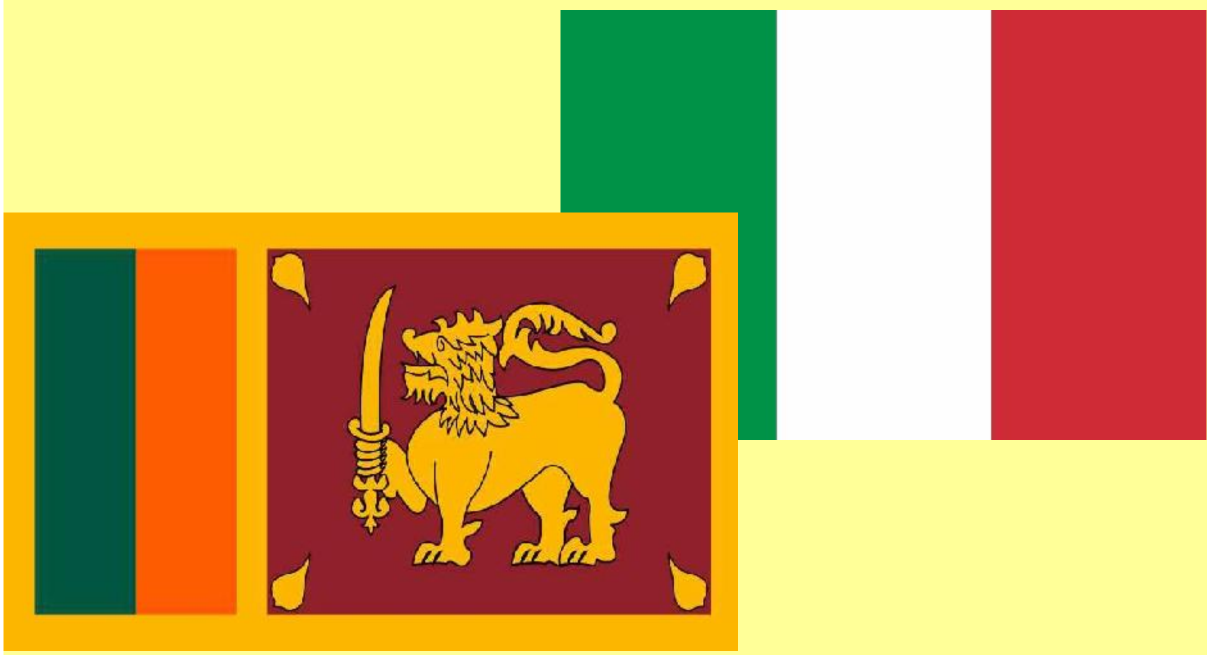
EDB

Aice
Associazione Italiana Commercio Estero
Italian Association of Foreign Trade

DOING BUSINESS WITH ITALY

A Guide Book for Enterprises in Sri Lanka



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It is my great pleasure to send this message on the launching of the guide book on "Doing Business with Italy". This will be a valuable hand book for both Sri Lankan enterprises aspiring to do business with Italy and Italian businessmen planning to do business with Sri Lanka.

The book is compiled at an appropriate time as at the end of 30 years of conflict, Sri Lanka has embarked on a path of accelerated economic growth. To achieve this, it is our responsibility as the apex State trade promotion agency to assist the business community in increasing their exports.

During the last three decades Sri Lanka has moved forward from its traditional image as an agricultural economy relying heavily on exports of tea, rubber and coconut and has taken great strides in moving into new industries like garments, IT and business process outsourcing which also serve the Italian market. Italy has been Sri Lanka's second largest exporting partner within the EU for the last three years. Many Sri Lankan enterprises have already engaged in trade with Italy while many other are eagerly waiting to enter this market. This book covers a wide spectrum of various aspects of doing business with Italy from a Sri Lankan perspective, and equally will serve as a foundation for doing business with Sri Lanka for Italian importers.

The collaborative endeavors made by the Italian Embassy in Sri Lanka, the Italian Association of Foreign Trade and the Sri Lanka Export Development Board have brought this programme to fruition. This significant event serves to strengthen and highlight the business relations between our two countries.

I wish to take this opportunity to thank AICE experts who prepared this book and the Sri Lanka Embassy in Italy and the Italian Embassy in Sri Lanka for their support. I am confident that this booklet will be immensely useful to the business communities of both countries.

Janaka Rathnayake
Chairman & Chief Executive
Sri Lanka Export Development Board

Introduction – Embassy of The Democratic Socialist Republic of Sri Lanka in Rome

It gives me a great pleasure to send this message on the occasion of issuing this Guide Book on how to do business with Italy for the purpose of presenting an overall picture of the obstacles encountered by Sri Lankan companies intending to export to Italy with prescriptions in addressing them.

I am pleased to notice that the joint trade promotion programme between Associazione Italiana Commercio Estero - Italian Association of Foreign Trade (AICE) in Milan, Italy and the Sri Lanka Export Development Board (SLEDB), under the able guidance of Hon. Minister Rishad Badurdeen and the stewardship of its Chairman & CEO Mr. Janaka Ratnayake and his capable team, which was originally been proposed by the Sri Lanka Embassy in Rome, has taken off the ground and making good progress as per the agreed time table.

Deriving from the diversified pattern of Sri Lanka's trade with Italy, which has recorded a considerable increase during the recent few years, the project particularly aims to focus on products of export interest to Sri Lanka with a view to improving their export opportunities in the Italian market.
Sri Lankan exporting community have collective responsibility to mobilize their resources to design an optimal basket of exports that will carry Sri Lanka towards the envisioned export target of $ 20 billion by 2020 and even beyond. In this endeavour their success will depend on finding new markets while at the same time effectively diversifying their export products. It is therefore highly commendable that through initiatives of this magnitude, AICE and SLEDB have jointly provided opportunities for Sri Lankan exporting community to tap the unexploited segments of Italian market and reach their export revenue targets.
I have no doubt that the information contained in the Guide Book on technical aspects of the European and Italian markets will be useful and valuable for Sri Lankan exporting community in understanding the Italian market better and introduce appropriate product adaptation in commensurate with the market requirements. .

I extend my sincere wishes to the AICE and SLEDB for bringing out a successful outcome with the support of dedicated officers and experts and wish to extend the support of this Embassy to all their future activities.

Yours faithfully,

H. E. Mr. Asitha Perera

Ambassador & Permanent Representative of Sri Lanka to the Rome based UN Agencies

Dear businessmen,

It is a pleasure for me to introduce this important project in the field of trade and investments between our two Countries.

Italy is a significant trade partner of Sri Lanka: in the last years the bilateral trade has constantly increased, reaching in 2010 a total of € 520 million.

With the achievement, in these last years, of a peaceful environment, new opportunities for business development are about to unfold, and I am therefore ready and proud to work in this regard with the Export Development Board, which has identified Italy as a priority market.

A lot can be done in this field: the contacts between the business communities of Italy and Sri Lanka have continued in the past, although not in a systematic manner, and after more than 10 years since the last exchange of delegations, it is time to work together, the Embassy of Italy in Colombo, the EDB, the Sri Lanka Italy Business Council and the Embassy of Sri Lanka in Rome, in order to create closer links and generate more exchanges, in terms of both trade and investments.

I therefore warmly welcome the first part of this project, with the seminar on how to do business with Italy, which will be followed by a delegation of Sri Lankan businessmen to Italy early next year, and eventually a return visit by Italian economic operators to Sri Lanka.

The wish is that we will be able, with a joint effort, to further increase the bilateral trade exchange between Italy and Sri Lanka, in a constant and more balanced way.

H.E. Mr Fabrizio Pio Arpea,

Ambassador of Italy to Sri Lanka and the Maldives

SLEDB - SRI LANKA EXPORT DEVELOPMENT BOARD

The Sri Lanka Export Development Board (SLEDB) is the premier state organization that will help to negotiate business with Sri Lanka. Either as an importer or an investor in export production, the EDB can help in creating a successful and profitable business partnership.

Dealing with Sri Lanka's most well known exports including garments, tea, natural rubber, gems and jewellery, spices, leather and footwear, fruits & vegetables, handicrafts, giftware, processed food, seafood, wooden toys and electronic items, the SLEDB is commited to bringing the best of Sri Lankan products.

The SLEDB offers a wide variety of services, including organizing buyer-seller meetings, holding exhibitions, organizing Sri Lankan exporters participation at international trade fairs/exhibitions, providing information to both local and foreign entrepreneurs and assisting the upgrading of quality standards.

Consisting of a body of professionals who possess a wide knowledge of their own specialized areas, the SLEDB helps the overseas importers/investors to find the ideal business partnership.

AICE – ITALIAN ASSOCIATION OF FOREIGN TRADE

AICE is a non-profit entrepreneurial association born in 1946 which has been, since then, working to promote business relations between Italy and the rest of the world.

We are one of the main private actors of internationalization in Italy and we represent Italian companies that are committed predominantly to commercial activities abroad: trading, export, import, countertrade, buying-offices, export management, as well as the services related to such activities.

Among our members there are not only producers or exporters but also importers, distribution chains, raw material suppliers, of different sizes and different commercial sectors.

AICE supports foreign companies interested in the Italian market by assisting them with the search for potential Italian business partners, offering a consolidated wealth of professionalism, contacts and knowledge.

In addition to being a member of the Unione del Commercio del Turismo e dei Servizi della Provincia di Milano (Union of Trade, Tourism and Services in the Province of Milan), and Confcommercio (Italian Confederation of Trade Tourism and Services), Aice is a member of CITHA (Confederation of International Trading Houses Associations).

Thanks to years of accrued experience and to our consistently up-to-dated organizational structure, AICE is a strategic gateway for foreign companies interested in either exporting their products to Italy, or importing Italian products.

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CHAPTER I
ITALY

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1.1 GENERAL DATA

Geography

Location	Southern Europe; borders with France (West), Austria and Switzerland (North), Slovenia (East) and the Mediterranean Sea (South). Its territory also encompasses the State of the Vatican City and the Republic of San Marino
Area	301,336 Km^2 land: 294,020 Km^2 territorial sea: 7,210 Km coastline: 7,456 Km
Climate	Mild: continental in the north, Mediterranean in the centre and in the south
Environmental problems	Pollution caused by industrial emissions; acid rains; pollution of the coast and rivers because of inadequate draining system
Natural resources	Mercury, potassium, marble, sulphide, natural gas, fishing, coal and agricultural soil

Demographics

Population	60,626,442 (2010)
Population break-down (by age group)	(0 - 14): 13.5% (2010) (15 - 64): 66.3% (2010) (65 and over): 20.2% (2010)
Population growth rate	0.42% (2011 estimate)
Birth rate	9.5/1,000 inhabitants
Death rate	9.8/1,000 inhabitants
Official language	Italian
Religions	Catholic; small and old Jewish communities; growing number of followers of Muslim religion

Government

Type of government	Parliamentary Republic

The President of the Republic	Head of State. Elected by the Parliament along with representatives of each Region, the President represents national unity, and serves for a seven-year term. Other duties: – Promulgates laws, issues decrees with the force of law, and issues regulations – May request the Parliament to reconsider a law – May dissolve one or both Houses of Parliament and call new elections – Is the commander in chief of the armed forces and chairman of the Supreme Council of Defence (Consiglio Supremo di Difesa) – Declares war on the basis of a decision taken by the Parliament – Chairs the Supreme Council of the Judiciary (Consiglio Superiore della Magistratura) – Appoints Senators for life – Appoints the Prime Minister and, upon his/her advice, Ministers – Appoints one-third of the judges of the Constitutional Court – Has the power to grant pardons and commute punishments – Ratifies international treaties.
Capital	Rome
Administrative divisions	The country is divided into 20 regions: Aosta Valley, Piedmont, Liguria, Lombardy, Veneto, Trentino Alto Adige, Friuli Venezia Giulia, Emilia Romagna, Tuscany, Umbria, Marche, Abruzzo, Lazio, Molise, Campania, Calabria, Basilicata, Apulia, Sicily, Sardinia
Legislative system	Civil legal system influenced by customary law
Legislative power	Two-chamber parliament, consisting of the Chamber of Deputies and the Senate
Executive power	President of the Cabinet, elected by the parliament. Cabinet consisting of Ministers, appointed by the President of the Republic
Judiciary power	Magistrature, an impartial and independent body from the power of the other Governmental branches

Economy

GDP Nominal	€ 1,548 billion (2010)
GDP – Growth Rate	-5.2% (2009) 1.1% (2010)
GDP – Per Capita	€ 26,277 (2010)
GDP – by Sector	Agriculture: 1.8% (2010) Industry: 24.9% (2010)

	Trade/Services: 73.3% (2010)
Workforce	25,050,000 (2010)
Workforce - by Sector	Agriculture: 4.2% Industry: 30.7% Services: 65.1%
Unemployment Rate	7.8% (2009) 8.5% (2010)
Exports	€ 338 billion (2010)
Exports - goods	Machinery, Luxury goods, Tourism, Chemical products, Processed foods, Textile products, Car engines, Design and fashion, Shoes
Exports – main Commercial Partners	Germany, France, USA, Spain, United Kingdom, Switzerland.
Imports	€ 367 billion (2010)
Imports - goods	Industrial machines, Chemicals, Transportation vehicles, Oil, Metals, Foods, Agricultural products
Imports - main Commercial Partners	Germany, France, China, the Netherlands, Spain, Russia, Belgium.
External Debt	€ 1,843 billion (2010)
Currency	Euro
US Dollar Exchange Rate	€ 1 = $ 1.296 (2010 average)

Source: ISTAT, COEWEB, CIA World Factbook

1.2 LOMBARDY

Lombardy is the third largest Italian region and one of the most densely populated areas in Europe with a land area of 23,860 square kilometres and 10 million inhabitants. Lombardy production accounts for 20 percent of the national GDP, which makes the region the first Italian region in terms of productivity. The leadership of Lombardy is based on the high education level of its population (15 percent of graduates from Italian Universities) and the presence of excellent universities. Over 13 percent of public expenses for scientific studies is invested in Lombardy.

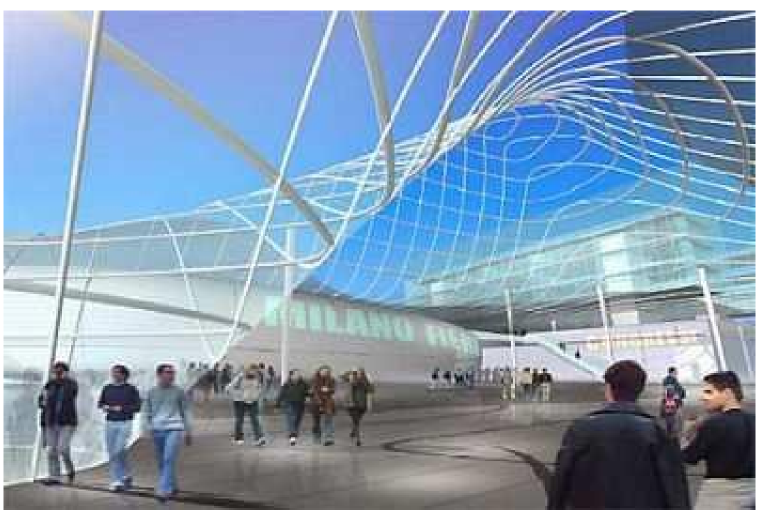
The Lombardy transportation system consists of 1,600 kilometres of railway, 20,000 kilometres of roads and a very efficient and extensive airport system. These elements, in addition to its strategic geographic location, make it the hub of commercial and economic flows from Europe.

Lombardy offers 550,000 square meters of commercial exhibition areas, most of which are managed by "Fiera Milano". Every year, more than 30,000 commercial exhibitions are held, for a total revenue of more than € 250 million.

Lombardy’s vocation for foreign trade is strong: imports achieve € 117 billion (31.9% of Italian total) and exports € 94 billion (27.8% of Italian total) in 2010. The capacity of foreign expense is partly supported by a yearly income of € 33,647 per capita.

1.3 MILAN

The importance of Milan starts in Lombardy and expands towards Europe, since it ranks amongst the five main cities in Europe. Economically, Milan has the highest level of workforce in Italy (50.7 percent of its population), with a per capita income of € 30,000 per year. It is also home to the main financial institutions in the country (including the Stock Exchange) and is recognized worldwide as the fashion and design capital.



Milan is the most international city in Italy; its strengths include:

- 19,500 companies work with foreign enterprises;
- imports are € 65 billion and exports € 36 billion;
- It has 2,359 multinational companies, 5 public and 7 private international universities.
- It is also the second main city in the world (after New York) by the number of foreign consulates.

EXPO 2015 - FEEDING THE PLANET, ENERGY FOR LIFE

Milan will host in 2015 (http://www.expo2015.org/) the Universal Exposition dedicated to food safety, security and quality, which is intended to stimulate the regional and national economies and showcase Italy's - and Milan's - outstanding qualities when it comes to food.

1.4 SRI LANKAN COMMUNITY IN ITALY

In 2010 Sri Lankans were the 15th ethnic group in Italy, with 75,343 individuals, an HDI (Human Development Index) of 759 and a GDP per capita of € 3,540 (Dossier Caritas 2010).

Total Asian population in Italy in 2010 was 687,635.
Chinese was the first ethnic group from Asia (4.4%), followed by Philippines (2.9%), Indians (2.5%), Sri Lankans (1.8%) and Bengaleses (1.7%).

Sri Lankans in Lombardy in 2010 were 24,675 and more than fifty percent of them live in Milan (12,348).

The number of Sri Lankan companies in Italy is low and not included in the first twenty ethnic groups ranking. The nations of origin of the foreign company owners in Italy are: Morocco (13.6%), Romania (11.1%), China (10.8%), Albania (7.8%), Switzerland (5.3%), Germany (4.2%), Senegal (3.6%), Bangladesh (3.6%), Egipt (3.2%) and Tunisia (3.0%).
The most important sectors are retail trade and services (almost 40%) and construction (29.2%).

In Lombardy there are 22.9% of total foreign companies.

CHAPTER II
ITALY AND ITS ECONOMY

Italy has a diversified industrial economy. The great strength of its economy lays in its vibrant small and medium firms, specializing both in high quality consumer goods and in high tech design and engineering products, which have now gained large shares of the global market. The small size of such companies is often offset by their belonging to and working within specialized clusters.

Over the past years, Italy has been implementing structural reforms, such as easing the high tax burden and overhauling its labour market. With almost 60 million consumers, the Italian market offers countless opportunities to businesses in expansion. Thanks to its strategic location in the heart of the Mediterranean, Italy is a crucial crossroads for land, sea and air routes linking the north and south of Europe.

2.1 CURRENT SITUATION AND OUTLOOK

Industrial economy of Italy is diversified and its production indicates a setback lately as a result of the current financial crisis that brought the Italian industrial production into the lowest level in March 2009 since recorded increase in 2005, though the trend seemingly began to ascend again in 2010 due to the increase of industrial production of non-durable consumer goods. Gross Domestic Product (GDP) across Italy is moreover projected to rise by 1.3 percent in 2011, according to the prediction of Organisation for Economic Co-operation and Development (OECD) in November 2010. The market economy of Italy is subdivided into the more developed North and the South, where agriculture still plays a very important role; despite this, the disparity between the two parts are partially shrinking because of welfare policies, which help Southern regions. Most materials and energy required for the industrial sector are still imported.

Since 1992, policies have been introduced significantly aiming to comply with the parameters required for the European Economic and Monetary Union. They include strict controls on inflation and external debt: these measures have taken Italy to similar levels to those of other European countries. However, additional reforms are required, mainly to the employment system (the "Marco Biagi" employment reform has been implemented since 2004/2005) and the pension schemes.

The Italian economic context is characterized by the absence of giant and large corporations. In general, the economic strength of Italy is based on small and medium-sized enterprises (SMEs).
However, the limited number of large corporations directly affects financial activity and the money market structure: structural deficits of SMEs can only be faced by the bank system and not through an efficient stock market, which needs large companies to develop with accessible accounts. Consequently,

bank credit is the most widespread, and the consequence is that the new financial funds are more costly and limited (banks tend to grant less loans than they might do with their structure). In recent years, Italian Government nevertheless has been significantly involved in attempts of supporting the development of SMEs in Italy, for example their appeal to banks and other financial institutions, requesting to accommodate and fund investments of Italian SMEs.

The institutional/economic context aggravated with the global financial crisis affects both the current situation and the outlook for the future of Italy, which to some extent does not seem to improve, since there are no signs of rapid changes. Additionally, no budgets have been allocated for new resources required for the technological changes and development, since Italy maintains insufficient level of public expenses for research and development sectors compared to other industrialized countries. This thight control on public expenses reflects the efforts taken by Italian government to keep its national debt from rising up drastically.

2.2 INTERNATIONAL TRADE

Italy, together with the other Eurozone countries has presently gone through recession period, which extensively influences the economic development and international trade flows of Italy. Italian imports, although declined slightly during the crisis in 2009, have been increasing since then due to a drop in domestic demand caused by the rise of inflation rate in the beginning of 2010. Also foreign demand has been limited due to the steady loss of competitiveness of Italian products caused by cheaper foreign products, mostly from Far East, which directly compete with average-quality Italian products.
Even if this competition is a steady threat, it has not affected luxury and top-quality Italian products yet.

Moreover, even though Italian exports showed improvement between the period of 2005 and 2008, the growth of export was stalled due to the decrease of industrial production in 2009. The global recession had an effect on exports in general, but the scale of their decline was greater than that in foreign demand, resulting in a loss of market share at both current and constant prices. As of January 2010, Italian exports and imports are yet on the path for recovery even with deficit in its trade balance. Italian consumer confidence - perceived as one of measures to determine domestic consumption - has also declined because of recent high unemployment rate, while investments in contrast have been progressively mounting since early 2009, particularly in direct investments.

According to the Ministry of Economic Development, during January – March 2011 import/export figures have increased in comparison to the same period in 2010.

2.3 MAIN TRADING PARTNERS OF ITALY

The most important trend of Italian foreign trade in the past years is the slowdown of the growth in its commercial trading with its traditional partners, EU countries (Germany, France and Spain in particular), the USA and Switzerland.

The new trade flows are shifting towards developing countries. China, Russia and North Africa (last two are mainly for oil&gas) stand out in terms of import flows, while China, Russia and Poland in terms of export flows.

Likewise, trade flows have also expanded with the Far East and Middle East, regions to which exports are increasing because of the exceptional economic development of some countries and escalation of oil prices. Regardless its commercial development with Italy which was held back due to a considerable decrease in trade during the first eight months of 2009, Turkey still remains one of the main trading partners of Italy.

A slump has also been recorded in the commercial flows with South East Asian countries, particularly during economic crisis in 2009, in which Italian exports to this region decreased by more or less 71.5 percent, compared to the total exports in 2008. However, as a result of modest recovery of Italy's economic indicators in 2010, export flows to South East Asia have then been resurging, and figures are still positive over the first few months of 2011.

Impact of global recession towards import flows from this region was also noticeable, given that there was decrease of 75.4% in imports in 2009 corresponding to the previous year. The main commercial partners of Italy in the South East Asia's countries are Thailand, Indonesia and Vietnam.

Tab: Main trading partners of Italy 2010

IMPORTS				EXPORTS			
	Rank	Values (€ mil.)	Total Share		Rank	Values (€ mil.)	Total share
Germany	1	58,531	15.9%	Germany	1	43,897	13%
France	2	30,527	8.3%	France	2	39,079	11.06%
China	3	28,790	7.8%	USA	3	20,333	6.0%
Netherlands	4	19,611	5.3%	Spain	4	19,581	5.8%
Spain	5	16,660	4.5%	UK	5	18,068	5.3%
Belgium	6	13,370	3.6%	Switzerland	6	16,041	4.7%
Russia	7	13,053	3.6%	Belgium	7	8,665	2.6%
UK	8	12,147	3.3%	China	8	8,610	2.5%
Switzerland	9	11,908	3.2%	Poland	9	8,542	2.5%
Libya	10	11,864	3.2%	Netherlands	10	8,359	2.5%
USA	11	11,140	3.0%	Austria	11	8,069	2.4%
Austria	12	9,054	2.5%	Turkey	12	8,003	2.4%
Algeria	13	7,914	2.2%	Russia	13	7,908	2.3%
Poland	14	7,192	2.0%	Greece	14	5,463	1.6%
Azerbaijan	15	5,338	1.5%	Romania	15	5,170	1.5%
Turkey	16	5,158	1.4%	Japan	16	4,032	1.2%
Iran	17	4,745	1.3%	Brazil	17	3,880	1.1%
Romania	18	4,531	1.2%	United Arab Emirates	18	3,685	1.1%
Czech Republic	19	4,348	1.2%	Hong Kong	19	3,610	1.1%
Japan	20	4,288	1.2%	Czech Republic	20	3,580	1.1%

Source: ISTAT

CHAPTER III
SRI LANKA AND ITALY

3.1 SRI LANKA AND EUROPEAN UNION

Relations between the European Union and Sri Lanka date back to 1975 when the European Commission concluded a Commercial Co-operation Agreement with the Government of Sri Lanka.

Today relations between the European Union and Sri Lanka are governed by a more comprehensive Co-operation Agreement on Partnership and Development which came into force in April 1995.

The general objectives of this Co-operation Agreement are to enhance and develop, through dialogue and partnership, the various aspects of co-operation between the European Union and Sri Lanka.
Under this broad legal framework, co-operation ties are based on the respect for democratic principles and human rights.

The current agreement covers a number of key areas of cooperation, such as;
- diversification of trade and investment
- networking between EU and Sri Lankan business communities
- strengthening technical, economic and cultural linkages, providing technical assistance to Sri Lanka to interact more effectively with the European Union
- supporting Sri Lanka's efforts in improving the living conditions of the poorer sections of the population
- environmental protection and sustainable management of natural resources.

Dialogue between the European Union and Sri Lanka takes place under the Joint Commission (composed of representatives of both EU and Sri Lanka). The objective of the Joint Commission is to ensure the proper functioning and implementation of the Cooperation Agreement, to make suitable recommendations to promote the objectives of the Agreement and examine ways and means to enhance the cooperation in the areas covered by the Agreement.
The last EU/Sri Lanka Joint Commission was held in Colombo in June 2008.

Trade

The EU is Sri Lanka’s number one trading partner. Sri Lanka's trade with the EU is noteworthy not only because of its scale, but also because Sri Lanka’s exports to the EU continue to grow while its exports to other key markets, such as the USA has seen a gradual decline.
A review of Sri Lanka’s 2009 economic data shows how important Sri Lanka's trade relations with the EU have become.

The EU is Sri Lanka's largest export partner: Sri Lanka exported Euro 2.16 billion (LKR 309 billion) worth of products and services to the EU, which represented 39 percent of Sri Lanka's total exports.

	SRI LANKA (Values in €)					
	Jan.-Dec. 2010		Jan.-Dec. 2009		Jan.-Dec. 2008	
	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT
EU27	2,169,781,037	1,060,098,823	2,011,184,110	874,437,187	2,161,714,438	1,037,967,736

Trade UE – Sri Lanka – Source Eurostat

The EU is Sri Lanka's third largest import partner (India being the largest, followed by China): Sri Lanka imported Euro 1.1 billion (LKR 165 billion) worth of products and services from the EU – which accounted for 13.5 percent of the country's total imports.

In overall terms (Import + Exports) EU is Sri Lanka's largest trading partner accounting for Euro 3.15 billion (LKR 473 billion) worth of trade – or 23.5 percent of Sri Lanka's total trading volume.

The ApparelandTextilesector account for more than 55 percent of the value of Sri Lanka exports to the EU, amounting to more than Euro 1 billion (LKR 150 billion).

Economic co-operation programmes between the European Union (EU) and Sri Lanka started in the late 1980s and continued till 2008. In its early stages, the programme consisted mainly of technical assistance but later evolved towards assisting Sri Lanka to modernise its regulatory framework for trade and investment.

Among the various trade-related programmes funded by the EU, the concluded EU-Sri Lanka Trade Development Project deserves special mention because it served to strengthen the capacity of the government of Sri Lanka to participate in and benefit from multilateral trade negotiations - thus integrating Sri Lanka into the world economy and allowing the country to benefit from international trade. It also engaged with the private sector, specifically the Apparel and Gems and Jewellery sectors, to help increase their competitiveness, through the development of new markets, increase of productivity and product designs.

In addition, the EU has funded several projects in Sri Lanka which have provided technical assistance to enterprises in various sectors, assistance with sectoral diversification, productivity improvement and competitiveness and creating platforms for one-to-one business match-making between EU and Sri Lankan enterprises etc.

The European Investment Bank signed an agreement with the government of Sri Lanka in 2006, launching a credit line of Euro 70 million to finance small and medium scale projects in infrastructure, tourism, energy and telecommunications and other sectors affected by the Tsunami.

The objective of strengthening, deepening and diversifying the relations between Sri Lanka and the EC is also outlined by the Generalized System of Preferences (GSP), which is a complementary and consistent mechanism to the GATT multilateral liberalisation: Sri Lanka and other developing countries may access the EU market with a full or partial exemption from import duties on some of its products when exported to EU.

GSP status

Sri Lanka enjoyed the GSP Plus (+) benefit from 15 July 2005 to 15 August 2010. The Decision to withdraw GSP+ from Sri Lanka was based on the findings of an exhaustive Commission investigation launched in October 2008 and completed in October 2009. This investigation relied heavily on reports and statements by UN Special Rapporteurs and Representatives, other UN bodies and reputable human rights NGOs. These reports identified shortcomings in respect of Sri Lanka's implementation of three UN Human Rights Conventions – the International Covenant on Civil and Political Rights (ICCPR), the Convention Against Torture (CAT) and the Convention on the Rights of the Child (CRC).

GSP+ relies on beneficiary countries' continued ability to respect the substantive eligibility criteria for the scheme. If this no longer is the case, the relevant EC Regulation foresees that the Commission undertakes an investigation to clarify the situation, and then, in the light of its findings, take appropriate action either to confirm the continuation of GSP+ benefits or to propose to EU Member States in the Council that they be temporarily withdrawn. In the case of Sri Lanka the findings of the investigation led the Council to adopt the temporary withdrawal Decision on 15 February 2010.

Sri Lanka was a major beneficiary of the trading opportunities offered by GSP+. In 2008, EU imports from Sri Lanka under GSP+ totaled € 1.24 billion (approx LKR 186 billion). Sri Lanka exports benefiting from these trade preferences were T-shirts and other clothing items, as well as fisheries products. Following the temporary withdrawal of GSP+ benefits starting 15 August 2010, Sri Lanka exports to Europe continue to benefit from the standard GSP preferential treatment. Thus, Sri Lanka will continue to have a preferential access (even though at a reduced margin of preference) to the EU market for its key export items.

3.2 BILATERAL TRADE: SRI LANKA - ITALY

There is a tendency for a steady growth in trade relations between Italy and Sri Lanka, registered in commercial statistics of past few years.

This tendency is confirmed during 2010 and first few months of 2011.

Values in € (thousands)	2006	2007	2008	2009	2010
Export	148,893	147,972	162,421	136,381	159,047
Import	217,613	281,051	305,533	319,846	361,969
% Export	19.7	-0.6	9.8	-16.0	16.6
%Import	50.3	29.2	8.7	4.7	13.2

Trade Italy – Sri Lanka – Source Eurostat

Looking to the data in table above, it is possible to notice how the flow of goods from Sri Lanka to Italy is more significant than the flow of goods from Italy to Sri Lanka, thus favouring a positive trade balance for the Asian country.

Italy is one of the most important markets for apparel, textile products and accessories (almost 80% of the total), rubber, agricultural products, fish products, shoes, exported from Sri Lanka.

While Sri Lanka mainly imports from Italy textile products used for the production of apparel, the most important item is knitted products, then machineries for special purposes for the textile industry or other sectors (eg. Food processing sector).
These intermediate goods are bought from Italy to be part of the production process of articles intended for foreign markets.
Perfetti, in food sector, and Calzedonia, in textile sector, have own production facilities in Sri Lanka to export the production to their home markets benefiting from GSP+ agreement, and to other Countries such as India and Pakistan, benefiting from free trade agreements, concluded by Sri Lanka.
An important sector with good potential growth is tourism, which is in a growing path since the end of conflicts in the country.

(values in €)	2009		2010	
	import	export	import	export
0-Food and live animals	28,751,848	2,382,973	35,583,184	2,747,306
1-Beverages and tobacco	1,152,305	1,916,033	1,424,427	2,886,069
2-Crude materials, inedible, except fuels	4,654,976	3,980,132	6,819,697	8,232,616
3-Mineral fuels, lubricants and related materials	156,460	29,716	209,535	17,476
4-Animal and vegetable oils, fats and waxes	3,086	33,277	77,170	209,889
5-Chemicals and related products, n.e.s.	2,858,969	5,904,667	2,269,186	8,800,002
6-Manufactured goods classified chiefly by material	18,564,072	83,789,051	27,766,307	96,609,718
7-Machinery and transport equipment	1,598,812	29,831,670	5,687,895	28,899,479
8-Miscellaneous manufactured articles	262,077,102	8,513,411	281,991,355	10,644,167
9-Commodities and transactions not classified elsewhere in the SITC	28,048	0	140,121	0

Trade Italy – Sri Lanka by Standard International Trade Classification – Source ISTAT

3.3 SRI LANKAN PRODUCTS WITH GOOD OPPORTUNITIES TO ACCESS THE ITALIAN MARKET

Among many Sri Lanka's commodities exported and exportable to Italy, the following provides a shortlist of products which have great potentials to enter the Italian market.
While this chapter concentrates on import formalities and technicalities, business opportunities and trade flows will be dealt in chapter VII.

1. GARMENTS		
No.	HSNO	Product
1	'621210	Brassieres and parts thereof, of textile materials
2	'610910	T-shirts, singlets and other vests, of cotton, knitted
3	'610822	Women's/girls briefs and panties, of man-made fibres, knitted
4	'610510	Men's/boys' shirts, of cotton, knitted
5	'611020	Pullovers, cardigans and similar articles of cotton, knitted
6	'611241	Women's/girls swimwear, of synthetic fibres, knitted
7	'620342	Men's/boys' trousers and shorts, of cotton, not knitted
8	'610831	Women's/girls' nightdresses and pyjamas, of cotton, knitted
2.RUBBER PRODUCTS		
1	'401290	Solid or cushioned tires,interchangeable tire treads&tire flaps of rubber
2	'401519	Gloves not elsewhere specified (nes) of rubber
3	'401199	Pneumatic tires new of rubber not elsewhere specified (nes)
3.FISHERIES PRODUCTS		
1	030419	Fresh or chilled fillets and other fish meat whether or not minced (ex
2	'030429	Frozen fish fillets (excl. swordfish and toothfish)
3	'030411	Fresh or chilled fillets and other meat whether or not minced of sword
4	'030110	Ornamental fish, live
5	'030232	Tunas,yellowfin,fresh or chilled,excl heading No 03.04,livers and roes
4.FOOD & BEVERAGES		
1	'080111	Coconuts, dessicated
2	'190531	Sweet biscuits
3	'070990	Vegetables, fresh or chilled nes
4	'080430	Pineapples, fresh or dried
5	'081090	Fruits, fresh nes
5.LEATHER & LEATHER PRODUCTS		
1	'420222	Handbags w outer surface of sheet of plastics o of textile materials
6.TEA		

1	'090240	Black tea (fermented) & partly fermented tea in packages exceeding 3 kg
2	'090230	Black tea (fermented)&partly fermented tea in packages not exceeding 3 kg
7.SPICES & ALLIED PRODUCTS		
1	'090611	Cinnamon Cinnamomum eylanicum Blume (excl. crushed and ground)
8. COCONUT KERNEL AND FIBRE PRODUCTS		
1	'530500	Coconut,abaca Manila hemp or Musa textiles Nee,ramie,agave and other
2	'380210	Activated carbon
9.OTHER PRODUCTS		
1	'940360	Furniture, wooden, nes
2	'710391	Rubies,sapphires and emeralds further worked than sawn or rough shaped
3	'691110	Tableware and kitchenware of porcelain or china
4	'640391	Footwear,outer soles of rubber/plastic uppers of leather covering ankle nes
5	'640399	Footwear, outer soles of rubber/plastics uppers of leather, nes
6	'640419	Footwear o/t sports,with outer soles of rubber/plastics & uppers of textile material

3.3.1. GARMENTS

HSNO	621210
Product	Brassieres and parts thereof, of textile materials
General Duty (for non EU countries)	6.5%
Duty for Sri Lanka	5.2% Tariff preference
Additional requirements	
VAT	20%

HSNO	610910
Product	T-shirts, singlets and other vests, of cotton, knitted
General Duty (for non EU countries)	12%
Duty for Sri Lanka	9.6% Tariff preference
Additional requirements	
VAT	20%

HSNO	610822
Product	Women's/girls' briefs and panties, of man-made fibres, knitted
General Duty (for non EU countries)	12%
Duty for Sri Lank	9.6% Tariff preference
Additional requirements	
VAT	20%

HSNO	610510
Product	Men's/boys' shirts, of cotton, knitted
General Duty (for non EU countries)	12%
Duty for Sri Lanka	9.6% Tariff preference
Additional requirements	CD333
VAT	20%

HSNO	611020
Product	Pullovers, cardigans and similar articles of cotton, knitted
General Duty (for non EU countries)	12%
Duty for Sri Lanka	9.6% Tariff preference
Additional requirements	CD333; CD603; CD568
VAT	20%

HSNO	611241
Product	Women's/girls' swimwear, of synthetic fibres, knitted
General Duty (for non EU countries)	8% - 12%
Duty for Sri Lanka	6.4% - 9.6%Tariff preference
Additional requirements	
VAT	20%

HSNO	620342
Product	Men's/boys' trousers and shorts, of cotton, not knitted
General Duty (for non EU countries)	12%
Duty for Sri Lanka	9.6% Tariff preference
Additional requirements	CD333; CD603; CD568
VAT	
VAT	20%

HSNO	610831
Product	Women's/girls' nightdresses and pyjamas, of cotton, knitted
General Duty (for non EU countries)	12%
Duty for Sri Lanka	9.6% Tariff preference
Additional requirements	
VAT	20%

3.3.2 RUBBER PRODUCTS

HSNO	401290
Product	Solid or cushioned tires,interchangeable tire treads&tire flaps of rubber
General Duty (for non EU countries)	2.5% - 4%
Duty for Sri Lanka	0% Tariff preference
Additional requirements	CD582
VAT	20%

HSNO	401519
Product	Gloves nes of rubber
General Duty (for non EU countries)	2.7%
Duty for Sri Lanka	0% Tariff preference
Additional requirements	CD333; certificate USMAF C005
VAT	20%

HSNO	401199
Product	Pneumatic tires new of rubber nes
General Duty (for non EU countries)	4%
Duty for Sri Lanka	0% Tariff preference
Additional requirements	CD582
VAT	20%

3.3.3 FISHERIES PRODUCTS

HSNO	030419
Product	Fresh or chilled fillets and other fish meat whether or not minced
General Duty (for non EU countries)	2% - 18%%
Duty for Sri Lanka	0% - 14.5% Tariff preference
Additional requirements	CD590; CD371;CD378; CD386; C003
VAT	10%

HSNO	030429
Product	Frozen fish fillets (excl. swordfish and toothfish)
General Duty (for non EU countries)	2% - 18%
Duty for Sri Lanka	0% - 14.5%
Additional requirements	C003;CD590; CD370; CD371;CD378; CD386; EU001
VAT	10%

HSNO	030411
Product	Fresh or chilled fillets and other meat whether or not minced of sword
General Duty (for non EU countries)	15% - 18%
Duty for Sri Lanka	11.5 - 14.5% Tariff preference
Additional requirements	CD385; CD370; CD386; CD590; NOTA C003

VAT	10%

HSNO	030110
Product	Ornamental fish, live
General Duty (for non EU countries)	0% - 7.5%
Duty for Sri Lanka	0% Tariff preference
Additional requirements	NOTA C003; CD370
VAT	20%

HSNO	030232
Product	Tunas,Yellowfin,fresh or chilled,excl heading No 03.04,livers and roes
General Duty (for non EU countries)	0% (EU001) – 22%
Duty for Sri Lanka	0% - 18.5% Tariff preference
Additional requirements	NOTA C003; CD590
VAT	10%

3.3.4 FOOD & BEVERAGES

HSNO	080111
Product	Coconuts, dessicated
General Duty (for non EU countries)	0%
Duty for Sri Lanka	0%
Additional requirements	C003; C005
VAT	4%

HSNO	190531
Product	Sweet biscuits
General Duty (for non EU countries)	9.00 % + EA(1) MAX 24.20 % +ADSZ(1)
Duty for Sri Lanka	5.50 % + EA(1) MAX 24.20 % +ADSZ(1) Tariff preference
Additional requirements	C003; C005
VAT	10%

HSNO	070990
Product	Vegetables, fresh or chilled nes
General Duty (for non EU countries)	10.4% - 12.8%
Duty for Sri Lanka	6.9% - 8.9% Tariff preference
Additional requirements	C003; C005
VAT	4%

HSNO	080430
Product	Pineapples, fresh or dried
General Duty (for non EU countries)	5.8%
Duty for Sri Lanka	2.3% Tariff preference
Additional requirements	C003; C005; unit price 0804300090: 62.56 Euro / 100 kg
VAT	4%

HSNO	081090
Product	Fruits, fresh nes
General Duty (for non EU countries)	0% - 9.6%
Duty for Sri Lanka	0% - 6.1% Tariff preference
Additional requirements	C003; C005
VAT	4%

3.3.5 LEATHER & LEATHER PRODUCTS

HSNO	420222
Product	Handbags w outer surface of sheets of plastics o of textile materials
General Duty (for non EU countries)	3.7% - 9.7%
Duty for Sri Lanka	0% - 3.3% Tariff preference
Additional requirements	
VAT	20%

3.3.6 TEA

HSNO	090240
Product	Black tea (fermented) & partly fermented tea in packages exceeding 3 kg
General Duty (for non EU countries)	0%
Duty for Sri Lanka	0%
Additional requirements	C003; C005
VAT	10%

HSNO	090230
Product	Black tea (fermented)&partly fermented tea in packages not exceeding 3 kg
General Duty (for non EU countries)	0%
Duty for Sri Lanka	0%
Additional requirements	C003; C005
VAT	10%

3.3.7 SPICES & ALLIED PRODUCTS

HSNO	090611
Product	Cinnamon Cinnamomum eylanicum Blume (excl. crushed and ground)
General Duty (for non EU countries)	0%
Duty for Sri Lanka	0%
Additional requirements	C003; C005
VAT	10%

3.3.8 COCONUT KERNEL AND FIBRE PRODUCTS

HSNO	530500
Product	Coconut,abaca Manila hemp or Musa textiles Nee,ramie,agave and other
General Duty (for non EU countries)	0%
Duty for Sri Lanka	0%
Additional requirements	CD333
VAT	20%

HSNO	380210
Product	Activated carbon
General Duty (for non EU countries)	3.2%
Duty for Sri Lanka	0% Tariff preference
Additional requirements	Anti-dumping/countervailing statistic
VAT	20%; 4%; 10% depending on final use

3.3.9 OTHER PRODUCTS

HSNO	940360
Product	Furniture, wooden, nes
General Duty (for non EU countries)	0%
Duty for Sri Lanka	0% Tariff preference
Additional requirements	CD333 only for 9403609000
VAT	20%

HSNO	710391
Product	Rubies,sapphires and emeralds further worked than sawn or rough shaped
General Duty (for non EU countries)	0%
Duty for Sri Lanka	0%
Additional requirements	CD333
VAT	20%

HSNO	691110
Product	Tableware and kitchenware of porcelain or china
General Duty (for non EU countries)	12%
Duty for Sri Lanka	8.4% Tariff preference
Additional requirements	CD333; C005
VAT	20%

HSNO	640391
Product	Footwear, outer soles of rubber/plastic uppers of leather covering g ankle
General Duty (for non EU countries)	8%
Duty for Sri Lanka	4.5%
Additional requirements	CD370; CD568; CD582
VAT	20%

HSNO	640399
Product	Footwear, outer soles of rubber/plastics uppers of leather, nes
General Duty (for non EU countries)	7% - 8%
Duty for Sri Lanka	3.5% - 4.5% Tariff preference
Additional requirements	CD333; CD370; CD582
VAT	20%

HSNO	640419
Product	Footwear o/t sports,w outer soles of rubber/plastics&uppers of tex mat
General Duty (for non EU countries)	16.9% - 17%
Duty for Sri Lanka	11.9% Tariff preference
Additional requirements	CD333; CD603; CD582
VAT	20%

CD333 Airworthiness tariff suspension is conditional upon presentation of an airworthiness certificate or invoice declaration or a document annexed thereto (Reg. (EC) nr. 1147/2002, OJ L170/2002).

CD370 If the product is mentioned in the list annexed to Regulation (EC) No 338/97 and its last amendments, an import authorization must be presented.

CD371 If the product is mentioned in the list annexed to Regulation (EC) No 338/97 and its last amendments, an export authorization must be presented..

CD378 Each lot of bluefin tuna imported into, exported or re-exported from the territory of the Union shall be accompanied by a validated catch document and a validated bluefin tuna re- export certificate. Any import, export or re-export of bluefin tuna without a completed and validated catch document and, where applicable, a re-export certificate shall be prohibited (Regulation (EU) 640/2010, OJ L 194).

CD385 All quantities of fish imported from a third country into the territory of the Community shall be accompanied by a statistical document. The importation of fish shall be prohibited where the cargo concerned is not accompanied by the statistical document for the relevant importation. The import following the re-export of fish shall be prohibited where the cargo concerned is not accompanied by the corresponding certificate (Council Regulation (EC) No 1984/2003, OJ L 295).

CD386 All quantities of fish belonging to one of the species referred to in Article 1 of Council Regulation (EC) No 1984/2003 caught by a Community vessel or taken by a Community producer and exported to a third country shall be accompanied by a statistical document or by a bluefin tuna catch document (see Regulation (EU) 640/2010). The export of fish shall be prohibited where the load concerned is not accompanied by the statistical document or the catch document for the relevant export.

CD568 The placing on the market and the import to, or export from, the Community of cat and dog fur, and products containing such fur is prohibited. (See Art. 3 Regulation (EC) No 1523/2007).

CD582 The placing into the market of products and equipment containing, or whose functioning relies upon, fluorinated greenhouse gases, as listed in Annex II of Regulation (EC) No 842/2006 shall be prohibited.

CD590 Fishery products shall only be imported into the Community when accompanied by a catch certificate. Export of catches made by fishing vessels flying the flag of a Member State shall be subject to the validation of a catch certificate by the competent authorities of the flag Member State. Regulation (EC) No 1005/2008. This only covers marine catches made from 1 January 2010. Products processed from catches obtained before 1 January 2010 do not need to be accompanied by a catch certificate even if they are imported to the EU after 1 January 2010.

CD603 Seal products may only be placed on the market when they are accompanied by an attesting document or a written notification of import and a document giving evidence where the products were acquired (Commission Regulation (EU) No 737/2010 (OJ L 216)).

EU001 The relief from or reduction of customs duties shall be subject to the conditions laid down in the relevant provisions of the Union with a view to customs control of the use of such goods (see Articles 291 to 300 of Commission Regulation (EEC) No 2454/93 (OJ L 253, 11. 10. 1993, p. 1)).

CD001 Eligibility to benefit from this tariff quota is subject to the presentation of a certificate, recognized by the competent Community authorities, attesting that the products concerned are hand-made (R 2000/0032 - OJ No L 5).

TM589 The following shall be considered hand-made products: (a) cottage industry products made entirely by hand; (b) cottage industry products which have the character of products made by hand; (c) garments or other textile products obtained manually from fabrics woven on looms operated solely by hand or foot and essentially sewn by hand or sewn by sewing-machines operated solely by hand or foot.

C003 Import authorized upon presentation of sanitary certificate.

C005 Import authorized upon presentation of USMAF sanitary certificate

Obtaining Information on Tariffs

Every product exported to Italy (and EU in general) is subject to an imposition of tariffs or customs duties. Relevant percentage of common tariffs applied for countries outside the EU can be directly found on http://exporthelp.europa.eu/index_en.html (the web site of the Export Helpdesk of the European Commission).

Go to 'Import tariffs', Click on 'Input form', Insert 4 to 10 HS (Harmonized System) number of a preferred product, and then select 'a country of origin'.

CHAPTER IV
CUSTOMS: THE GENERAL ASPECT

4.1 GENERAL IMPORT PROCEDURES

The signature of the trade contract between the Sri Lanka exporter and the Italian importer gives the goods the rights to enter Italy, considering that notification to the Italian customs authorities shall be given in advance.

However, the following additional obligations must be met:

- Goods must be identified by the TARIC code;
- Agreements on purchase and dispatch established by Incoterms (CHAPTER V) must be complied with;
- Goods must be accompanied by the quality certificates required by the specific and origin regulations, and must comply with labelling regulations as well (CHAPTER VI);
- The consumer protection must be guaranteed (CHAPTER IX).

4.2 THE TARIC

Italy, as a member of the European Union, enforces the Integrated Community Tariff (TARIC) when importing from countries that are not EU members. The customs value must be based on the CIF (Cost, Insurance, Freight) price; for agricultural products, customs tariffs do normally take a form of specific duty, proportional to weight/unit of measurement. Additionally, most agricultural goods require a permit. The TARIC uses the Harmonized System (HS), a worldwide accepted coded classification system for goods of the World Customs Organization (WCO).

Legislation is primarily an EU one and consists of:

- EC regulations 2913/92 (Community Customs Code);
- EC regulations 2454/93 (CAC Implementation Regulations).

4.3.1 RULES OF ORIGIN

Under the GSP (Generalized System of Preferences) scheme or the preferential tariff treatment, a free or reduced duty is granted by developed countries to certain manufactured goods from the least developed and developing countries, including Sri Lanka, in order to bolster their exports and economic growth.

Most imports eligible under the GSP program are free of duty. There are over 20 industrialized countries - donor countries (country of destination) - which maintain GSP schemes and over 100 least developed and developing countries - beneficiary countries (country of origin) - which are eligible under the GSP program.

Form A, which is often called the GSP Form A, is a certificate of origin. It is used under the GSP program for exportation of goods to the donor countries from the beneficiary countries.

In order to meet the general conditions to qualify for preference, products must:

- fall within a description of products eligible for preference in the country of destination. The description entered on the form must be sufficiently detailed to enable the products to be identified by the customs officer examining them;
- comply with the rules of origin of the country of destination. Each article in a consignment must qualify separately in its own right;
- comply with the consignment conditions specified by the country of destination. In general, products must be consigned direct from the country of exportation to the country of destination but most preference-giving countries accept passage through intermediate countries subject to certain conditions.

The beneficiary countries are responsible for providing the Form A. It is normally available at the government foreign trade office or the Chamber of Commerce of the beneficiary country, which is identified ad the “Certifying Authority”.

The Form A must be properly filled out and signed by the exporter. The designated Certifying Authority usually is the government foreign trade office or the Chamber of Commerce of the beneficiary country. The certification normally requires payment of a fee.

CHAPTER V
INCOTERMS

5.1 DEFINITION

Incoterms is the acronym for International Commercial Terms. Incoterms are a set of international rules, governed by the International Chamber of Commerce of Paris, that establish the scope of the commercial terms included in the international purchase and sale agreement, except for the payment method of the operation. The purpose of Incoterms is to provide a set of international rules for the interpretation of the most common terms used in international trade. Incoterms are also called price clauses, because each term indicates different forming elements; therefore affects the cost of the agreement. In general, Incoterms establish that the exporter/seller and the importer/buyer share liability on shipping documents, possible transport risk and shipment cost. In addition, Incoterms used in this Guide Book are the eighth version of the Incoterms Rules revised in 2010, which entered into force on 1st January 2011.

5.2 TYPES OF INCOTERMS

In general, Incoterms specifically determine:

- The moment when and the place where risks on the goods are transferred from the seller to the buyer;
- The place of delivery of goods;
- The party that negotiates and pays for the cost of transportation;
- The party that negotiates and pays for the cost of insurance;
- The documents to be dispatched by each party and their cost.

EXW (Ex-Works) – (Designated Place)

Once the seller has complied with its delivery obligation by placing goods in its factory, workshop, etc. at the buyer's disposal, the seller is responsible for neither loading goods on the vehicle supplied by the buyer nor delivering it to the customs for export, except for any agreement otherwise. The buyer bears all costs and risks of collecting goods from the seller's place to its final destination; so, this term implies the seller's simplest obligation.
The 2010 edition of Incoterms suggests to use EXW only for national trade.

FCA (Free Carrier) - (Designated Place)

The seller complies with its obligation by placing the goods in the designated place, into the carrier's custody, after the customs clearance for export. If the buyer has established no specific point, the seller may choose, within the established area, the place where the carrier will take responsibility for the goods.

This term may be used with any type of transportation.

FAS (Free Along Ship) - (Designated Loading Port)

The seller's responsibility ends when the goods are delivered alongside the ship at the designated port of embarkation. This means that the buyer will bear all costs and risks of loss or damage to the goods from that moment on. The price of the goods is quoted for goods placed alongside the ship at the designated port, on the wharf or on barges, with the seller bearing all costs and risks until this point. The buyer must clear the goods from the customs. This term may be only used for shipments by sea or inland waterways.

FOB (Free On Board) - (Designated Loading Port)

The seller's responsibility ends when the goods being delivered when they are on board the vessel in the designated port of embarkation. The buyer will bear all costs and risks of loss of or damage to the goods from that point onward. The term requires the seller to clear the goods for export. This term may be only used for shipments by sea or inland waterways.

CFR (Cost and Freight) - (Designated Destination Port)

For the seller, the obligations are the same as the FOB quote, and the only difference is that the company must contract the ship holder and pay the freight to destination. The risk of loss of or damage to the goods, as well as any additional cost caused by possible events after delivery, are transferred from the seller to the buyer. The CFR term requires the seller to clear the goods from the customs for export. This term may be only used for shipments by sea or inland waterways.

CIF (Cost, Insurance and Freight) - (Designated Destination Port)

The seller delivers the goods once they are on board the vessel at the designated loading port. The seller must pay the cost and freight required to take the goods to the agreed destination port and also take out insurance and pays the corresponding premium in order to cover the risk of loss or damage the goods may undergo during transportation. The buyer must observe the seller is obliged to take out insurance with minimum coverage only. If the buyer wants a larger coverage, it will have to explicitly arrange it with the seller or take out its own additional insurance. The CIF term requires the seller to clear the goods from the customs for export. This term may be only used for shipments by sea or inland waterways.

CPT (Carriage Paid To) - (DESIGNATED destination Place)

The seller delivers the goods to the carrier appointed by him, but must also pay the transportation costs to move the goods to the agreed destination. The buyer takes on all risks and any additional costs that may arise after the goods have been delivered this way. The CPT term requires the seller to clear the goods for export. This term may apply to all types of transportation.

CIP (Carriage and Insurance Paid to) - (Destination Place)

The seller's obligations are the same as under the CPT, but the seller must also take out insurance at its expense.

DAT (Delivered at Terminal) - (Designated Destination Port or Place)

The seller delivers when the goods, having been unloaded from the arriving means of transport, are placed at the buyer's disposal at a designated terminal at the designated port or place of destination. DAT requires the seller to clear the goods for export where applicable but the seller has no obligation to clear the goods for import, pay any import duty or carry out any import customs formalities.

DAP (Delivered at Place) - (Designated Destination Place)

The seller complies with its obligation to deliver once the goods have been delivered / placed at the buyer's disposal on the arriving means of transport at a designated destination place. A seller under DAP bears all the costs (other than any import clearance costs) and risks involved in bringing the goods to the named destination.

DDP (Delivered Duty Paid) - (Designated Destination Place)

Seller is responsible for delivering the goods to the named place in the country of the buyer, and pays all costs in bringing the goods to the destination including import duties and taxes.

It is possible to buy the Incoterms 2010 publication from International Chamber of Commerce http://www.iccwbo.org/incoterms/

5.3 SEA/AIR TRANSPORT

There are direct shipments from Sri Lanka to Italy, by ship or by plane.

By ship the cost of a 20' full container load (FCL) from Colombo port to Genoa port is approximately about US$ 1,500, a 40' FCL is about $ 2,500, while the price of a shipment of a less than container load (LCL) is roughly about 120 $/m3 or $/ton (the shippers consider the highest of the two).

By air, IATA freights (standard) for shipment of goods are 9/10 $/kg, while prices for frequent shipments or for consolidated goods are approximately about 6/7 $/kg.

Costs may vary depending on season, quantity shipped, quantity of goods shipped, nature of goods contained in the shipment and a complete quotation must also include costs from the warehouse in Sri Lanka to the warehouse in Italy.

Here some references of forwarders that can support enterprises in Sri Lanka with direct shipments from Sri Lanka to Italy and vice versa.

In Sri Lanka

MULTILOGIST SERVICES (PVT) LTD
464/9, T.B. Jayah Mawatha, Colombo 10
Tel + 94 115651851
Fax + 94 114716606
Contact: Mr. Hiranjan Perera - CEO
hiran@multilogist.com
Tel +94 112693670
Mobile +94 773077157

In Italy

OM LOG
Via Ruffilli, 9, 20060 Pessano con Bornago (MI)
Tel. +39 29554511
Fax +39 2955451204
http://www.omlog.com/
Contact: Riccardo Fuochi - riccardo.fuochi@omlog.com

FORTUNE INTERNATIONAL TRANSPORT
via Catalani 46 - 20131 Milan (MI)
Tel +39 02 26146000
Fax +39 02 26146447
http://www.fortuneitaly.it
Contact: Paolo Federici - paolo@fortuneitaly.it

JAS – JET AIR SERVICE
Via R. Sanzio, 6/8, 20090 Segrate (Mi)
Tel. 02216921
Fax 0221692525-692526
www.jasitaly.com

CHAPTER VI

CONDITIONS TO ACCESS THE ITALIAN MARKET

6.1 CERTIFICATIONS

Foreign companies, intending to trade with the European market, may be required to present certifications. There are compulsory and not compulsory certifications.

Among the compulsory certifications there is CE marking.

CE marking is a mandatory conformance mark on many products placed on the market in the European Economic Area (EEA). With the CE marking on a product the manufacturer ensures that the product is in conformity with the essential requirements of the applicable EC directives. The letters "CE" stand for "Conformité Européenne" ("European Conformity").

By affixing the CE marking on a product, a manufacturer declares on its own responsibility, conformity with all of the legal requirements to achieve CE marking and therefore ensures eligibilitty for that product to be sold throughout the European Economic Area.
This also applies to products made in third countries which are sold in the EEA.

CEmarkingismandatory.
However, only in the products that come under the purview of one or more of the New Approach Directives (http://ec.europa.eu/enterprise/policies/single-market-goods/documents/new-approach/index_en.htm), the CR marking shall be affixed in order to be placed on the EU market.
Examples of products that fall under New Approach Directives are toys, electrical products, machinery, personal protective equipment and lifts. Products that are not covered by CE marking legislation shall not bear the CE marking.

Among the category of not compulsory certifications (but may be recommended or required by the market) the most important ones include ISO 9000 quality standards on the technical production rules, the IMQ (Italian Institute of Quality Mark) certificate for domestic appliances and the CESI (Italian Experimental Electronic Center) certificate for industrial machinery and equipment.

Environmental issues are very important too. This is amply evidenced by the increasing demand for biological and organic products and environmental certifications by the European buyers. Currently, the most commonly demanded regulations are those of the Environmental Management System (EMS).

6.2 SHRIMP & FISH

Imported shrimps and fishery products are subject to following controls:

- Control of residues of veterinary medicines in animals and animal products for human consumption (based on Council Directive 96/23/EC)
- Control on illegal fishing (based on Council Regulation (EC) No 1005/2008, establishing a Community system to prevent, deter and eliminate illegal, unreported and unregulated (IUU) fishing)
- Health control of fishery products for human consumption, which is in line with general health requirements related to Country Health Approval, Approved Establishment, Health Certificate and Health Control
- Labelling for fishery products (in terms of general rules laid down in Council Directive 2000/13/EC)

6.3 AGRICULTURAL PRODUCTS

In general, Italy like any other EU country entails several requirements when it comes to the importation of agricultural products from non EU countries. Such agricultural products such as coffee, cacao, tea, crude palm oil, and rubber obviously must undergo several controls and meet standardized EU rules, for example:

- Control of pesticide residues in plant and animal products intended for human consumption (based on Council Directive 91/414/EEC regarding plant products)
- Health control of foodstuffs of non-animal origin, which follows the general rules of:
  - General principles and requirements of Food Law established in Regulation (EC) No 178/2002 of the European Parliament and of the Council;
  - General foodstuffs hygiene rules according to Regulation (EC) No 852/2004 of the European Parliament and of the Council;
  - General conditions concerning contaminants in food;
  - Special provisions on Genetically Modified (GM) food and Novel food of Regulation (EC) No 1829/2003 of the European Parliament and of the Council and Regulation (EC) No 258/97 of the European Parliament and of the Council;
  - General conditions of preparation of foodstuffs;
  - Official control of foodstuffs;
- Labelling for foodstuffs
- Products from organic production, citing that organic production methods of live or unprocessed agricultural products, processed agricultural products for use as food, animal feed, seeds and vegetative propagating material must comply with the rules laid down by Council Regulation (EC) No 834/2007 and Commission Regulation (EC) No 889/2008, which cover mainly the following aspects:
  - Production, processing, packaging, transport and storage of products;

- Use of certain products and substances in processing of food;
- Prohibition of use of genetically modified organisms (GMO) and of products manufactured from GMO in organic production;
- European Union organic production logo;
- Inspection measures and specific control scheme to be applied for this type of products by the appointed authorities in the Member States

Regarding Crude Palm Oil, there are also marketing requirements for dangerous chemicals, pesticides and biocides, which id only required when the final product is intended to be used in plant protection products and/or biocides. The marketing requirements laid down by the EU legislation designed to ensure a high level of protection of human health and the environment and explained in General procedures for the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)

6.4 SPICES & HERBS

Similar to agricultural products, imported spices and herbs must also comply with identical laws and controls set by the EU Commission, such as Control of pesticide residues in plant and animal products intended for human consumption, Health control of foodstuffs of non-animal origin, Labelling for foodstuffs, Condition of products from organic production, and Marketing requirements for dangerous chemicals, pesticides and biocides. However, there is also additional regulation set for herbs called CITES that is corresponding to EU wildlife legislation, Council Regulation (EC) No 338/97, in case the imported herbs fall into category of endangered species. In attempt of controlling the health of imported plant products, the EU Commission requires another control on spices, which specifies that the imports into the European Union (EU) of plants, plant products and any other material capable of harbouring plant pests (e.g. wooden products and containers, soil, etc) may be subject to the following protective measures, as established by Council Directive 2000/29/EC:

Import Bans;

Phytosanitary certificate and/or phytosanitary certificate for re-export;

Customs Inspection and plant health checks;

Importers Register;

Advance notice on imports.

6.5 FURNITURE & HANDICRAFT

When exporting furniture or handicraft products to Italy, it is very important to take in to account the EU regulation on general product safety, as it includes:

General safety requirement that emphasizes:

- the characteristics of the product, including its composition, packaging, instructions for assembly and for installation and maintenance;

- the effect on other products, where it is reasonably foreseeable that it will be used with other products;
- the presentation of the product, the labelling, any warnings and instructions for its use and disposal and any other indication or information regarding the product;
- the categories of consumers at risk when using the product, in particular children and the elderly.

Additional manufacturer and distributor obligations, in which they must take measures to be informed of risks posed by the products and take the appropriate measures to prevent such risks (e.g. withdraw products from the market, warning consumers, recall products which have already been supplied to consumers, etc)

Market surveillance, which gives authorisation to the Member States to check whether the products meet the applicable safety requirements or not.

Furthermore, for any imported furniture or handicraft of wooden material, it should be prudent to act in accordance with EU Eco label for wooden furniture and EU Regulation on CITES.

6.6 FOOTWEAR

In order to export footwear products to Italy successfully, one should comply with the EU requirements in terms of the provision of:

EU Eco label for footwear that includes criteria set out in the Annex to Commission Decision 2009/563/EC referring to:

- Dangerous substances in the final product
- Reduction of water consumption (only for the tanning of hides and skins)
- Emissions from the production of material
- Use of hazardous substances (up until purchase)
- Use of volatile organic compounds (VOCs) during final assembly of shoes
- Energy consumption
- Packaging of the final product
- Information on the packaging
- Information appearing on the eco-label
- Parameters contributing to durability

Labelling for footwear. The labelling must describe the materials of the three main parts of the footwear (the upper, the lining and sock, and the outer sole), stating in each case whether the material is "leather", "coated leather", " textile" or " other". If no single material accounts for at least 80% of the product, the label should convey information on the two main materials used. The labelling has also to be placed, at least, on one article of footwear in each pair. This can be done by printing, sticking, embossing or using an attached label. The labelling must be visible, securely attached and accessible, and the dimensions of the pictograms must be sufficiently large to make it easy to understand and legible.

Prohibition of footwear products containing fluorinated greenhouse gases that is accordance with Regulation (EC) No 842/2006 of the European Parliament and of the Council on products and equipment containing fluorinated greenhouse gases listed in Annex II of the Regulation.

6.7 LEATHER & LEATHER PRODUCTS

Imports of leather or leather products into the EU must meet with the following requirements:

Health control of products of animal origin not intended for human consumption, where leather or leather products must obtain health approval by the EU Commission's Directorate General for Health and Consumers (DG SANCO), approved establishments, health certificates signed by the representative of the competent authority of the exporting third country certifying that the products in question are suitable to be exported to the EU, and are subject to health control

Regulation on CITES (Endangered Species Protection).

6.8 TEXTILES

According to the EU labelling requirements, textile products are subject to certain labelling requirements in order be placed on the European Union (EU) market. At large, textile products must convey a label clearly identifying the manufacturer, the type (name) and the quantity of their materials (material composition).

Available information

All items must carry a label or mark indicating the fibre content, which shall be clear, legible, in uniform lettering and separate from all other information. Member States' legislation can require the information in their respective national languages.

By way of derogation, textile products listed in Annex III to the Directive 2008/121/EC of the European Parliament and of the Council do not require any labelling or marking bearing the name or composition.

Composition of textile products

Products with just one component: the description "100%", "pure" or "all" shall only be used for products exclusively composed of one fibre.

Products with two or more components:

- a textile product composed of two or more fibres, one of which accounts for at least 85% of the total weight, shall be designated:
  1). by the name of the latter fibre followed by its percentage by weight, or
  2). by the name of the latter fibre followed by the words "85% minimum", or
  3). by the full percentage composition of the product
- a textile product composed of two or more fibres, none of which accounts for as much as

85% of the total weight, shall be designated by the name and percentage by weight of at least the two main fibres

- fibres that account for less than 10% of the total weight, may be specified either by their name and percentage of total weight or simply as "other fibres"
- where the name of a fibre which accounts for less than 10% of the total weight of a product is specified, the full percentage composition of that product shall be given.

Products composed of two or more parts which do not have the same fibre composition should carry a label stating the fibre content of each one of these parts. These labelling are not compulsory for parts which account for less than 30% of the total weight of the product, with the exception of the main lining which composition shall always be stated.

Authorized names

The term "cotton" shall be reserved exclusively for the fibre obtained from the bolls of the cotton plant (Gossypium)

The term "cotton linen union" is reserved for products having a pure cotton warp and a pure flax weft, in which the percentage of flax accounts for not less than 40% of the total weight of the fabric. This name must be accompanied by the composition specification "pure cotton warp - pure flax weft"

The terms "virgin wool" or "fleece wool" may be used only for products composed exclusively of a fibre which:

- has not previously been part of a finished product,
- has not been subjected to any spinning and/or felting processes other than those required in the manufacture of that product,
- has not been damaged by treatment or use.

These names may be used to describe fibre mixtures subject to certain conditions. The full percentage composition must be given in such cases.

While the trend for green consumerism has been extended to textile and apparel products, the European Parliament and of the Council has also set up various directives pertaining to restricted and banned substances to be incorporated in textile products. They comprise:

The EU AZO Colorants Directive 2002/61/EC. This regulation sets out that AZO dyes which may release one or more of the 22 aromatic amines in detectable concentrations, above 30 ppm in the finished articles or in the dyed components may not be used in textile and leather articles which may come into direct and prolonged contact with the human skin or oral cavity;

The EU Pentachlorophenol (PCP) Directive 94/783/EC. Due to its toxicity to the aquatic environment, pentachlorophenol (PCP) is banned in textile products worldwide;

The EU Directive on Allergenic Disperse Dyes and Carcinogenic Dyes. Allergenic disperse dyes (around 19 substances) and carcinogenic dyes (around 10 substances) are banned in textile materials from synthetic fibres with skin contact;

The EU Nickel Release Directive 2004/96/EC. It sets out that all articles that may have contact with skin are forbidden to plate nickel, including dress accessories such as buttons and slide fastener.

The EU PFOS Directive 2006/122/EC.

- PFOS shall not be used as a substance or constituent of preparations in products with a concentration equal to or higher than 0.005 % by mass. Otherwise, products will be restricted to be placed on the market;
- Semi-finished products or articles, or parts shall not be placed on the EU market if the concentration of PFOS is equal to or higher than 0.1 % (1000ppm) by mass;
- For textiles or other coated materials, the concentration shall not be higher than 1 µg/m2.

The EU TBT & DBT - Directive 2009/425/EC. In the textile industry, organotin compound (stannanes) have been used for preventing the bacterial degradation of sweat and the corresponding unpleasant odour of socks, shoes and sport clothes. Dioctyltin (DOT) compounds shall not be used after 1 January 2012 in articles for supply to, or use by, the general public, where the concentration in the article or part thereof, is greater than the equivalent of 0.1% by weight of tin.

The EU REACH Regulation 2006/1907/EC. Since its introduction on 1 June 2007, REACH has replaced some aforementioned directives, including Azocolourants Directive 2002/61/EC and Nickel Directive 94/27/EC. However, in relation to the textile industry, REACH additionally defines substance of very high concern (SVHS). Substances that are one of the following can be regarded as substance of very high concern(SVHC):

- carcinogenic, mutagenic or toxic to reproduction (CMRs);
- persistent, bio-accumulative and toxic (PBTs);
- very persistent and bio-accumulative (vPvBs);
- seriously and / or irreversibly damaging the environment or human health, as substances damaging the hormone system;

Nevertheless, notification to European Chemical Agency (ECHA) must be submitted if any SVHC on candidate list present in an article has a concentration above 0.1% (w/w) and the total amount of the SVHC exceeds 1 tonne per annum per producer or importer.

6.9 LABELLING OF RETAIL PRODUCTS

The labelling requirements are complex and vary depending on the products. Some adaptation is always nearly necessary. The label should include information regarding origin, identity, quality, composition and conservation of the product. It must be in Italian, and/or English or French

Basic labelling requirements in Italy:

- name of products (physical condition or specific treatment);
- name and address of manufacturer, packer, seller or importer in the Italian language;
- name and address of liable party in Italy (commercial entity);
- country and place of origin;
- ingredients in descending order of weight;
- metric weight and volume;
- additives by category name;
- special storage conditions;
- minimum shelf life date;
- expiry date;
- lot number;
- indication of allergens;
- indication of maximum limits of fats for meat based products;
- net quantity in volume for liquids and in mass units for all other products;
- instructions for use, if necessary.

6.10 SPECIAL PRODUCTS

Biological products

In order to import biological products to Italy, export companies must comply with the following requirements:

- Holding a domestic certification equivalent to the European certification provided for in EC regulations 2092/91;
- Being inspected by the competent national authorities of the exporting company;
- The competent national authorities of the exporting company must send an inspection report to the competent national authorities of the importing company, proving the above-mentioned equivalence;
- After obtaining the export/import authorization, the company will be under the full control of EC;
- Compliance with the transport criteria: closed packing, with identification label and sheet of the exporting company.

Fair Trade Products

Producers and exporters that are interested to participate in fair trading system must share the same objectives set by the Italian Charter of Fair Trade. Any processed products that come from more than one raw material must comply with the following criteria:

- At least 50 percent of the product (weight or cost) must come from the Fair Trade system;
- The product must be processed in the country of origin by companies participating in the fair trade system;

- The label must show the percentage of ingredients from the fair trade system;
- Production and marketing respect the environment and promote the sustainable development of economy.

For further information, please visit www.agices.org.

6.11 MORE INFO

All detailed information concerning conditions or requirements to access the Italian market can be found on http://exporthelp.europa.eu/index_en.html (the website of the Export Helpdesk of the European Commission).
Go to 'Requirements and taxes, Click on 'Input form', Insert 4 to 10 HS (Harmonized System) number of a preferred product, select 'a country of origin' and 'a destination country'.

CHAPTER VII
BUSINESS WITH ITALY

7.1 ITALIAN MARKET CHARACTERISTICS, DISTRIBUTION CHANNELS

Distribution, Retail Chains

In Italy the most important European retail chains have shops and outlets (supermarkets, hypermarkets) all over the national territory. Usually they are concentrated inside shopping malls in big cities.

The distribution system, which deals with all types of products (even if food is the most important), covers the entire territory and a large chain of brokers is available.

The most important (in order of market share) are:

- Coop Italia (10% retail market share)
- Carrefour (8.06% retail market share)
- Conad (6.4% retail market share)
- Auchan (4.81% retail market share)
- Esselunga (4.8% retail market share)
- DeSpar Italia (2.99% retail market share)
- PAM (2.06% retail market share)
- Rewe Group (Penny Market) (1.99% retail market share)

There are also other regional chains that operates locally (i.e. Bennet, Iperal, A&O).

Additionally, the hard discount supermarkets are expanding, for example Lidl, LD, Billa and Penny Market among the most popular "hard discount" supermarkets in Italy. Hard discount supermarkets may be an opportunity for unbranded products or brands that are still unknown in Italy.

The most important retail chains for household appliances are: Mediaworld (Metro Group), Darty, Euronics, Trony.

There are also important international groups for garments: Benetton Group (United Colors of Benetton, Sisley, Playlife), Inditex Group (Zara, Pull&Bear, Stradivarius, Massimo Dutti, Oysho, Uterque, Bershka), H&M, GAP Inc (Gap, Banana Republic).

The most important Italian groups in textile sector are: Benetton Group, Stefanel Group, Calzedonia Group (Calzedonia, Intimissimi, Tezenis), Coin Spa (Coin, Oviesse, Upim).

These Italian groups in garment sector usually import products from suppliers abroad (they may be located in Eastern Europe, North Africa or Far East Asia). Some of them have also their own factories abroad. Calzedonia has facilities in Sri Lanka.

The big international retail groups, even if they have branches in Italy, have buying offices that may be located in different countries. This means that the buying policies of the groups are decided at European level without the direct involvement of the Italian branch.

The way to enter the Italian market is primarily through importers, although another option is also available through wholesale buyers or buying offices.
However, direct contact between producers and Italian distributors is also possible.

Tab: Large-scale Organized Distribution (LOD) in Italy – End of 2009

	Supermarkets	Ipermarkets	Department Stores/malls	Specialized Stores
Lombardy	1,545	144	213	349
Piedmont	738	83	77	158
Valle d'Aosta	14	2	13	9
Liguria	211	9	30	36
Veneto	1,110	61	56	215
Trentino Alto Adige	297	8	38	38
Friuli Venezia Giulia	301	19	20	69
Emilia Romagna	764	41	66	149
Tuscany	523	28	140	72
Umbria	215	7	67	42
Marche	322	20	70	48
Lazio	660	24	155	55
Abruzzo	256	15	46	45
Molise	38	2	7	0
Campania	514	24	83	85
Apulia	543	20	66	54
Basilicata	77	3	8	2
Calabria	270	16	78	24
Sicily	723	26	130	60
Sardinia	360	18	52	43
ITALY	9,491	570	1,415	1,553

Source: Ufficio Studi Confcommercio

SMEs and clusters

Italian business structure is peculiar and it is mainly characterized by one of the highest percentage of micro companies (with less than 10 employees, thus mainly family companies) in Europe.

Tab: Companies structure in Italy

Business size	Percentage	Occupancy	Added Value
Micro	94.6	46.9%	32.6
Small	4.8	21.6%	23%
Medium	0.5	12.5%	15.6%
Large	0.1	19.1%	44.8%

Source: Eurostat

In Italy the phenomena of clusters is very important and thus you can find groups of companies specialized in particular sectors concentrated in some industrial areas (i.e. footwear clusters are located in North Milan Area, near Pavia, in Marche Region, near Naples; furniture companies are located in Brianza area – near Monza –, couches makers are mainly near Bari; marble and tile clusters in Emilia Romagna; etc.). Normally all the subcontractors are also located nearby.

This implies that if you deal with an Italian enterprise in most of the cases you will get in touch with a small or micro enterprise, where the owner usually represents most of the relevant positions in the company.

This small structure of Italian SMEs, on the other hand, gives them the possibility to customize products on buyer's requirements, to modify the products characteristics before completion or to fulfil customer's delivery requirements.
Italian on demand production is highly appreciated all over the world in particular in industrial machinery sector.

Importers, Distributors and Agents

To sell products in Italy without a direct investment, a foreign company can operate through importers and distributors or can find new customers through commercial agents.
The foreign company usually sells directly to importers and distributors and afterwards they sell the products to wholesalers, retailers or also to retail chains.

The commercial agent negotiates and concludes contracts on behalf of his principal. Although the degree of his independence from the principal varies, he is never totally independent. Usually in Italy his activity is limited to a specific geographic region. They work on commissions charged as a percentage of sales.

The role of these intermediaries is very important because they have a deep knowledge of the market situation in Italy and they have a network of relations with buyers, buying offices and also with retailers, who are a prominent part of the Italian distribution sector.

Tab: Wholesalers and Categories in Italy – end of 2009

	Other Products	Machinery and Equipment	End Use Goods	Agricultiral Raw Materials, Livestock	Food, Beverages and Tobacco	Semifinished Products not for Agriculture, Wastes	Total
Italy	3,757	40,301	88,833	11,213	48,394	51,311	243,809
Lombardy	960	9,590	16,852	1,428	4,973	10,793	44,596
Milan	498	4,100	8,438	348	1,843	3,841	19,068

Source: Ministero dello Sviluppo Economico

Tab: Importers in Italy by Geographical Area– 2008

	Europe	Asia	Africa	America	Australia	Total
Manufacturers	70,365	23,399	4,951	13,342	1,441	113,498
Wholesalers	128,396	25,721	3,740	11,701	899	170,457
Others	54,119	4,844	585	4,330	224	64,102
TOT	252,880	53,964	9,276	29,373	2,564	-

Source: Ministero dello Sviluppo Economico

7.2 MARKET TRENDS

Italian external trade is mainly concentrated within EU borders. Most of import and export trends are with European partners: in 2011 (January – March) 53.12 % of imports and 58.26 % of exports were originated within EU.

Notwithstanding, in the same period the year on year growth on imports was higher for non EU countries (+23.4%) than for EU countries (+16.6%) and exports growth was double for non-EU (+30.5%) in comparison to EU countries (+15.2%).
Asian countries are one of the growing and emerging partners of Italy for foreign trade exchanges.

Italian imports are mainly related to: oil, gas and energy related products, metal products, products of steel industry, cars and part thereof, pharmaceutical and chemical products and garment.

Tab. Italy: World Import

	Import (Thousands of Euros)		
	2010	2011	Variation %
	Jan-Mar	Jan-Mar	
Crude Oil	7,667,875	10,221,311	33.3
Cars	7,244,967	6,886,578	-4.9
Natural gas	5,299,386	6,695,895	26.4
Chemical products, fertilizers, plastic and rubber materials	5,080,495	6,426,205	26.5
Metals and other non metal products	3,334,935	4,775,329	43.2
Products of steel Industry	2,585,499	4,109,094	58.9
Pharmaceutical products	3,365,085	3,775,654	12.2
Electronic components	1,146,937	3,179,351	177.2
Garment articles, not furs	2,591,599	2,898,836	11.9
Machinery	2,082,837	2,472,414	18.7
Oil products	1,977,961	2,109,946	6.7
Other goods	1,032,530	1,912,767	85.3
Other machinery of general use	1,634,294	1,870,909	14.5
Parts and accessories of cars	1,352,817	1,509,968	11.6
Pulp, paper, cardboard	1,287,815	1,506,650	17.0
Other chemical products	1,180,378	1,460,802	23.8
Computers	1,488,672	1,453,605	-2.4
Meat, processed and preserved	1,333,507	1,443,076	8.2
Motors, generators, transformers, equipment for distribution and control of electricity	1,055,157	1,431,995	35.7
Articles of plastic material	1,131,037	1,396,643	23.5

Source: Istat

Italian main imports from Asia are: oil, electronic components, garment articles, chemical products, iron and steel products, cars, footwear, leather goods, machinery.

Tab. Italy: Import from Asia

	Import (Thousands of Euros)		
	2010	2011	Variation %
	Jan-Mar	Jan-Mar	
Crude Oil	3,700,300	5,138,243	38.9
Electronic components	425,160	1,762,325	314.5
Garment articles, not furs	1,116,714	1,283,144	14.9
Chemical products, fertilizers, plastic and rubber materials	698,147	852,143	22.1
Products of steel Industry	370,678	593,365	60.1
Cars	505,097	515,937	2.1
Footwear	463,343	497,102	7.3
Machinery	377,456	462,911	22.6
Other machinery of general use	357,228	447,841	25.4
Computer	291,802	434,358	48.9
Other goods	5,060	383,042	+++
Hides and leather, travel articles, bags, leather articles	328,864	379,078	15.3
Telecommunication equipment	285,302	367,055	28.7
Oil products	328,637	346,164	5.3
Natural gas	409,699	343,245	-16.2
Textile products	208,184	323,441	55.4

Metals and other non metal products	193,781	318,391	64.3
Other metal products	211,434	298,646	41.2
Ships	250,909	271,450	8.2
Articles of plastic material	201,524	265,812	31.9

Source: Istat

As indicated in Section 3.2 Italy is one of the most important trading partners for Sri Lankan exports of apparel, textile products and accessories (almost 80% of the total), rubber, agricultural products, fish products, shoes, gems and jewellery.

Tab. Italy: import from Sri Lanka

	Import(Thousands of Euros)		
	2010	2011	Variation %
	Jan-Mar	Jan-Mar	
Garment articles, not furs	64,635	77,493	19.9
Rubber articles	5,659	8,725	54.2
Gems, jewellery	727	7,330	908.6
Agricultural products	2,823	3,981	41.0
Fish, crustaceans, processed and preserved	5,946	3,339	-43.8
Knitted articles	922	2,188	137.3
Footwear	1,036	1,202	16.0
Other food products	719	753	4.8
Other chemical products	675	527	-22.0
Other machinery	239	352	47.3
Fish and other fisheries products not processed or preserved	262	342	30.3
Other agricultural products	446	313	-29.9
Other products in pottery	473	302	-36.1
Other textile products	344	298	-13.4
Chemical products, fertilizers, plastic and rubber materials	241	270	12.0
Toys	136	205	51.0
Metals, not iron	31	158	407.3
Other machinery for special purpose	,	113	.

Italy: import from Sri Lanka January – March 2010/2011– Source: Istat

The following tables highlight Sri Lanka's market position in some of the major and important products which Sri Lanka exports at present.

A) HSNO Code 141 Garments articles – not furs

Country	Import (Thousands of Euros)			
	2009	2010	2010	2011
			jan-mar	jan-mar
1-China	2,582,635	2,971,472	721,200	783,702
2-France	676,176	679,704	205,560	203,188
3-Romania	608,864	659,838	145,890	172,952
4-Tunisia	602,539	642,130	174,080	168,759

5-Bangladesh	297,031	372,558	101,811	154,392
6-Turkey	425,715	454,257	142,925	152,835
7-India	388,864	406,893	124,848	145,192
8-Spain	445,356	492,310	118,411	135,982
9-Belgium	299,643	340,578	79,031	113,083
10-Germany	307,583	344,107	100,536	99,311
11-Sri Lanka	240,951	258,095	64,635	77,493
12-Netherlands	163,546	207,132	59,921	71,332
13-UK	174,357	190,765	55,582	63,849
14-Bulgaria	188,556	208,463	46,786	56,171
15-Albania	126,383	145,532	36,903	40,596
16-Morocco	114,380	108,430	30,495	32,855
17-Czech Republic	97,681	100,807	26,049	31,322
18-Portugal	85,823	93,382	26,992	29,129
19-Vietnam	77,838	91,257	24,051	28,191
20-Svizzera	88,039	102,608	23,539	27,095
World	9,040,253	9,932,941	2,591,599	2,898,836

Italian Import - Source: Istat

Since January 1st 2008, with liberalization of import of textile products in EU, imports of garment articles have increased constantly.

Sri Lanka ranked 11th in January – March 2011 period.

China is the main supplier of Italy with a share of 27%, but Sri Lankan share of garment products is growing more rapidly (+19.9%) compared to growth of Chinese export of garment products to Italy (+8.6%).

Moreover Sri Lanka is the 4th largest supplier from Asia, and the second after Bangladesh in terms of year on year growth.

Sri Lanka Export to Italy (Thousands of Euros)		
Year	Value	Variation %
2002	24,267	-
2003	42,672	+75.8%
2004	63,652	+49%
2005	83,622	+31.3%
2006	139,968	+67.4%
2007	191,675	+26.97%
2008	220,577	+13.1%
2009	240,951	+9.23%
2010	258,095	+7.1%
Jan-mar 2010	64,635	
jan-mar 2011	77,493	+19.9%

Source: AICE elaboration on Istat data

B) HSNO Code 221 – Rubber Products

Country	Import (Thousands of Euros)			
	2009	2010	2010	2011
			jan-mar	jan-mar
1-Germany	481,979	512,117	113,393	165,394
2-France	331,984	331,712	82,990	95,168
3-China	150,927	208,899	45,672	61,110
4-Turkey	108,619	136,702	33,402	53,237
5-Poland	140,449	163,453	42,081	38,254
6-Belgium	106,321	141,733	37,008	33,099
7-Spain	140,246	131,841	27,641	32,325
8-Romania	78,803	109,066	24,517	30,186
9-Czech Republic	110,419	124,048	29,100	27,828
10-Netherlands	84,652	105,844	25,283	25,645
11-Malaysia	67,200	88,758	17,750	24,816
12-UK	62,020	65,762	17,538	19,057
13-Thailand	40,632	53,501	12,121	17,907
14-Japan	57,428	67,531	14,568	17,805
15-Hungary	49,797	62,175	12,407	16,149
16-South Korea	45,275	62,041	12,647	14,981
17-Slovenia	24,808	31,804	7,023	9,609
18-India	34,247	34,070	7,475	9,413
19-Luxembourg	60,133	114,945	37,088	9,127
20-Indonesia	31,652	40,483	9,995	9,073
21-Sri Lanka	15,810	23,798	5,659	8,725
World	2,493,796	2,940,173	694,816	800,607

Italian Import - Source: Istat

Import of rubber products, though had a decline since 2008, with the world crisis, is now on an increasing trend.

Sri Lanka caters to 1.1% of total Italian demand, while the first five partners (Germany, France, China, Turkey and Poland) supplied (in 2011) nearly 50% of the national demand.

Competition with Asian countries is stiff: the main competitors of Sri Lanka from Far East are China, Malaysia, Thailand, Japan, South Korea, India and Indonesia but during 2010/2011 period Italian imports of rubber products from Sri Lanka have increased consistently.

Sri Lanka Export to Italy (Thousands of Euros)		
Year	Value	Variation %
2002	16,525	-
2003	18,660	+12%
2004	19,103	+2.37%
2005	22,354	+17%
2006	24,775	+10.8%
2007	24,935	+0.6%
2008	24,227	-2.83%

2009	15,810	-34.7%
2010	23,798	+50.5%
jan-mar 2010	5,659	-
jan-mar 2011	8,725	+54.17%

Source: AICE elaboration on Istat data

C) HSNO Code 10200 – Fish & crustaceans, processed and preserved

Country	Import (Thousands of Euros)			
	2009	2010	2010	2011
			jan-mar	jan-mar
1-Spain	526,499	613,837	132,383	153,460
2-Netherlands	205,351	230,862	52,313	58,691
3-Thailand	168,195	154,339	39,639	50,043
4-Denmark	188,217	210,543	44,693	41,066
5-Ecuador	161,309	165,098	36,402	36,618
6-Germany	161,879	145,413	36,964	34,812
7-India	63,996	82,959	18,038	32,434
8-France	115,773	109,969	27,684	27,303
9-Morocco	117,654	101,557	27,180	26,784
10-China	58,050	78,023	16,592	24,608
11-Vietnam	91,711	108,079	16,939	23,667
12-Tunisia	42,362	56,066	11,882	20,392
13-UK	65,448	71,317	15,590	17,702
14-Argentina	90,192	120,368	14,723	15,623
15-South Africa	55,403	57,207	14,314	13,977
16-Cile	40,914	48,538	11,321	13,041
17-Colombia	38,498	34,451	8,665	12,205
18-Indonesia	25,041	31,362	5,660	8,981
19-Ivory Coast	44,649	40,831	5,900	8,319
20-Mexico	8,313	23,547	1,740	8,137
42-Sri Lanka	18,993	23,610	5,946	3,339
World	2,806,938	3,085,432	653,764	760,184

Italian Import - Source: Istat

Sri Lanka ranked 42nd compared to Italy yoyal world imports, and 8th largest supplier from Asia.

The two principal European suppliers are Spain and Netherlands (probably because Netherlands imports fish from extraEU countries and then sells back to Italy or other EU countries).
The main supplier from Asia is Thailand even if quality of fish is scarce (mainly because of water pollution).

Sri Lanka Export to Italy Thousands of Euros		
Year	Value	Variation %
2002	2	-
2003	4	+100%
2004	11	+175%
2005	17	+54%

2006	1,730	+10076%
2007	3,789	+119%
2008	9,964	+163%
2009	18,993	+90.3%
2010	23,610	+19.5%
jan-mar 2010	5,946	-
jan-mar 2011	3,339	-43.8%

Source: AICE elaboration on Istat data

D) HSNO Code 0300 - Fish and crustaceans, molluscs and other aquatic invertebrates

Country	Import (Thousands of Euros)			
	2009	2010	2010	2011
			jan-mar	jan-mar
1-Spain	144,919	173,149	39,069	45,365
2-Greece	162,469	190,735	39,993	42,913
3-France	132,466	151,204	36,475	37,744
4-Netherlands	66,395	74,475	19,234	17,310
5-Denmark	79,613	81,702	18,892	15,425
6-Sweden	36,289	61,687	12,703	14,678
7-UK	32,039	35,619	7,830	8,608
8-USA	39,126	40,704	7,516	8,312
9-Croatia	20,967	20,699	4,020	5,293
10-Portugal	15,885	18,795	4,161	4,913
11-Turkey	23,687	18,214	4,672	4,559
12-Germany	13,801	14,282	3,729	2,116
13-Senegal	6,773	6,748	1,948	1,864
14-Tunisia	8,612	9,045	1,351	1,850
15-Malta	4,931	8,381	1,243	1,688
16-Ireland	2,747	5,077	1,322	1,250
17-Morocco	5,984	4,780	762	894
18-Singapore	3,200	3,208	908	840
19-Oman	5,018	5,676	1,007	732
20-Belgium	2,460	3,676	1,080	678
28-Sri Lanka	893	850	262	342
World	842,648	963,656	215,768	224,391

If we consider only fresh fish (not processed or preserved) figures are considerably lower. It means that processed or preserved fish have a higher added value; moreover imports of fresh fish are lower because of transportation obstacles: when import originates from far off distances, it tends to have a negative effect on conservation of fresh products. Due to this aspect, Italy imports mainly from European or Mediterranean countries. Octopus, squid, Tuna, shellfish (crabs, oysters, shrimps) are the species mainly imported by Italy.

E) HSNO Code 53050 – Coconut, abaca, ramie, agave and other vegetable textile fibres

Country	Import (Thousands of Euros)			
	2009	2010	2010	2011
			jan-mar	jan-mar
1-China	210	305	115	212
2-Germany	182	254	70	112
3-India	140	269	47	57
4-Sri Lanka	262	354	43	56
5-Dominican, repubblic	4	276	8	49
6-Indonesia	65	84	15	36
7-Israel	61	83	32	34
8-Kenya	148	151	26	28
9-Philippines	80	35	9	27
10-Netherlands	1	8	4	6
11-France	28	28	-	5
12-Slovenia	,	2	-	3
World	1,249	1,897	374	626

Italian Import - Source: Istat

Sri Lanka is the 4th largest suppliers of coconut, abaca, ramie and agave textile fibres to Italy, with a share of 15% approximately.
The use of such products is not particularly common in Italy.

E) HSNO Code 4202 – Leather Bags

Country	Import (Thousands of Euros)			
	2009	2010	2010	2011
			jan-mar	jan-mar
1-China	396,774	441,382	129,563	124,827
2-France	161,400	189,803	45,005	53,467
3-Switzerland	39,284	50,055	9,841	14,519
4-Turkey	19,757	32,145	7,396	8,911
5-Romania	27,130	26,930	7,197	8,263
6-UK	18,939	26,361	6,467	7,061
7-India	14,355	13,649	4,333	5,124
8-Bulgaria	11,750	13,555	3,724	4,367
9-Spain	6,763	10,919	2,975	3,758
10-Hong Kong	10,583	10,616	4,106	3,448
11-Belgium	5,765	8,196	2,181	2,356
12-Vietnam	3,829	1,881	513	1,907
13-Indonesia	3,979	3,798	998	1,656
14-Germany	4,563	4,512	1,126	1,588
15-Hungary	6,043	7,275	1,876	1,368
16-Netherlands	1,646	2,770	631	1,161
17-Sweden	1,455	1,420	332	877
18-Moldova	3,529	2,213	632	831
19-Thailand	1,645	1,830	419	705

20-Czech, Republic	617	1,584	56	655
47-Sri Lanka	146	73	23	30
World	753,914	870,547	234,539	251,735

Italian Import - Source: Istat

Italy imports leather bags mainly from China (which constitutes half of total import), from Europe (in part of non EU origin) and from Turkey.

Sri Lanka is 47th in world ranking and 18th largest supplier from Asia. The main European importing partner of Sri Lanka for leather bags is UK.

Sri Lanka Export to Italy (Thousands of Euros)		
Year	Value	Variation %
2002	3	-
2003	2	-33.3%
2004	75	+3650%
2005	112	+49.3%
2006	128	+14.3%
2007	152	+18.75%
2008	145	-4%
2009	146	+0.6%
2010	73	-50%
jan-mar 2010	23	-
jan-mar 2011	30	+30.4%

Source: AICE elaboration on Istat data

F) HSNO Code 09230 – Black tea (fermented) and partly fermented – Italian Import

Country	Import (Thousands of Euros)			
	2009	2010	2010	2011
			jan-mar	jan-mar
1-UK	12,705	17,530	3,972	4,131
2-Belgium	5,706	5,627	1,716	2,091
3-Germany	2,093	2,454	664	636
4-Poland	1,657	1,929	594	556
5-France	1,926	1,748	730	419
6-Sri Lanka	924	1,225	215	317
7-India	437	834	107	190
8-Netherlands	235	219	84	139
9-Austria	323	196	56	60
10-Japan	47	25	12	16
11-Spain	42	92	60	11
12-Switzerland	1	13	1	10
13-Egypt	79	50	10	8
14-Morocco	14	26	7	8
15-Kenya	1	16	-	4
World	26,277	32,123	8,250	8,596

Italian Import - Source: Istat

Sri Lanka is the number one exporter to Italy of black tea from Asia and sixth globally, even though the five leading countries for export of black tea in Italy are not producers but simply processors who buy tea in bulk from Far East Asia.

Sri Lanka is well known in Italy as a tea producer.

Sri Lanka's main European partners are Netherlands, Poland, Belgium and Germany, who are also big importers from Sri Lanka.

Sri Lanka Export to Italy (Thousands of Euros)		
Year	Value	Increase
2002	1,037	-
2003	965	-7%
2004	809	-16%
2005	816	+0.86
2006	934	+14.4%
2007	1,018	+8.9%
2008	965	-5%
2009	924	-4.2%
2010	1,225	+32.57%
jan-mar 2010	215	-
jan-mar 2011	317	+47.4%

Source: AICE elaboration on Istat data

G) HSNO Code 090611 – Cinnamon

Sri Lanka Export to Italy (Euros)		
Year	Value	Variation %
2007	338,760	-
2008	434,717	+28.24%
2009	434,759	+0.1%
2010	353,390	-18.7
jan-mar 2010	17,827	-
jan-mar 2011	236,670	

Source: AICE elaboration on Istat data

Sri Lanka is the number one supplier of Cinnamon to Italy (in both crushed, ground and not crushed, ground forms) with more than 80% of Italian market share.

Italy is the second important market in Europe for Sri Lankan cinnamon after Spain, while the main competitor in Italian market for Sri Lankan producers is Madagascar.

H) Footwear with upper soles of rubber/plastics

Country	Import (Thousands of Euros)			
	2009	2010	2010	2011
			jan-mar	jan-mar
1-China	346,650	422,144	147,030	156,644
2-Belgium	231,317	259,876	76,983	75,592
3-Romania	237,623	260,076	63,713	71,408
4-Vietnam	155,057	191,476	63,413	58,552
5-Netherlands	186,798	182,200	33,534	57,901
6-Indonesia	106,281	134,342	36,462	44,030
7-Spain	86,669	100,147	30,007	35,417
8-India	108,802	129,964	30,498	33,235
9-France	88,708	78,519	26,574	28,114
10-Brazil	59,661	71,325	33,324	21,513
11-Tunisia	70,945	72,201	20,557	18,284
12-Bosnia	68,169	71,961	15,925	17,964
13-Albania	38,382	50,114	13,322	15,505
14-Cambodia	11,635	21,154	8,784	13,922
15-UK	27,190	34,006	9,726	11,561
16-Bulgaria	45,649	49,693	11,821	11,392
17-Serbia	39,900	36,131	10,692	11,008
18-Germany	20,027	26,228	7,135	9,075
19-Portugal	6,637	13,368	2,556	7,555
20-Luxembourg	2,587	10,969	4,899	7,343
37-Sri Lanka	5,057	4,973	1,036	1,200
World	2,169,039	2,453,109	705,266	778,419

Italian Import - Source: Istat

Sri Lanka ranked 37th in Italian imports of rubber shoes with a share of 0.15% (in growth in 2011).
Most important exporters to Italy are China, Romania (a large number of Italian producers invested in new factories there), Vietnam and Indonesia.

Despite a slowdown in 2007-2009, imports of rubber shoes is increasing since 2010 at rates of 10% or more.

Sri Lanka Export to Italy (Thousands of Euros)		
Year	Value	Variation %
2002	2,740	-
2003	435	-84%
2004	2,041	+369%
2005	1,303	-36%
2006	3,877	+197.5%
2007	7,355	+89.7%
2008	7,132	-3.03%
2009	5,057	-29.1%

2010	4,973	-1.6%
jan-mar 2010	1,036	-
jan-mar 2011	1,200	+15.8%

Source: AICE elaboration on Istat data

I) HSNO Code 710391 – Rubies, shapphires and emeralds

Country	Import (Thousands of Euros)			
	2009	2010	2010	2011
			jan-mar	jan-mar
1-Sri Lanka	3,910	4,394	726	6,966
2-India	5,145	6,096	3,437	4,941
3-Thailand	10,365	16,315	2,861	4,539
4-UK	,	2,561	1,205	2,175
5-Israel	1,061	2,693	2	1,561
6-Colombia	3,012	7,344	1,456	1,495
7-USA	3,010	2,764	760	1,119
8-Hong Kong	1,189	1,017	380	399
9-Germany	164	666	120	388
10-Switzerland	4,147	764	52	238
11-Belgium	131	731	144	166
12-France	152	574	33	96
13-Brazil	3	44	-	52
14-Zambia	8	521	45	28
15-China	53	60	8	15
16-Austria	,	146	1	5
17-Spain	1	1	-	4
18-United Arab Emirates	18	76	72	3
World	33,663	48,416	11,463	24,192

Italian Import - Source: Istat

Sri Lanka is the leading exporter of rubies, shapphires and emeralds to Italy.
Its main competitors are India and Thailand but their shares have decreased in 2009-2010 in favour of Sri Lanka products.
In 2011 the trend for Sri Lankan products is still positive and growing.

Sri Lanka Export to Italy (Thousands of Euros)		
Year	Value	Increase
2002	330	-
2003	1,121	+240%
2004	142	-87%
2005	123	-13.3%
2006	6,540	+5217%
2007	6,994	+6.9%
2008	733	-89.5%

2009	3,910	+433%
2010	4,394	+12.3%
jan-mar 2010	726	-
jan-mar 2011	6,966	+859%

Source: AICE elaboration on Istat data

7.3 TRADE FAIRS

In Italy there are many different and relevant fairs held in the most important cities: Milan, Bologna, Turin, Florence, etc.

The most important and world renowned fairs in Italy are:

- MICAM (www.micamonline.com), MIPEL (www.mipel.it), MIFUR (www.mifur.com) for shoes, leather, bags and furs;
- BIT (www.bit.fieramilano.it) for tourist sector;
- PITTI IMMAGINE (www.pittimmagine.com) for fashion products;
- MACEF (www.macef.it) for furniture and interior design;
- ARTIGIANO IN FIERA (www.artigianoinfiera.it) for craft products, furniture, food products;
- VICENZAORO (www.vicenzaoro.org) for jewels, gold, precious stones.

Here is a useful link to the most important fairs in Italy http://www.italyaonline.net/english/fairs/home.htm

Moreover, there are other important fairs in Europe that can be of great relevance also for the Italian market (for example, FRUITLOGISTICA in Germany for fresh food, fruits and vegetables; ANUGA for processed food and beverages also in Germany; MAISON ET OBJECT for interior design products, held in France).

7.4 BUSINESS ETIQUETTE

Years ago it was very rare to find Italian businessmen who spoke English but nowadays Italians are improving their skills in foreign languages and usually every company has at least a person who can speak English or other foreign languages.
However language and communication are the first obstacles to start a relationship with an Italian SME.
It is always advisable to hire a skilled interpreter in particular at the beginning of a new commercial relation.

Here are some general rules to be taken into consideration when doing business with Italian companies.

Relationships & Communication

- Italians prefer to do business with people whom they know and trust. This is more common in Centre-South Italy than in Northern Italy, anyway establishing a genuine relationship with the Italian partner is always a good rule.
- A third party introduction will go a long way in providing an initial platform to work from.
- Italians prefer face-to-face contact, so it is important to spend time in Italy developing relationships and it is also important to invite your partner to visit your company because this will strengthen the confidence.
- It is always important to be dressed properly in formal meetings and demeanour is important too.
- Networking can be an almost full-time occupation in Italy. Personal contacts allow people to go ahead.
- Take the time to ask questions about families of your business colleagues' and about their personal interests, as this helps build relationships. It is also important to reveal information about your private life to your Italian partner.
- Italians are extremely expressive communicators. They tend to be wordy, eloquent, emotional, and demonstrative, often using facial and hand gestures to prove their point.

Business Meeting Etiquette

Appointments are mandatory and should be made in writing (in Italian or English) 2 to 3 weeks in advance. Inform in time your Italian partner of your visit in Italy, with all the details of arrival and stay.
- Reconfirm the meeting by telephone, fax or email and be sure to get a confirmation message from your partner.
- Many companies are closed in August, and if they are open many Italians take vacations at this time, so it is best not to try to schedule meetings then.
- Punctuality (particularly in the North) is viewed as a virtue and your business associates will most likely be on time.
- The goal of the initial meeting is to develop a sense of respect and trust with your Italian business colleagues. Have all your printed material available in both English and Italian. Even if your partner speaks English , hire a good interpreter if you don't speak Italian. This will help the understanding specially if it is your first meeting.
- In informal meetings, it is common to be interrupted while speaking or for several people to speak at once. People may raise their voice to be heard over other speakers, not because they are angry.
- Although written agendas are frequently provided, they may not be followed. They serve as a jumping off point for further discussions.
- Decisions are not reached in meetings. Meetings are meant for a free flow of ideas and to let everyone have their say.

Business Negotiation

- In the north, people are direct, see time as money, and get down to business after only a brief period of social talk. In the south, people take a more leisurely approach to life and want to get to know the people with whom they do business.
- Allow your Italian business colleagues to set the pace for your negotiations. Follow their lead as to when it is appropriate to move from social to business discussions.
- Italians prefer to do business with high-ranking people or with an important position in the company.
- Hierarchy is the cornerstone of Italian business. Italians respect power and age.
- Negotiations are often protracted. Never use high-pressure sales tactics. Always adhere to your verbal agreements. Failing to follow through on a commitment will destroy a business relationship.
- Heated debates and arguments often erupt in meetings. This is simply a function of the free-flow of ideas.
- Haggling over price and delivery date is common. Decisions are often based more on how you are viewed by the other party than on concrete business objectives.

Dress Etiquette

- Dressing properly is a priority in Italy. Men should wear dark coloured, conservative business suits. Women should wear either business suits or conservative dresses. Elegant accessories are equally important for men and women.

Business Cards

- Business cards are commonly exchanged after the formal introduction.
- To demonstrate proper respect for the other person, look closely at their business card before putting it in your card holder.
- It is a good idea to have one side of your business card translated into Italian, but it is not necessary. Make sure that your business cards have at least English translation.
- If you have a graduate degree, include it on your business card.
- Make sure your title is on your card. Italians like knowing how you fit within your organization.
- Never go without business cards to a meeting or run out of business cards.

CHAPTER VIII
TAX SYSTEM

In this chapter we will consider only taxes relevant for companies who intend to sell to Italy or for those companies interested to invest in Italy.

Italy's corporate taxation system recently underwent a major reform, with subsequent additional amendments.

The main features of the new tax system are:

– Reduction of corporate income tax rate (IRES) to 27.50%

– Partial exemption (95%) of capital gains on the sale of equity investments in companies registered either in Italy or abroad (so-called "Participation Exemption")

– Abolition of tax credit system for dividends and introduction of partial tax exemption (95%) of dividends from equity investments in companies registered either in Italy or abroad

– Introduction of a ceiling on the interest expense deductibility equal to 30% of the gross operating income of industrial or commercial companies

– Introduction of a ceiling on interest expense deductibility for financial companies (96%)

– Introduction of a group taxation mechanism under which Italian and foreign companies belonging to the same group may compute a single taxable income for the parent company resident in Italy

– Tax exemption of capital gains reinvested in start-ups.

8.1 DIRECT TAXES

Individual Income Tax (IRPEF)

Individual Income Tax (IRPEF) is governed by Italy's Income Tax Consolidated Text (Testo Unico delle Imposte sui Redditi – TUIR). Individuals resident in Italy for tax purposes are subject to IRPEF on income earned either both in Italy and abroad.
Individuals not resident in Italy for tax purposes are subject to IRPEF only on income earned in Italy. Taxable income is taxed at progressive rates currently ranging between 23% and 43%.

Corporate Income Tax (IRES)

Corporate Income Tax (IRES) is also governed by TUIR. Companies resident in Italy for – IRES tax purposes are subject to IRES for income earned in Italy and abroad. Companies not resident in Italy for tax purposes are subject to IRES only for income earned in Italy. Taxable income is taxed at a 27.50% rate.

The Regional Business Tax (IRAP)

The Regional Business Tax (IRAP) is a local tax levied on the value of production generated in each tax period in Italian Regions by subjects engaged in business activities. Non-resident companies are subject to IRAP only on the value of production generated by permanent establishments in Italian territory.

8.2 INDIRECT TAXES

Value Added Tax (VAT)

Italian rules governing Value Added Tax (VAT - IVA) comply with the relevant Community directives. In principle, the system is designed so as to ensure such tax is only paid by final consumers, as businesses can generally deduct VAT paid at intermediate stages of production.

VAT is generally levied on each sale of goods and/or services carried out in Italian territory.

There are three different VAT rates applicable in Italy:

- 4% on basic agricultural produces, houses and some medicines;
- 10% on some agricultural produces, most foods, medicines, meat, building materials, telephone and electricity for private use, hotel services, airline tickets;
- 21% on the remaining products.

8.3 WITHHOLDING TAXES

The three main withholding taxes are levied on dividends, interest and royalties.

Withholding Taxes on Dividends

Dividends distributed by Italian or non resident companies received by individuals outside the scope of a business activity are subject to a 12.5% withholding tax in settlement of whereby they concern non-qualifying holdings. Qualifying holdings consist of shares (other than savings shares) and any other investment in the capital or equity of a company to which are attached voting rights in the ordinary Shareholders' Meeting exceeding 2% or 20%, if the securities are traded on a regulated market, or 5% or 25% in other cases.

Dividends received by individuals outside the scope of a business activity regarding a qualifying holding in Italian companies are not subject to withholding tax, whereas those regarding foreign companies are subject to a 12.50% withholding tax on account for the taxable portion of profit –i.e. 49.72% of the total (with a consequent filing requirement and deduction of any credit for taxes paid abroad), net of any withholding tax applied in the foreign country. In applying the withholding tax, account is taken of double taxation agreements which could provide for the reduction or elimination of the tax.

Whereby dividends are distributed by a foreign company resident in a State under a privileged tax regime (tax havens), they shall be subject to taxation in full, unless the taxpayer receives a positive response to an opinion request (interpello) from the Revenue Agency.

Dividends received by parties other than individuals not resident in Italy are generally subject to a 27% withholding tax in settlement (the rate is reduced to 12.5% for dividends paid to holders of savings shares). However, whereby non-resident parties are companies or entities subject to corporate income tax in the countries entered in the so-called white list, the rate is equal to 1.375%.

Withholding Tax on Interest

In principle, interest on current accounts and deposit accounts with banks, as well as bonds and similar securities, received by persons resident in Italy for tax purposes is subject to a withholding tax of either 27% or 12.5%, generally applied on account (gross interest is included in taxable income and the withholding is deducted from the gross tax). However, whereby the interest is received by residents outside the scope of a business activity, the withholding tax is applied in settlement and interest is not part of the overall taxable income. Interest on current and deposit accounts, as well as bonds and similar securities, received by non-residents is not subject to any withholding tax, with the exception of persons resident in tax havens, for whom a 12.50% withholding tax applies.

In general, interest on loans is subject to a 12.5% withholding tax on account if received by persons resident in Italy for tax purposes other than persons engaged in the business activity. If interest is received by persons not resident in Italy for tax purposes, the withholding tax is applied in settlement.

The withholding tax rises to 27% whereby the recipient is resident in a tax haven as identified in ad-hoc ministerial decree.

The withholding tax may be applied at a lower rate if so provided for in any double taxation agreement between Italy and the recipient's residence State.

In compliance with the EU Interest and Royalties Directive, withholding tax is not due on interest paid by companies resident in Italy for tax purposes or by permanent establishments in Italy of companies resident in the European Union to (i) resident companies, or (ii) permanent establishments of companies resident in other Member States of the European Union. In accordance with the Directive, the benefit is applicable if requirements concerning minimum holdings are fully met.

Withholding Tax on Royalties

Royalties generated in Italy and received by subjects not resident in Italy for tax purposes are subject to a 30% withholding tax in settlement.

In specific cases, the taxable amount is reduced by 25% of total royalties. The withholding may be applied at a lower rate if so provided for in any double taxation agreement1 between Italy and the recipient's residence State.

In line with the EU Interest and Royalties Directive provisions, withholding tax is not due on royalties paid by companies resident in Italy for tax purposes or by permanent establishments in Italy of companies resident in the European Union to (i) companies resident for tax purposes, or (ii) permanent establishments of companies resident in other Members States of the European Union. In accordance with the Directive, the benefit is applicable if requirements concerning minimum holdings are fully met.

Italy and Sri Lanka have concluded a bilateral agreement to avoid double taxation.

CHAPTER IX ESTABLISHING ENTERPRISES IN ITALY

9.1 DEFINITION OF BUSINESSMAN/ENTERPRISE

In the Italian legal system, the definition of business comes from that of businessman; "a businessman is a person who carries out professionally an organized economic activity for the production or trade of goods or services". The definition is important, because it sets the beginning of the activity and the application of the Italian law: an enterprise starts with its actualexercise of the activity.

9.2 THE STATUTE OF THE COMMERCIAL BUSINESSMAN

The businessman who works in international trade is represented by the figure of the commercial businessman, which is regulated by the Statute of the Commercial Businessman. The purpose of the regulation is to guarantee that the public gets true information and that operations are safe. In order to achieve this result, a legal publicity system has been established with the Trade Register. The Trade Register is established in each Chamber of Commerce. Foreign enterprises, whose administration and/or main purpose are in Italy, must register in the ordinary section of the Register (Article 25 of law number 218 dated May 31, 1995). This formality must be accompanied by documents that change according to the corporate structure.

In general, the following data must be filed with the Register of the Chamber of Commerce where the enterprise's headquarters are located or the enterprise carries out its activity:

- the businessman's personal details;
- the enterprise's data (denomination, scope, headquarters and branches, dates of beginning and end of the activity, etc.);
- enterprise's structure and organisation (articles of incorporation, directors, auditors, etc.).

Enterprises must also comply with another obligation, that is keeping accounting records; books must comply with some formalities established by law and practice that guarantee they are true.

9.3 COMPANIES

The company is the structure through which business is usually carried out. The various types of business meet the diversified needs of businesses, depending on their size, activities, public and customers.

Companies are controlled in two ways: an internal control through the auditors (who control the directors' activity), and an external control that is mostly carried out through the Court's homologation judgment on the changes to the articles of incorporation. This way, the judicial authority has the opportunity to check the entire management in case of serious irregularities; in this case, accounting records can be used for public controls and as evidence in court. In order to guarantee that the accounting records are true, they are monitored by an audit system, whose activity must be independent and continuous (articles 155-165, Consolidation Act on Finance).

There are two main types of business in Italy:

- partnerships
- corporations.

In a corporation the liability of the members or subscribers is limited to what they have invested or guaranteed to the company, while in a partnership the liability of the members or shareholders have a joint, several and unlimited obligation to meet any insufficiency in the assets of the company in the event of the company's formal liquidation.

The most common types of business in Italy are

- Partnerships:
  - S.n.c. (Società in nome collettivo)
  - S.a.s (Società in accomandita semplice): ≈ limited partnership
- Corporations:
  - S.p.A. (Società per azioni)
  - S.a.p.a (Società in accomandita per azioni)
  - S.r.l. (Società a responsabilità limitata)

9.4 RULES GOVERNING COMPETITION

There are two main issues in the rules governing competition: the legislation of monopolies and the discipline of unfair competition. A new enterprise that is established in Italy must keep in mind that in general it is considered unfair competition when an enterprise operates according to principles contrary to the professional ethics (article 2598 of the Civil Code). The most common cases from among new enterprises from developing countries are:

- Parasitic competition: full or partial imitation of another enterprise or its distinctive marks;
- Dumping: permanent sales under the cost of production with the purpose of gaining considerable market shares until a monopolistic position is achieved;
- Misleading advertising: when advertising is not clear, true and correct.

These cases are important, because, when they are recognized by the competent authorities, they result in the payment of damage, and even the suspension of the activity.

9.5 CONSUMER PROTECTION

Consumers are "the individuals who buy or use goods or services for purposes not connected with the business or professional activity they may carry out". In order to guarantee individual and collective rights, the following authorities have been established by law:

- Authority for Communication Guarantees;
- Guarantor Authority for Competition and Market;
- Regulatory Authority for Electricity and Gas;
- Guarantee office for the protection of personal data

These bodies are important because each consumer that holds his/her rights are infringed may demand for a direct action against the infringing activity. This action may be asked for through the Consumers' Union (Unione dei Consumatori).

9.6 STARTING A BUSINESS

Foreign investors can set up a business activity in Italy by:

- Establishing as a one-man enterprise (ditta individuale)
- Establishing an Italian company
- Establishing a secondary registered office (sede secondaria) or branch (filiale) of a foreign company
- Opening a representative office (ufficio di rappresentanza) of a foreign company.

For further references please visit http://www.invitalia.it/site/eng/home/business-environment/doing-business.html.

CHAPTER XI
CONSIDERATIONS FOR YOUR VISIT TO ITALY

10.1 REGULATIONS OF ENTRY

In order to enter the European Union, you are required to hold a valid visa issued by an Italian consulate. If you stay in Italy for business reasons for more than 8 days, once you are entered, you must get from the police office, at latest on the eighth working day after the date of your entry in Italy, the relevant "Permesso di soggiorno" (permit to stay), which is the document that allows you to stay legally. In this connection, it should be pointed out that the police are quite tolerant for a maximum term of 15 days after the date of entry. This means that, within the latter period indicated, it should be unnecessary to ask for the "Permesso di soggiorno" for the period between the 9^{th} and the 15^{th} day of stay. In other cases, the procedures to be followed are:

- If your purpose is tourism – which will allow you to stay in Italy for maximum 90 days – an application for the corresponding visa must be filed with an Italian consulate before travelling.
- If you want to stay longer than 90 days - before travelling you must get a visa from an Italian consulate for the activity you will carry out (work, study, medical treatment, etc.). You are not allowed to work if the "Permesso di soggiorno" has been issued for one of the following reasons: tourism, health, pregnancy, business, religious reasons or legal reasons. You can only work under the guarantees established by labour and social laws under a regular immigration permit.

You may get out of Italy and re-enter by taking care of what follows:

- Do not stay out of Italy for over 6 months, if the "Permesso di soggiorno" has been issued for maximum of two years.
- Do not stay out of Italy for more than half of the time granted by the "Permesso di soggiorno", if this has been issued for more than two years.
- If the "Permesso di soggiorno" expires while you are out of Italy, you must apply with the Italian consulate for a re-entry visa within 60 days after the expiration date of the "Permesso di soggiorno". If the 60 day term has expired, for whatever reason, you have lost your right and cannot re-enter Italy unless you apply for and get a new visa corresponding to the permanent activity that will be carried out in Italy.

Italian Embassy in Colombo can assist Sri Lankan companies to obtain visas.

Moreover Italian Embassy in Colombo has amongst his main duties:

- political cooperation
- economic cooperation

- cultural cooperation
- scientific cooperation
- development cooperation

between Italy and Sri Lanka.

The contacts of Italian Embassy are:

Embassy of Italy in Colombo
55, Jawatta Road
500500 Colombo - Sri Lanka
Tel.: (0094) 11 258.83.88
Fax: (0094) 11 2596344
ambasciata.colombo@esteri.it
www.ambcolombo.esteri.it

10.2 INFRASTRUCTURES

Road system

As of December 31, 2010, the extension of the primary Italian road system (excluding the municipal and regional network) which was approximately 837,493 Km, is divided as follows:
- Motorways 6,661 Km;
- State Roads 21,453 Km.

Railway system

The extension of the railway system is 24,179 kilometers that depend on state-owned company National Railways (FS). There are other 3,000 kilometers managed by private companies.
High Speed Line (TAV) links the most important Italian cities (Milan, Rome, Venice, Turin, Bologna, Naples, Florence, Trieste, Verona).
Moreover, fixed metropolitan urban transportation systems exist in Milan, Turin, Rome and Naples (in Milan, also a suburban one).

Ports

The main commercial ports are Genoa, Leghorn and Naples on the Tyrrhenian coast, Bari, Ancona and Brindisi on the Adriatic coast and Gioia Tauro (biggest Mediterranean transhipment port) on Mediterranean Sea.

Air-traffic

According to survey conducted by OAG Worldwide, the main Italian airlines by the share of frequency and capacity are Alitalia (the national airline), Meridiana, Wind Jet, Blue Panorama, and Air Italy. Most of

these referred airlines only serve domestic flights within Italy, except Alitalia.
For international flights, the main airlines operated in Italy are Lufthansa, KLM, British Airways, Air France, Alitalia, Ryanair (low cost company), Easyjet (low cost company).

The Malpensa airport in Milan is the most important airport for international trade. Malpensa ranks amongst the five largest and most important European airports with a capacity of 24 million passengers per year.
Roma Fiumicino airport in Rome is the most important Italian airport for passenger flights.

Communications

The state-owned television chain is called RAI, while the main privately owned chains are Mediaset and La7. The most influential nationwide newspapers are: Il Corriere della Sera, La Repubblica and Il Sole 24Ore (financial newspaper). There are also companies working in satellite communications, like Telecom, which uses the Iridium system, Vodafone with Globalstar, and TWC (Trans World Communications) with the Thuraya system.

Internet is widespread all over the country.

10.3 RESIDENCE AND ASSISTANCE

Residence and citizenship

You can ask for a residence permit provided the validity term of the "Permesso di soggiorno" exceeds 3 months. Additionally, you can ask for Italian citizenship provided you have lived in Italy for at least 10 years, under regular immigration conditions, have an open-ended job and have complied with all tax obligations. You must submit your application for citizenship with the Prefecture of the Providence where you live; granting citizenship is an absolutely discretional action by the State: so, your application might be rejected.

Medical and national assistance

In case of disease, you may be attended in a hospital of the National Health System provided you are registered. By registering in the National Health System, which is free of charge, you get the "Tessera Sanitaria" (health card), by which you may choose a family doctor and get treatment without paying anything else but the so-called “Ticket”. Being a resident gives you the right to receive national assistance by a social service office, which helps you in case of problems with family relationships, job searching or the search for an apartment to live in.

10.4 CURRENCY

The official currency in Italy is the Euro (€). Available coins are: € 1, 2 and 1, 2, 5, 10, 20, 50 cents. Available bills are: € 5, 10, 20, 50, 100, 200, 500. Automatic cash dispensers open 24 hours a day are available everywhere.

10.5 WORKING HOURS

Banks: Monday to Friday from 8.30 a.m. to 1.30 p.m. and from 2.45 p.m. to 4:15 p.m.
Stores: extremely variable. Monday to Saturday (they may be closed on Sundays) from 9.00 a.m. to 1.00 p.m. and from 3.30 p.m. to 7.30 p.m. (some of them do not close for lunch). They close one morning or one afternoon during the week.
Publicadministration: variable. Monday to Friday from 8.30 a.m. to 2.00 p.m.

10.6 LOCAL TIME

The official time in Italy is GMT +1 hour.

10.7 INTERNATIONAL TELEPHONE CODE - (+39).

10.8 HOLIDAYS IN ITALY IN 2012

New Year's Day	Sunday, January 1
Epiphany	Friday, January 6
Carnival	Sunday – Tuesday, February 19 - 21
Easter Day	Sunday, April 8
Easter Monday	Monday, April 9
Liberation Day	Wednesday, April 25
Labour Day	Tuesday, May 1
Republic Day	Saturday, June 2
Assumption/mid-August holiday	Wednesday, August 15
All Saints	Thursday, November 1
Immaculate Conception	Saturday, December 8
Christmas Day	Tuesday, December 25
St. Stephen	Wednesday, December 26

CHAPTER XII
USEFUL INTERNET ADDRESSES

12.1 TRADING

Information on the TARIC system	www.taric.finanze.it
Information for introducing products to Italy	www.finanze.it/dogane
Italy Customs Agency	www.agenziadogane.it
Italian Institute for Foreign Trade	www.ice.it
Institute for insurance services to the external trade	www.sace.it
Financial enterprise for the development and promotion of Italian enterprises abroad	www.simest.it
Invest in Italy	www.invitalia.it
Italian Association for Foreign Trade	www.aicebiz.com
Aid to importing/exporting to Italy	www.infoexport.it
Promos - Agency for international activities of the Chamber of Commerce of Milan	www.promos-milano.com
Permanent Exhibition Center of Milan	www.fieramilano.it
Chamber of Commerce for Industry, Agriculture and Handicraft of Milan	www.mi.camcom.it
Assolombarda (Union of Lombardy industrialists)	www.assolombarda.it

12.2 GOVERNMENT AND INSTITUTIONS

Ministry of Foreign Relations	www.esteri.it
Ministry of Economic Development / Enterprises and Internationalization	http://www.mincomes.it/
Ministry of Economic Development	www.sviluppoeconomico.gov.it
Ministry of Justice	www.giustizia.it
Ministry of Internal Relations	www.interno.it
Ministry of Labour	www.lavoro.gov.it
Embassy of The Republic of Sri Lanka in Rome	www.srilankaembassyrome.org

Italian Embassy in Colombo	www.ambcolombo.esteri.it

12.3 TOURIST INFORMATION

Italian Government Tourism Board	www.enit.it
Tourism site	www.italiaturismo.it
Tourism site	www.turismo.it
Tourism site	www.turismoitalia.com

12.4 MEDIA

Radio televisione italiana	www.rai.it
Mediaset	www.mediasetonline.com
La 7	www.lasette.it
Il Corriere della Sera	www.corriere.it
La Repubblica	www.repubblica.it
Il Sole24Ore	www.ilsole24ore.it