been recorded in Canadian exports towards EU and an increase of 20% for the opposite.

This was mainly due by EU exports in Canada, but Canadian agricultural and agri-food product, especially oil seeds and seafood products, made significant importance.

What is interesting to highlight that concerns the agricultural sector is that, despite CETA implementation, there are some tariffs, the so called TRQs, that have not been eliminated after the application of the agreement. These Tariff Rate Quotas are tariffs that are applied on some specific agricultural products and regulated by the agreement.

They govern the import both in EU and Canada, but are not the same for both regions. For Canada, TRQs regulate beef and veal, pork and sweet corn imports, while for EU they regulate the import of cheese. They work through a system of quota, meaning that there is a specific amount that is legitimate to be imported-exported. Furthermore, they imply that the importer requests for an import license for its specific amount that it intends to sell in the foreign market.

Along with TRQ, Canada provides for specific and well monitored and administered rules of origin governing imported agri-food products that exporters must adhere to in order to receive the beneficial treatment provided by CETA. These RoO refer to two types of products. The first category includes either products “wholly obtained” in Canada, meaning grown and harvested in Canada, for example fruits and vegetables or grains; or products that are produced in Canada using non-originating materials providing they satisfy the applicable product-specific rule of origin. The second category, instead, includes products processed in Canada using imported materials from countries other than the EU. This category refers to processed food, high sugar products, dog and cat food and chocolate preparations (O'Connor, 2016).

Though CETA facilitates the trade of agri-food, allowing exporters to sell those products to a competitive price and increasing mutual trade, there are still some disagreements on the sector, especially when it comes to regulations. The EU is very much sensitive for what concerns GMO standards. Inside the EU territory, GMO products are not allowed while Canada does not impose such rule in its market, so Canadian products must comply with this standard. Also, EU is very protective of seafood products market, as Canadian seafood exports may cannibalize EU ones. Moreover, as EU can count on many different protected regions of production, it is putting pressure on Canada to actually recognize the geographical indication of a specific product, allowing for development of market share of all those traceable protected products. On the other side, Canada is still negotiating the controlling activities on products such as eggs, poultry and diaries which are currently subject to heavy duties and quotas for any food exporters (Chantreuil, Hanrahan, & Leeuwen, 2012).

As a matter of fact, CETA agreement is a crucial corn stone for mutual trade between EU and Canada and an essential tool for economic development, growth and integration. It facilitates trade while aligning standards, creating opportunities for people and businesses. The two regions can take advantage of its benefit and gain a competitive position over countries that do not fall under CETA agreement and boost their trade of goods and services every year more. Businesses are given the opportunity to extend their market share, offering products at accessible prices thanks to the elimination of almost 99% of tariffs. They can enjoy stability and labor mobility, public contracts opportunities as well as initiating foreign financial activities.

The trend of positive net trade balance is believed to increase in the upcoming years as a consequence of the objective for CETA to eliminate the totality of tariffs (Leblond, The Canada-EU comprehensive economic and trade agreement: More to it than meets the eye, 2010). At the same time, CETA commits to maintain high quality standards, especially for agri-food and agricultural product, giving demonstration of being an agreement based on development and protection of economy as well as society.

Chapter 2. Agri-food trade between Canada and Italy: the structure of the operations in the supply chain under the CETA agreement and the challenges associated with agri-food markets

The agri-food market has been experiencing challenges in the last decade, due to different external and internal pressures. As a consequence, even agri-food trade under an economic agreement has been affected. Harvesting issues along with changes in consumers' nutritional habits and higher attention on sustainability questioned the current CETA provisions. Worldwide trade of agri-food products is affected by domestic and international issues along the supply chain, impacting production, distribution and consumption of agricultural goods. As a consequence, EU, especially Italy, and Canada agri-food trade is subject to a progressive change towards the removal or, at least, decrease of tariffs as well as the implementation of sustainable practice to more efficiently manage the exchange of these products. Hence, there is a growing interest in initiating new negotiations to foster agri-food trade on both sides of CETA involved parties. The chapter begins with an overview of current challenges facing Italian and Canadian agri-food sector and aims at analyzing the role of CETA in such market. It then provides insights on import and export activities between the two regions concluding with a study on the competitive advantage that the agreement provides.

2.1 Agri-food market under CETA: an overview of the opportunities, challenges and provisions concerning agri-food supply chain

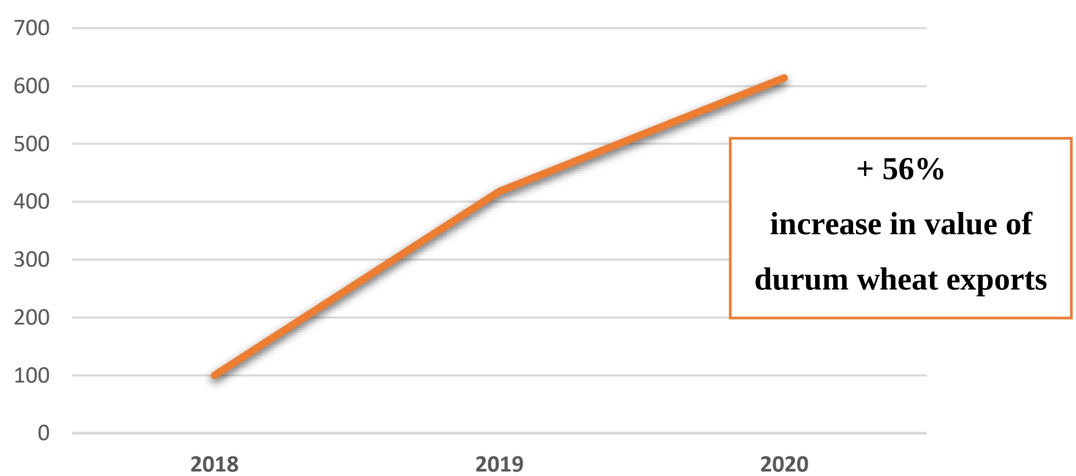
The CETA agreement provisions on agri-food businesses refer to the progressive elimination of duties for almost 95% of all Canadian and EU agricultural tariffs, creating new opportunities for agri-food businesses. The chance to access a foreign market such as the Canadian one for EU and vice versa, has increased production and distribution of many main agricultural exports including: cereals, pasta, tomatoes and tomato sauce. In the last decades, the agricultural sector has been shaped as a consequence of a variety of different pressures (Reardon & Barrett, 2008). Mainly, it has been impacted by economic influences like globalization, industrialization, liberalization of trade of agri-food goods which allowed for rapid growth of this sector and expansion in terms of market (Hush, 2019). Moreover, it has been transforming under several social factors like changes in consumers consumption and diets, environmental factors, as there has been a higher interest in developing a sustainable agricultural supply chain, and technological improvements (Hoekman, 2015). As a matter of fact, the adjustment process of the agri-food sector associated with these new trends has affected the structure of the market itself, providing new policies, regulations and standards (Gulati & Narayanan, 2002). The agri-food market was in fact put under closer attention for food security and nutrition as well as process sustainability along the chain.

After CETA was put in place, Canada ranked 10th in the list of the largest Italian agri-food export destination. At the same time, imports from Canada have been escalating quickly, increasing production and distribution of Made in Canada products to EU. Taking into consideration the agri-food sector for Italy, it experienced a 9% increase in exports to Canada in the first three month of 2017, right after the implementation of the agreement (EUCCAN, 2021).

Since 2017, Italian agri-food export activities increased by 6.2% while imports fell by 18.1%. This dynamic has been confirmed also taking into account the weight of agri-food traded: 3,5 kg more exported and 25.8 kg imported. (Guzzi & Lisciandro, 2018). In particular, the highest increment of sales of Italian agri-food products in Canada has been registered in the wine sector, accounting for an increase of 3% yearly from 2015 to 2017, with a total of 303 million euros exported; and in the diries products, including cheese, that reached 13% increase in sales towards the most populated cities of Canada. This data confirmed that the Canadian market is perceived to be a strategic market and source of revenue for the Italian agri-food industry. (FOOD journal, 2018).

In the first semester of 2020, Canadian agri-food exports to Italy rose by 12%, against the trend of the majority of other EU countries. Italy ranked 11th in the list of destination markets for Canadian agricultural products out of the whole world with a total value of 1.7 billion Canadian dollars, and 5th out of EU countries. (Italian Trade Agency, 2020)

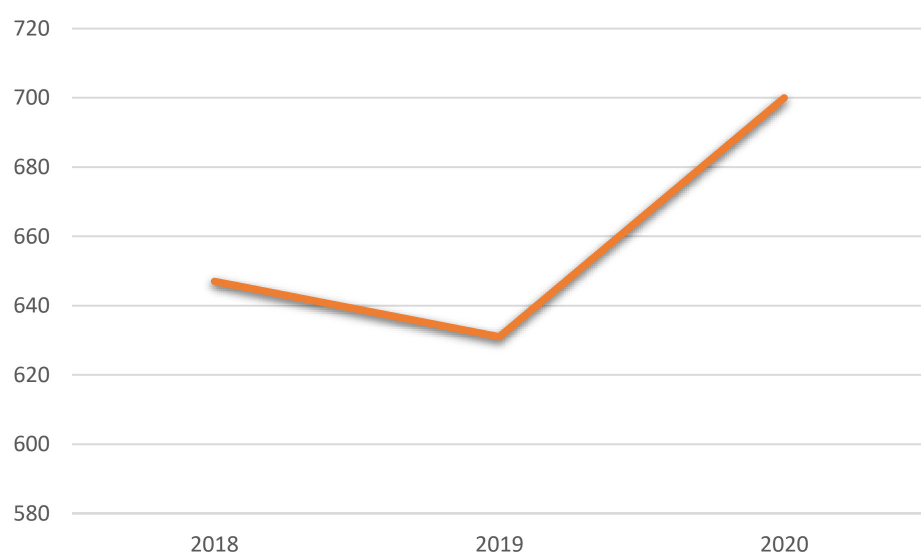
Graph 2.2.2: Durum wheat exports from Canada to Italy
(values in million tons quantities; period: January-June)



Source: Statistics Canada – elaborated by ICE Canada

In the first semester of years 2018, 2019 and 2020, Italian agri-food sector registered on average a 17% of activities with respect to the entire exports towards Canada, positioning itself as the second sector with the most exports registered, after machineries. 2019 exports decreased as a consequence of harvesting issues such as droughts, and Covid pandemic, which reduced the capacity of agricultural production and supply chain difficulties. In the same year, the agri-food sector was also impacted by the increase in transportation costs. These factors made it hard to meet the rise in the demand.

Graph 2.1.2: Italian agri-food exports towards Canada
(million CAD; period: January-June)



Source: Statistics Canada – elaborated by ICE Canada

In the first semester of 2020, the Italian most exported agri-food product is wine, accounting for 38% of the market share of Italian agri-food products. Italy ranks as the second provider of wine for the ì Canadian market, with a steady growth of about 1% every year. Other essential Italian exported agri-food product is the olive oil, registering a share in the market of over 39% amounting 54 million CAD. It is followed by diaries and cheese with about 22% and salami, with a share of about 11%. Analyzing the total exports of Italian agri-food products towards Canada in the first semester of 2020, preserved tomatoes register a 40% increment in sales, followed by pasta, coffee and cheese.

But when discussing the effects of CETA agreement in the agri-food market, there are few aspects to take into consideration. Analyzing the main forces shaping the shift of agri-food market towards an evolution and development of agreements to better be regulated between parties, the main actor can be identified in the globalization process (Hübner, 2016).

It is rational to think that such expansion of the market to a worldwide level brought the agri-food sector to be tariff free just like the other sectors. Trading in one single market and having no barriers as well as same market regulation, is very appealing for agricultural supply chain since it makes. It easier to also align standards and provide affordable agricultural products. In fact, there has been evidence that trading in a foreign market but under the same regulation has a positive effect also on food security, since it allows for safer import and exports of goods and reduces the risk of any food shock, along with more stability of process (Runge, 2003).

Another effect of CETA in the food sector, though, is that the liberalization of the agri-food market has led to new opportunities for the rural economy, along with threats. Indeed, government intervention in this sector is heavily reduced as well as its participation in the market, allowing for lower pressure for foreign investors too and a consequent greater foreign investment in agricultural fields. It goes that the elimination of tariff has direct impact on price levels, which are drastically lowered on one side and more stable on the other (Lanfranchi, 2019)

It directly triggers the level of employment and demand of agri-food as well.

Other than economic aspects, it is important to mention the effects CETA had on the agricultural supply chain.

Under an agreement that facilitates trade, the set of activities prior to the final sale of the agri-food product to the customer is positively impacted on one side. The structure of operations concerning the agricultural product has been widening after the implementation of CETA as the chain has developed to a longer process of activities and participants, more integrated and less fragmented. This permits not only to include more companies in the process, but also guarantees higher quality standards verified on many levels, through certifications, third parties' evaluations and regulatory bodies involved, like CFIA in this specific case. As a matter of fact, food safety and quality have strongly influenced the agricultural food chain in the last years (Leea, Gereffi, & Beauvaisc, 2012).

In the last decade, and even more after CETA had been ratified, the agri-food chain has been perceived as vertically coordinated and characterized by the presence of dominant corporations and companies, even though lately it is expanding towards Small and Medium Enterprises as well, given the reduction in tariffs. SME's however, still have hard times being part of the chain since such a complex and international trade involving agricultural products requires specialized logistics.

Also, the vertical integration is no more led by the producer, but the power has been transferred to retailers and supermarkets, shifting the chain to a more buyer-driven perspective (Sexton, 2017).

In fact, it has been argued that liberalizing agricultural markets has led to a new regime of food controlled by international companies and multinationals. They are the ones with higher market power and have the ability to count on extremely strong bargaining power that have charge over the whole value chain (McMichael, P, 2009). Nowadays, the big retailer along with its distributor, oversee the entire value chain to the point that it is him the one doing the trade, not the producer, nor the manufacturer. On the other hand, however, the value chain naturally evolved to an international level, which definitely allows for greater state-of-the art technology access but restricts the possibility of competition leaving rural market outside the trading circuit. (International Fund for Agricultural Development (IFAD), 2016).

The supply chain of agricultural food products' trade has, indeed, experienced a series of processes that influenced all the parties involved in the import and export activities.

CETA fostered agri-food trade and as a consequence, the whole chain has been impacted, from agriculture and food production to food processing, from the producer to the retailer, passing through the distributor. The ones shaping the structure are the latter: distributors gained higher relevance and bargaining power over the last five years thanks to their essential role in providing specialized logistics (Grau, 2018). Despite their importance, though, producers and manufacturers still make up the bottom of the chain but it is crucial that they comply with norms and standards, adjusting their production sites and machineries to what the market of Canada, for EU exporters, or EU market, for Canadian ones, require.

This enables them to increase their reliability and efficiently compete in a foreign country, provided the agreement that favors stability. Agri-food market is, indeed, becoming more and more about food safety and traceability of the product, and such activities involve the entire supply chain. provide products of high quality (Pue & Trebilcock, 2015).

2.2 CETA and processed food trade: implications for EU and Canada

The CETA agreement between EU and Canada that allows for liberalization of trade of goods has been discussed in the last years when referring to agri-foods and processed foods. Agri-food market encompasses the demand and supply along with the whole food system, from input, primary products, to production, collection, processing, packaging, transportation and consumption of the product arrived at the final consumer. It is considered of enormous importance since it basically refers to the series of activities for which a crop is produced, transformed, distributed and eventually eaten by the customer. Therefore, the agri-food sector is a fundamental part in the process of economic development. Given such important role, agri-food sector is affected by many pressures coming from the economy, like higher prices due to harvesting problems, society, environment and food safety. Increased attention has been, in fact, put on agri-food supply chain as a consequence of the latest harvesting issues, change of nutritional needs, environmental sustainability and more detailed quality standards to be met. All of these always keeping into consideration the importance of providing affordable final products. As a result, CETA provisions on agri-food markets are nowadays being debated as to understand whether it provides or not benefits to the regions involved in the agreement with respect to the rest of the world.

Hence, the debate is mainly based on whether or not the CETA agreements would need to be updated with or should include a new deal to increase liberalization on agri-food trade. This because both parties count on each other on the purchase of agricultural goods, but tariff barriers on some of these products are still quite high.

Especially if compared with other sectors, like manufacturing goods, the agricultural trade comes up against greater difficulty in reducing tariffs.

It is due to the importance and relevance these products have and the need to balance both the facilitation of trade but also the protection of consumers as well as producers and territory. CETA allows for the recognition of Origins and Protected Areas, allowing for lower, almost none, barriers on product that qualify for import without duties, but has still some difficulties on agricultural goods. Moreover, it is essential to analyze whether new trade rules could provide even more competitive advantage to both parties. Hence, as a consequence, a new deal that allows for even smoother trade for primary goods would increase import and exports between the two regions, providing a competitive advantage with respect to other Countries.

When analyzing each party's offering on agricultural goods, it is possible to highlight that EU, especially Italy, is able to provide a wide range of superb agri-food products to be exported, such as tomatoes, oils, cheese and pasta, but at the same time, it has the need to import primary goods like wheat. Hence, as a consequence, a new deal that allows for even smoother trade for primary goods would increase import and exports between the two regions, providing a competitive advantage with respect to other Countries. With respect to Italy, it is considered being an importer of primary goods and an exporter of processed food. Italian agri-food export represents about 21% of the total goods trade towards Canada. On the other side, instead, considering Italy imports of agricultural goods, Durum wheat stands around 55% of imports, with the respect to the total export flow of Canada to Italy (European Commission, 2022).

Canada agri-food trade is, as well, represented mainly by the export of processed food, which represents almost 50% of the total value of agricultural food exports. Canada processed food not only mean half the value of the whole agri-food production, but also is perceived as top ranked in the exports of agri-food every year.

The European Union industry of processed food, however, characterizes the largest manufacturing segment of the economy based on labor employment and establishes itself as the top exporter of processed food, with more than 170 billion Euros exported in 2016. This number indeed rose after CETA agreement as a consequence of even higher exports towards Canada.

USDA defines processed food as “any one that has undergone any changes to its natural state, subjected to washing, cleaning, milling, cutting, chopping, heating, pasteurizing, blanching, cooking, canning, freezing, drying, dehydrating, mixing, packaging, or other procedures that alter the food from its natural state”. In the same category, it is possible to include also all foods to which preservatives, flavors, nutrients as well as salt, sugar and fats, have been added. The processed food industry is characterized by firms enjoying economies of scale and providing differentiated product while competing on domestic and international markets. Both Canada and Italy have been experiencing a substantial growth in this sector leading to an expansion of small and medium enterprises operating in processed food industry, allowing for wider net of manufacturers and producers and providing job opportunities to almost 200,000 workers. While Canada is considered being in the top five exporters of agricultural food, Italy exports to Canada about 51% of its total agricultural exports as processed food, combining a 40% of wine exports, almost 6% of cheese exports and about 5% of pasta.

As a matter of fact, about half of Italian Agri-food export to Canada is represented by exports of processed food. In order to determine the measure of the CETA convenience, it is possible to compare the most traded products’ importance with respect to the totality of the agri-food sector.

In this way, it is possible to figure out the overall benefit (as well as the opposite) of the agreement impacts on both Countries’ agricultural sector.

When referring to Italy, comparing processed food exports to Canada with the whole agricultural trade with Canada, could help finding whether such exports provide a general upside to the entire sector or not. In general, the study conducted by D. Bertolozzi of Univeristy of Perugia and A. Rupeliene from the Institute of Business and Rural Development, of Aleksandras Stulginskis University shows that Italy is strong in the trade of commodities of interest, particularly the pasta sector. Since Canada has always been, and still is today, a very essential target for Italian Agri-food export activities, the benefits of liberalizing the trade and facilitating the integration of both EU and Canadian markets given by CETA, can foster and boost the export value, resulting in new income for main Italian Agri-food sectors. Hence, Italy has a major interest in CETA and more benefits in decrease tariff barriers.

Despite this, though, durum wheat imports from Canada to EU seem to be a disadvantage for the European trade flow; as a consequence, it could be argued that EU would not benefit from CETA. However, Italy does take advantage from the import of wheat which translates in actual benefit from the mutual agreement. As a matter of fact, Italy demonstrates a remarkable benefit and strength to exploit for its agri-food sector, obtained from CETA and overall, it does provide opportunities in the Italian and European Agri-food sectors (Bertolozzi & Raupeliene, 2017).

Chapter 3. Italian Food Canada: the application of CETA on a real business case

This chapter gives a concrete example of the exploitation of the CETA agreement from Coop Italia, the largest food cooperative of Italy for the creation of a Canadian subsidiary, Italian Food Canada. The brand-new company based in Toronto takes advantage of the benefit provided by the agreement and aims at providing Canadian consumers with authentic Italian food, fulfilling an unmatched meet of Italian food products at accessible prices, guaranteeing high-quality standards. Italian Food Canada can count on the well-established supply chain provided by Coop Italia, which translates in a net of producers and manufacturers, agencies for food standards compliance and operations management for shipments. The chapter analyzes strengths, weaknesses, opportunities and threats along with the whole structure of the partnership developed with Walmart Canada. It points out the nature of the collaborative projects, describing the contribution of both parties in creating a more efficient model of distributing authentic Italian products. It gives a general overview on the categories of products exported analyzing the decisional process along with the respective requirements to meet. Italian Food Canada is at its early stage but has experienced the market challenge currently affecting the food market, meaning the harvesting issues, transportation problems as well as inflation, that result in higher prices of raw materials and increase of selling cost to the client. It concludes with a prediction of the future of the company, taking into consideration the pros and cons of conducting business in a foreign country under a beneficial agreement, while developing a supply chain overseas.

3.1 Italian Food Canada: the decision of entering the market - SWOT analysis

In the last years, exports of Italian food have gained more attention due to an increase in interest of Italian authenticity. The value of the Italian food has though been commercialized as a result of the greater use of the so-called Italian sounding products. These are products that sound Italian but have no connection with the product being produced in Italy with Italian raw materials. Canada registers more than the 85% of products sounding Italian, for example with Italian names or Italian reminding landscapes on the label, that are not actually coming from the “Bel Paese” (Federalimentare, 2017). In terms of money, Italian sounding products are worth 24 billion dollars, almost 6 times more than actual Italian products, worth about 4 billion dollars. On an online analysis conducted by IFC, only 3 out of 17 brands sounding Italian, were actually products of Italy. This creates an opportunity for Italian companies, producers and retailers to enter the Canadian market and really export Italian produced products, taking advantage of the elimination of tariffs thanks to CETA and the competitive advantage provided by the high quality of raw materials. The current Italian offer is, in fact, mostly polarized between mainstream and expensive products (IFC Analysis, 2020). On the other hand, it is difficult to enter a foreign market without a well-established supply chain and a concrete business offer from a Canadian retailer.

It is indeed around 2018 that Coop Italia, the biggest food cooperative of supermarkets in Italy, started a process of creation of a new subsidiary overseas, specifically in Canada. Coop Italia was established in 1854 and is now a multi-format network with over 1,100 stores in Italy, 55 000 employees and more than eight million cooperative members. It has the highest share of private label in Italy and accounts for more than thirteen million euros of turnover.

The decision was made as a consequence of the willingness to enter the market in North America, taking advantage of the liberalization of markets and favorable conditions for transportation and logistics. By that time, the Italian Trade Agency, which aims at promoting Italian culture and value around the world, was introducing Coop Italia's project to Walmart Canada, hoping to receive positive feedback for a future possible partnership.

Finally, in June 2018, the Italian team of Coop Italia decided to pursue the goal of exporting authentic Italian food to Canada.

Italian Food Canada was created in order to achieve the objective of launching a brand and establish it on the market by being an Italian food provider. The product coming from all over Italy would have been made available to Canadian consumers that could enjoy tastes of the authentic food made in Italy.

The new subsidiary based in Toronto, Canada, would have fulfilled the need of the behemoth Walmart Canada to have a variety of Italian products on shelves while enjoying the exclusivity of a new brand that no other retailers would have sold to Canadian consumers.

On the other side, Italian Food Canada could take advantage of the opportunity not only to enter the market, but also to make Italian producers entering the market, functioning as a path for them to expand their market share and make their products known to consumers overseas.

Figure 3.1 sums up what were the strengths and opportunities along with the weaknesses and threats for Italian Food Canada when it decided to enter the Italian market.

IFC had a tremendous advantage, which was that it could rely on a customer that already expressed interest in the project. In fact, it was developing a partnership with one of the biggest retailers in the world, Walmart Canada, and started negotiating and discussing the business even before introducing its assortment to the buyers.

Walmart Canada was given the possibility to not only put authentic Italian products on shelves, but also providing a completely new brand that covered more than just one category. The assortment included pasta, pasta sauces, appetizers and oils and vinegars. In this way, the retailer's offer of Italian food was significantly wide and at the same time, collocated under only one brand.

In order to do this, IFC was relying on the net of suppliers that Coop Italia could take advantage of. As a matter of fact, IFC did not initiate any sourcing activities to look for manufacturers since it could rely on those already doing business with IFC's parent company. Also, the advantage of the long-term relationships involving manufacturers and the Italian cooperative was critical in terms of trust and reliability of suppliers, producers and manufacturers.

Furthermore, Italian Food Canada's reliability on the Coop Italia producers made it possible and still makes possible today, to have enough bargaining power with the manufacturers to be a source for stocking other than just suppliers. In fact, IFC via its Italian vendor Coop Italian Food, is able to request that producers keep one month of stock for each of the Selling Key Units they produce and have them pay the pallet spaces that is occupied. This has two effects on IFC: one month stock guaranteed in case of urgent replenishment needed, with much shorter lead time to receive it at Montreal port, and lower costs of stocking at its Toronto warehouse. This would not be possible if there was not a solid relationship between the producer and the client as the former would not risk to first produce and then stock units that may never get sold. It would be very hard for a start-up to be reliable to the point it could ask a producer for increased safety stock while exploiting its stock space.

There are indeed several reasons why it is not granted at all that a producer would accept such request and as a consequence, to have the possibility to impose such conditions.

First, the producer bears the cost of purchasing labels and packaging as well as rent CHEP pallets, and activate a production series that risks to remain unsold; then, it engages in an opportunity cost of having that production activated for another client and time consumed on another product to be produced. Moreover, it covers the cost of stocking a full container of product, or even more than one sometimes. The cost of a pallet kept in stock is on average around 15 euros. Considering an average of 42 pallets to be kept in the warehouse multiplied by 15 euros per month times the amount of time it actually stays unsold, leads to a substantial economic advantage for IFC. It is an expense that really makes the difference when putting together all the products that the Canadian company planned (back then and even more today) to sell.

This gives IFC a huge cut on costs and a safer safety stock on units that have high rotations.

Moreover, products offered by Coop Italia and, as a consequence, introduced to Walmart are customers approved, meaning that the product on the Italian supermarkets' shelves are chosen by consumers through a portal where they are displayed and on which consumers express their preferences. Coop Italia is a customer-driven cooperative as all consumers, by the interaction given through their Coop card, are considered partners of the company. This means that what was proposed to Walmart had already been gone through a process of selection by consumers and this was a source of certainty for the retailer.

The supply chain that the brand-new Canadian company had at its disposal was also a substantial competitive advantage for what concerned compliance activities to adhere to the Made in Italy standards. Processes of compliance take eight to ten weeks per manufacturer and time is crucial when it comes to exploiting a new business opportunity. Since Coop producers had been informed about the Walmart Canada partnership with IFC, they started the process of aligning their products' ingredients, labels and production processes as soon as they could, in order to guarantee the availability of the assortment with substantial advance. The Made in Italy claim, as a matter of fact, represents an extremely important unique selling proposition. It is important to also mention that Coop facilitated the compliance of Italian products with Canadian Food Inspection Agency's regulations through its contract with third party agencies that help food companies adhere to food safety standards.

It is obvious that receiving assistance in the subject of food regulation has a cost and it is quite expensive if considered the amount of suppliers and products on which the external agency has to work on and consequently, charge the company for. Instead, IFC had the advantage of moving the whole process and responsibilities to its vendor, Coop Italian Food, and having the quality and operations departments handling the collection of required documents and verifications.

Other than having a heavily reliable operations area supporting it, IFC had the chance to immediately enter the market also thanks to the Italian Trade Agency. The ITA is "is the Governmental agency that supports the business development of our companies abroad […]" (Italian Trade Agency, 2022). It aims at supporting projects connected with the Made in Italy in order to promote the Italian culture around the world.

It helped Italian Food Canada by providing information and assistance on Canadian market, fostering the partnership with Walmart Canada by being an intermediary between the small Italian enterprise and the big Canadian retailer. ITA also sponsored IFC from the very beginning by ensuring a consistent investment to be dedicated to its marketing activities associated with product exclusively sold at Walmart. In fact, IFC initiated a series of marketing plans using Walmart Canada website, social network pages and giveaways taking advantage of the funds provided by ITA.

In this way, ITA was financing an Italian project developed abroad, supporting not only Italian businesses but also producers and manufacturers, while IFC was able to create a solid marketing strategy and promote itself on different channels other than the in-store retailing as well.

The major opportunity exploited by the Italian team that led to the establishment of the Canadian subsidiary was essentially given by the existence of CETA agreement. All products exported to Canada would have had 0% duty on all the categories in the assortment. In this way, the cost in which IFC would have incurred was based on the cost of the product to which the Italian team, Coop Italian Food, would have added its margin. It did not have to include any tariff related percentage. As a consequence, the final price point at which IFC would set its product would remain in an affordable range for buyers of the Canadian retailer. Considered that authentic Italian products are perceived as high-quality products, being able to charge an accessible price to consumers allowed to solve the issue of pricey Italian products. In this way, the gap between Italian sounding products, usually sold at low prices since they are not actually products of Italy, and expensive high-quality Made in Italy products could be filled. And in more than one category.

Italian products would then have been made available to Canada at very accessible prices, increasing the sense of product authenticity made with premium ingredients to guarantee the traditional taste. The intention was, indeed, to offer a superior Italian food experience at everyday prices.

The zero-duty treatment provided by the economic agreement between Canada and EU is beneficial also for Italian producers as they are given the opportunity to expand their market overseas, enhance their lines, machineries and activities shifting towards an international production as well as obtaining certification of verification of compliance to international standards that improve supplier reliability and safety. Thus, creating a close connection between Italian food and culture by bringing regional specialties available to Canada. CETA agreement was beneficial for the company also because it provides the possibility to have non-Canadian citizen working for a Canadian company.

The labor mobility benefit granted by the agreement is indeed translated in the fact that IFC is managed by Italian entrepreneurs with Italian employees that are able to work for a company that trades in the Canadian market.

However, Italian Food Canada has faced some difficulties associated with initiating a business activity in a foreign country. Primarily, it has been the first Coop Italia subsidiary exporting product in the America continent, thus the entire supply chain, even the strongly efficient one of the Italian cooperatives, had to be adapted in order to face unexperienced problems and issues that may have arises. As a matter of fact, no food products had been developed up until that point to be sold in the Canadian market, nor shipment had been organized towards Canada.

The new team had, then, to familiarize with Canada import of food regulation, request producers to be verified by a Preventive Control Qualified Individual and obtain certifications such as IFS and BRC Standards for food safety and quality. The latter are considered reference points standards for manufacturers, distributors, agents and brokers. The first ones, the International Featured Standard certification aims at guaranteeing quality and safety in ingredients, packaging, storing, distribution, transportation and consumption of food. BRC instead, now adapted to BRCGS that stands for British Retail Consortium Global Standards, provides a framework to administer food safety, integrity, legality and quality criteria. It also refers to all the operations involved in the production of food (ingredients, manufacturing, processing and packaging) as well.

IFC had then to make sure that all producers complied with such standards and declared to have received a certification for food safety. It is a time consuming, very precise and detailed process that may slow down the entire project since there is no product available for selling in the case that the producer is not verified to be safe for the Canadian market. IFC itself had to go through a series of activities of compliance as a consequence of being a vendor in Canada and receiving products from suppliers. It had to demonstrate that all the supplier verification procedures had been completed and that it could be responsible for each supplier it purchased from was reliable and legit, as well as each product purchased was respecting food safety standards. This is valid also for labels requirements that suppliers have to take into consideration when developing a new artwork for a product destined to the Canadian market. In fact, it is mandatory to indicate in the product label the presence of any allergen, but a raw material considered as allergen in the EU does not necessarily be referred as allergen in Canada and vice versa.

For example, celery and lupin contained in any product must be declared in the label in the case such is sold in EU. This does not hold true for Canada, which does not recognize neither of them as allergens.

Another obstacle for IFC was concerned with forecasts and planning of the offered products. As a matter of fact, introducing a totally new assortment into a completely new market makes it hard to define how those products will perform. No historical data on sales, nor any references on products sold in that market contributed to creating challenges on the purchasing and replenishment plans. IFC was left with no experience in the Canadian food sector and was automatically induced to trust Walmart's forecast on sales. Sometimes it was enough, but some other times forecasts were dramatically high and IFC had to cover not only the cost of storage of enormous amount of stock unsold but bear the risk that such product may expire before being effectively delivered to the client, causing a dramatic loss in terms of money and opportunity. At the same time, it happened that forecasts were lower than the actual level of sales. This implied that some products experienced shortages that negatively impacted IFC in several ways: not being able to keep up with the customer's requests of product, providing an image of inexperience; losing money on unfulfilled orders and possible higher costs of transportation in case the product was urgently shipped via freight.

One more weakness IFC had to deal with was the fact that manufacturers from which it intended to purchase products were not used to produce large quantities of products with reduced lead times. Producers were, in fact, aware that their production lines would have need to be enhanced in order to increase production and to comply with CFIA standards.

They had to adapt to Canadian market and at the same time, adopt internal practices that went from providing English food safety plans, adjust receipts in respect of Canadian allergens and cover the cost of such compliance activities. Since they are all companies of small and medium size, some of them could not afford to participate in the project as too ambitious for them or others started but had to leave the project soon as it was not sustainable for them.

A source of threat for IFC was, instead, the high costs of import. The cost of importing food from Italy does not refer to the mere purchasing cost of a product, but there are other sources of cost to be taken into consideration. First, cost of transportation. Shipping from Italy to Canada, specifically to Montreal port, implies first the rent of CHEP pallets. Each pallet on which product stands is rented and is subject to a specific cost that is added up in the final cost to the client, which in this case is Italian Food Canada. Moreover, IFC bears the cost of containers, which has a difference incidence on products depending on how much pallets the container can actually keep and the nature of such product.

First of all, there are two types of containers to which is possible to rely on when shipping from Italian ports to Montreal. There are 20 feet containers, that are able to store either ten or twenty pallets, if they product allows for overlap; or 40 feet containers, that can carry a maximum of forty-two pallets if overlapped. The former has a cost that is not much lower than the 40'' container and it is very rare to find them available. As a consequence, the cost incidence of shipping products in a full 20'' container on the final cost of the product is way higher than spreading it on 21 por 42 pallets. Plus, smaller containers are much rarer to be found as they are used for fast deliveries. So, for IFC has always been more common to use larger containers.

This, though, leads to a problem when making purchasing plans because not in every case it was necessary to load 21 or 42 pallets of a product. Sometimes, in fact, product has been ordered in large quantities to fill the container and lower the incidence it had on the final costs but that translated in higher cost of stocking the pallets in the Canadian warehouse on one side, and risk of the product expiring on the other.

The cost of import, furthermore, is high also in terms of burdens a company incurs in. Imports of food products carry a substantial lever of uncertainty due to structural and unforeseen factors affecting the company and the market in general. Ports are often congested, and products arrive late to the warehouse causing shortages on the client's orders. This might damage the company on a sales level but also on its reputation. Also, strikes of port workers as well as freights drivers are common and cause the exact same problem.

Another non-monetary cost IFC was expecting to incur in related to the probability of not meeting Canadian consumers food preferences. It is in fact, extremely complicated to understand consumers' habits and foresee how willing consumers will be to buy it without experience in the market.

Figure 3.1.1: Italian Food Canada SWOT Analysis

STRENGTHS

- Strong supply chain

- Net of producers
- Compliance activities
- Stocking

- Made in Italy, high-quality products
- Leverage supplier network and product development

WEAKNESSES

- Lack of experience in Canadian market
- High monetary and non-monetary costs for importing products
- Small and Medium producers lacking know-how

coop ITALIAN FOOD Canada

OPPORTUNITIES

- Walmart Canada partnership offer
- CETA agreement
  - no duties
  - labor mobility
- Offer a varied assortment of authentic Italian products at accessible prices

THREATS

- Risk of not keeping up with the market
- Shortages on products
- Container unavailability
- Products not meeting Canadian consumers' preferences

The analysis on strengths and opportunities could be transposed also talking into consideration the entire collaboration between Italian Food Canada and the retailer.

The partnership's strength was provided on one side by IFC that contributed with resources of leading retail infrastructure. This allowed to take advantage of the established supplier network, sourcing and quality team expertise on product development and compliance control, and supply chain advanced capabilities through which it was possible to consolidate large quantities since the very first purchase order.

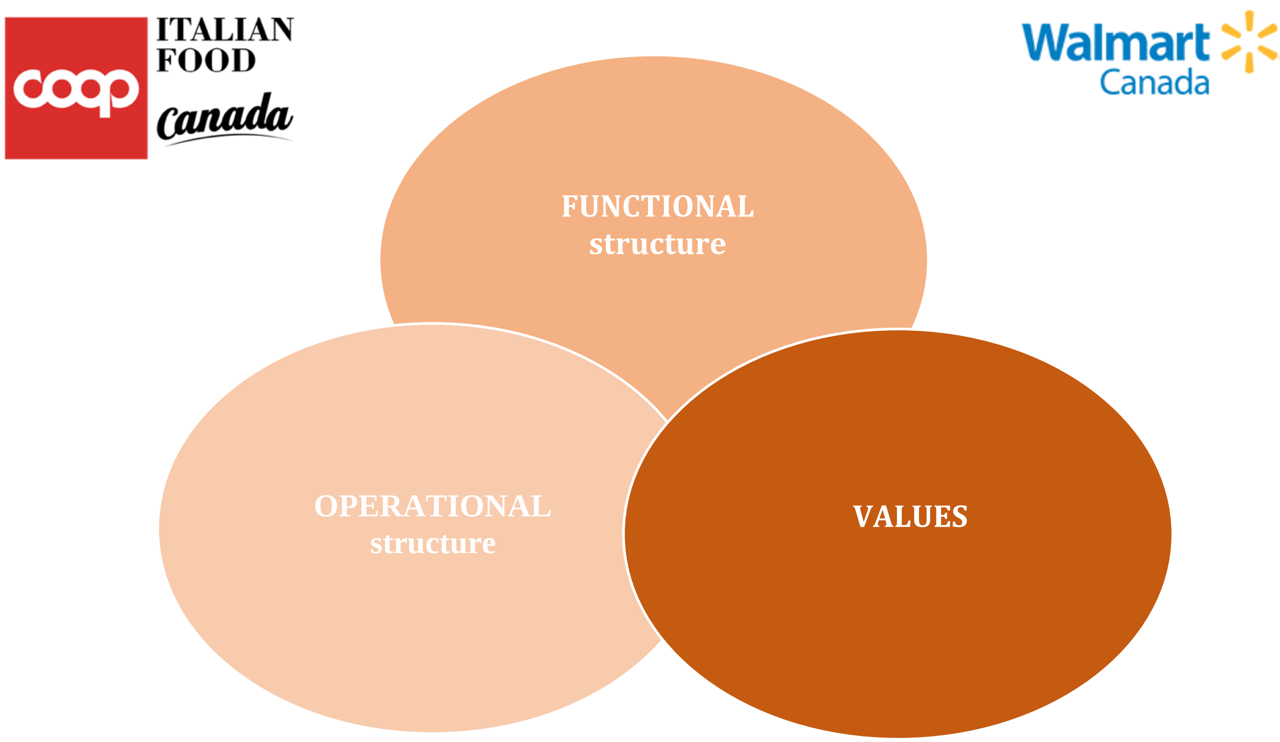
On the other side, Walmart Canada provided market access of leading local retailer, sharing knowledge on differentiation by directly communicating with the vendor. Real time feedback through their Retail Link platform allowed IFC to always have a snapshot of sales trend, inventories level and seasonality of products as well as directions for continuous improvements and adjustments.

Italian Food Canada was ready to jump on this opportunity and enter the market through Walmart Canada partnership considered the strength coming from the Italian team behind it and the giant retailer ready to support the Italian projects and products. The idea on which the whole partnership stood on was to provide a new "collaborating model". The cutting-edge model was aimed at eliminating all the intermediaries and steps between the production of the product and its final consumption that make the supply chain longer, more costly and riskier. A fragmented process induces more expensive products, as every step of the supply chain adds up a percentage of margin, and it is more easily disreputable. IFC, instead, was able to provide a consolidated, reliable, optimized and accessible structure that encompassed the sourcing, product development, supply chain and importing activities as well as legal compliance of the entire process;

Walmart Canada created the opportunity to flexibly and efficiently make products available in the market at low, affordable prices increasing brand and product awareness. Quality and price were balanced to fill an unsatisfied segment of Italian products' offering.

A huge benefit coming from this collaborative model was also the efficient participation of Small and Medium Italian food producers, to whom was given the chance to participate in global trade through a brand-new universal platform (Walmart Canada, 2021).

Figure 3.1.2: Collaborative model between Walmart Canada and Italian Food Canada



Source: Walmart Canada, 2020

As a consequence of the positive evaluation of such ambitious partnership, IFC along with Coop Italian Food developed the FiorFiore product line adapted to the Canadian market.

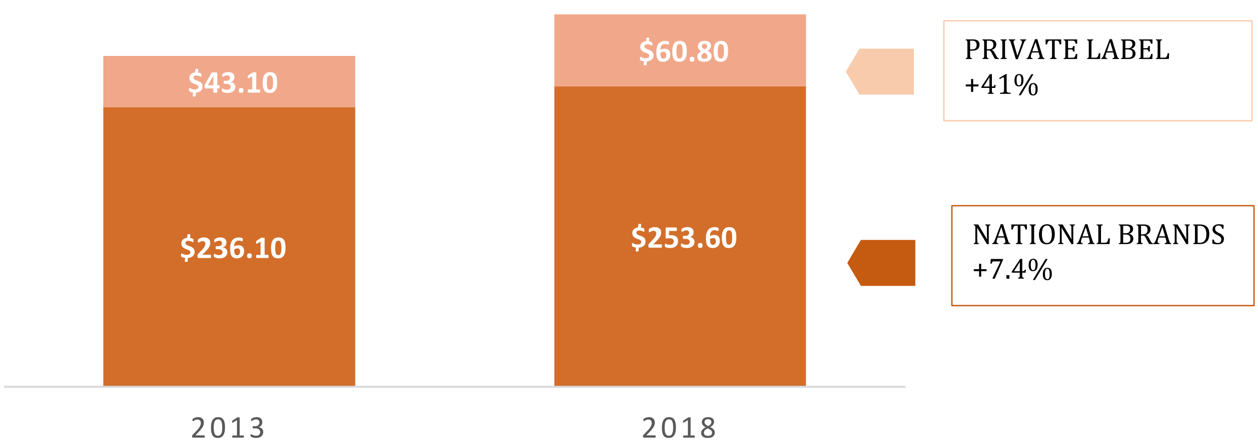
It aimed at bringing authentic Italian premium food products to Canadian consumers' tables at affordable prices, thanks to the advantage of charging 0% duty on products provided by CETA Agreement.

3.2 Analysis of agri-food products imported and sold in Canadian market

Italian Food Canada was eventually asked to propose an assortment for the Canadian market that was in between the mainstream Italian products and the top ranked Made in Italy products set at high price points. IFC offered Walmart Canada to reproduce the premium private label FiorFiore of Coop Italia adapted to Canada, which encompasses high quality authentic Italian products, but allows for average price positioning, making the entire line affordable and very much competitive. Given its potential to meet customers' demand as well as the ability to cover several categories all under the same brand, Walmart Canada and IFC agreed to an exclusivity clause. In this way, not only it created a win-win exclusive partnership, but also ensured higher margin to Walmart, given the latest trend of Private Brands seeking to leverage the benefits of both traditional brands and private label offerings to create mass market appeal. Emphasizing Private Brands result, as a matter of fact, in the retailer receiving higher gross margin (Deloitte,2017, CRC Consulting 2017). Figure 3.2 shows the difference in percentage points between year 2013 and 2018 considering national brands and private brands.

Private brands have become more common thanks to the facilitated process of establishment in the market given by the application of CETA. Allowing Italian food companies to develop private brands from which retailers can take advantage, expanding their assortment and, at the same time, providing Italian producers and companies to expand their market at affordable prices, has positive effects on the retailer itself, helping them increase their gross margin. The provision of zero tariffs for imported products makes it possible to Italian food companies to sell food to retailers at more accessible prices, that translates in the retailer setting its retail price at about the same of competition, but earning higher margin on it as it pays less.

Figure 3.2.1: Mass market brand evolution 2013-2018, in $ billion



Source: Private Label Manufacturer Association NIELSEN, 2019

The Private Brand strategy was focused on:

- Premium brand offering
- Strategic pricing against national brands
- Delivery of higher returns for exclusive retail partner
- Exclusivity removes competitive pressure to create long term differentiate

The initial assortment to Walmart Canada was based on two main factors: basic Italian products expected to perform well and producers' readiness. The first element taken into consideration stood on the common idea of what an average consumers would buy for the mere reason that it was Italian.

This means that the initial, primary offer to Walmart included pasta, pasta sauces, pestos and flours. At the same time, producers of such products were the ones that were able to rapidly be ready in order to face increased production needs and specialization. Producers of pasta and pasta sauces have soon added production lines exclusively dedicated to the export to Canada and so did the supplier of flour that adjusted its machineries and workers investing in this project as it was its own. This implicitly implied that the average marginal cost of adding a product line, purchasing machineries, extend plants and equipment as well as more workers following the job, had to be higher than the opportunity cost of losing the chance of entering the Canadian market through IFC exclusive private brand FiorFiore.

Walmart Canada could count on a wide coverage of categories, with consistent quality across the range. All products were designed with the recalling purple color and the "prodotti d'Italia" written under the name of the brand.

All products benefit from a customer-friendly case that helped not only keep the product stale on shelf, but also increase brand awareness as the purple case was clearly visible from supermarket's isle. All references on shelves would be recalling one another, allowing for brand loyalty with affordable quality and access to information. This was possible also thanks to the introduction of the QR code positioned in products' packs as well as products' cases put on shelves. Through the QR code, consumers can access product information like product range, nutritional values, information about the specificity (for example the geographical area of production); discover recipes listed depending on use (easy and quick, gourmet, low calories, etc…); consult FiorFiore blog to find more about authentic Italian food; connect to Walmart online shopping or find the store closer to them that sells the same product.

Figure 3.2.2: FiorFiore case and product mock-up/rendering

The QR code positioned on the case where the products stand on shelves helps customers:

- Know more about ingredients and nutritional table
- Trace the product

  (Production area, production techniques)
- Find out recipes and way of cooking the product
- Leave a feedback/review on the product

Source: Italian Food Canada archive, 2020

As per its positioning, FiorFiore private brand was developed with the aim of providing to Canadian consumers and specifically Walmart Canada consumers, the same or even better quality of Italian brands already available on shelves, but at lower prices. Products sold to Walmart by IFC were charged at a retail price 15% to 30% lower than national Brands, thins mainly thanks to CETA agreement. At the same time, Walmart Canada could be guaranteed a Gross Margin higher than National brands.

In January 2020, IFC launched its first thirty-seven SKUs of FiorFiore product based on the idea of providing premium assortment strategically positioned, with affordable prices. The offer was mainly driven by the objective to first keep the promise of exclusivity with Walmart providing successful products and second establish the FiorFiore footprint at Walmart stores.

By selling basic Italian products to Canadian consumers, IFC was able to understand whether or not the strategy was successful and if it was actually filling a gap in the market or not. Prices that are too low on Italian imported products may have been perceived as of low quality, which is definitely not the case of FiorFiore.

After evaluating the project as successful, six months later IFC in accordance with category managers of Walmart Canada implemented other eighteen products covering three more categories: vinegars, balsamic vinegars and aromatic oils. In this case, the product achieved even more favorable outcome as Balsamic Vinegar of Modena established itself as one of the top sold products in FiorFiore assortment, along with Pesto basil and Pasta Spaghetti. The fact that these were the three most sold products said not only that the project was moving in the right direction, but also that the Italian food was becoming more common across categories.

Producers of balsamic vinegar had to certify themselves through an intense process of compliance as the Modena region is a protected region that requires specific standards and regulation.

As a matter of fact, aligning with Canadian standard has been very much facilitated by the put in place of the CETA agreement, even in such cases where the process is a more complex. Thanks to the agreement, products were easily imported with the only requirement of complying with the Canadian Food Inspection Agency requesting Food Safety Plans and BRC-IRS certifications. At the end of 2020 FiorFiore extended its assortment introducing convenience baking products, fish preserves and ready meals.

The objective throughout the following year had been to maintain the products' reliability and keep pushing towards offering more categories of high-quality products. The favorable conditions of importing food without incurring in tariffs payment is a benefit that Italian Food Canada is interested in keeping taking into consideration.

3.3 IFC challenges and future of the company

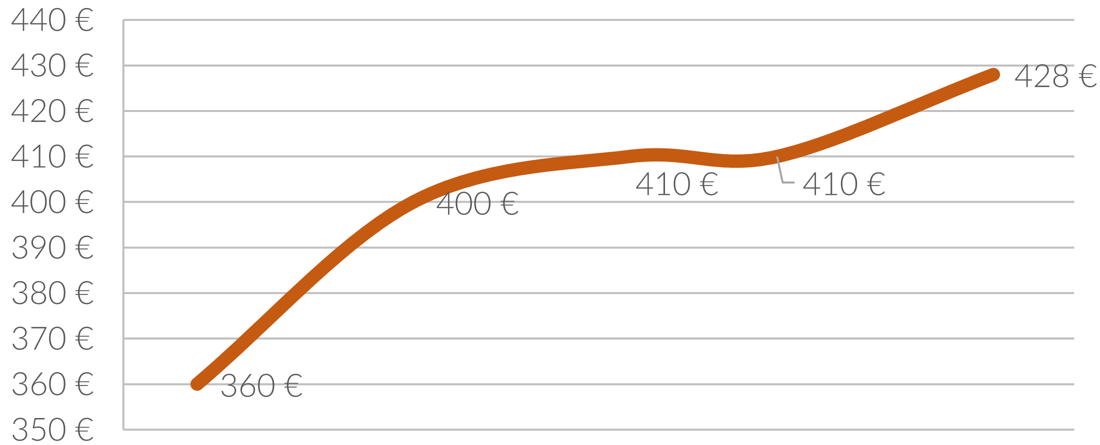
Throughout the project, Italian Food Canada had to face challenges that were beyond the concern of product offering. Structural and unforeseen factors affected the business in a way that the company had to take action on uncontrollable factors to preserve its position in the market. On a cost perspective, IFC there have been several and different factors that are out of a company's control and that make the cost of import increase.

The primary source of cost has been the exchange rate. Since 2019, Canadian dollar exchange rate with US Dollars rose by 0.8 points, going from 1.47 to 1.55 exchange rate. The inflation caused higher prices and led to a 5.4 percentage impact on IFC bottom line (Oanda.com, 2020).

Another factor that led to price changes is the worldwide situation of shipments and naval transportation. Many times, IFC had to face the problem of increasing transportation costs due to unavailability of containers or long delays due to strikes or port congestions. The containers' cost escalated from five to ten percent in 2020 and the flow of such cost does not stay steadily, on the contrary, it experiences fluctuations every semester. A 40'' container going from Livorno to Toronto used to cost around 3,600 $ and by the end of 2020, such cost increased by 6.2%, amounting around 4,000 $.

Another source of risk that is considered to be an issue is connected with raw materials of products. Throughout the 2020 the harvest of products such as tomatoes for tomato sauces and pasta had been jeopardized by weather conditions. Semolina has been experiencing increasing in costs due to scarce harvest and negatively impacted IFC to the point that prices could no longer be kept frozen. Semolina cost affects the pasta price for more than 50% and in 2020 it has increased over 15%. As a consequence, suppliers charge higher costs to IFC that was obliged to increase prices when selling the products to Walmart Canada. The calculated impact of such cost on the Italian-Canadian company was assumed to be around 9%.

Graph 3.3.1: trend of Semolina cost (€/tons) in 2020, from January to December.



Source: AGER Borsa Merci Bologna, 2020

A similar case has been the one associated with the harvest of tomatoes, which every year gets worse. Between September 2019 and the first semester of 2020, food companies experienced an increase of about 10% on the cost for tomatoes. According to *Agronotizie*, in 2019 the price of tomatoes has increased by 18.3%.

Such increase in cost of raw materials make it hard for a company importing products to keep its prices as they are, even given the fact that the duty remains 0%. IFC implemented a series of action to increase prices, but still remaining competitive in the market, also provided the fact that these external factors affect all importing businesses.

As for the future ahead of the company, IFC is collecting historical data on sales to better program replenishment and purchases of products and tries to introduce direct shipments from Italian ports directly to Walmart Canada distribution centers.

In this way, it would not only enhance and speed up the shipments but would also cut costs on inventory for all those products defined as “commodities” for which the transportation cost incidence is higher due to the low price of the product itself.

On a greater picture perspective, the project that started in 2018 is pursuing a defined idea of bringing authentic Italian food to Canada and it is succeeding every month more in its objective. Prices are still kept very competitive while at the same time margins are increasing and the business does not operate on negative margin anymore. Moving forward, IFC will also be favored by the experience it gained in the Canadian market throughout these last years, benefits and mistakes, and will add to its assortment even more categories like coffee and fruit spreads. Neither of these activities, nor such ambitious and complex project could have been put in place in a market where the cost of entry was high or where tariffs made it extremely hard to be competitive, regardless of the quality provided by the products imported. CETA made a difference in the decision-making process of pursuing such partnership and enabled an entire supply chain to escalate on an international level. It played a role in the establishment of IFC and in the whole project, allowing for structuring the offer in a sustainable way from both supply chain and economic point of view. It enabled Italian producers to actively participate, creating a horizontal framework that provided cross-categories product offering to meet the Canadian customers’ needs.

Conclusion

This paper aimed at describing the impact of a mutual economic and trade agreement between two regions. The objective of this thesis was to understand its nature and the effects it provides on the market, the businesses and the trade. The dissertation also brings up a concrete example of the application of the agreement through the description of a business case that is the one of Italian Food Canada Inc, a subsidiary of the Italian largest food cooperative Coop Italia.

CETA has facilitated the trade as well as the cooperation between European Union and Canada and disrupted the idea that overseas trade is too complex to be pursued. The example of the Italian Food Canada company is explained in order to provide a clear idea on the actual benefit that an economic agreement grants, starting from the basic idea of structuring an international market as it was a domestic one. Goods, services and investments can be exchanged and fostered on a global scale, without the difficulties that worldwide trading encompasses. The dissertation focuses on the agri-food sector and explains the advantages such agreement provides as well as questions the provisions it carries, examining whether or not further regulations should be implemented to face new challenges and give directions on uncovered topics.

The final chapter describes the case of Italian Food Canada Inc. and analyzes its path towards the establishment of a company through the exploitation of a trade agreement. The company has been developed to initiate export activities of Italian food products to expand the market and spread Italian culture. The entire project was pursued as a consequence of the benefit that the company could exploit from the existence of CETA, allowing no tariffs on Italian imported products, easier compliance of food products activities and alignment of food standards.

Such concrete example of a company that succeeded in starting a brand-new business in a completely new market is the illustration that the Comprehensive Economic Trade Agreement stands on solid basis and that it is a source of economic value. Moreover, it demonstrates that it is advantageous to escalate the trade on a global level when the market is regulated through two regions agreeing on economic, social and trade topics.

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