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UNIVERSITY OF DURHAM
DEPARTMENT OF GEOGRAPHY

MARCO GASTONI

THE AGRI-FOOD SYSTEM IN THE
MEDITERRANEAN COUNTRIES OF THE
EUROPEAN COMMUNITY:
STRUCTURES AND POLICIES,
WITH PARTICULAR REFERENCE TO ITALY.

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Supervisor:
Dr. Peter J. Atkins

Thesis submitted for the degree of
master of arts

1993



14 JAN 1994

**Ille terrarum mihi praeter omnis
Angulus ridet**

Horace Odes II, vi 13

Declaration

This thesis is the result of my own work.
Data and opinions from other authors which are referred to in the thesis
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Marco Gastoni

**The Agri-Food System in The Mediterranean Countries of The European Community:
Structures and Policies, with Particular Reference to Italy.**

**Thesis submitted for the Degree of Master of Arts
University of Durham
August 1993**

Abstract

The analysis presented seeks to introduce the problems encountered by the North Mediterranean Countries in relation to food production, distribution and consumption. The productive aspects of the food system are emphasized in the thesis, in view of their importance in the economic and social life throughout the Mediterranean. The idea of food consumption as a primary influential factor in the development of food production and distribution is also underlined.

A general discussion of the social consequences of food consumption, for example on consumers' health, and of the environmental effects of food production is provided. Moreover, a description of the differences in the European food production and consumption at a national and regional level is presented and the Mediterranean region (Medit) is defined.

A detailed description is given of some of the most important features of the Italian agri-food system. The Italian case shows clearly that the efficiency of the public sector represents one of the most important factors in the development of an adequate food system. There are many reasons to believe that the action of the Italian governments in the past few decades have not always been directed towards the public interest, and this conclusion seems also valid outside the specific topic of the current study.

The lack of a responsible public management, however, has not impeded Italian governments in providing businesses with a comfortable domestic environment, amply subsidized and shielded against foreign competition, in exchange for political support. Fortunately, the Italian political system is now collapsing, along with the 'cold-war' international order and the new challenges originating from a more integrated European Community, and this hopefully will allow the re-foundation of an efficiently functioning modern economy.

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Preface.

In times in which serious food shortages occur at an international level with unbearable suffering, discussing food related problems in the European context might appear as frivolous. Yet, the interests of rich countries are often set against those of poorer countries, so that it becomes extremely important to understand the various aspects related to food production and consumption in industrial countries before attempting any proposal for reaching a food equilibrium at a world level. The reality is multi-faceted.

The present thesis attempts to show that, even within Europe, opposition and disparity are common. The analysis shows the contrasting models of development encountered in southern Europe as opposed to those typical of northern regions. It is opportune to remember that the characteristics of the food system in the Mediterranean area (i.e. the Medit region) have to be considered in their institutional, political and economic national contexts (epitomized in the notion of North Mediterranean Countries Area). The situation is serious: the environmental conditions and, even more, the social problems connected to unemployment and economic death of vast areas of the Mediterranean space require a prompt answer.

The case of Italy presents a valuable example of divergence between a dynamic and economically better-off North and a backward *Mezzogiorno*. The study of the Italian case allows us to analyze, *ceteris paribus*, the development of the food system in different areas under the influence of a single national policy-context.

Aspects related to food demand are seen as extremely important for understanding the long-term possibilities of development of the Italian food system. The study considers some of the most striking structural differences, emphasizing the difficulties of southern regions in the process of development and the lack of incisiveness of both national and regional administrations and the European Community in promoting a necessary adjustment of marginal areas in the Mediterranean region. On the other hand, the analysis reveals also that the management of the Italian food system has been inappropriate in view of an enhanced international competition at a national level, and unfortunately, the situation is worsening even in the relatively more developed North.

The call for a more efficient co-operation between private market agents and public authorities in the Italian case is forceful, not only in view of the importance of the food system in the economic development of rural areas, but also considering the social aspects of food consumption and the environmental management of the territory.

Section I

Agribusiness and Food System in the European Community



Chapter 1 - Methodological Aspects and Definition of the Field of Enquiry.

1.1 Agribusiness complex and food system.

The term *agribusiness* was defined by Davis and Goldberg in order to characterize the area of the economic system which comprises the agricultural sector, or *farming aggregate*; all the activities upstream, designated as the *farm supplies aggregate*; and downstream, such as the *food processing aggregate* and the *fibre processing aggregate*, together with the *distribution aggregate*¹ (see Figure 1.1). "Agribusiness ... includes all the interrelated private and public policy-making enterprises ... including all the private and public coordinating mechanisms that hold the commodity systems together and enable them to adjust to technological, political, social, and economic change. Agribusiness contains large- and small-scale participants irrespective of the economic and political systems involved"². Agriculture is regarded as the unifying element of the complex, and indeed, the *agribusiness approach* defines its object of enquiry in relation to primary sector issues.

The need for a new concept, capable of taking into account the development of modern agriculture, arose from the changing structure of production and the growing inter-relationships between the primary sector and the activities connected to it. According to Davis and Goldberg, "the concept of agriculture as an industry in and of itself or as a distinct phase of our economy was appropriate 150 years ago when the typical farm family not only raised crops and livestock but also produced its own draft animals, tools, equipment, fertilisers, and

¹ see Davis and Goldberg [1957].

² Goldberg (ed.) [1984] p. ix.

other production items; processed its own food and fibre; and retailed in the community most of the excess above family needs"³. In the second post-war period, the farm ceased to be the exclusive centre of production, transformation and consumption of agricultural products. The commercial exchanges

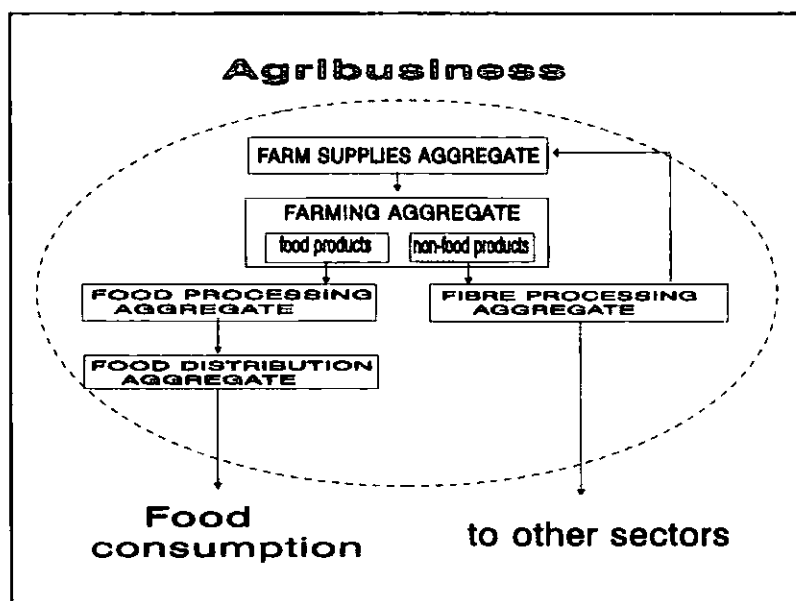


Figure 1.1 - A simple description of the agribusiness concept.

between farming and the activities connected to it grew considerably and, therefore, an interest in agricultural matters had to be supported by an awareness of the importance of the linkages within the agri-industrial complex or agribusiness.

More recently, agriculture has lost much of its overall influence upon agribusiness. Activities closer to the market acquired a hierarchical guidance: in most developed countries, processing and distribution firms were increasingly able to gain market power, benefitting from their market opportunities. Farmers were content to consolidate their political grip on governments, many of them remaining in the market thanks only to public subsidies. This situation explains the need for a new approach to the problems of agribusiness, capable of providing a more global view of the interactions between the different sectors and the final market.

It is possible to define as an *alimentaristic approach* an alternative method of analysis, described by Malassis. The *agri-food system (sous-ensemble agro-alimentaire)*, or *food system* for short, as it has been defined by Malassis, "includes all economic activities that, in a given society, provide for the fulfilment of the *food function*"⁴ and therefore excludes from agribusiness the production and processing of non-alimentary agricultural items. This leads to a greater emphasis on the final market, and thus, on the consumption side of agribusiness.

³ Davis and Goldberg [1957] p. 1.

⁴ "Le sous ensemble agro-alimentaire se rapporte aux activités qui concourent à l'accomplissement de la fonction «alimentation» dans une société donnée." Malassis [1973] p. 11.

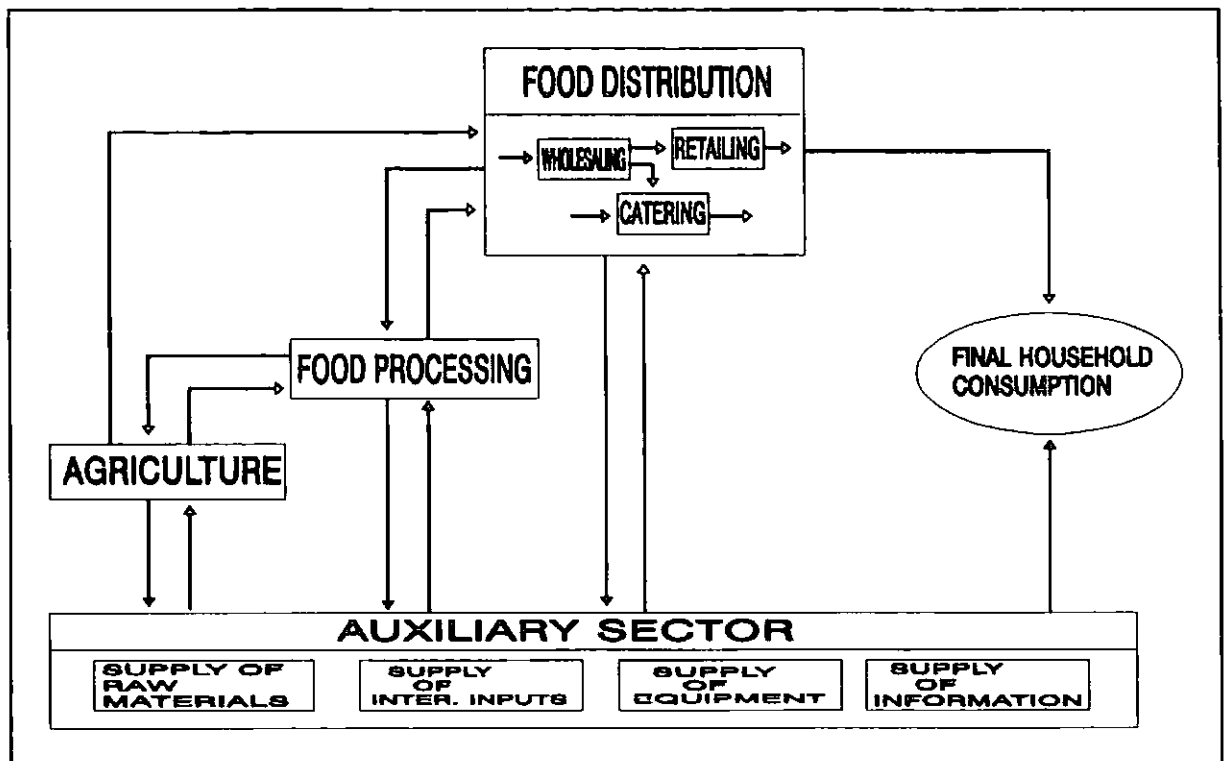


Figure 1.2 - A simple model of the food system.

This new approach involves a substantial modification of the cardinal point for the whole system: it shifts the attention from agriculture, as a physical and structural unifying element, to the food function. It could be argued that, in contemporary society, the concept of agribusiness has exploded its boundaries to comprise a set of activities hardly manageable for practical reasons. Indeed, "any (and every) sector which intersects as a buyer or seller with 'agriculture' becomes *ipso facto* an element in the agribusiness system or complex"⁵. Still, this concept maintains its expressiveness but loses much of its definition for practical purposes.

According to Malassis, the *functional sub-sectors* relative to the food system are: *agriculture, food industry, food retailing, food catering (food system sensu stricto)* plus the *auxiliary sector* or *para agro-alimentaire* (see Figure 1.2), that supplies inputs and equipment to the activities which are directly involved in food preparation, distribution and consumption (*food system sensu lato*). In addition, Malassis also identifies four *socio-economic sub-sectors*, which are related to the modes of organization of agri-food production in the productive units relative to the functional sub-sectors. In western societies the ways of organization of

⁵ Wallace [1985] p. 492.

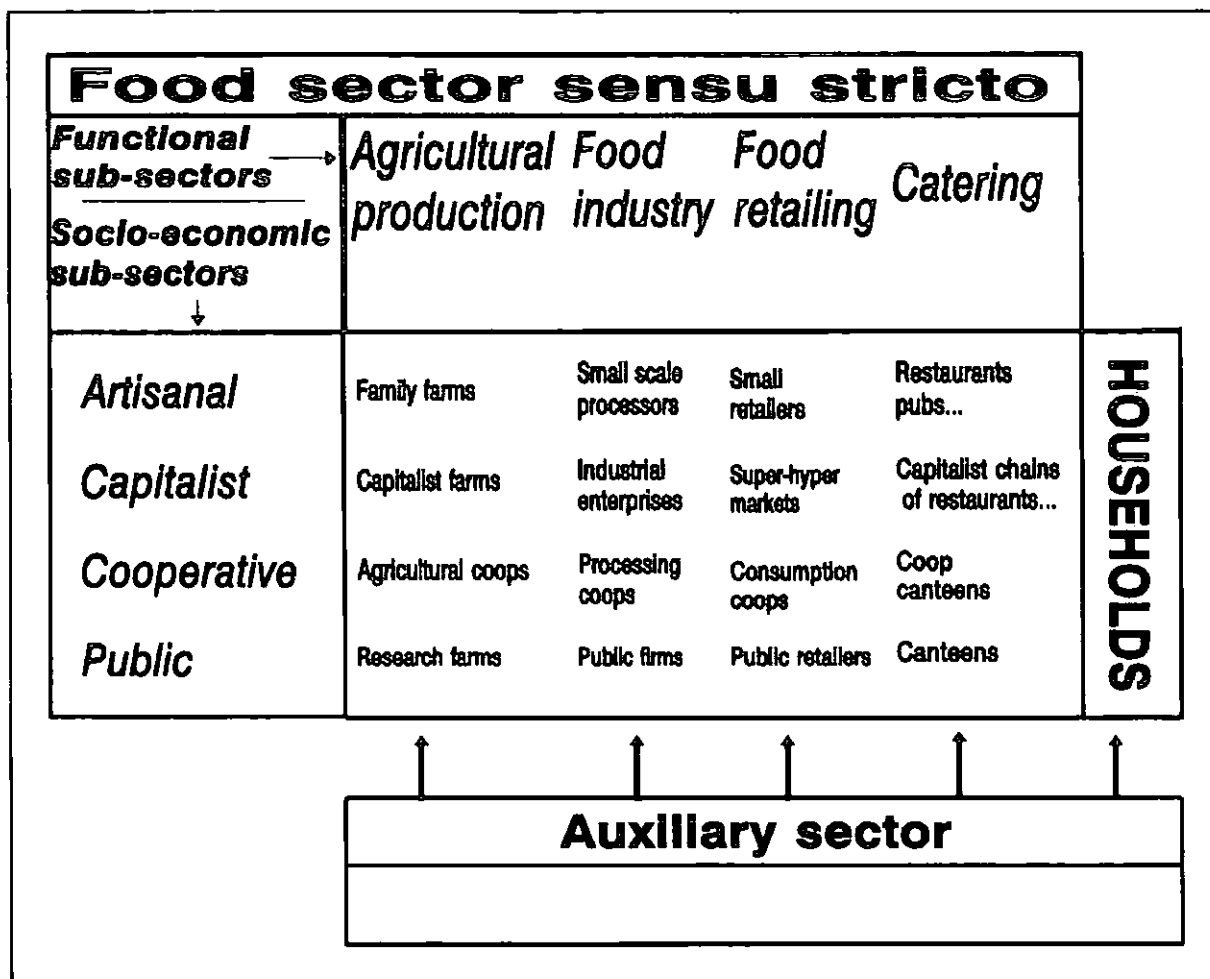


Figure 1.3 - Classification of agri-food enterprises according to their function and organization. (Source: Adapted from Malassis [1973] p. 131)

production turn out to be mainly *capitalist* but also commonly *artisanal*, *cooperative* and eventually *public* (see Figure 1.3).

1.2 The choice of the food system as the object of reference.

The food system constitutes the theoretical framework within which the study has been realized. The structure of the food system has the character of an autonomous entity of study. Galizzi pointed out that "agricultural production, food processing industry and food distribution appear now to be as components of a coordinated whole, parts of a highly

complex system"⁶. Furthermore, the food system is believed to constitute the "true agribusiness sector"⁷ in southern European countries, because of the overwhelming importance of food production in the Mediterranean area, especially in Italy⁸. Non-food items, such as forestry, fibre and flowers represent only a few percent of total value added. This phenomenon, which generally affects most developed countries, may be partly ascribed to the progressive substitution of synthetic material for the traditional raw inputs to agro-industry, which used to be provided by the primary sector.

The research objective should be, according to Corsani, analyzing the food sector for understanding the consequences of the changed rôle of agriculture with respect to the alimentary function. In consequence, the agribusiness approach of Davis and Goldberg seems unable to describe the current situation properly, since it maintains agriculture at a central position in relation to final markets, independently from the kind of demand that the products satisfy (food demand or otherwise)⁹. Scarano points out another limitation implicit in using the agribusiness approach: it defines the entire food system on the basis of the exchange relationship between the primary sector and the others. Therefore, the agribusiness technique allows the analysis of the structure of exchange relations within the food system but it presents substantial limits in the structural analysis of the rôle and functions of food sectors within the economic system as a whole¹⁰.

The definition of this theoretical framework allows us to analyze more clearly the present and future developments of the activities included in the food system, with reference to their structural, functional and organizational factors and to the economy as a whole. The approach is different from the traditional analysis of agricultural markets, because it involves considering a *market chain* and a *price chain* and explicitly takes into account the hierarchical relationship within the *food chain* itself¹¹.

⁶ "La produzione agricola, l'industria della manipolazione degli alimenti e la distribuzione alimentare appaiono ormai come componenti di un tutto coordinato e cioè componenti di un sistema altamente complesso. E questa nuova realtà ha profonde ripercussioni sulle relative politiche economiche." Galizzi [1975] p. 36.

⁷ Costa in Costa *et al.* [1991] pp. 18-19.

⁸ see Bertelè and Brioschi [1981] and Scarano [1989].

⁹ Corsani [1986] p. 108.

¹⁰ Scarano [1989] p. 120.

¹¹ Malassis *et al.* [1985] p. 17.

1.3 The study of the food system and the concepts of food chain and *filière*.

The *food sector*, for Malassis, "is constituted by the set of socio-economic units of production", which in modern western society are designated in general as *enterprises*, "whose activities are predominantly based on food products"¹². The food sector does not correspond to the food system, which in turn includes all the *branches*¹³ totally or partially involved in the food function. Therefore, it is necessary to ascribe coefficients equal to the quota of activities, of the single enterprises or branches, in the food context, in order to calculate the weight of the food system in the economy (see Figure 1.4). The classification of the food system in functional sub-sectors is also carried out by ascribing the quota of each enterprise to each function. In this way the enterprises can be classified according to their function along the *agri-food chain* (agriculture, processing and distribution) and they will also be characterized by their specific socio-economic subsector, i.e. type of productive organization. Households are not directly included in the definition of food sector, instead, the enterprises which supply goods, equipment and services concerning food are part of the *food sector sensu lato*¹⁴.

Recent analyses of food system have been carried out following four theoretical approaches: by branches of the national account; micro-economic; by modes of production and by *filières*. All these different approaches are characterized by their potential capacity of explaining different aspects of the food system, and typically each of them presents limitations. Although a deep consideration of this matter is beyond the scope of this analysis, a brief reflection seems opportune.

The *macro-economic analysis* relies on national accounts statistics that, although more reliable than in the past, still very rarely allow detailed analysis of a sufficiently up-to-date picture of reality¹⁵. The *classical micro-economic approach* by firms and sectors and the

¹² "Le secteur d'activité agro-alimentaire est constitué par l'ensemble des entreprises dont les activités portant sur les produits agro-alimentaires sont prédominantes." Malassis [1975] p. 1372.

¹³ The branch is defined in relation to a definite category of products and it includes all the activities participating to the production of a certain good or service. The weight of each branch in the food system has to be calculated by estimating the quota of individual enterprises involved in the food function.

¹⁴ Malassis [1973] p. 130.

¹⁵ see as a reference Costa et al. [1991] in which it is calculated and analysed, for the first time in Italy, a detailed disaggregated input/output matrix for the Italian economy relative to 1980 data (Agrimodist Tables). The food sector is represented by 14 agricultural branches and 14 food branches. A general description of econometric models used for studying the Italian agri-food sector is included in Bartola and Sotte [1992b].

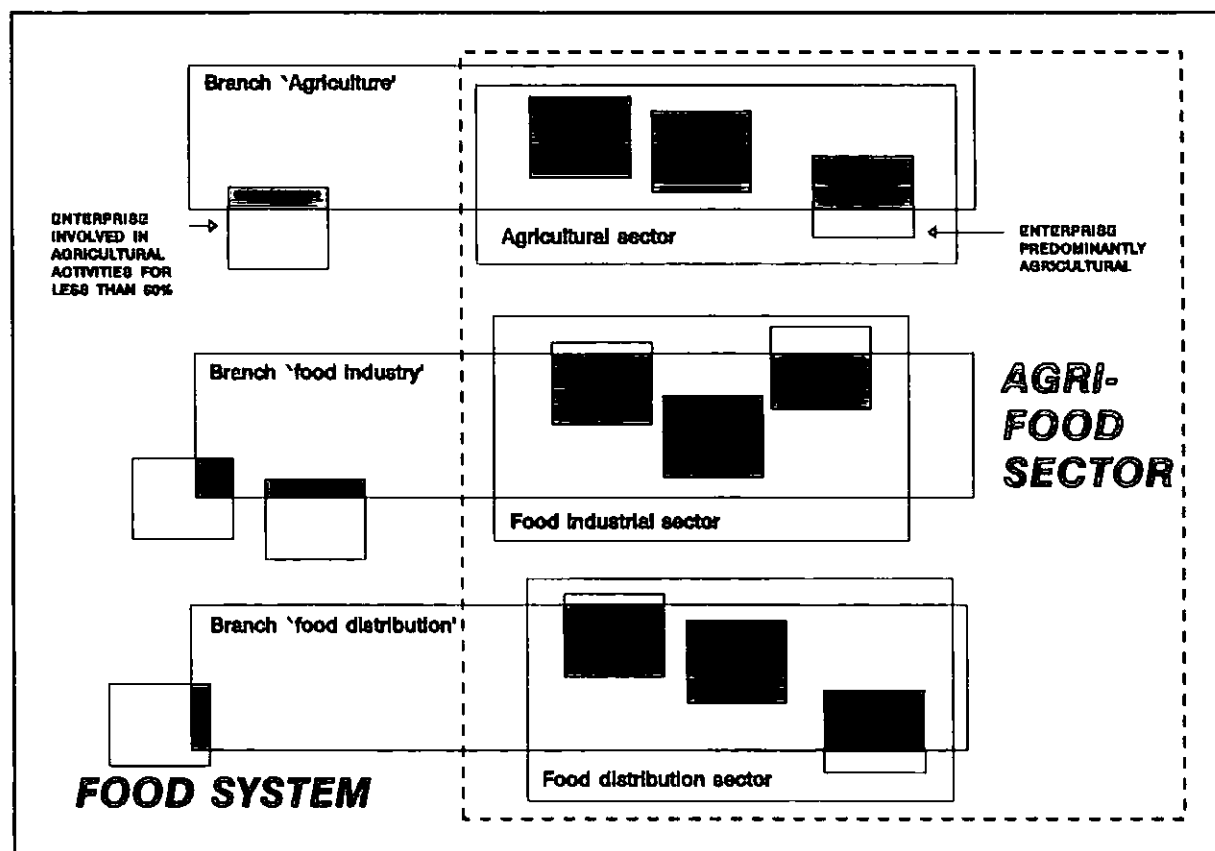


Figure 1.4 - A representation of the concepts of branch and sector. (Source: Adapted from Ghersi and Bensharif in Malassis and Ghersi (eds.) [1992] p. 102)

approach by modes of production find it difficult to explain an increasing *differentiation* across branches of the modern *industrial groups* and a growing *vertical integration* in the food system. In addition to this, consumers' behaviour in the food context cannot be described by the micro-economic conventional consumer theory¹⁶.

For these reasons, studies at an industrial group level and along the *filière*, defined as *meso-economic approaches*¹⁷, have gained growing importance in studies of the food system¹⁸. The *meso-systems* operate in an intermediate position between the socio-economic units and the economic system. In general, "meso-economic systems are centred on a product or a group of connected products, on a technology or a group of technologies, on a process

¹⁶ see Malassis [1992b].

¹⁷ Ghersi and Bensharif in Malassis and Ghersi (eds) [1992] p. 92.

¹⁸ see Lauret and Perez [1992] for a definition of the meso-economic approach.

of strategic and/or commercial control, on a clearly integrated space"¹⁹. In this context, the territorial analysis is explicitly recognized as a fundamental level of analysis.

Studies of food *filières* underline the importance of *flux relationships* between the enterprises involved in the different stages of the complex transformation of the raw product in food. The different itineraries followed by raw materials from agriculture to consumption have assumed a common characteristic in the last few decades: the growing importance of the intermediate activities of transformation and commercialization in the food chain. The concept of *filière* refers to the characteristics of the processes of production, processing, distribution and consumption of a specific product, or group of homogeneous products. The study of the *filière* normally takes into account also the normative aspects of the markets involved in the production and distribution of the product under consideration. This approach improves the explanatory capacity that is lacked by the classical micro- and macro-economic approaches, "by aggregating a vertical set of operations of production and exchange centred upon a product (or service)"²⁰. The analysis by *filière* constitutes a natural concrete expression of the *holistic system characteristics* advocated by the alimentaristic approach: it is capable of analyzing a *system of prices* and a *system of markets*.

Nevertheless, the approach by *filière* has its serious limits. "In particular, it is important to remember that the *filière* concerns one product, or a specific category of products, whilst the enterprises are more and more diversified and thus, they intervene simultaneously in different *filières*"²¹. In other words, the approach by *filière* allows us to analyze well the processes of vertical integration, but presents substantial limitations in accounting for the influence of differentiation and horizontal influences between different *filières* in the food system²². In consequence, the study of the behaviour of industrial groups in the food context is a necessary extension of the approach by *filière*. Moreover, the growing *internationalization* and technological complexity that characterize the food system cause the

¹⁹ "Les meso-systèmes seront centrés sur un produit ou un groupe de produits liés, sur une technologie ou un groupe de technologies, sur un processus de contrôle stratégique commercial e/ou financier, sur un espace fortement intégré." Lauret and Perez [1992] p. 102.

²⁰ "Coscienti della insufficienza degli approcci micro e macro-economici classici, i rilevatori hanno voluto ... «raggruppare» un insieme verticale di atti di produzione e di scambi centrati su un prodotto (o su un servizio)." Malassis et al. [1985] p. 26.

²¹ "Il convient en particulier de se souvenir que la filière concerne un produit ou une catégorie de produits déterminée, alors que les entreprises sont de plus en plus diversifiées et donc interviennent simultanément sur plusieurs filières." Malassis [1973] p. 135.

²² see Byé and Frey [1992].

traditional *filières* to shatter, producing an "aggregate of inter-dependent technological networks and operations on the international markets"²³.

The present research study proposes a systematic analysis, decomposed into sectoral perspectives when necessary. Another perspective presented in the analysis is related to the micro-economic structure of the functional sub-sectors and of the agri-food sector as a whole, taking into account the industrial groups when convenient. A geographical characterization of the elements encountered will be constantly referred to. Finally, a natural extension of the research task would be to include analyses of specific *filières*, especially for assessing the public policy effects on different activities. Nevertheless, in the present study public policy issues will be dealt with only in connection with those structural circumstances that more generally affect the policies' implementation.

1.4 Definition of the geographical areas of study: Europe, Medit region, North Mediterranean Countries Area and the Italian case.

The current research attempts to characterize some aspects of the food system's development, emphasizing its different spatial configurations, in a European framework. In particular, *territorial categories* will be created, in order to highlight contrasts between the structural characteristics of food systems operating in different environments. Moreover, given the far from absolute homogeneity internal to these categories or *regions*, it is interesting to draw comparisons within regions, shaping new categories, contrasting them on the basis of different sets of homogeneities, and deepening in this way the understanding of the actual functioning of the food system, in relation to the problems under consideration.

This study defines a Mediterranean area within the European Community (EC), on the basis of some structural homogeneities. This region will be contrasted with the rest of the Community (sometimes broadly addressed as northern Europe) regarding some aspects of the food system that are deemed to be important for the development of southern European food sectors. Then, the problems which arise from the preliminary analysis will be investigated in depth with respect to the Italian case. However, one has to consider that the *Mediterranean*

²³ "Cette internationalization et cette complexité technologique ont pour effet de casser les filières traditionnelles au profit d'un ensemble de réseaux technologiques interdépendants et d'opérations sur les marchés internationaux." Perez [1992] p. 5.

character is a connotation of a certain area that derives from several inter-connected qualities and that any definition of the Mediterranean area necessarily involves a certain degree of subjective judgement and of simplification of the real world. Yet, this research is more addressed to identifying common structural characteristics and problems of the food system, highlighting some possibilities of future development, than finding a model capable of describing and predicting the present and future development of any variable capable of illustrating the southern European food system, or any of its components.

A useful starting point in the definition of the Mediterranean area is the *MEDEF* (*Méditerranée Défavorisée*) region, as defined by the MEDEF European research network²⁴. The MEDEF study takes into account the disadvantaged and mountain areas included in the Mediterranean areas of the five southern European members of the Community: namely France, Greece, Italy, Portugal and Spain²⁵. The olive tree limit constitutes the ideal northern boundary of the MEDEF region. The definition of MEDEF is conceptually appropriate, being trans-national and taking into account environmental difficulties in addition to the Mediterranean climate, but the Mediterranean area which is considered in this study is different²⁶.

The current study is concerned with all those regions and areas eligible of support from the European Community under *Objective 1* and *Objective 5b*, plus the areas classified as *mountain areas* by the Commission²⁷, which lie below the olive tree line. These regions result from a recent re-definition of the European structural funds²⁸ and they account for disadvantageous economic and social factors in addition to the physical ones. This area, shown in Map 1.1, constitutes the *Mediterranean Region (Medit)* of the study. In conclusion, the *Medit* region includes not only those areas with specific environmental handicaps, considered by the MEDEF research group, but also the areas of the Mediterranean South of Europe which show clear signals of rural decline and economic stagnation. Specifically, the

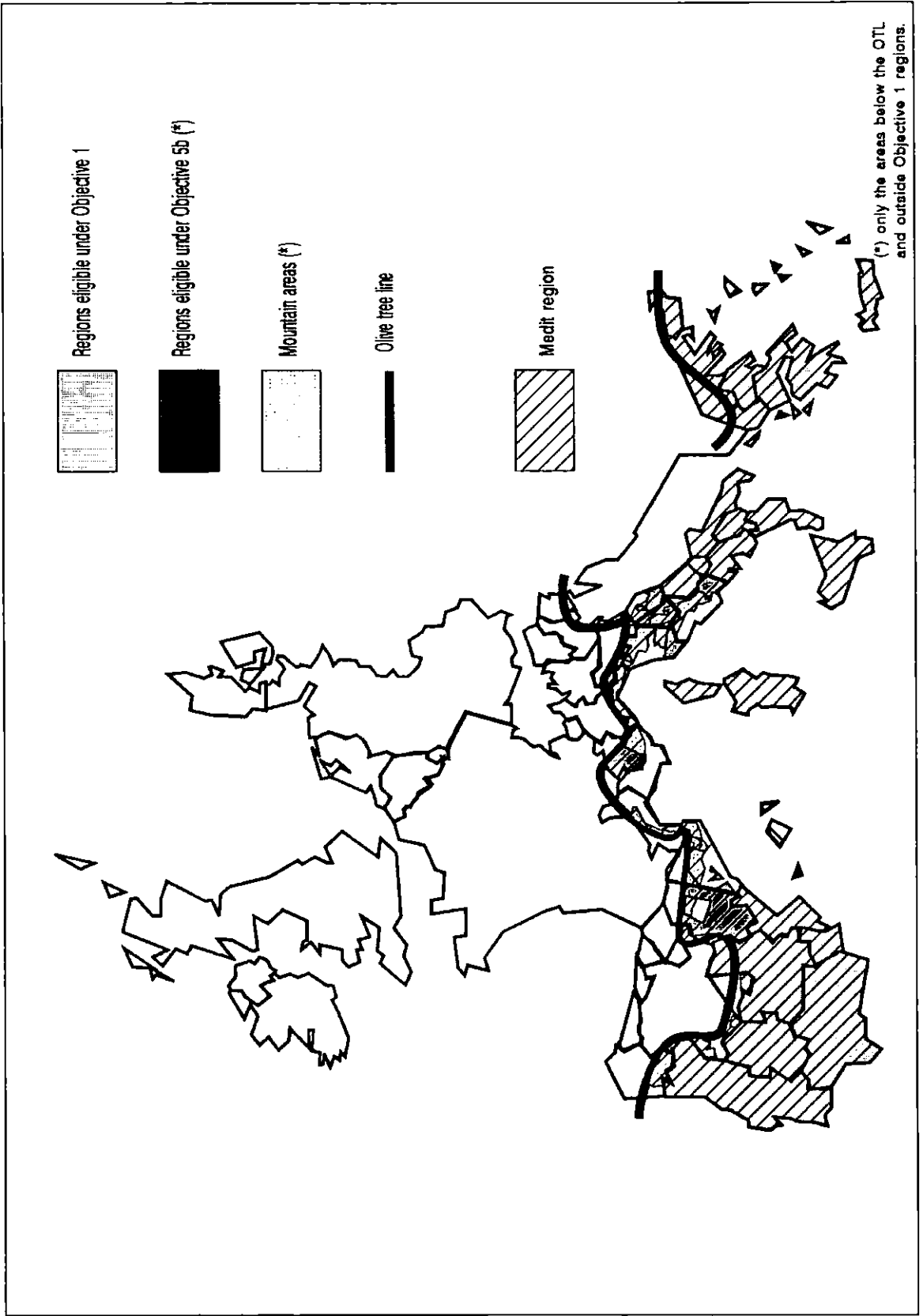
²⁴ see Commission of the EC [1992a].

²⁵ The MEDEF zone is defined by referring to the definition of disadvantaged and mountain areas operated by the five countries under the conditions imposed by the EC Directive n. 268/1975.

²⁶ The definition of disadvantaged regions is slightly different.

²⁷ The regions eligible of support under Objective 1 are identified with the *poorest regions* of the European Community in terms of economic indicators, whilst the regions eligible under Objective 5b can be referred to as *backward rural areas* characterized by a large agricultural component.

²⁸ see European Community [1990].



Map 1.1 - The Medit region

objective of the research is to gain a better understanding of the structural difficulties that are common throughout the Medit region.

Another primary aspect of these problems is reflected, at a national level, for those countries, namely Italy, Greece, Spain and Portugal, in which the Mediterranean character of the food system is so important, that a positive general development of the national agri-food sector cannot ignore the adjustment of those disadvantaged regions within the countries that are part of the Medit region²⁹. In fact, the national food systems of these southern European countries are heavily characterised on the one hand by their large Mediterranean components, and on the other, they are often subordinate to the same sort of political, social and economic constraints. Therefore, the definition of *North Mediterranean Countries Area (NMCA)*, which is the area delimited by the boundaries of the four southern European countries, Italy, Greece, Spain and Portugal, represents the economic, social and political framework in which lies the Mediterranean area *sensu stricto*, i.e. the Medit. It is in the context of the NMCA that the definition of the Medit region is meaningful for the purposes of the analysis: in my view, little understanding can be derived from a study that avoids considering the broader national, and sometimes also European, context. In conclusion, the study will normally refer to the Medit area in the context of the NMCA.

France, even though a Mediterranean member of the EC, has been voluntarily excluded from the definition of the NMCA: the French food system has acquired more a northern European rather than Mediterranean character; hence the development of its Mediterranean component seems to be more a strictly regional issue than a national one. According to Perez, the French performance is connected to the northern European agro-industry linked to the large-scale production in the *Bassin Parisienne* for field crops and to the livestock activities of the western region³⁰. Nevertheless, the observations that will be generated relative to the Medit region are meaningfully extendable to the small portion of French *Midi* that is part of the Medit.

The difficulty of carrying out an extensive and detailed survey of the situation of the food system in different periods and geographical locations throughout the South of Europe, given the very limited time and resources available, makes necessary a particular

²⁹ According to Perez, it is possible to distinguish between three regions in the area: the northern region of the EEC, the Mediterranean countries of the EEC and the Third Countries of the Mediterranean area. Perez [1987] p. 7.

³⁰ Perez [1992] p. 11.

methodological approach towards an understanding of the food system in different European landscapes. The contrast between the Mediterranean South of Europe and the North is maintained in the background, whilst another level of contrast opens within the North Mediterranean Countries Area, namely in Italy. It is believed that the contrasts in the food system's development in northern and southern Italy represent well some of the contrasts which are characteristic between northern Europe and the Medit region. Moreover, the distortive effects of public policy upon the food system are more easily identifiable in the context of a single country, rather than analysing an area in which *public policy* has had, and partly is continuing to have, such an uneven effect. Therefore, a study of the regional connotations of the Italian food system constitutes a valuable step towards a better understanding of the North-South contradictions at a European level. However, a comparison of Mediterranean areas' environments highlights significant differences, which do not allow any direct conclusion transferred straight from the Italian experience. Nevertheless, this kind of analysis illustrates some of the structural constraints common throughout Mediterranean Europe.

Chapter 2 - The European Food Systems: Analogies and Contrasting Realities.

2.1 The food system in Europe.

The primary importance of the agri-food sector for European citizens of the EC relies first of all on its major, although declining, share in the economy. "The 'food-chain' (farmer-processor-retailer-consumer) alone employs almost 20% of the Community workforce ... and produces more than 10% of Community GDP"¹, without accounting for the auxiliary sector. Secondly, most of the basic activities in many rural areas of the Community are based upon food production and processing. Furthermore, the social consequences of food consumption, for instance on health, are vitally important for the society as a whole.

It is indeed very important to consider that the European Community's food market comprises different national, even regional and local, components. As pointed out by Shaw, Burt and Dawson, "food, perhaps more than any other product reflects the social and cultural values of consumers. Not only is there cultural diversity in the consumption patterns and the behaviour of consumers amongst states but also there is a variety within member states related to living conditions in urban and rural areas, income differences, social values ... and other socio-economic attributes of the population"². Therefore, the huge dimension of the market reflects an extremely differentiated geographic characterization, which has always to be borne in mind.

¹ Traill in Traill (ed.) [1989] p. v.

² Shaw, Burt and Dawson in Traill (ed.) [1989] p. 6.

Several interconnected forces are contributing to shape the present and future structure of the European food system. The multinationalization process at a world level is particularly apparent in this sector, in which the rapidity of transformation in the last few decades has been astonishing. The process of *internationalization* of the agri-food economy results basically in two major phenomena:

- ◀ the growing inter-dependence between national economies and
- ◀ the expansion and supremacy of western developed countries' models of production and, above all, consumption.

The internationalization of food production and consumption is particularly apparent if one considers the increasingly important rôle of multinationals in the European food system.

Another especially influential factor in the international food economy is the great *technological advance*, which results not only in a growing international mobility and complexity of processing of modern foodstuffs, but also in a growing food enterprise's ability to exercise a closer monitoring of market development, thanks to computerized information systems. The diffusion of new technological developments in food production is bound to produce a revolutionary effect in the food system. For instance, "biotechnologies now threaten to *implode* the long-lasting organization of the food system around specialized commodity chains by their ability to transfer genes across species barriers and adapt agricultural products for non-traditional markets"³.

According to Munton, the impact of technological change upon agriculture, and the food sector in general, acts along three major lines:

- ◀ the greater integration of the food sector within the economy as a whole means that agricultural policy will be growingly influenced by industrial and trade policies, even though not focused specifically on the food sector;
- ◀ the increasing interchangeability, in space and quality, of raw agricultural materials for manufacture forestall any single group of farmers' market power over supply;
- ◀ the effects of biotechnologies on the natural environment and consumer's health are deemed to be potentially negative⁴.

Some of the new technologies entail a more intense use of agro-chemical products, while effects upon health have not been fully clarified yet. Biotechnology may also give greater

³ Goodman and Wilkinson [1990] p. 134.

⁴ Munton [1992] pp. 34-35.

scope for protectionism, since it permits producers to overcome many environmental constraints, allowing national states to pursue more easily autarkical policies⁵.

In developed countries, the duality of a *mass food market* is also evident: the market seems to be experiencing a progressive *segmentation*⁶, which originates from the current trends towards quality consumption of special food by high income consumers⁷. Furthermore, "in affluent societies where food shortages no longer seem to threaten, consumers are demanding more ecologically sound food systems"⁸. Hence, the study of food systems' structural change acquires even more importance from a political point of view.

2.2 The topicality of the food system in the context of the North Mediterranean Countries Area.

The study of the food system in the Medit region assumes a crucial importance in this period of great changes in the Community framework. There has been increasing pressure for national and supra-national governments to define a plan for the future development of this area. The discussion about the political future of the EC and the growing interaction of economic, political and social elements, produced by the functioning of the Single European Market requires precise answers from the North Mediterranean Countries. These latter, instead, have often shown a lack of strategy for the development of their food sectors in the next millennium.

In particular, the reasons for discussing matters inherent in the food systems of the NMCA are numerous. First, the importance of the food sector in the economies of these countries is substantial, both in absolute terms and relative to the stimulating effect of the alimentary branches. Not only agricultural activities account for a major share of the working population in many areas but also the activities connected to agriculture present vital connections with the local and regional economies.

⁵ see Munton [1992], Munton *et al.* [1990] and Redclift [1990].

⁶ see Del Pezzo *et al.* [1985].

⁷ Fanfani and Montresor [1991] pp. 180-181.

⁸ Munton [1992] p. 43.

Second, in this area more than anywhere else in the developed world, the understanding of the agricultural-industrial relationship appears as a matter of life-development for the marginal people. The European Commission designates three standard problems for the rural world:

◀ pressure of modern development on areas most exposed to non-agricultural activities, especially in the easily accessible areas in the Centre-North of the Community or in many coastal areas;

◀ rural decline which "threatens to blight many rural areas, particularly in the outlying Mediterranean parts of the Community"⁹;

◀ depopulation and abandonment of land in "those areas that are furthest from the mainstream of Community life and access to which is more difficult"¹⁰ where the fragile social and physical environment needs protection.

In particular, the phenomenon of marginalization seems to have occurred markedly across Mediterranean areas. "In the Mediterranean countries only 2-4% of farmland was uncultivated at mid-century: now the proportions range between 10 and 20%"¹¹.

Thirdly, the growing internationalization of the market, which is now affecting the weaker economies of the NMCA, is bound to harm in particular the underdeveloped activities, such as farming, across the Medit region. The current international trends, in the context of the food system, seem to have already radically altered "the territorial equilibrium of the old international division of labour both in general and in the main productive regions of the 'Mediterranean system'"¹². The entire agri-food sector has emerged as a determining factor in the development of farming, and often "comparative advantages in processing and marketing took the place of the traditional comparative advantages in [agricultural] production"¹³. This has caused major difficulties in many rural activities, which are not entirely attributable to their inefficiencies, and in turn, this will result in even heavier economic and social consequences in many areas across the Medit.

⁹ Commission of the EC [1988a] pp. 6-7.

¹⁰ *ibid.* p. 7.

¹¹ Clout [1991] p. 718.

¹² "Questa tendenza, che appare come caratteristica della fase attuale, stravolge l'equilibrio territoriale della vecchia divisione internazionale del lavoro sia in generale, sia nelle principali regioni produttive del 'sistema mediterraneo'." Perelli *et al.* [1984] p. 63.

¹³ Brito Soares [1990] p. 1.

In other words, the process of *modernization* of the food system in this region has assumed complex forms and characteristics, in consequence of the interaction between the peculiar historical patterns of Mediterranean areas and the growing international influences. Indeed, the perspective of a Single Market, in which capital, labour and people will be free to move across Europe, is bound to be specifically disruptive for the traditional Mediterranean food chain. The traditional Mediterranean circuit (formed by small family farms-artisanal food processors-intermediaries-small independent retailers limited to a local scale) appears unable to compete with international capital in the current conditions. This is often due to governments' inability (or lack of will) to restructure inefficient sectors, discriminating between activities which act as constraints (i.e. inadequate distribution channels) and activities that are constrained, but nevertheless potentially able to compete, such as some small producers of quality foods.

Last, but not least, the attempt to gain a better understanding of future possibilities for the food system seems to be essential for an appropriate long-term public policy, capable of bringing a pattern of development appropriate to the people of southern Europe. In fact, it would seem sensible to consider the particularity of the economic and social structure and local attitudes towards life-style, before accepting development models imposed by the so-called international 'free market'. The danger, according to Florio, is that an unconditional openness to the foreign multinationals may destroy the national productive base. "In the future, we could see an abrupt transition, of some sectors of the food system, from the traditional to the multinational configuration, from provincialism to cosmopolitanism, jumping that 'national' phase which can almost always be found in capitalist development and that is the base of the foreign multinational of the food sector"¹⁴. It seems reasonable to add a further remark: this process of multinationalization, which in the short run might seem favourable to the consumer (lower prices, greater consumer influence upon some aspects of the production process, etc.), in the longer period is bound to destroy irreparably the southern European small- and medium-sized enterprises' ability to produce and distribute their traditional food products, depriving in this way the consumers themselves of the possibility of finding foods produced using traditional methods and ingredients at an affordable price.

¹⁴ "Se la nostra ipotesi é fondata, potremo in futuro assistere ad una brusca transizione di alcuni punti del sistema agroalimentare dalla configurazione tradizionale a quella multinazionale, dal provincialismo al cosmopolitismo, saltando quella fase 'nazionale' che si ritrova quasi sempre nello sviluppo capitalistico e che é alla base delle stesse multinazionali estere del settore." Florio [1987] p. 85.

2.3 North-South contrasts in the European Community with respect to the food system.

An analysis of the typical structures of the agri-food systems across the North Mediterranean Countries Area reveals that food production in the Medit region presents a set of common characteristics. These typical characteristics are particularly apparent in contrast with the northern regions of the Community. Primarily, the agri-food sector in the Medit region suffers from a significant lack of competitiveness. Even though some *filieres* have developed efficiently, for example citrus production in Spain, they constitute only *islands of competitiveness* within the Mediterranean space, that presents globally an insufficient ability to compete in the agri-food context¹⁵.

Considering the demand-side, it is important to underline that although the rate of food consumption growth in the North Mediterranean Countries Area is now decelerating, stabilization is likely to occur at a significantly higher standard than the present one, allowing an important additional development in both quantitative and qualitative terms. The potential offered to their national food sectors is great. However, several factors contribute to reduce the demand development effects upon the southern European food sectors, causing a strong external diffusion of these beneficial effects. In addition to this, inside NMCs "the multinational food industry, backed by European and US capital, seems to be taking hold. Through the supply of technology, it conditions some of the most dynamic or modern sectors and, in a few strategic cases, the economy of those countries"¹⁶.

Perez points out that "the existence of considerable potential markets is not sufficient to ensure the development of the Mediterranean agri-food *filieres*. On the contrary, it may be a source of destabilization of the national production systems"¹⁷. Indeed, Perez identifies some pertinent problems in the context of the NMCA:

◀ the evolution of food demand may tend to impose a north European consumption model, damaging the traditional Mediterranean productions;

¹⁵ Perez [1990] p. 2.

¹⁶ Cannata [1982] p. 126.

¹⁷ "L'existence de marchés potentiels considérables ne suffit pas à assurer le développement des filières agro-alimentaires méditerranéennes. Elle peut être, au contraire, une source de déstabilisation des systèmes de production nationaux." Perez [1990] p. 8.

◀ the great seasonal fluctuations of demand, which characterize the evolution of certain markets, hinder Mediterranean producers which are significantly less organized than their external competitors in relation to the processing industry and large-scale distribution.

In conclusion, the problem of development of the food system in the Mediterranean region, and consequently in the NMCA, seems to be more related to the organizational aspects of the agri-food *filières* than to the disadvantageous natural factors typical of the Medit region. Nevertheless, the rôle of environmental handicaps has to be taken into account, together with the socio-economic factors which limit the ability to respond to market forces by Mediterranean agents.

2.3.1 Consumption patterns.

The particular climatic conditions, which are found in the Medit region, have strongly influenced, especially in the past, the kinds of subsistence agricultural production undertaken in this area, and therefore contributed to build common trends of food consumption, labeled in the general concept of *Mediterranean diet*. However, in the last few decades food consumption has lost part of its local component and other factors have assumed a growing importance in determining the evolution of food demand. The most important influence has been undoubtedly the outstanding rise in consumers' purchasing power, that has enabled the people of the NMCA to afford changes in their diet. Other primary determinants have influenced the evolution of demand, such as the development of international trade, which has made available a variety of different products of foreign provenance. A crucial rôle has been also played by the social changes in capitalist western societies¹⁸.

The concept of Mediterranean diet has changed its connotation in time, differentiating according to the changing economic and social geography of the Mediterranean Basin. However, Malassis proves that it is still possible to identify two different Europes: a northern European pattern of consumption, based on a greater weight of animal calories, and a Mediterranean pattern, in rapid evolution, still characterized by a much greater importance of vegetable calories¹⁹.

¹⁸ see Chapter 4 for a detailed consideration of the determinants and changes in food demand, with reference to the Italian case.

¹⁹ Malassis [1992a] p. 48.

According to a study by Titos Moreno, which applied a *cluster analysis* to the consumption figures of the countries in the Mediterranean Basin²⁰, the difference in food consumption between the Mediterranean countries and Western developed countries has been narrowing, between 1971 and 1987, due to an important long-term *demonstration effect*²¹. It is possible to observe a trend towards aggregation by development level. Indeed, Italy, Spain and Greece have maintained a similar consumption pattern in the period under consideration, at the same time differentiating themselves from the groups formed by African and Asian countries of the Mediterranean²². The analysis isolates France from other countries because of its being insufficiently Mediterranean and having different alimentary habits. These findings reinforce our notion of the North Mediterranean Countries Area.

With reference to the figures on physical food consumption (see Table 2.1 to Table 2.4) some further considerations can be drawn:

- ◀ the differences between the NMCs and the rest of the Community in relation to the consumption of cereals, vegetables, wine and meat have been significantly reduced in the last decade, whereas in other cases there still is a strong characterization (for example in the consumption of butter and oils);
- ◀ the differences in consumption between the NMCA and the rest of Europe still persist if the qualitative aspects of consumption are considered: the consumers in southern Europe retain their particular aversion for some kinds of processed food (for example see Table 2.3 and 2.4);
- ◀ within the NMCA some of the dissimilarities have also been reduced, as for example in attitudes to vegetables and wine consumption, whilst others have not (potato consumption in Italy is very low and static in comparison with the other NMCs).

Finally, another aspect of the change in food consumption in European countries has to be underlined. In general, it seems reasonable to say that northern European countries have reached a mature phase in the development of demand. The countries of the NMCA, by contrast, do not seem to have acquired a clear pattern of change in diet and consumers' attitudes appear to be divided, not only in geographical terms, between tradition and innovation. From the analysis of the Italian case it is possible to argue that consumers, in the

²⁰ Titos Moreno [1990]: Portugal is not included in the definition of Mediterranean Basin.

²¹ Titos Moreno [1990] p. 15.

²² *ibid.* pp. 15-16.

regions within the NMCA, are still inclined to build a diet different from the northern European and American example, not only across the Medit region and lower-income classes²³. This conclusion excludes the possibility that consumption patterns are anchored to the old-style Mediterranean diet and closed to the influence of innovative foods, although it does firmly oppose the hypothesis of an inevitable realignment of southern European consumption patterns to those of northern Europe and the United States.

2.3.2 The agricultural sector.

The similarities in southern European climates, and the consequences of this homogeneity upon the agricultural system in the Medit region, are clear. Still, a perfect classification of agricultural systems is bound to be unrealistic, and even limiting a possible classification to the essential factors of agricultural production, the conclusion would not bring any practical advance in the knowledge of different combinations of agricultural systems in the world²⁴. Nevertheless, it is deemed important to give a preliminary description of the Mediterranean agricultural system's structural characteristics.

According to Feio, the climatic characteristics across the Mediterranean region have been particularly influential in the development of agriculture in these areas. The lack of rain in the summer, and in part of the spring, limits cereals to the winter in which they normally face excessive rainfall, insufficient cold and short days. In addition to this, most of the crops that require a mild climate (potatoes, sugarbeet, millet, cotton, soya, etc.) have to be irrigated. Therefore, the Mediterranean climate turns out to be significantly constraining, with respect to these products, in comparison with regions in which rain is better distributed during the year, as for instance in northern European Atlantic and sub-Atlantic humid climates. Another important factor lies in the topographic features of the Medit region and the prevalence of mountainous and hilly lands²⁵.

The development of Mediterranean agriculture has therefore relied on typical cultures. Some of these products enjoy special irrigation rather than rain, such as rice and tomatoes, but in fact, these kinds of crops employ just a tiny fraction of Mediterranean space mainly

²³ see Chapter 4.

²⁴ Marsullo [1979] p. 9.

²⁵ Feio [1989] pp. 19-23.

in the lowlands. Then, there are the traditional tree crops of this region, such as vines and olives. The former has encountered increasing competition within and outside the NMCA, both in quantity and in quality, whereas olive oil has suffered from the challenge of cheap vegetable oil. The production of vegetables and fruit is suitable in most of the Medit region, but this kind of produce is so widely grown throughout the Mediterranean area and outside it (for instance greenhouses in the Netherlands and out-of-season production from the southern hemisphere), that a significant surplus over consumption is currently produced in the European Community. Finally, another traditional activity in the Medit is extensive livestock farming, mainly sheep and goats, which is often undertaken in mountain and hilly areas.

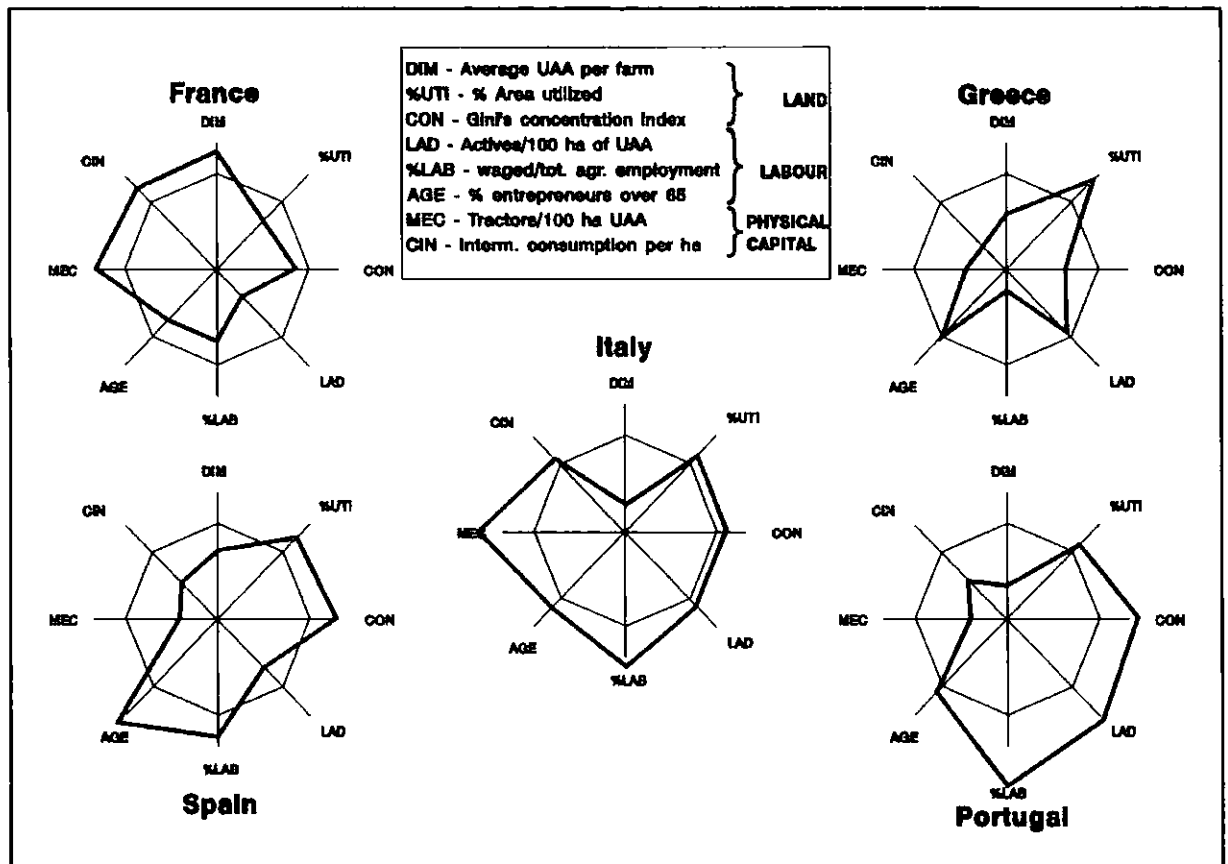


Figure 2.1 - Some structural characteristics of agriculture in the Mediterranean countries of the EEC. (Source: Commission of the EC [1983] p. 218)

A study published by the EC Commission²⁶ analyzed the regional characteristics of agricultural structures in southern Europe. There was evidence of a significant deal of differentiation of productive systems in the geographic units considered, even within the same kind of productive mix. For the comparison at a national level, several factors, which

²⁶ see Commission of the EC [1983].

characterize the structure of production, have been taken into account and represented in Figure 2.1. The results seem to further justify our decision to exclude France from the definition of NMCA. Estimated *labour productivity* in France turned out to be considerably higher than in Italy, Spain, Greece and Portugal respectively. In 1983, France had the highest *average size of farms*, the lowest *number of workers per hectare* and very high indices of *intermediate consumption* and *mechanization*.

Italy scored very high with respect to intermediate consumption and mechanization, but it relied remarkably more on labour and average farm size was much lower. Spain's average farm dimension was much lower than France's but was significantly higher than Italy's; the degree of *land concentration* was remarkable, but the capitalization of its agricultural system was low and the *percentage of older entrepreneurs* was the highest. Finally, Portugal and Greece were characterized by a small average holding size, weak capitalization and a high density of agricultural workers per hectare. Concentration of land property was the lowest in Greece and the highest in Portugal²⁷.

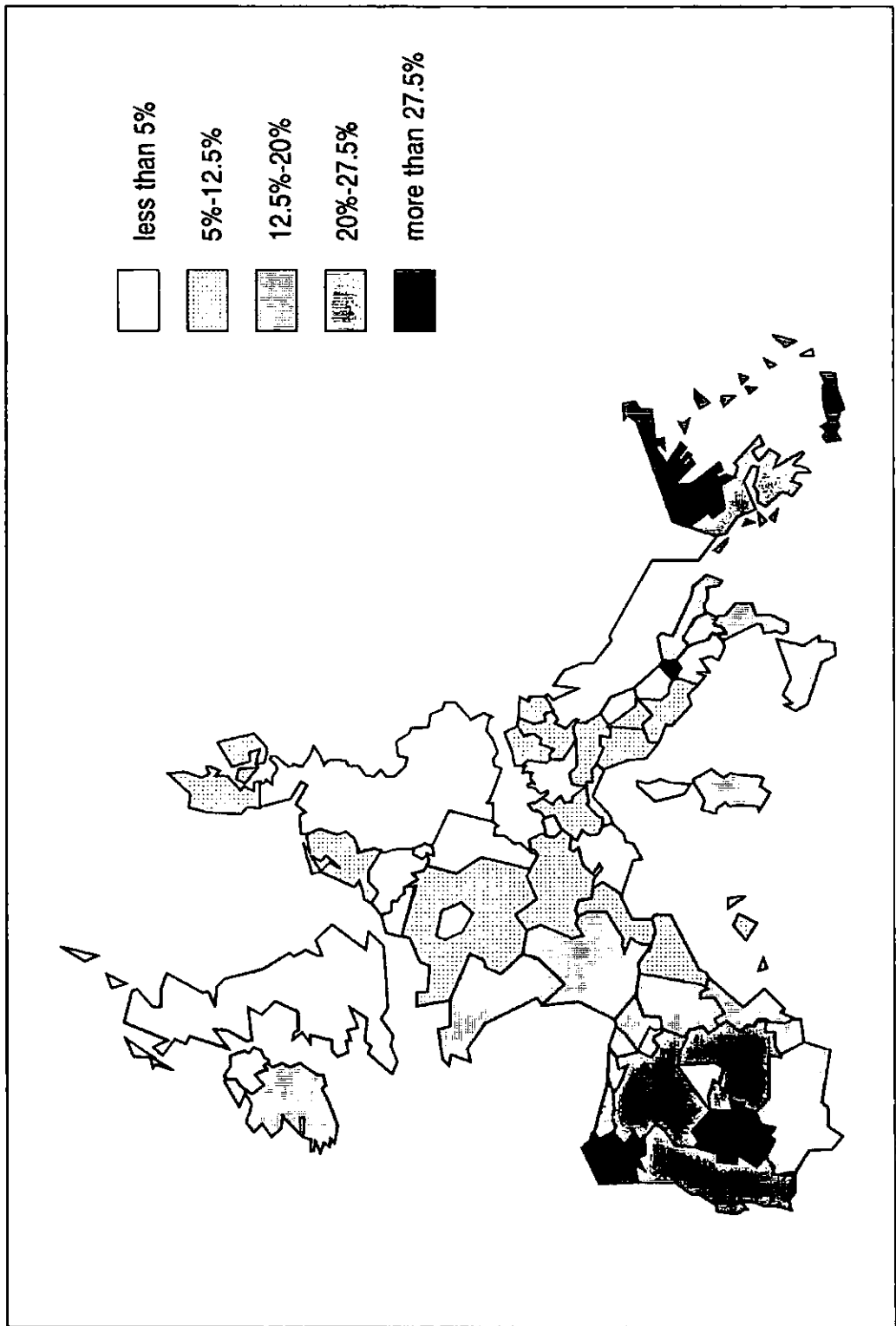
It is also interesting to point out that, beyond the national scale, there are regional agricultural systems that are significantly differentiated within countries. Although a full picture of agricultural reality cannot be derived from a general perspective, it is important to give a greater regional characterization, without expecting to provide a precise view, that would require a local analysis at a micro-level. The contrasting characteristics of agriculture between Medit region and the rest of Europe can be found in a detailed picture of the regions of the Community presented by Van Hecke for Eurostat²⁸.

In general terms, agriculture in the Medit region shows some remarkable structural differences in relation to northern Europe:

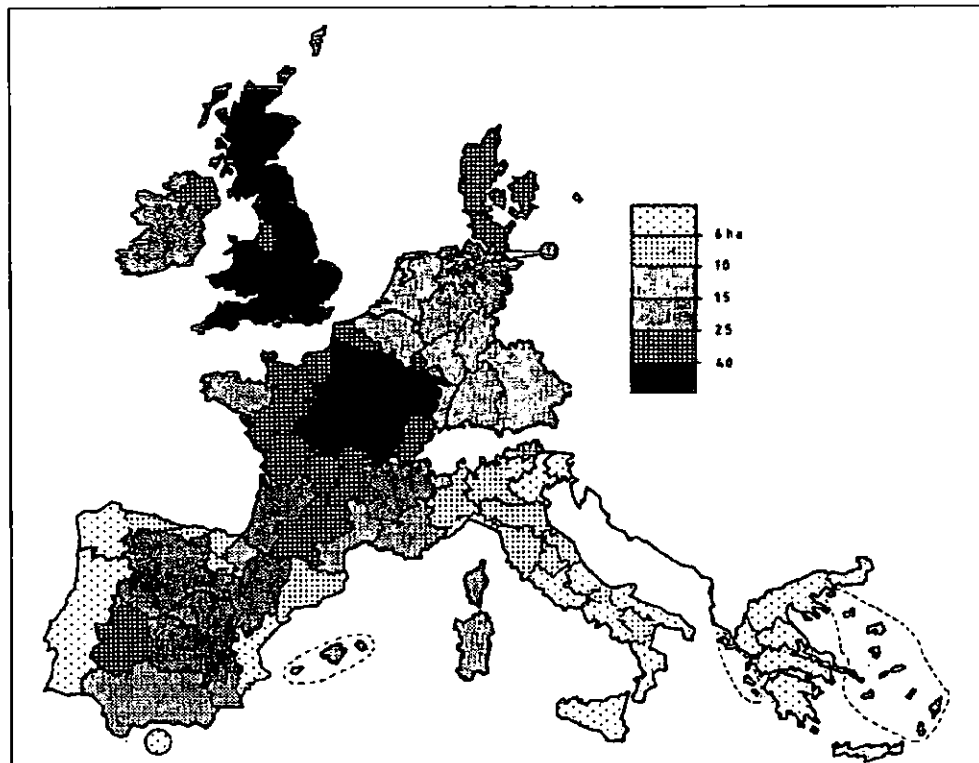
- ◀ the share of agricultural employment (Map 2.1), and partly value added, on total employment and value added in the Medit region is considerably higher than in Europe as a whole;
- ◀ both the physical and economic dimensions of agricultural holdings in the Medit region, represented respectively by the average Utilized Agricultural Area by holding (Map 2.2) and

²⁷ Commission of the EC [1983] p. 217-220.

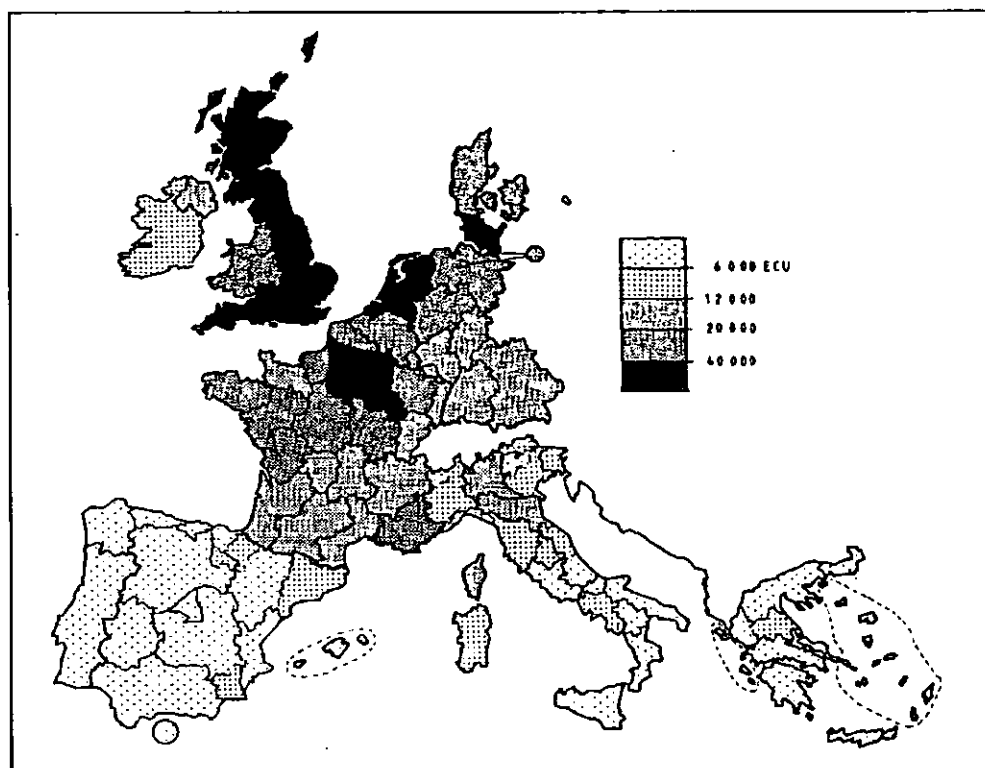
²⁸ see Eurostat [1991b].



Map 2.1 - Agricultural employment as a share of total employment, 1987 (Source: Our elaborations, data from Eurostat Regions)



Map 2.2 - Average area: ha of UAA by holding (1985). (Source: Eurostat [1991b] p. 11)



Map 2.3 - Economic size (SGM in ECU) per holding (1985). (Source: Eurostat [1991b] p. 48)

by the economic size (Standard Gross Margin²⁹ in ECU) per holding (Map 2.3), appear to be significantly lower than in the rest of the EC, especially if compared to central France, England and Scotland.

Regarding the production structure, Van Hecke classifies agricultural activities into five categories: field crops, horticulture (market gardening, floricultural products and vegetables grown in the open or under glass), permanent crops, grazing livestock (cattle, goats and sheep) and granivores (pigs and poultry).

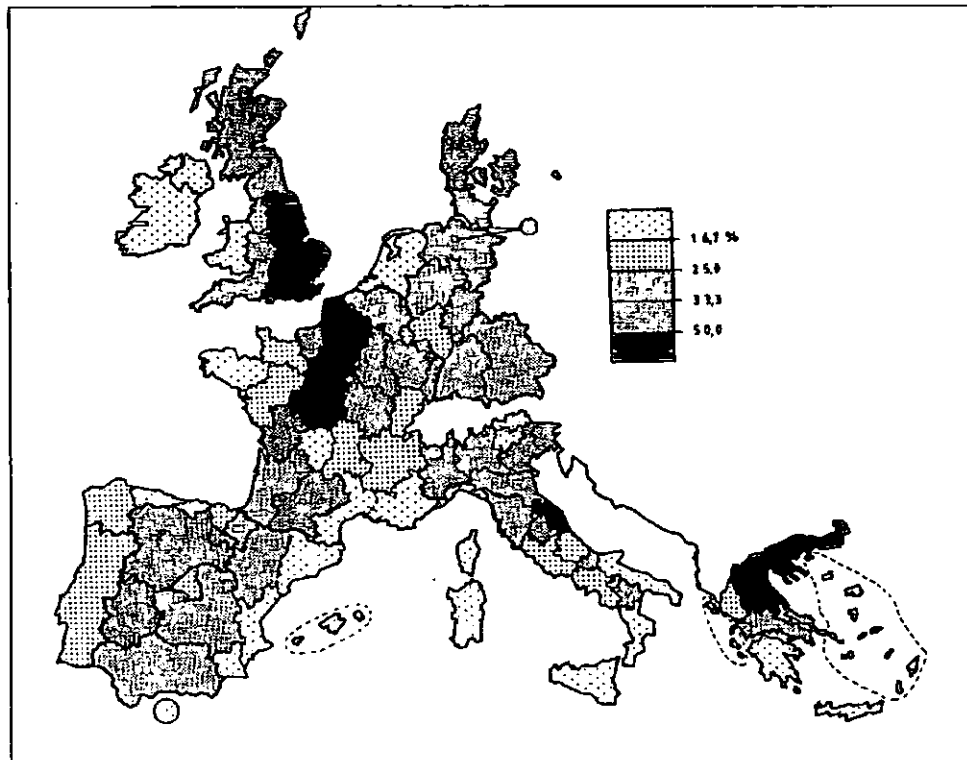
The importance of *field crops* varies considerably across the Community and does not show a clear contrast between the Medit area and northern Europe. The share of field crop production (in SGM) of the total regional production is particularly high in eastern England, in the Bassin Parisien and in northern Greece. In the other regions of the Medit area the share is on average rather low, as it is shown in Map 2.4. However, since the field crops category is itself highly differentiated, the regional characteristics would need to be analysed by diaggregating this category into homogeneous sets of products, and also in terms of value, for obtaining a more faithful view of the productive situation. With reference to Map 2.4, for example, it should be noticed that in northern Greece the productive mix (cotton, tobacco, etc.) is radically different from the central France one, in which cereals constitute 80% of the total field crops production. This difference is influential since the SGM for cotton and tobacco is remarkably high³⁰. As a final remark, it is important to notice that although "this sector is represented in all regions of the Community, ... it is evident ... that production volume in SGM is considerably higher in the North than in the South"³¹.

With reference to *horticultural products* there are a number of interesting aspects to be considered. The Medit region, and Italy in particular, has a significant productive capacity in this sector, due to favourable climatic conditions. Also the northern area of the Community, particularly the Netherlands, is characterized by an important production of vegetables and a growing propensity to export even to the Mediterranean region, thanks to

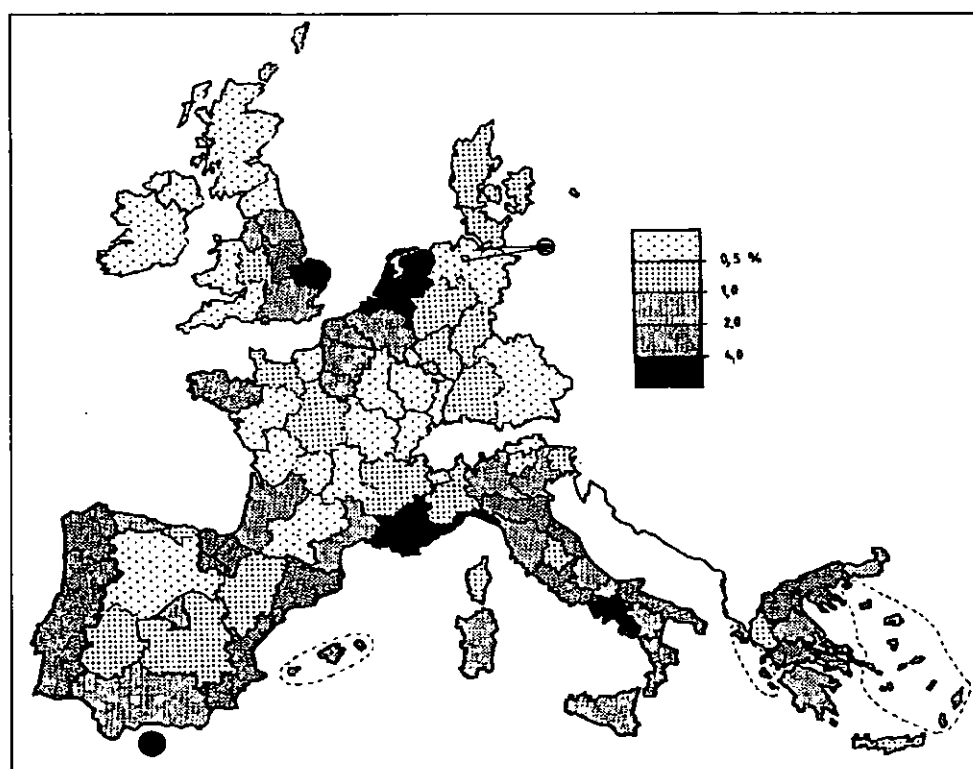
²⁹ "The 'standard gross margin' is the difference between the standardized monetary value of gross production and the standardized monetary value of certain special costs. This difference is determined for the various crop and animal characteristics (per ha or per animal) at the level of the survey district and given in European currency units (ECU). By multiplying the areas or the number of animals by the corresponding SGM and then adding the products together, the total standard gross margin of the holding in question is obtained in ECU." Eurostat [1991b].

³⁰ see Eurostat [1991b].

³¹ Eurostat [1991b] p. 20.



Map 2.4 - Field crops: Production (SGM) as a percentage of total production (1985). (Source: Eurostat [1991b] p. 21)



Map 2.5 - Horticulture: Area as a percentage of total UAA (1985). (Source: Eurostat [1991b] p. 22)

a greater marketing potential, particularly in the context of intensively produced and industrially processed items³² (see Map 2.5). In terms of absolute SGM produced, the Netherlands produce about three times more horticultural products than Campania (Italy), which is the second highest producer. Considering the weight of the horticultural sector in total agricultural production, with reference to Map 2.6, an important attribute has to be underlined: "the sector is seen to be most prominent in the Mediterranean region, which here emerges clearly ahead of the north-western concentration"³³. In conclusion, horticultural production in the Medit region is typically labour intensive and highly seasonal: "as the producers of these products found their markets shifting from local to national and international markets, they also find themselves competing with producers in other countries, some of which are low-wage countries, and some of which have production conditions which allow mechanization of production and, thus, also results in lower production cost"³⁴.

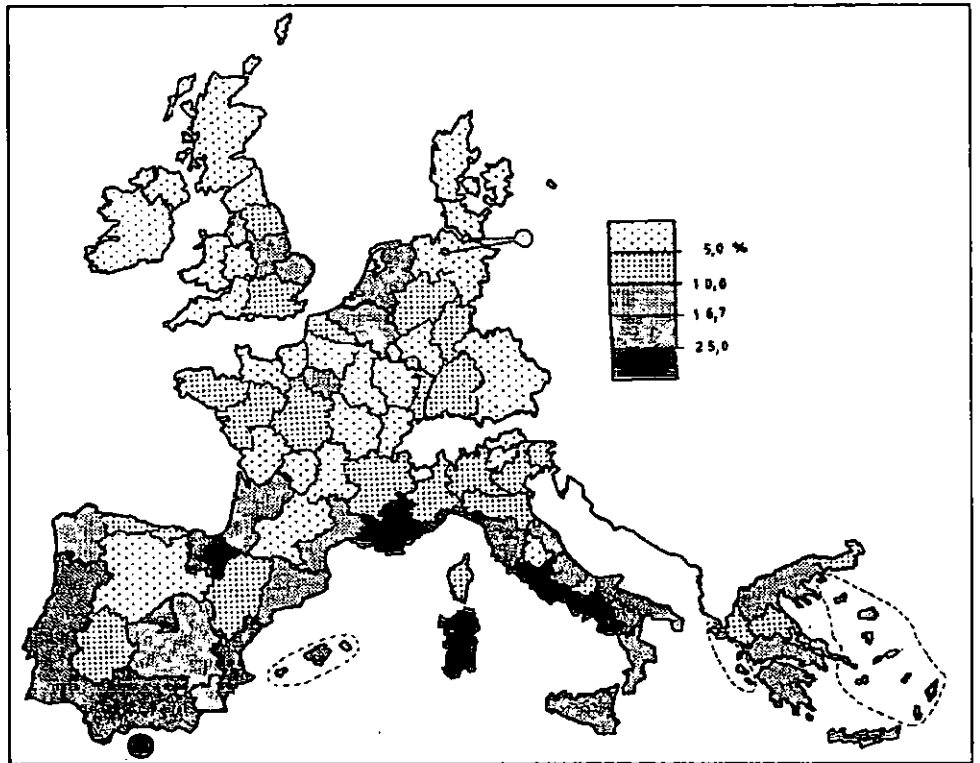
The *permanent crops* sector, which includes, among the most important, fruit trees, vines, olive trees and nursery plants, can be regarded as typically Mediterranean. Both the percentage of UAA (Map 2.7) and of total production (Map 2.8) show a remarkable concentration in the Medit region. Regarding the value of production per hectare of permanent crop area, shown in Map 2.9, another contrast becomes clear: the value of northern permanent crops production per hectare is substantially higher than in the Medit region. This is due both to the differences in productivity and in kinds of crop grown in the region. Northern production is generally orientated towards vines for quality wines, nursery plants and fruit: the former two benefit from their high value, whilst fruit production in the North of the EC normally enjoys greater productivity. In contrast, production in the Medit region is traditionally concentrated upon low value crops, such as olives and table wine, and the average productivity remains much lower. It should be noticed, in relation to the relative specialization of southern Europe in tree crops, that these kinds of cultivation require long-term investments and this fact causes a relative inability to react to market *stimuli* by Mediterranean producers.

The *grazing livestock* sector is the most important in the EC both economically and in terms of extension. In the northern part of continental Europe the sector is mainly

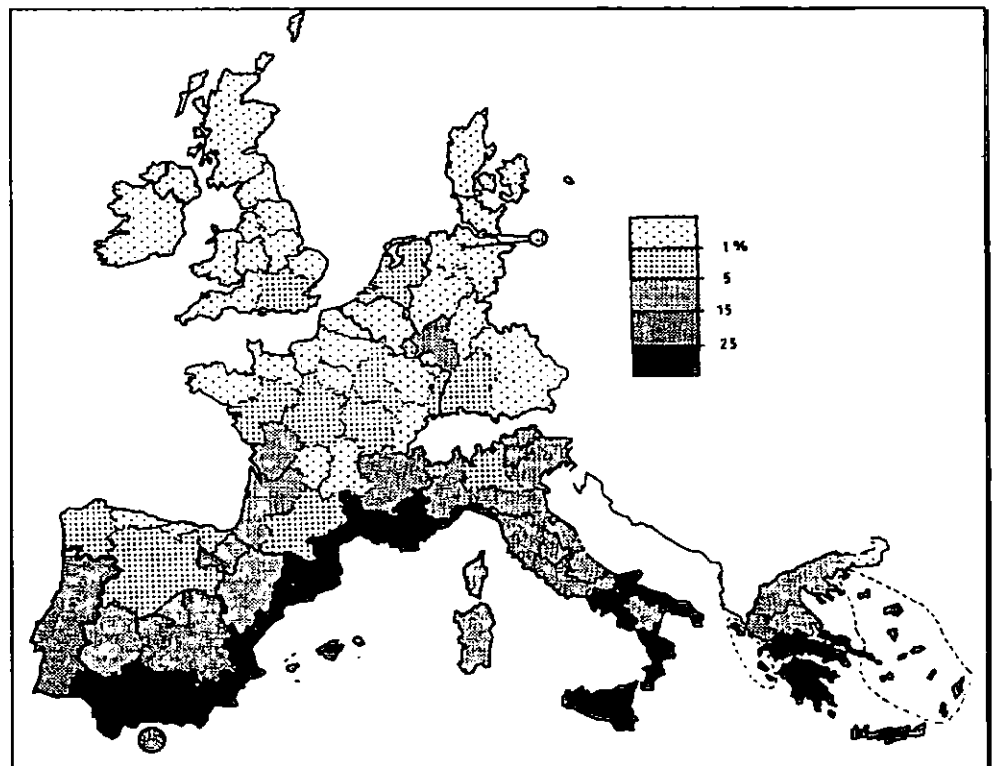
³² see Chapter 7.

³³ Eurostat [1991b] p. 26.

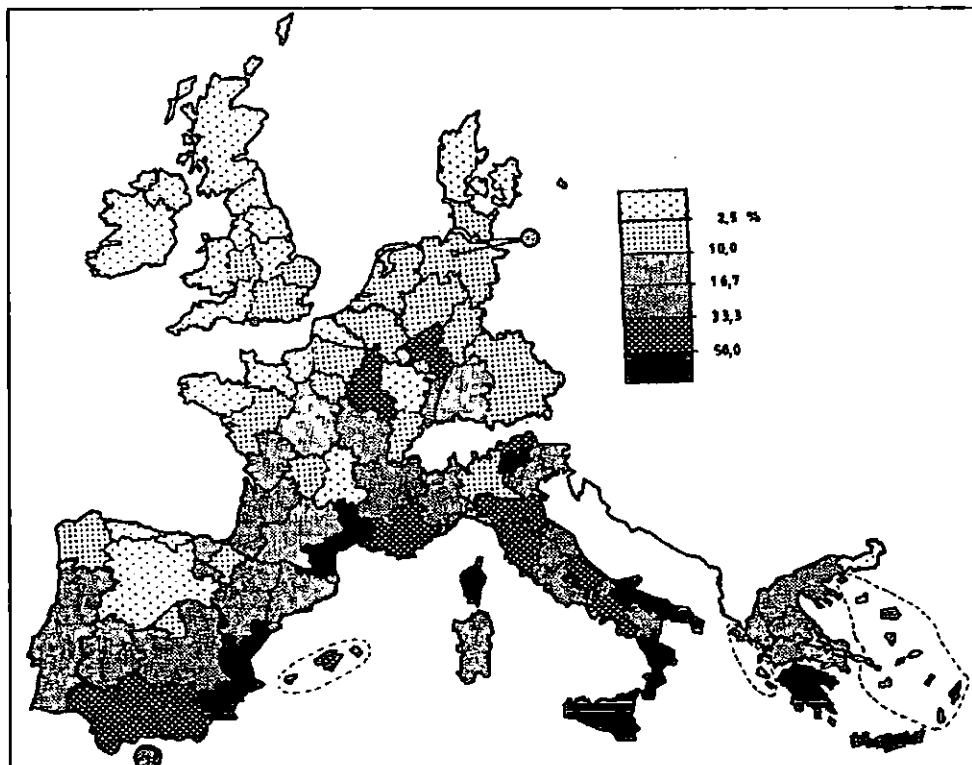
³⁴ Commission of the EC [1985] pp. 7-8.



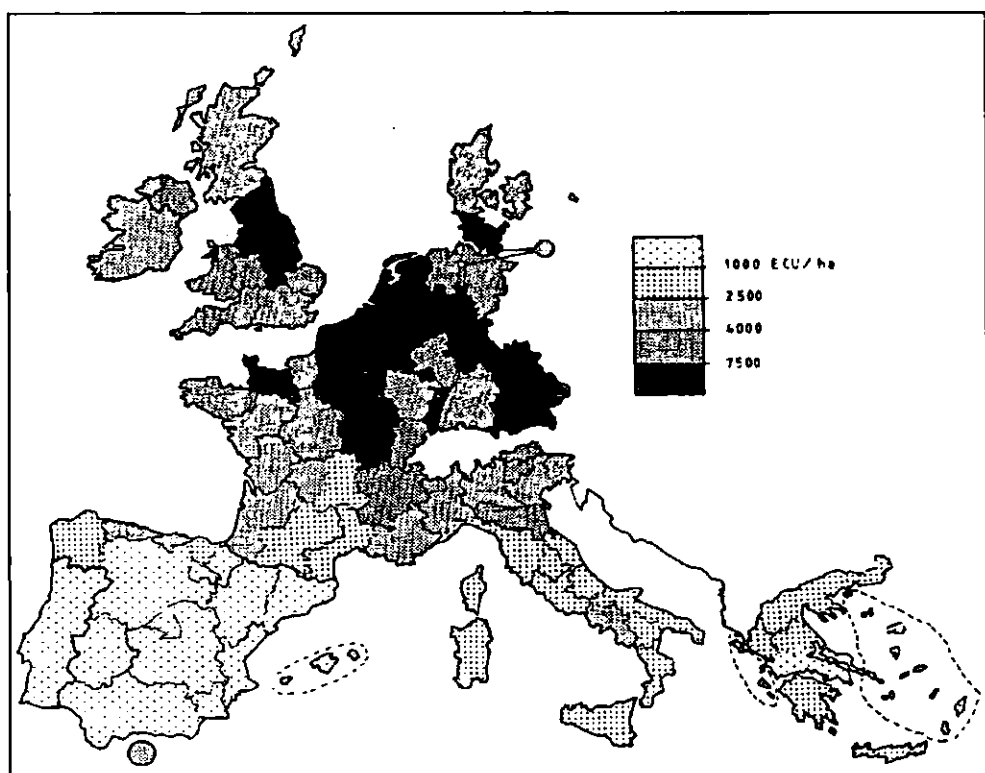
Map 2.6 - Horticulture: Production (SGM) as a percentage of total production (1985). (Source: Eurostat [1991b] p. 26)



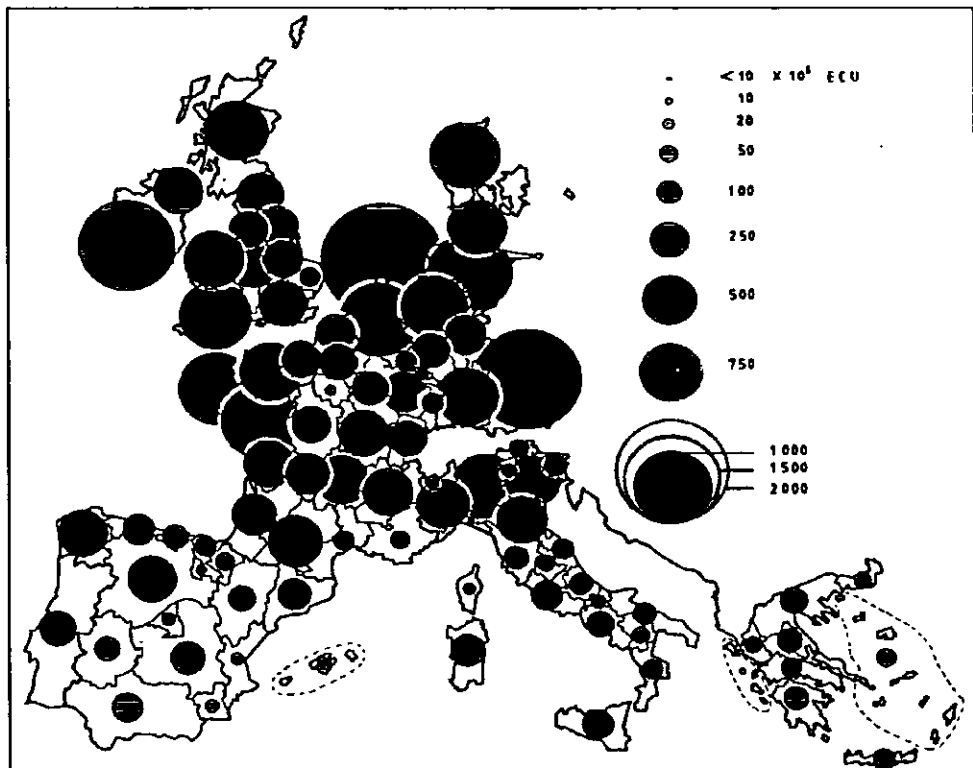
Map 2.7 - Permanent crops: area as a percentage of total UAA (1985). (Source: Eurostat [1991b] p. 27)



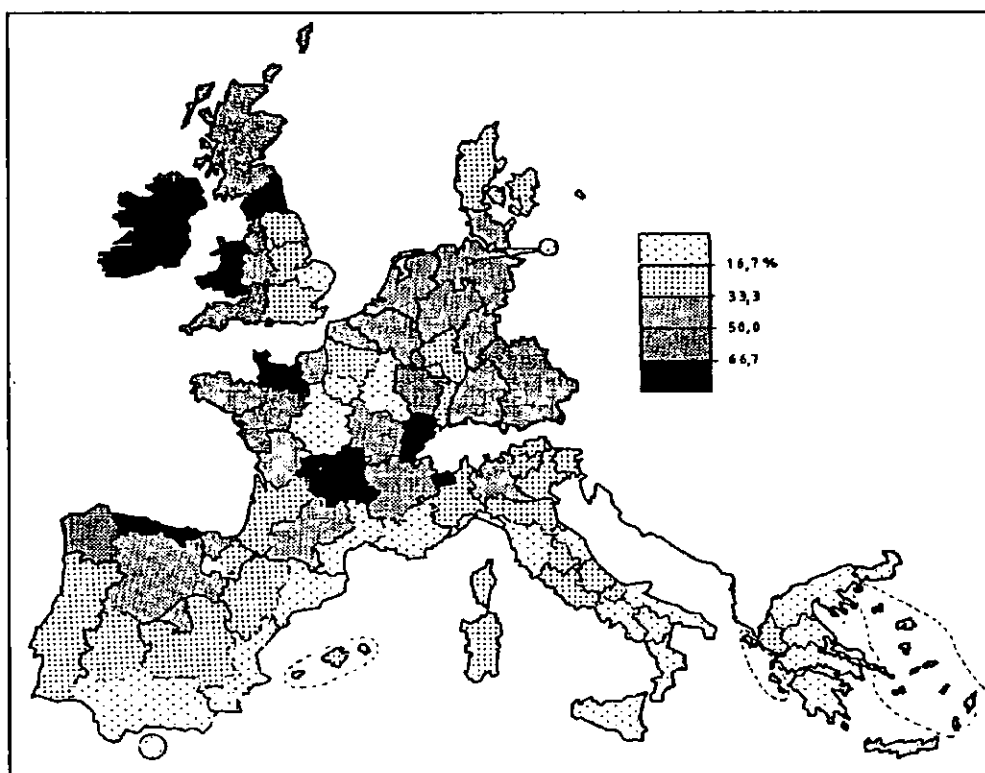
Map 2.8 - Permanent crops: Production (SGM) as a percentage of total production (1985). (Source: Eurostat [1991b] p. 31)



Map 2.9 - Permanent crops: Production (SGM in ECU) by ha of permanent crop area (1985). (Source: Eurostat [1991b] p. 28)



Map 2.10 - Grazing livestock: Absolute production (SGM in ECU) (1985). (Source: Eurostat [1991b] p. 38)



Map 2.11 - Grazing livestock: Production (SGM) as a percentage of total production (1985). (Source: Eurostat [1991b] p. 39)

concerned with bovine breeding, whereas in the many internal areas of the Medit region sheep and goats account for a significant proportion of the total. The regional distribution of the value of production in absolute terms (see Map 2.10) shows the strong northern European dominance in this sector: the Netherlands alone accounts for 8.5% of the total Community SGM, the five highest producing regions account for 27.4% and the fifteen highest for more than 53%³⁵. It is important to notice (Map 2.11) that the most productive regions (Benelux, northern Germany, northern Italy) do not coincide exactly with the most specialized such as Ireland, Wales, and the mountain areas in general, in which extensive stockbreeding represents one of the major agricultural activities. Another interesting feature, related with the trends towards intensification and modernization and their geographical distribution, is relative to the dairy sector. The distribution of the SGM per dairy cow, in Map 2.12, makes evident the level of productivity reached by northern European and centre-north Italian dairy farms in comparison with the poor results shown throughout the Medit region.

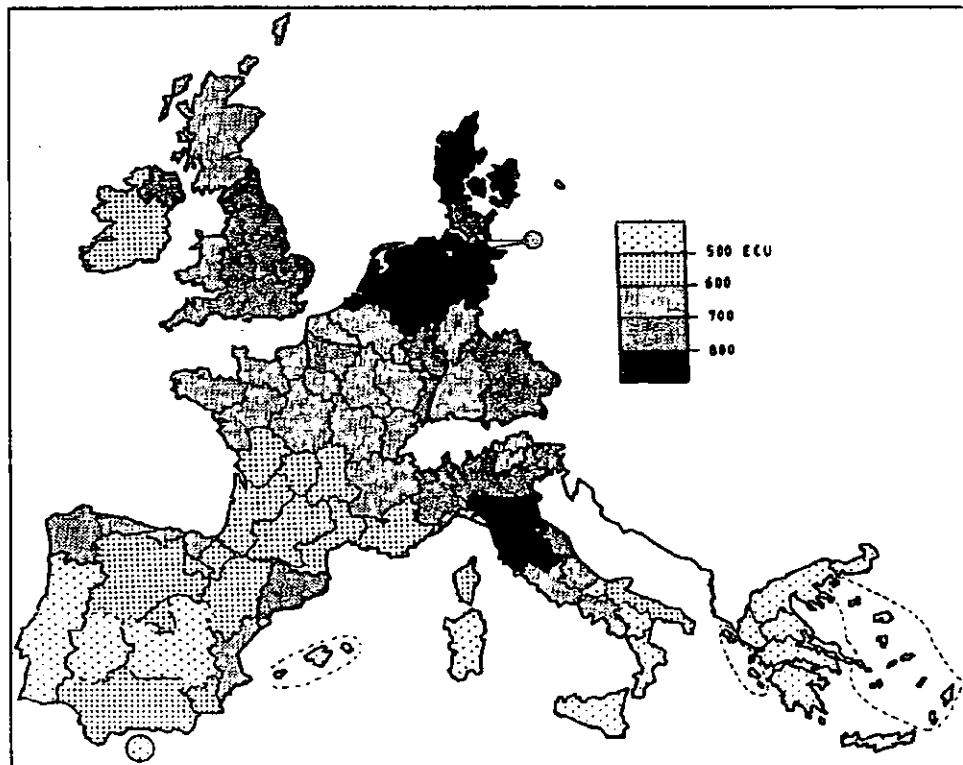
The *granivore* sector is again very much concentrated in the north-eastern area of the EC, although some other locations demonstrate good productive capacity such as Bretagne and the Po valley in Italy, and in the Medit region, the eastern coastal regions of Spain and western Greece. Considering the weight of the granivores in the total production, in Map 2.13, the regional differences appear less pronounced. According to Van Hecke, "this may once again be attributed to regional differences in overall production intensity: values per hectare appear higher in regions with a relatively low total value"³⁶.

The distribution of the total value of agricultural production and of its composition provides us a synthetic view of the situation of agriculture in the European Community's regions (see Map 2.14). Summarizing the results of the previous analysis, it could be argued that:

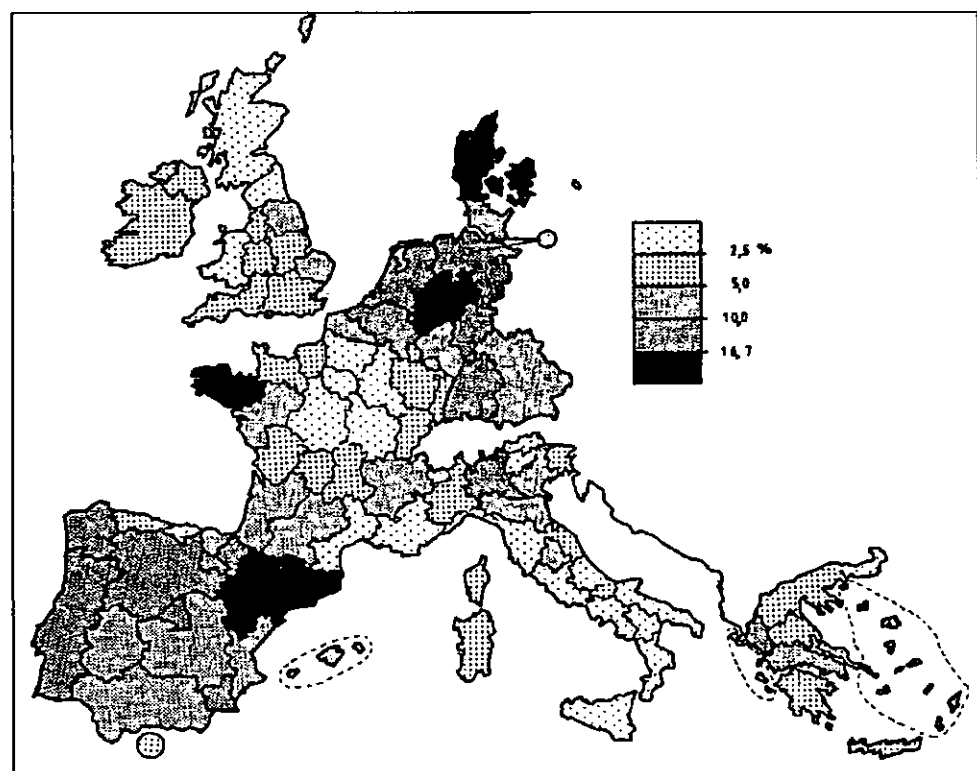
- ◀ there is a Mediterranean group of regions characterized by a certain mix of products, that contrasts with the northern regions characterized by oceanic climate;
- ◀ within each climatic region, production depends on altimetric areas and therefore the productive mix of a varied region represents an average description of its production in different environments (plains, hills, mountains);

³⁵ Eurostat [1991b] p. 38.

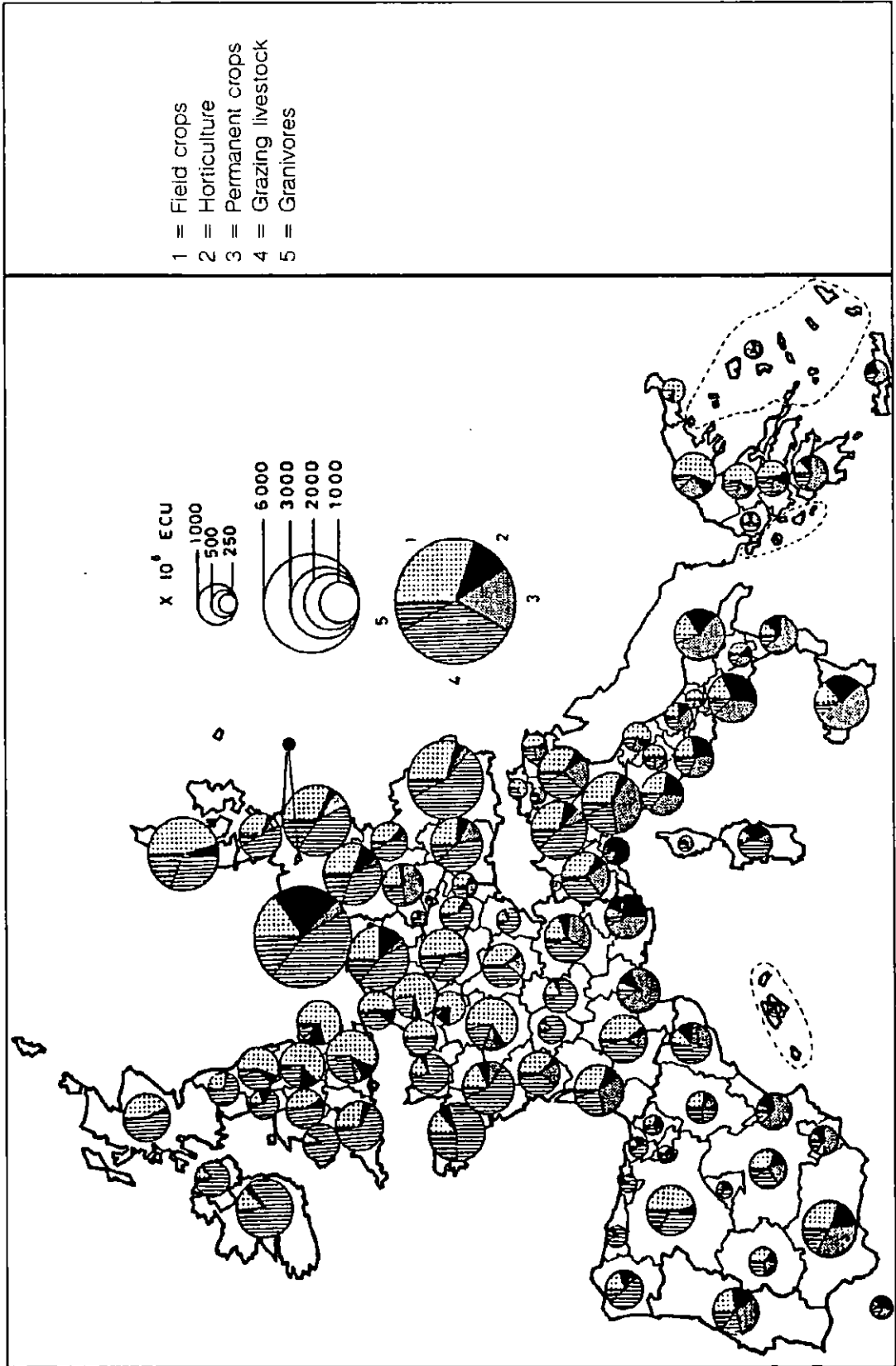
³⁶ *ibid.* p. 42.



Map 2.12 - Dairy cows: Production (SGM in ECU) by head (average 1981-83). (Source: Eurostat [1991b] p. 36)



Map 2.13 - Granivores: Production (SGM) as a percentage of total production (1985). (Source: Eurostat [1991b] p. 42)



Map 2.14 - Absolute total production (SGM in ECU) and production structure (1985). (Source: Eurostat [1991b] p. 46)

- ◀ the Mediterranean regions of the Community are competing fiercely with each other and with outside producers (especially off-season) for marketing their products;
- ◀ the extremely low value of production per annual work unit in the Medit region is due "either to an area/AWU which is too small and inadequately compensated for by the degree of intensification, or to extensive or under-modernized farming on the more extensive holding"³⁷;
- ◀ very rarely farmers in the Mediterranean area have been introducing *landless* activities such as intensive horticulture and granivores so as to be able to reach an adequate dimension and a good production value/AWU.

2.3.3 Food processing industry.

The productive structure of agriculture in the Medit area requires an adequately structured processing industry (and of course distribution) available to producers. Typical Mediterranean products "have a limited storability in their raw form and they may require processing of some type before consumption"³⁸. Hence, proper processing and marketing instruments are necessary in order to make Mediterranean products available to the richer northern European markets.

According to a study carried out for the EC Commission, the agri-food industry in the Medit region is characterized by several common factors³⁹. The greater weight of food processing activities on total non-agricultural employment causes Mediterranean regions (and thus, the NMCs) to be more dependent upon employment in food-related activities. This is characterized by:

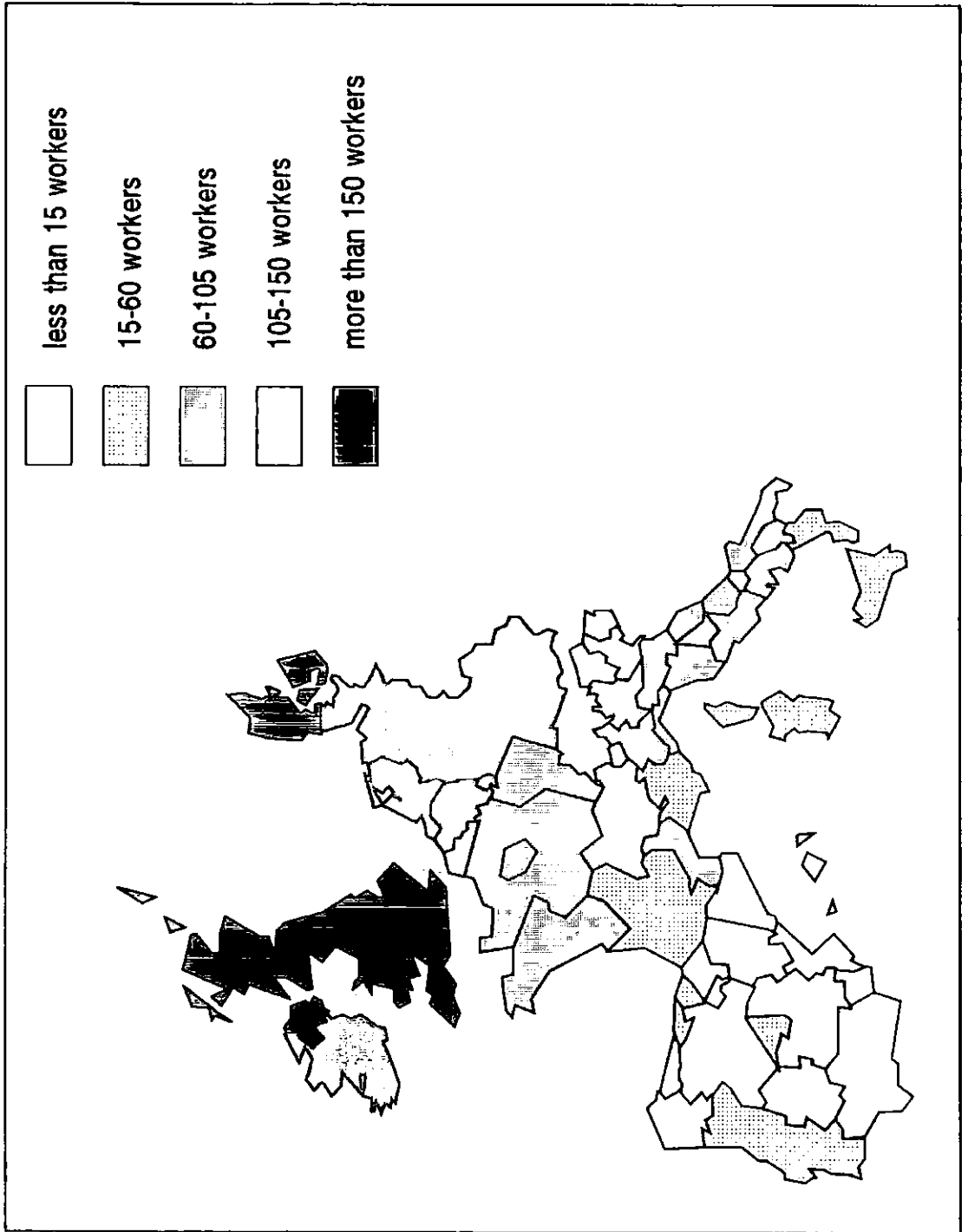
- ◀ highly seasonal nature of agricultural production and specialization of production (single-product);
- ◀ significant proportion of unskilled workers;
- ◀ farm producers and agri-food industries tend to compete for the same local labour at the same time⁴⁰.

³⁷ Eurostat [1991b] p. 67.

³⁸ Commission of the EC [1985] p. 8.

³⁹ The study, carried out in 1985, does not include the Mediterranean regions of Spain and Portugal.

⁴⁰ Commission of the EC [1985] pp. 19-20.



Map 2.15 - Structure of the European food industry: average size of the regional productive unit (see text). (Source: data from Eurostat, Structure and activity of industry 1986/1987)

In addition to this, it should be noticed that the average size of plants and enterprises is much lower than the European average, either in terms of physical capacity, employment or gross sales (see Table 2.5). The heterogeneity of European data does not allow direct comparisons between national food enterprises dimensions. It is only possible to highlight that food units of production in Europe have decreasing average sizes shifting from the North of the Community to the Mediterranean South. In fact, the figures relative to employment per production unit, shown in Map 2.15, are not directly comparable within the Medit region: the data relative to Spain and Portugal consider all units whereas in the case of Italy, as in the rest of the Community, only the plants with more than 20 workers are taken into account⁴¹. Moreover, the data relative to Greece were not available.

The competitiveness of food processing enterprises in the Medit area can be generally considered inadequate. Production is commonly of a single-product, the availability of services and credit is normally scarce and dear, innovation sporadic, and quality of production erratic. Commonly, cooperative enterprises comprise a considerable share of the processing sector and often this kind of organization has more weakness than strength for adapting to new market requirements. The Mediterranean firms' ability to shift from a local to a broader context has proved to be insufficient, also for relatively more efficient producers, partly due to the unavailability of appropriate marketing channels.

Despite a considerable development in the last decade, food processing firms still tend to be small-scale and independent, often linked to the local market. However, in the last few years, small-scale independent producers have had to account for the growing influence of external factors: the greater openness of the local market to competition and the correspondingly enhanced influence of national and international food companies. This influence has been exerted by means of acquiring and re-organizing the most promising local producers and, more often, by simply entering the market with convenience products imported from elsewhere⁴². These recent developments have put traditional Mediterranean food processors under increasing pressure. The question is whether they will be able to respond efficiently to these international changes.

⁴¹ see Eurostat, Structure and activity of industry, various issues.

⁴² see Commission of the EC [1985].

2.3.4 The food distribution sector.

In the last few decades, the food distribution sector has been acquiring a growing importance in the international food system. The efficiency of commercialization and marketing activities is nowadays one of the most important factors for the success of food production. In other words, the advantages of a well-functioning distribution sector are often able to offset the traditional comparative advantages in food production activities⁴³. Therefore, it is necessary to take into account the structural problems of the distribution channel, that links producers with the consumer market, in order to give an appropriate idea of the North-South contrasts at a European level.

Buying centres have acquired a primary rôle in the European distribution channel and indeed, all products to be sold in European markets have to refer to one or more large buying centres. The product will have to satisfy some basic requirements:

- ◀ products sold under the same label have to be homogeneous;
- ◀ it should be possible to supply regularly and continuously large quantities of the product;
- ◀ the qualitative level must be satisfactory;
- ◀ the seller should be able to offer additional services⁴⁴.

Small Mediterranean producers are scarcely able to fulfil these requirements which therefore tend to favour a process of concentration of supply.

The evolution of distribution activities in the last few decades has coincided with a process of concentration and diversification. This process has affected all European countries although with different intensity. Distribution tends to be more concentrated than food processing, especially in northern Europe (see Table 2.6 and 2.7). "The low potential for growth in this sector, and the perceived need to counter the bargaining positions of transnational food manufacturers, has encouraged restructuring since the 1970"⁴⁵. On the other hand, southern European countries have been affected by this process only in the last few years and they are currently experiencing a relatively faster evolution. This is evident when considering the growing number of super- and hyper-markets in Europe (see Table 2.8). All over the European food market "there is a tendency towards a polarization in store size,

⁴³ see Brito Soares [1990] and Bartola and Sotte [1992a].

⁴⁴ Allaya *et al.* [1988] p. 21.

⁴⁵ Munton [1992] p. 38.

with small specialist food retailers, and targeted shop types, such as health food shops and limited-line discount stores, complementing the larger hypermarkets and supermarkets"⁴⁶.

However, it should be considered that in the North Mediterranean Countries, in general, the forces which lead to a first process of restructuring and concentration are operating together with the new tendencies which also occur in the most developed European markets (such as the United Kingdom). This complex process is bringing interesting new developments in the previously static Mediterranean distribution organizations. It would be interesting, for example, to enquire further into the phenomenon of distributor's own-labels, especially in relation to the effects on small scale producers of the North Mediterranean Countries (see Table 2.9).

Throughout the Medit region food distribution activities "are characterized by their fragmentation, by the lack of any individual retailer with national distribution and by the relative lack of sophistication in terms of the use of in-store technology"⁴⁷. Comparable information about the distribution sector at a Community level is very scarce and therefore it would be necessary to conduct a deeper inquiry before presenting any conclusion on this matter. Nevertheless, the inefficiency of the highly fragmented Mediterranean distribution system has been emphasized by several authors⁴⁸ and the importance of a reorganization in this sector for a better functioning of the Mediterranean productive system is therefore advocated.

2.4 Common problems for the development of a modern food system in the North Mediterranean Countries Area.

The preliminary analysis of the food systems of Italy, Greece, Portugal and Spain makes evident a number of interesting affinities with regard to the problems of the primary sector and its complementary activities. The structural aspects of the analogy, which derive from historical and cultural factors as well as purely geographic and economic ones, have even more importance. Indeed, in addition to the typical production in Mediterranean

⁴⁶ Shaw, Burt and Dawson in Traill (ed.) [1989] p. 12.

⁴⁷ Eurofood [1991] p. 8.

⁴⁸ see for example Perez [1990] and Commission of the EC [1985].

farming, the similarity is impressive also in the characteristics of connected industrial activities, such as the food processing industry, and in the related distributive system. Moreover, the consumption patterns appear to have common characteristics.

The food system in the NMCs is affected by several influential factors, of both national and international derivation. These factors have been producing, and the process is still very much in operation, several structural changes in the overall complex and in every single component. The difficulties implicit in considering the entire area of interest, i.e. the Medit region, are numerous and the opportunity of carrying out a general discussion has been therefore ruled out⁴⁹. Nonetheless, some aspects deserve a quick preliminary consideration for their political and social relevance across the whole Mediterranean region.

The economies of southern Europe face two basic inter-related problems: the weakness of the agricultural sector towards a radical restructuring of economic activity and social structure in the old-fashioned countryside and, on the other hand, the inadequacy of the national processing industries and distribution system, if compared with the aggressive competitiveness of its northern European and American counterparts.

The rural world finds it difficult to operate within an increasingly competitive environment with a strong international influence. Furthermore, in the contemporary economy the bulk of agricultural supply is absorbed by the processing industries, to a growing extent characterized by their international scale and intensified market power⁵⁰. According to Hoggart, "what farmers face, then, is an internationally competitive market in which they have little influence over prices, production levels or patterns of consumption. ... Farmers are caught in a cost-price squeeze, since the value of farm inputs tends to increase faster than returns on farm outputs. ... This phenomenon arises from a combination of forces, with large oligopolistic firms dominating both farm input provision and the purchase of farm outputs"⁵¹. Another powerful, influential factor lies in the changing consumption models in the Mediterranean area which are themselves influenced by the market structure, and based on intensive advertisement pressure. This kind of evolution finds an inability to react to such market stimuli on the part of traditional farming activity. In other words, "farmers have been

⁴⁹ see the discussion in Chapter 1.

⁵⁰ De Castro and Furesi [1990] p. 55.

⁵¹ Hoggart [1992] pp. 5-6.

drawn into a set of asymmetric power relations that have led to a continuing loss of control, directly and indirectly, over their decision-making"⁵².

This problem is vital if considered in the southern European economic and social framework. Farming activities still occupy 1,895,000 people (9% of the working population) in Italy, 1,486,000 (11.8%) in Spain, 795,000 (17.8%) in Portugal and 930,000 (25.3%) in Greece⁵³ (see also Map 2.1). Many of them are small entrepreneurs in disadvantaged areas. Thus, it is important to allow appropriate weight to different agricultural activities in different regions in the policy-making process. Moreover, the environmental problems of rural areas, as traditional agriculture disappears, have to be taken into account together with social distress.

With reference to the food processing industry, there is a current push towards growing concentration and international competition. From this point of view, the national food industries of Italy, Greece, Portugal and Spain, which are much less developed and rationalized, appear to be highly vulnerable and disadvantaged. Therefore, growing European integration seems more of a threat than an opportunity for small-scale national food enterprises. Indeed, it has been demonstrated that, in the context of the food sector, firms' "expansion often takes place only at the expense of competitors, such as by competitive gains in market share, by take-over and increasing concentration, or through diversification into new food or non-food markets"⁵⁴. This ability to fight seems lacking in most national enterprises in the NMCs context. Also the distribution system, still based on small retailers in many regions of the European South, represents a weakness and a bottleneck for the development of a modern food system.

In addition, the struggle in which the Mediterranean countries are involved entails international difficulties, because of the inability to compete, resulting in trade balance deficits⁵⁵, such as the huge Italian one (more than 12,500 billion lire or 5,000 million pounds⁵⁶ in 1991⁵⁷). Indeed, most countries in the Mediterranean area have growing agricultural trade deficits. Farmers have not been able to increase their exports to compensate

⁵² Munton [1992] p. 44.

⁵³ Eurostat data relative to 1990 (1989 for Greece).

⁵⁴ Burns, McInerney and Swinbank in Burns *et al.* (eds.) [1983] p. 278.

⁵⁵ see Allaya *et al.* [1988].

⁵⁶ The exchange rate has fluctuated, in the last four years, between 2100 and 2400 lire approx. to the pound.

⁵⁷ see INEA Yearbook 1990.

for growing imports of mass-produced, intensively farmed and processed food, especially meat and dairy products.

The general difficulties encountered by the North Mediterranean Countries require that their national governments implement appropriate intervention policies. However, an opportune consideration of these problems should also be carried out at a European Community level, in order to promote more balanced policies, able to develop a fairer adjustment process for the economies of southern European countries.

2.5 Tables.

Table 2.1 Annual per capita consumption in Kg of some food products in the EC.

Country	Yrs	Grain cereals ¹	Rice	Pota-toes	Su-gar	Vege-tables	Wine	Meat carcass (weight)	Fresh milk products ¹	Eggs	Butter (pure fat content)	Total oils and fats (pure fat content) ³
BEL/LUX	79	71	3	98	33	83	19 ⁴	96	n.a.	14	8	25
	89	72.1	4.4	90.0	40.8	90.0	19.7 ⁴	97.9	82.7	12.2	7.7	32.1
DK	79	66	2	65	43	54	13	80	n.a.	13	9	26
	89	63.7	1.9	64.7	34.7	n.a.	18.5	105.6	146.9	15.8	6.4	37.2
FRG	79	69	2	91	35	77	24	98	n.a.	17	6	21
	89	73.8	2.7	71.5	34.3	82.2	26.0	99.9	91.5	15.3	7.4	20.8
NL	79	61	4	80	40	87	12	79	n.a.	3	12	32
	89	52.0	5.7	89.2	37.8	n.a.	16.1	87.7	134.9	3.2	9.8	38.0
UK	79	71	3	100	42	74	8	76	n.a.	15	6	17
	89	80.9	4.2	97.9	40.9	64.9 ⁵	12.8	73.8	128.2	11.6	3.7	29.6
IRE	79	84	2	105	43	82	3	90	n.a.	11	10	15
	89	97.7	2.1	144.0	32.9	88.9	4.4	88.5	188.6	10.0	5.7	23.3
FRA	79	75	4	84	35	119	94	108	n.a.	14	8	20
	89	76.6	4.3	71.0	32.8	124.1 ⁵	71.9	109.8	102.0	15.5	8.5	21.7
ITA	79	126	5	36	30	154	86	75	n.a.	11	2	23
	89	110.1	5.8	38.3	27.8	180.6	62.7	87.8	74.7	10.3	2.1	30.4
GRE	79	118	6	67	29	328	45	72	n.a.	13	1	18
	89	107.5	5.6	84.6	34.9	225.4 ⁵	31.8	84.0	68.4	12.4	1.1	33.0
SPA	79	79	6	108	30	135	59	71	n.a.	16	1	22
	89	71.9	6.1	109.0	25.9	223.4	41.0	94.0	106.0	15.9	0.5	29.3
POR	79	110	18	98	28	131	83	50	n.a.	5	1	26
	89	80.5	15.1	106.2	27.2	n.a.	54.0	70.9	90.7	7.2	1.1	23.1

(Source: Our elaborations, data from Eurostat, Basic Statistics of the Community, various years)

¹ expressed in flour, rice excluded.

² except cream.

³ excluded butter.

⁴ only Belgium.

⁵ 1988 data.

Table 2.2 Average annual per capita consumption in Kg of some food items in some European countries⁶.

Products	DK 1988	FRG 1983	IRL 1988	NL 1988	FRA 1985	ITA 1985	SPA 1985	GRE 1988
Beef and veal	10.7	7	n.a.	7	17	23	10	23.5
Pork	11.7	15	n.a.	7.5	7	6	10	7.1
Poultry	10.1	n.a.	n.a.	2.0	n.a.	n.a.	n.a.	12.4
Fish	7.8	2	n.a.	4.6	6	10	17	13.7
Milk (litres)	109.6	60	167.9	70.4	67	77	120	43
Eggs (units)	97	204	181	105	165	160	237	180
Butter	5.7	6	10.7	1.8	6	3	n.a.	0.5
Margarine	13.2	7	4.6	10.1	2	4	n.a.	1.6
Potatoes	45.2	43	118.3	46.3	40	31	63	56
Sugar	9.4	11	18.7	8.3	11	17	11	14

(Source: Eurostat, Family Budgets, various years)

Table 2.3 Frozen food: Annual consumption by sector (in kg per capita) in some EC countries, 1990.

Country	Frozen foods								
	Vegetables	Potato products	Bakery, confectionery and milk products	Pasta products	Fruits, juices	Ready meals, soups, sauces	Poultry	Meat/venison	Fish, sea-food
Denmark (DK)	8.45	2.67	5.92	0.72	0.41	4.73	9.97	6.95	2.55
Netherlands (NL)	3.01	5.36	n.a.	n.a.	n.a.	n.a.	n.a.	5.36	0.87
United Kingdom (UK)	5.78	3.47	2.62	n.a.	0.05	2.66	n.a.	1.37	2.38
West Germany (FRG)	4.49	5.30	2.88	0.13	0.35	2.32	6.93	1.35	2.03
France (FRA)	5.38	5.95	3.01	0.79	0.16	0.09	0.65	2.97	4.77
Italy (ITA)	3.36	1.00	0.65	0.23	0.02	0.261 ⁷	0.20	0.20	0.94
Spain (SPA)	3.98	0.98	0.28	0.08	0.14	n.a.	n.a.	1.16	6.53

(Source: Our elaborations, data from Euromonitor [1992])

⁶ The comparable data relative to Belgium, Luxembourg, Portugal and the United Kingdom have not been published yet.

⁷ 1989 data.

Table 2.4 Recent trends in the annual consumption per capita of selected foodstuffs in the EC.

Country	Snack foods (gr.)	Soft drinks (lts.)	Beef and veal meat (Kg)		Pork and pig meat (Kg)		Poultry (Kg)	
	1990	1989	1985	1990	1985	1990	1985	1990
Belgium/ Luxembourg	1.75	77.79 ^a	26.3	20.3	45.8	42.0	15.4	16.0
Denmark	n.a.	45.77	14.1	18.9	56.7	64.3	11.0	11.5
W.Germany	2.27	76.95	23.1	22.3	60.1	58.2	9.7	12.4
United Kingdom	4.19	n.a.	22.0	18.3	24.6	24.6	16.2	19.3
Netherlands	4.08	66.31	19.0	19.5	41.6	47.3	12.7	17.4
Ireland	3.18	64.43	21.7	19.5	33.2	34.1	17.2	21.3
France	1.44	33.42	31.5	29.7	35.7	37.2	17.7	21.8
Italy	0.79	29.77	27.8	26.3	27.6	31.2	18.0	20.1
Greece	1.69	44.84	21.2	23.9	21.3	21.4	15.7	16.1
Spain	1.57	67.26	11.4	11.3	36.1	46.0	21.8	22.3
Portugal	0.42	33.30	11.3	15.3	20.9	30.9	15.5	21.0

(Source: Our elaborations, data from Euromonitor [1992])

Table 2.5 Some structural indicators for the food, beverages and tobacco industries in EC member states, 1986.

	Employment/unit	Remunerations/worker (thousand ECU)	Gross Value of Production/unit (thousand ECU)	Gross Value of Production/Worker (thousand ECU)	Gross Value Added/Gross Value of Production (%)
Belgium ⁹	124	19	18,700	151	15
Denmark	217	22	36,300	167	33
Germany	145	22	23,400	161	32
Ireland	133	19	23,300	176	31
Luxembourg ¹⁰	75	16	9,800	130	33
Netherlands	141	25	30,300	215	18
United Kingdom	227	14	26,000	113	44
France	125	23	21,900	175	23
Italy	104	21	19,300	185	30
Spain	8	10	2,600	90	28 ¹¹
Portugal	25	4	1,300	51	23

(Source: Brito Soares [1990] p. 12)

^a only Belgium.

⁹ data relative to 1984.

¹⁰ data relative to 1985.

¹¹ Value added estimated at factor cost.

Table 2.6 Concentration in the food distribution sector.

	% of grocery turnover through			
	largest 2% of stores		largest 10% of stores	
	1972	1985	1972	1985
Belgium	47	54	63	80
Denmark	n.a.	25	n.a.	60
Germany	25	28	48	56
Ireland	n.a.	38	n.a.	58
Netherlands	18	17	47	48
United Kingdom	27	51	51	80
France	45	56	66	84
Italy	n.a.	36	35	52
Greece	n.a.	52	n.a.	70
Spain	14	48	37	66
Portugal	20	32	48	56

(Source: Shaw, Burt and Dawson in Traill (ed.) [1989] p. 26)

Table 2.7 Concentration in the food distribution sector.

	Concentration of trade buying, 1985			
	Top 5 organizations		Top 10 organization	
	Turnover (%)	Key decision points	Turnover (%)	Key decision points
Belgium	54	5	65	15
Germany	51	170	78	303
Ireland	43	5	47	7
Netherlands	55	5	79	25
United Kingdom	48	7	64	13
France	37	95	59	138
Italy	21	273	34	317
Greece	15	5	20	10
Spain	15	5	20	10
Portugal	9	5	12	10

(Source: Shaw, Burt and Dawson in Traill (ed.) [1989] p. 26)

Table 2.8 The growth of large-scale food outlet in some EC countries

	1975		1979		1983		1987	
	super-markets	hyper-markets	super-markets	hyper-markets	super-markets	hyper-markets	super-markets	hyper-markets
Belgium	709	70	848	77	997	81	1314	88
Denmark	511	5	757	8	810	n.a.	884 ¹²	13
Germany	4245	627	4987	789	6275	874	7371	956
Luxembourg	22	3	27	3	43	4	n.a.	4
Netherlands	1006	30	1495	36	1705	33	1953 ¹²	35 ¹²
United Kingdom	2650	102	3578	211	3685	345	2558	457
France	2668	291	3519	392	4665	492	5917	639
Italy	862	3	1223	10	1698	17	2178 ¹²	28
Spain	n.a.	2	536	21	1121	42	1756	60

(Source: Shaw, Burt and Dawson in Traill (ed.) [1989] p. 13)

Table 2.9 Average market share (volume) of distributor labels in selected product classes (%) in some European countries.

	1978/1979	1984/1985	Number of product classes investigated
Belgium	15.5	16.6	14
France	17.8	18.4	9
Germany	3.8	9.7	15
Netherlands	13.7	18.0	12
United Kingdom	17.5	22.1	12
Italy	4.3	5.3	11

(Source: Shaw, Burt and Dawson in Traill (ed.) [1989] p. 20)

¹² data relative to 1986.

Section II

**The Italian Food System:
an Illustrative Example of Development and
Backwardness at the 'Heart of Europe'.**

Chapter 3 - The Italian Food System in the International Economy.

3.1 The importance of the food system in Italy.

The activities included in the definition of the food system account for an important, although declining share of the Italian economy. Food production and distribution have grown considerably in the last decades, but non-food activities registered an even more significant expansion. Yet, it has to be remembered that the importance of the food system resides not only in its absolute size, but also in its capacity of stimulating the economy as a whole, due to *backward* and *forward linkage* effects¹.

Sassi has estimated that, between 1983 and 1987, the food system's share of total GDP diminished from 13% to 11.5% (see Table 3.1 and 3.2). With reference to the value added in the overall food system, the highest contraction occurred in the agricultural share, from 40.6% in 1983 to 34.7% in 1987. The food industry's quota of the total value added originating within the food system remained stable at 21%, whilst the share of food distribution grew from 38.3% to 43.5%. Employment also fell in the period considered. The quota of the total workforce employed in the food system declined from 19.3% in 1983 to 17.6% in 1987. Agriculture suffered the greatest decrease: its weight within the food system's workforce fell from 63.8% to 62.6%². Nevertheless, agricultural employment still retains its predominant position within the food system.

¹ see Bernini Carri [1987].

² Sassi [1992] pp. 11-13.

The importance of the food system in stimulating other branches of the economy has been demonstrated by a *linkage analysis*³ of the Italian input/output matrix of 1981 by Bernini Carri. The results of this study showed that, in addition to the growing significance of the developing food industries, "the importance of agriculture emerges in absolute as a potential key sector for the induction of employment for the economic system as a whole"⁴. Bernini Carri identifies livestock, wine and olive oil, as particularly effective in stimulating the economy and for this reason a better management of these activities is recommended.

Considering the evolution of demand, it can be noticed that the proportion of total expenditure devoted to food and drink by domestic households decreased from 21.4% in 1987 to 19.3% in 1990⁵, thus, considerably reduced in relation to the past and approaching the lower percentages typical of rich countries. However, it is still possible to find "a large Mediterranean component"⁶ in the Italian diet, comparing its composition with the European average⁷.

Even though the system has proved to be highly dynamic, still a distinctive Mediterranean feature exists in the Italian food system, also in its productive structure⁸. According to Bertelè and Brioschi, interpreting this diversity is a key to understanding the future developments of the whole system. In fact, this either constitutes a simple lag in relation to more advanced western economies or it is a result of the different mix of primary production and food consumption, which are typical of the NMCA. In the latter case, this peculiarity may be permanent. Again, regional differences have to be taken into account: northern Italy appears to have some characteristics in common with northern Europe, whereas the *Mezzogiorno* definitely maintains Mediterranean-type structural characteristics.

With reference to the following analysis, the comparison between the Mediterranean region within Italy and the rest of the country has been carried out adapting the notion of the Medit region to the statistical reality. Indeed, it has been decided to consider the

³ The *linkage analysis* highlights that a new investment in one sector provides opportunities for upstream sectors (backward linkages) and provides a stimulus to downstream branches (forward linkages). These linkages represent an externality, which has to be considered. Bernini Carri [1987] p. 260

⁴ "Emerge in assoluto l' agricoltura come potenziale 'settore-chiave' di induzione nella creazione di occupazione per l'intero sistema economico." Bernini Carri [1987] p. 285.

⁵ data from INEA [1992], current prices.

⁶ Fanfani and Montresor [1991] p. 172.

⁷ see Chapter 4.

⁸ see Chapter 2.

*Mezzogiorno*⁹ as the Italian equivalent of the Medit region, distinguishing it from the Centre-North of the country. This decision derives from the fact that, although a portion of central Italy¹⁰ and most of Liguria have originally been encompassed by the Medit region, the inclusion of these entire administrative regions in the computation of the Mediterranean aggregate may lead us to include areas, which



Map 3.1 - The Italian regions.

were not included in the Medit, therefore causing a distortion. Moreover, the statistics available normally refer to the consolidated definition of the *Mezzogiorno*. In conclusion, whenever possible regions will be considered separately, discriminating North, Centre and *Mezzogiorno*.

3.2 Some structural characteristics of the Italian food system.

According to a recent input-output analysis published by Costa, Giacomini, Girardi and Manente, which analyzes the Italian Agrimodist inter-sectoral tables relative to 1980, and describes Italian agribusiness with precision, it emerges that, despite a growing inter-relation between the agri-industrial and food branches, a clear distinction between these two segments still persists and Italian agribusiness is basically characterised by its alimentary components, and by the linkages between the farming and food processing aggregates¹¹.

⁹ The *Mezzogiorno* includes the regions: Abruzzi, Molise, Campania, Apulia, Basilicata, Calabria, Sardinia and Sicily.

¹⁰ The Centre comprises Tuscany, Umbria, Marche and Lazio.

¹¹ Giacomini and Girardi in Costa *et al.* [1991] pp. 31-35.

The rôle of food demand evolved remarkably in the last decades and the effect of demand upon the productive structure of the food sector has been growing with the food market's size. The past, characterized by local food market self-sufficiency and relative independence of the sectoral compartments of production, has gone and new interdependencies and inter-actions have been established. This development is already apparent in the United States and northern Europe. Neither farms nor industrial food enterprises have any more the capacity to ignore the final market, which has become in these countries an extraordinarily important concern for the firms operating in the food sector. The unprecedented dynamism of Italian food demand in the last few decades represents a signal for change in the productive structure of the food sector along the lines of greater integration with the market. The importance of the demand-side in the overall food system will be considered in a preliminary discussion of the matters inherent to the Italian consumption of food in Chapter 4.

The food processing aggregate has become the real hinge of the system, due to its being intensively connected to the other food branches and to the rest of the economy. Moreover, food demand is increasingly directed to processed items. In consequence, the importance of distribution is constantly growing due to its direct connection to the consumer market. The aspects connected with food production and distribution will be discussed respectively in Chapter 5 and in Chapter 6.

3.3 The external component of the Italian food system.

The growing magnitude of the Italian food deficit, which reached 14,000 billion lire in 1989 and improved only marginally in 1990 (12,500 billion lire), imposes a more profound consideration of the external junctions of the Italian food system¹². Costa concludes that food processing activities rely more on imports than farming. The activities more responsible for the deficit are: livestock, intensive crops, meat processing and other alimentary products (starch products, fats and oils, processed fish, etc.)¹³. Therefore, the stimulus set by an increasing demand for some products, such as meat, results partly offset by a growing need

¹² see Chapter 7.

¹³ see Costa *et al.* [1991] and Bernini Carri [1987].

for imports¹⁴. On the other hand, Italy exports basically Mediterranean products, such as fruit and vegetables, both fresh and processed, wine, spirits and processed cereals such as pasta, even though the latter *filières* rely increasingly on imports. Therefore, a growing demand for these products may bring about a controversial effect on the agri-alimentary deficit.

The growing relevance of international linkages through trade in the context of the food function will be considered in Chapter 7. The international influence over Italian food consumption is considered in Chapter 4, whilst the importance of foreign activities operating directly in the domestic market and the growing concern of food enterprises for a global strategy will be discussed in Chapter 5 and 6.

3.4 Some geographical attributes at a regional and local level.

The geographical distribution of agri-industrial activities in Italy is uneven, and there is a marked degree of variability in the regional characteristics of the food system. Hence, a further investigation of regional variations represents a necessary step towards a satisfactory description of the Italian food system in relation to the North of Europe and the Mediterranean area. The demand of food is also differentiated according to income distribution and, at a very local level, according to the consumers' inclinations. On the other hand, the forces affecting food demand act increasingly at a national, and even international scale, thus, although a national and regional analysis cannot detail the local differentiation of demand, it is able to offer some hints of the actual trends in operation globally.

According to Fanfani and Montesor, who offer an introductory description of the Italian productive structure, the rate of employment and value added in the agri-food system is particularly high in large areas of the South, in Emilia and in Umbria, whilst there are regions in which the agri-food sector's weight, in terms of employment and revenue, is in line with the European average, for example in Lombardy. With regard to agriculture, the Mezzogiorno employs more than the 50% of Italian agricultural workers, while the two-thirds of the food industry employment is concentrated in the North, especially in Emilia and

¹⁴ see also Casati [1990].

Lombardy. Thus, the bulk of the agricultural value added is produced in the Mezzogiorno, where only the 25% of the national food industry value added is generated¹⁵.

The food processing industry is highly concentrated in four regions: Lombardy, Emilia Romagna, Veneto and Piedmont, especially in the agricultural production and processing of meat and dairy products; wine production is slightly more dispersed and the areas of primary production and processing seem not to coincide necessarily. On the other hand, fruit and vegetable production and processing are concentrated in Emilia and Campania, whilst olive oil is typically produced in the South¹⁶. However, it is important to notice that the food industry is spatially concentrated to a much lesser extent than the other industrial sectors¹⁷.

Food demand in Italy appears to be characterized by local attitudes to diet. This depends upon the great local differentiation of the Italian *typical products*¹⁸ and gastronomic tradition (some examples with pasta: *spaghetti* in Naples, *orecchiette* in Bari, *tortellini* in Bologna, *trenette* in Genoa, etc.). These local preferences have integrated with new influences in the past forty years, with the rise in incomes and the growing exchange of people and traditions between regions. Nevertheless, it can be argued still that Italians in general, not only elder people in the backward countryside, are attached to their traditions and typical products. This does not mean that they are not open to other influences, and that the Mediterranean diet retains all of its past characteristics: the evidence suggests that most of the regional differences in diet change are explained on the basis of different economic possibilities and that, in general, all Italians tend to integrate their diet according to patterns related to their purchasing power.

The discussion of the recent trends in food demand in Italian regions underlies a critical question. The change in alimentary habits has been regarded as a wind of *modernization* blowing inefficiency and backwardness and bringing new developments for the entire food system. A future of high-tech foods has been predicted, on the example of more advanced food sectors in northern Europe and America. In other words, the current prevalence of a sort of *North Mediterranean diet* in Italy and other southern European countries is seen as a lag that will be surmounted in the near future. Conversely, it seems as

¹⁵ Fanfani and Montresor [1991] pp. 171-172.

¹⁶ see Fanfani and Montresor [1991].

¹⁷ Terrasi [1985] p. 66.

¹⁸ The term *typical products* identifies foods produced according to specific methods, normally linked to local or national gastronomic traditions.

the Italian consumer will not have, in few years, any possibility of choice between different food régimes. The impossibility of organizing any kind of strategy for the numerous small food firms of the Italian food sector, neither by themselves or their organizations or by the government, in the last decades, means that, in a more open market, their destiny is to be replaced by multinational food giants. This process has been already operating in the last decade and is bound to become even more visible in the future, causing the end of many artisanal processes of food production. The few survivals will target their products to the highest segment of the market, and their typical products will increasingly be accessible only to the wealthiest consumers. Italian high-quality typical products and processes seem, to the present author, to deserve a better destiny.

3.5 Tables.

Table 3.1 Value added by the agro-food system at market prices (billion lire) and its incidence on the total GDP

	1983		1985		1987	
Agriculture	33,304	40.6%	36,583	37.1%	39,448	34.7%
Food industry	17,174	21.1%	20,504	20.8%	24,783	21.8%
Food distribution	31,497	38.3%	41,606	42.1%	49,556	43.5%
		100.0%		100.0%		100.0%
Agri-food sector	81,975	13.0%	98,693	12.1%	113,787	11.5%
Total GDP	633,571	100.0%	815,630	100.0%	982,595	100.0%

(Source: Sassi [1992] p. 12)

Table 3.2 Employment in the agri-food system and its incidence on total employment.

	1983		1985		1987	
Agriculture	2,747,900	63.8%	2,580,700	62.9%	2,524,400	62.6%
Food industry	407,600	9.5%	309,700	9.6%	385,100	9.5%
Food distribution	1,148,200	26.7%	1,134,200	27.5%	1,120,000	27.8%
		100.0%		100.0%		100.0%
Agri-food sector	4,303,700	19.3%	4,105,600	18.1%	4,029,500	17.6%
Total employment	22,292,000	100.0%	22,596,800	100.0%	22,895,000	100.0%

(Source: Sassi [1992] p. 12)

Chapter 4 - The Demand-Side Influence on the Food System's Composition.

4.1 The foundations of food demand.

The expansion of food demand is one of the most influential factors in the intense development of the food system in the last few decades. Malassis has presented a detailed analysis of the historical development of demand and identified several powerful factors acting on food demand¹:

- ◀ *growing consumers' purchasing power*;
- ◀ *transformation of the social conditions of consumption* (growing urbanization, changing labour conditions and leisure activities, increasing access to media, etc.);
- ◀ *transformation of the social conditions of production* (progress of technology and extension of capitalism as a social form of organization)².

In addition, *population growth* has played a primary rôle in the expansion of food demand, although the rate of growth will be less important in the future than it has been in the past. Indeed, Sanderson estimates a rate of population growth in western Europe of less than half a percentage point per year until the year 2000³. Nevertheless, the *change in the population structure*, resulting from a longer average life span and decreasing family size, has had and will continue to have a major effect upon food consumption⁴.

¹ see also Padilla [1992] who presented a theoretical model for studying the static and dynamic aspects of food consumption in contrast with the neo-classical consumer theory.

² Malassis [1973] pp. 91-120.

³ Sanderson [1988] p. 187.

⁴ see Del Pezzo et al. [1985].

The *relationships of substitution and complementarity between products* also generate effects on the composition of food demand. Consumers choose to spend a certain amount of money for each product according to their *inclinations*, the *relative prices* of different goods and the *alternative products available* to them. Nowadays, prices have become more volatile and the availability of substitutes and complementary items has grown immensely, therefore food demand is less affected by traditional customs and habits.

Psychological and cultural factors are also key in determining food expenditure and consumption patterns. The cultural development of the last decades and the larger scale operation of the *demonstration effect*, which extended its influence to the working classes, shaped a different set of psychological conditions affecting consumers' choice. In the affluent society, the adoption of food attitudes derived from the dominant social groups represents a symbol of well-being and social status⁵. Furthermore, in the last few years, the effect of nutrition education had a particularly important influence upon consumers' health concern.

In the post-war period in Italy, these factors together have brought about a phenomenal change in food demand, both in quantitative and qualitative terms. Per capita income has grown considerably, so has population. In addition, relative prices experienced a marked change, together with consumers' alimentary habits. This evolution stimulated an increase in the supply of food, but this increase was not able to satisfy the growing demand, thus, opening a gap that has had to be filled increasingly by imports.

A process of industrialization has brought about a steady growth of consumer income and thus, of purchasing power. The distribution of income also became less skewed. In addition, the progressive shift of population from the countryside to the cities had a powerful effect, widening the physical gap between agricultural producers and urban consumers, and thus, inducing the means of transferring food to market. Moreover, there have not only been changes in the spatial distribution of food, but also in the physical quality, as a result of the changing consumption habits and the diminishing time dedicated to food preparation.

The growing international outlook of consumers, boosted by new travelling opportunities and growing diffusion of the media, has created non-essential needs for new food products, orientating the consumers towards high-value-added, industrially prepared items. It is important to consider that the rôle of food production and distribution is all but

⁵ Padilla and Thiombiano in Malassis and Ghersi (ed.) [1992] p. 70.

passive: as Malassis pointed out, "the agri-food sector does not escape from the general laws of commercial expansion: it explores the potential markets, creates new *objets marchands* and new needs. ... In the market economy hunger is satisfied by *objets marchands*"⁶. The spread of cars and fridges in turn favours the concentration of food supply in super- and hyper-markets.

These processes are inducing a profound evolution in the structure of consumption, and this change, in turn, is further affecting the structure of the food system as a whole. In particular, the development of modern societies has enabled the bulk of the consumers to live in relative abundance "with the corollary of a certain homogenization of behaviours and the convergence (because of a demonstration-diffusion effect) towards a dominant model of consumption, that one can define as agro-industrial"⁷. The operation of these effects in the Italian environment will now be analyzed and the particularities of the models of consumption further specified⁸.

4.2 Evolution of food consumption in Italy.

The first element which influenced food demand historically in Italy is the remarkable expansion of income. The growth in real incomes after 1945 induced in the first instance a widespread satisfaction of essential energy needs, and later a better integration of animal fats and proteins in the average Italian person's diet. After achieving the result of a complete satisfaction in terms of calories, the preferences of the consumer were directed, and the process is still continuing, towards more highly processed and richer food items. "In this phase, while food expenditure grows, the quota devoted to raw agricultural products actually decreases, to the profit of food processing and distribution sectors"⁹.

⁶ "Le secteur agro-alimentaire n'échappe pas aux lois générales de l'expansion marchande: il explore les marchés potentiels, crée de nouveaux objets marchands et de nouveaux besoins. ... Dans l'économie de marché, la faim se satisfait par des «objets marchands»." Malassis [1973] p. 104.

⁷ "Cette diffusion a permis l'abondance pour le grand nombre avec pour corollaire une certaine homogénéisation des comportements et la convergence (par un effet diffusion-imitation) vers un modèle de consommation dominant que l'on peut qualifier d'agro-industriel." Padilla and Thiombiano in Malassis and Gherzi (ed.) [1992] p. 67.

⁸ The quantitative analysis of the composition of Italian families' food expenditure, in the period 1960-90, by Caiumi [1992] suggests that economic factors (economic situation, prices and income) have been predominant (over extra-economic ones) in determining expenditure patterns.

⁹ "In questa fase, mentre cresce la spesa per l'alimentazione, in realtà cala la quota di questa destinata alla materia prima agricola impiegata a vantaggio di quella che viene trasferita ai settori dell'industria alimentare e della distribuzione." Casati [1990] p. 139.

Secondly, the changing social conditions of production and consumption affected eating habits and therefore influenced greatly the demand for food products. In Italy, as in other western countries, the process of industrialization has produced growing urbanization, which in turn favoured a progressive *disintegration* of traditional ways of eating in the family: with the generalization of the new working requirements, the house has lost some of its importance as the regular location of the family's formal food consumption. In addition, the changing family structure, and the growing productive rôle of women in extra-domestic work, decreased the total family time dedicated to food preparation. The results of a recent analysis showed that the consumption of food outside the house has grown in Italy, in terms of value, from 8.6% of total food consumption in 1960 to 17.4% in 1983¹⁰.

According to Casati, who presents a summary of food demand evolution in the last decades, household expenditure on food items, in the 1972-1987 period, grew, in absolute terms, from 55,522 to 68,870 billion lire (1980 prices), whilst decreasing as a percentage of total expenditure from 34.7% to 24.3%¹¹. In the last few years, although food expenditure continued to grow in absolute terms, the percentage of total expenditure devoted to food has fallen to 19.3% in 1990¹².

Regarding the *composition of food expenditure*, there has been a significant variation in the period 1970-1987, as shown in Table 4.1. The expenditure for bread and processed cereals, oils and fats, and more significantly, wine and alcohol, has fallen. The share of food expenditure devoted to horticultural-fruit products slightly increased. Dairy products and, even more substantially, fish, present a positive dynamic in the same period. The expenditure devoted to meat grew considerably up to 1980 and decreased in the 80s almost back to its level in 1970. According to INEA, during the 80s the percentage of total food expenditure devoted to meat declined from 30.5% to 27.6%. The decline relative to alcoholic beverages, sugar, oils and fats has been also noticeable, whereas the greatest increase concerned fish, which in 1990 accounts for 6.3% of the total food expenditure¹³.

The evolution of the *physical consumption per capita* of different food products also shows some trends inherent in the development of Italian food demand in the post-war period

¹⁰ Malorgio [1989] p. 4: research results presented by Tirelli Palunemeri, L. at the Conference "Modelli di consumo alimentare in Italia", Parma, settembre 1987.

¹¹ Casati [1990] p. 141.

¹² see Chapter 3.

¹³ data from INEA [1992].

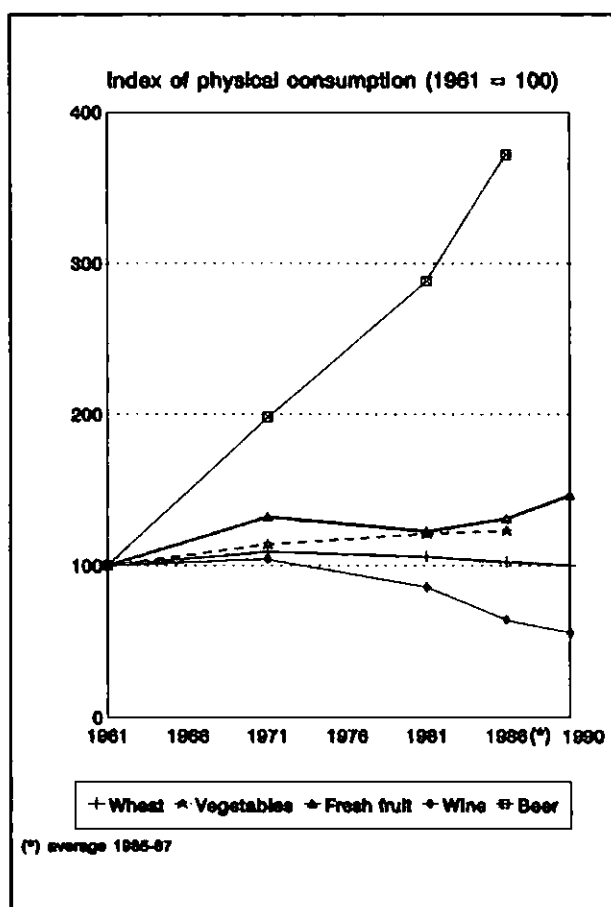


Figure 4.1 Evolution of some food products' physical consumption in Italy. (Source: Our elaborations, data from Casati [1990] and ISTAT [1992])

(see Table 4.2). Particularly interesting is the variation in the demand of meat, which presents a remarkable growth, in the immediate post-war period, and a smoother increase in the last period. The increase in meat consumption has been highly differentiated between beef, pork and poultry, with the demand of beef stagnating since the seventies, when the price of beef increased in relation to other kinds of meat, inducing consumers to demand alternative products¹⁴. The remarkable rise in the consumption of fish in the 80s is a very significant recent trend. With reference to some typically Mediterranean products, it has to be noticed that the consumption of wine has decreased steeply in Italy during the last decade, in correspondence with a shift towards beer. Fresh fruit consumption

has grown steadily in the eighties after a period of stagnation. Olive oil seems to have increased its growth potential in the last few years after the decline of the 70s, thanks to the growing consumer preference for healthy ingredients (see Figure 4.1, 4.2 and 4.3).

According to the annual compound rate of variation of food items' consumption per capita in the period 1951-1987, three distinct bands can be identified:

- ◀ food items with stagnant, or even decreasing, demand, such as cereals and wine;
- ◀ articles whose demand grew at an average pace, for example olive oil and dairy products;
- ◀ and finally, higher than average demand growth products, like vegetable oil, meat and beer¹⁵.

¹⁴ Brugnoli and Zuppiroli [1985] p. 43.

¹⁵ Casati [1990] p. 144.

With reference to meat, it is necessary to consider the relative product evolution: in the last few decades the demand for beef has stagnated, whereas pork and poultry experienced an extremely significant rise.

The capacity of some categories of food under consideration to give a faithful idea of the extent of the changes which have occurred has also to be considered. The comparison of raw materials cannot, for instance, help us to visualize the actual development in a food system which increasingly produces highly processed items. Hence, the evolution in food consumption on the long term is bound to have been even more remarkable than the statistical evidence would suggest. For instance, referring to an analysis carried out by Del Pezzo, Grasso and Ruggeri, the consumption of prepared food and snacks outside formal meals has grown considerably in the late 70s-early 80s¹⁶. Moreover, it has been calculated that "since 1976, total consumption of frozen foods has increased at an annual average rate of 10 per cent"¹⁷. A recent study by Eurofood calculated that 61.6% of the total volume (by weight) of Italian food consumption is still fresh food, and that the processed food consumption comprises bakery products (16.5%), dairy products (10.3% including milk), rice and pasta (3%), canned food (2.9%), confectionery and ice cream (1.2%), frozen foods (0.6%) and others (4%)¹⁸.

The evolution in the post-war period of the total food consumption in Italy per product, highlights that in the 80s Italian food consumption became nearly saturated in quantitative terms. In fact, even though the *income effect* and the *substitution effect* are still

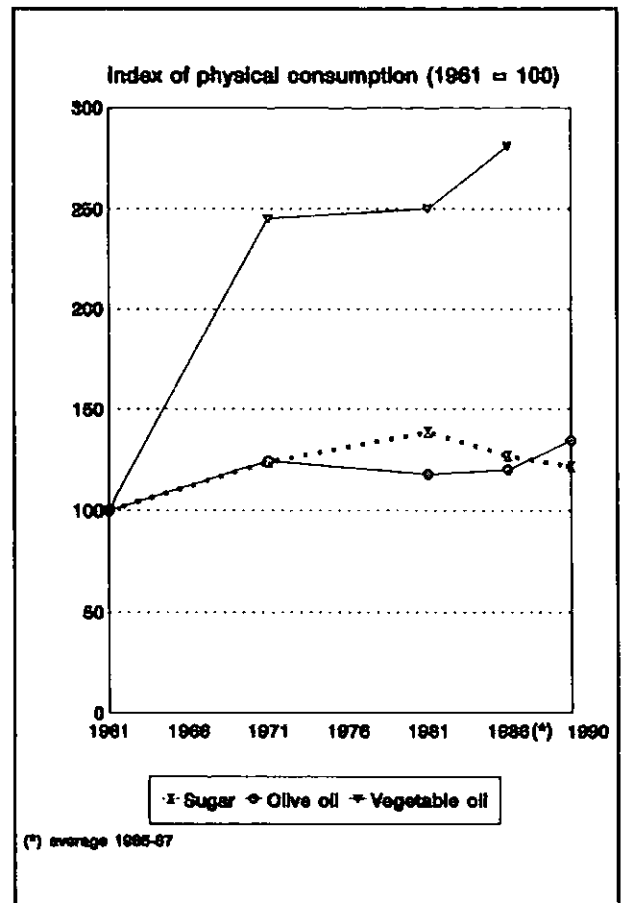


Figure 4.2 - Evolution of some food products' physical consumption in Italy. (Source: Our elaboration, data from Casati [1990] and ISTAT [1992])

¹⁶ +6.9% and +7% annual average between 1978 and 1982, Del Pezzo *et al.* [1985].

¹⁷ Piason [1989] p. 4.

¹⁸ Eurofood [1991] pp. 29-30.

operating upon the quality of food demanded, the *demographic effect* has ceased to push up the quantity of food demanded. On the other hand, in the last decade new consumption tendencies have appeared, reinforcing the idea that a qualitative evolution of demand is still very much in operation.

The long-term decline in the per capita consumption of cereals, wine and alcoholic drinks has been confirmed in the last decade. The evolution of the consumption of fruit and vegetables is still positive. Other trends seem to be original:

- ◀ the consumption of milk has stabilized in the last few years;
- ◀ meat consumption is still rising, but at a much slower pace;
- ◀ vegetable oils are preferred to animal fats in general;
- ◀ the consumption of sugar has declined.

Olive oil in particular have experienced a certain positive trend in the last five years¹⁹. Even more significantly, the total calorie consumption during the eighties has been declining after a maximum value of 3,473 average calories per person in 1982.

Similar considerations can be drawn from the rates of change in the total food consumption in the eighties (see Table 4.3). Considering the period 1980-1988, it is possible to identify three groups of foodstuffs characterized by:

- ◀ declining quantity consumed, particularly alcoholic beverages and sugar;
- ◀ less-than-average growth in quantitative terms, such as potatoes, bread and cereals, meat, fruit and vegetables, oils and fats;

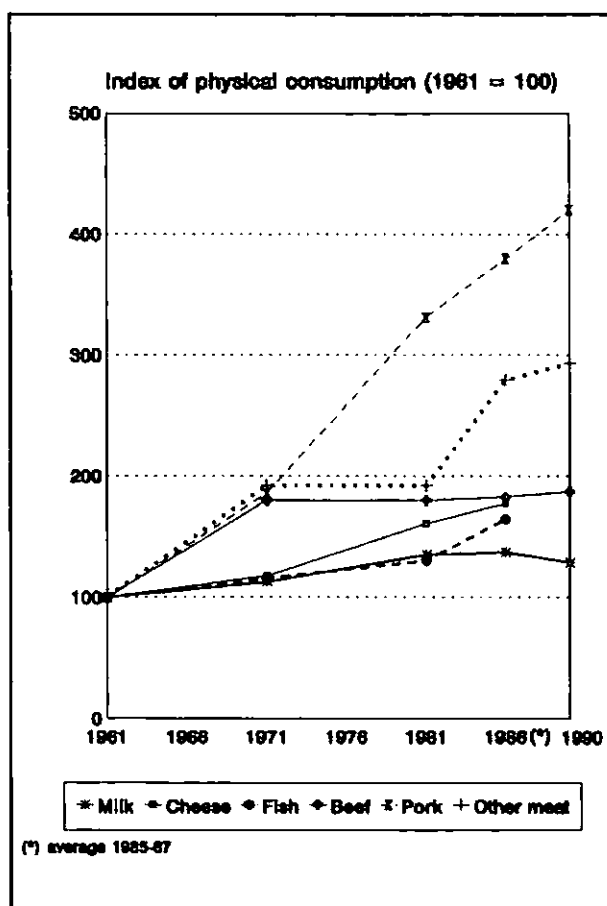


Figure 4.3 - Evolution of some food products' physical consumption in Italy. (Source: Our elaboration, data from Casati [1990] and ISTAT [1992])

¹⁹ see Giardiello [1992] who considers the evolution in olive oil consumption and Dono [1991] who presented an analysis of the descriptive models of oils and fats consumption in Italy.

◀ above-average rise, for example fish and soft drinks.

Between 1988 and 1990 the positive trend has been confirmed for soft drinks, whereas fish and dairy products consumption (including eggs) appear to be slackening. The consumption of oils and fats has been falling in the last two years and it could be argued that within this category there has been a shift towards lighter and healthier products.

In consequence of these developments, the term *dietetic revolution* has been used²⁰. Indeed, these signs have been interpreted as a trend towards a diet less excessive in terms of calories and more balanced between different kinds of food. This should reflect the growing consumer awareness of the need for a healthier diet. The prescriptions for a healthier diet, which have affected food consumption in the developed world in general, have been listed by Wheelock:

- ◀ balance energy input with energy output;
- ◀ reduce the consumption of fat and substitute saturated fat with polyunsaturated fat;
- ◀ reduce sugar and salt consumption;
- ◀ increase fibre consumption;
- ◀ moderate alcohol consumption²¹.

In consequence, especially in the United States and Britain, there has been a considerable development of healthier foods, such as low-fat milk or multi-vitamin fruit juices and increasingly highly processed foods healthily constructed, for instance milk with natural fat replaced by vegetable fat²².

This evolution is partly ascribed to the shrinking rôle of food as a social and cultural element and the growing emphasis on the rationale of food as a health concern, relegating the exploration of alimentary emotions to the rare moments of relaxation²³. According to Malorgio, these tendencies have been also determined by the growing control exerted by centralized production and catering over food consumption: the scientific methods and the technology utilized by large-scale food preparation enterprises allow an inputs-rationalization that, being equivalent the average per meal calories distributed to the consumers, manage savings in comparison with the traditional kinds of food preparation. In addition to this, "the

²⁰ see Malorgio [1989].

²¹ Wheelock *et al.* [1987] p. ix.

²² *ibid.* p. 275.

²³ see Cantarelli [1986].

model of food consumption of the highly developed countries ... tends to become extendable to the rest of the world, or better, to become compatible with the agricultural resources available"²⁴. However, the realization in the Italian case of this kind of highly technological future in the production and consumption of food, in which biotechnologies will have predominance as opposed to the traditional modes of production and consumption, if ever achieved, will have important consequences upon the structure of the society as a whole²⁵.

4.3 Geographical attributes of food demand in Italy.

The geographical nature of the Italian food system being uneven, one might expect a conspicuous differentiation between the northern part of the country and the *Mezzogiorno*. Unfortunately, the availability of reliable data is scarce, nevertheless an annual statistical study by ISTAT, based on a sample of Italian families (35,000 in 1990), gives some indications of the differences in consumption habits between regions (see Table 4.4).

Some authors argue that the historical evolution of the consumers' purchasing power has had a major influence on food consumption in different regions according to the non-homogeneous degree of economic development. The differences in consumption between North and South are not a result of different attitudes to diet as much as they are result of differences in consumers' purchasing power. This view is supported by the figures on physical consumption by social groups²⁶. In other words, as Sassi pointed out the North-South divide, with reference to food consumption, "indicates not simply different geographical areas, but above all zones characterized by a diverse income distribution, higher in the former than in the latter. Indeed, in the *Meridione* the weight of basic foodstuffs is greater than the one of the *Settentrione* where richer food is prevalent"²⁷. However, nowadays the income differential is much narrower than in the past. Moreover, with reference

²⁴ "Dunque, il modello di consumo alimentare dei paesi ad elevato livello economico ... tende a diventare estensibile a tutto il resto del mondo, o meglio diventare compatibile con le risorse agricole disponibili." Malorgio [1989] p. 8.

²⁵ see also Gorgoni in Medici and Fabiani [1987].

²⁶ Tacchino [1990] p. 74-75.

²⁷ "Questa affermazione è avvalorata dal confronto dei dati relativi all' Italia del Nord e del Centro-Sud, dove tale distinzione non indica solo aree geografiche differenti, ma soprattutto zone a diversa distribuzione del reddito, più alta nella prima rispetto alla seconda. Nel meridione, infatti, il peso degli alimenti 'poveri' è maggiore rispetto a quello del settentrione dove prevalgono i beni 'ricchi'." Sassi [1992] p. 18.

to Table 4.5, this differential seems to be less influential than the evidence would suggest, because of the difference in the cost of living in the regions and the equivalent absolute family expenditure.

Another interesting fact is that the breakdown of the average monthly per capita expenditure is apparently uniform (see Table 4.6), apart from fish, drinks and meat. The expenditure for meat is not differentiated according to a North-South contrast and fish consumption is linked with the availability of fresh catches in central and southern Italy and the traditional diet of these regions. More indicative of the different attitudes between consumers living in northern Italy and in the *Meridione* is spending on beverages. It is reasonable to assume that inhabitants of northern regions have a greater inclination towards high value added and relatively expensive drinks, in comparison to those living in the *Mezzogiorno*.

These findings seem to support the idea of a certain homogeneous North-South geographical difference in consumers' attitudes towards diet, although this difference appears to be more related to the qualities of consumed food (highly processed and sophisticated as opposed to fresh or raw food) than to the actual product mix. The mix of products consumed does indeed vary, according to geographical areas, but this variation is very much related to the *costume alimentare* at a local level and therefore, it is very difficult to find regularities at a macro-regional level. By analysing the data in Table 4.4, it could be argued that the orientation of food production in a specific region plays a important rôle in determining the region's consumption pattern. For example, the regions traditionally involved with fishery (Marche, Sicily etc.) retain a major fish consumption. In any case, it seems rather hazardous to draw this conclusion from the data available. This consideration does not exclude that the conclusion is valid at a local level, on the contrary, the hypothesis that food consumption in Italy retains a local dimension, partly connected to local productive specialization, is very convincing. This hypothesis suggests that food consumption in Italy still retains a significant traditional and local component.

According to the analysis of the Italian food market by Eurofood, the geographical component of Italian consumption is indeed very important. It is suggested that "southern Italians tend to eat more fresh produce and less processed food in comparison to their northern Italian neighbours. The pattern in the South is a reaction to lower incomes, a higher proportion of non working wives, good availability of fresh produce, and relatively low

processed food availability compared to the North"²⁸. It seems that "bureaucracy, poor infrastructure and a high degree of public sector inefficiency"²⁹ have acted as a barrier to the introduction of new products in southern Italy, so that the supply-side has been constrained and not able appropriately to *stimulate* food demand in the last few decades, in comparison with northern Italy and, even more, with northern Europe. The foreseeable greater future openness of the Italian market to EC and other international food corporations will arguably increase the availability of more convenient, processed food products in the Mediterranean area and, therefore, this will accelerate the evolution of food consumption in southern regions.

Despite the differences, the demand evolution process has been operating at a national level, affecting all regions, although with differing intensity. Again, Italian regions seem to

have experienced narrowing differences in food consumption in the last two decades and a certain *unification* of the Italian food market has been achieved in many respects (see Figure 4.4). Therefore, for the purpose of this study a national analysis helps to explain the

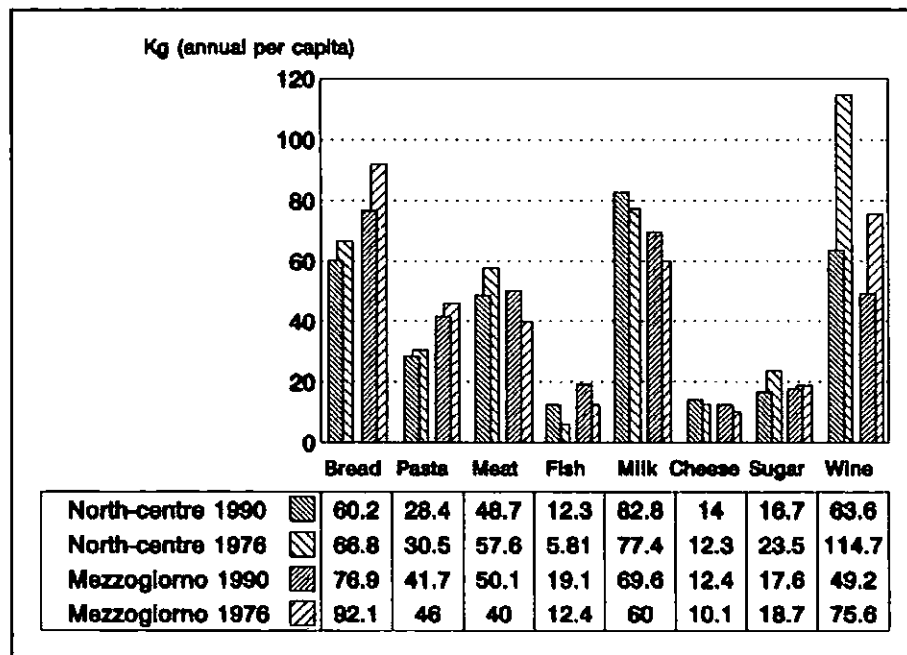


Figure 4.4 - Some geographical attributes of the evolution of food demand in Italy. (Source: Our elaboration, data from ISTAT [1992] and Wheelock et al. [1987])

development and future of food demand in Italy, and then a regional consideration of the supply side will investigate the ability of regional productive and distributive systems to adapt to demand *stimuli* that are increasingly originated by a national, if not international, food market.

²⁸ Eurofood [1991] p. 27.

²⁹ *ibid.* p. 5.

4.4 The future of Italian food demand.

It is important to bear in mind that the times of relative stasis in the evolution of the demand for food have gone long ago, and therefore predicting the future of consumption turns out to be a very difficult task in this period of dynamic evolution. Future models of consumption are bound to be decreasingly related to the traditional local *costume alimentare*, and their evolution does not necessarily require, though it neither excludes, linkages with the past³⁰. For sure, the effects of further changes in the population structure, of greater consumers' information, in addition to the traditional economic variables, such as income, distribution and prices, have to be accounted for. The necessity of taking into account the socio-economic and cultural values of consumers makes questionable any forecast, nonetheless, some studies of consumers' behaviour have provided some reasonable ideas about the changing psychology of the Italian consumer³¹.

According to Del Pezzo, Grasso and Ruggeri, the possible future developments of food consumption will be related to a generalized preference for brand products and quality denominations. For instance, it is worth underlining that the fall in wine consumption has not affected the consumption of the guaranteed better quality *Denominazione di Origine Controllata* (DOC) and *Denominazione di Origine Controllata e Garantita* (DOCG) kinds of wine, that have actually increased³². The shift towards better quality has resulted in the excellent performance in the last decade of traditional food such as extra-virgin olive oil, soft white cheeses and fresh pasta³³. Anyhow, this new orientation in Italy is not yet supported by sufficiently developed consumers' information, product labelling and standards of quality³⁴. It is also important to note that most developed food markets show that consumers are loosening their attitude towards brand products and they are increasingly buying cheaper unbranded produces (e.g. distributor's own labels)³⁵.

Sassi analyzed a recent study by ISMEA on the evolution of Italian consumption, which reveals a great deal of innovative behaviour by Italian consumers. A further growth

³⁰ Cantarelli [1986] p. 288.

³¹ see for example Eurisko, *Psicografia-analisi statistica delle tendenze rilevate nel periodo 1978-81*, Milano, 1982.

³² see Del Pezzo *et al.* [1985] and Piason [1989].

³³ Piason [1989] p. 5.

³⁴ see Chapter 10.

³⁵ see *The Economist* [4/6/1993].

of innovative and high-services-content food seems predictable and there also is expected a revival of fresh (or apparently fresh) products. The analysis and forecast by kinds of products, in Figure 4.5, indicates that the food expenditure in the next decade will continue to grow considerably. The results seem to follow the tendencies already

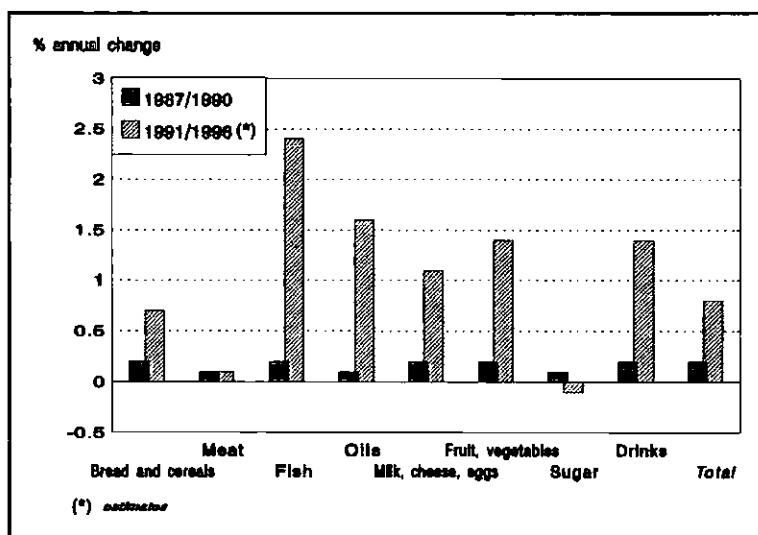


Figure 4.5 - Annual percentage change in some food products expenditure (in constant lire). (Source: Sassi [1992] p. 26)

operating during the eighties, with a strong rise in food expenditure in the sector of fish, oils, vegetables and soft drinks. Nevertheless, the analysis of aggregated data cannot discriminate within categories, between raw and highly processed products, and therefore provides only a limited picture of change.

The study by Eurofood illustrates some of the new tendencies relative to Italian consumption (see Table 4.7), especially consumers' attitudes towards innovative products. The Italian food market, even though still maintaining a conspicuous traditional component if compared to northern Europe, shows some particularities that are worth considering. Italian consumers' higher-than-average concern for a healthy diet contrasts with their resistance to convenience dishes. The report suggests that this latter component should be sooner or later overcome, but it could be argued that the acceptance of convenient, easy and quick-to-prepare foods may not acquire a share of consumption equivalent to other countries such as the United States or Great Britain³⁶. After all, the evidence that north American style fast-food restaurants have in the 80s failed to win more than a negligible share of the Italian market suggests that Italians, including the developed North, still retain a strong preference for a high quality nutrition.

³⁶ see Senauer *et al.* [1991] for a description of the modern trends in the States.

4.5 The influences of national and external food demand upon the Italian food system.

Very few attempts have been made to estimate the percentages of food demand devoted to different functional sub-sectors of the Italian food system. The most respected is probably the one performed by Bertelè and Brioschi in 1981, but it appears to have limited reliability as a description of the current situation³⁷. Anyway, even considering recent developments, Italy seems still to suffer from excessive margins realized by an over-weighted and inefficient distributive sector, although some developments have been realized³⁸. On the other hand, a recent report shows that the food industry's importance, which was surprisingly low at the end of the 70s, has been enhanced in the last decade, although this process might have helped the external component to the detriment to the national food industry³⁹. Finally, the decreasing share of demand devoted to agriculture has required considerable adjustments to Italian agriculture, which is likely to endure a painful restructuring during the 90s.

The external component of demand acquires growing importance for the development of the food system in the increasingly integrating international economy. In particular, the European market has to be considered as a natural extension of the internal one, due to the interconnections operating via food distribution at an international scale and obviously relating to the construction of the Single European Market. With reference to the analysis by Cantarelli, the European food market presents substantial potential for the typical Mediterranean products⁴⁰. In reality, the prospect of a growth in the demand for beef and other northern productions seems to be slim, whereas the consumption of horticultural and fruit products has grown significantly in Europe as a whole, in the late seventies-early eighties⁴¹. If one considers that the average consumption of these latter products in Europe, and also in Italy, which is the largest consumer, is largely inferior to the recommended quantity for a healthy diet, then a considerable future shift towards fruit and vegetables across European countries might be foreseeable⁴². Hence, the ability by Mediterranean, and in this

³⁷ see Bertelè and Brioschi [1981].

³⁸ see Chapter 6.

³⁹ For every 100 lire spent by Italian consumers in 1990, the national food industry has received, in the form of gross value added at factor cost, 16 lire (14.2 in 1980); national agriculture 29.2 lire (37 in 1980). Ministero dell'Agricoltura e delle Foreste [1992] p. 36.

⁴⁰ see Cantarelli [1986].

⁴¹ see the analysis on European consumption in Chapter 2.

⁴² Cantarelli [1986] p. 291.

case Italian, food sectors to take advantage of this favourable trend has to be estimated. There is a danger of losing another opportunity for development⁴³.

Historically, the Italian food system seems to have been biased to food production, and as a result of this, the quality of Italian typical products has gained international appreciation. Yet, Italian products have been unable to benefit significantly from their reputation abroad, not having developed an adequate standard of marketing support. On the other hand, the Italian distributive system, which has been tailored for traditional artisanal production, finds an increasing competition in the domestic market from the mass distribution network, based on large scale outlets. This process results in an increasing share of the market for large retailers, who on the one hand produces a more efficient way of distributing food, but on the other, is not a suitable means of distributing typical Italian products in their current form.

Another vital question is whether Italian producers and distributors will be able to undertake programmes tailored for the new needs of consumers, as for example the ones widely introduced in other developed countries, especially in America and northern Europe⁴⁴. More generally, the situation in Italy, especially in the *Mezzogiorno* is far from allowing the consumer, through the distribution channel, to give clear signals to the production-side of the food system.

Therefore, without a substantial shift of emphasis from production to consumption, the Italian typical products sector risks finding itself cut out of the European consumer market and increasingly challenged at home by efficiently distributed, cheaper and lower quality foreign products. According to Cantarelli, "where there will be greater resistance, as it happens whenever the food habits are more eradicated, more convenient prices will be applied in order to disrupt every defensive move. In other words, the risk is that, where mass commodities do not autonomously succeed in imposing themselves, the efficiency of the distribution sector will finally succeed"⁴⁵. Moreover, in this period of increasingly European trends in consumption, the threat cannot be ruled out by just relying on the isolation of the Italian consumer market.

⁴³ see Chapter 9 and Bartola and Sotte [1992a].

⁴⁴ see Wheelock et al. [1987].

⁴⁵ "Laddove saranno opposte delle resistenze maggiori, come avviene quando le abitudini alimentari sono più radicate, saranno applicati prezzi più convenienti per smantellare sul nascere ogni tentativo di difesa. In sostanza il rischio reale è che, dove non riesce ad imporsi il bene di massa autonomamente, riesca ad imporlo l'efficienza del sistema vettore." Cantarelli [1992] p. 39.

4.6 Tables.

Table 4.1 Per capita expenditure for some food products as percentage of the total food expenditure (constant 1980 lire).

Products	1970	1975	1980	1983	1985	1987
Bread and cereals	12.0	11.9	11.1	11.0	10.9	10.9
Meat	29.3	30.7	33.1	30.4	30.6	29.9
Fish	3.4	3.1	3.3	4.3	4.7	5.1
Milk, eggs, cheese	12.1	12.3	12.7	13.4	13.4	13.4
Oils and fats	5.6	5.7	5.3	4.2	4.3	4.2
Fruit, vegetables	20.7	19.8	18.7	21.6	21.1	21.3
Sugar	1.9	1.9	2.0	1.6	1.6	1.6
Coffee, tea, cocoa	2.3	2.4	2.3	2.7	2.7	2.8
Non alcoholic drinks	1.1	1.1	1.3	1.2	1.2	1.5
Alcoholic drinks	9.1	8.6	7.9	5.9	5.7	5.4

(Source: Casati [1990] p. 142)

Table 4.2 Annual average consumption in Kg per capita of some food products.

Products	1961	1971	1981	1985/87	1990
Wheat	159.6	174.2	168.7	163.2	160.0
Meat total	30.7	56.8	74.0	78.7	83.3
Beef	14.0	25.2	25.2	25.6	26.2
Pork	6.4	11.9	21.2	24.3	26.9
Others	10.3	19.8	19.8	28.8	30.2
Milk	61.6	69.5	83.5	84.5	79.4
Cheese	9.0	10.6	14.5	16.0	n.a.
Fish	8.2	9.5	10.7	13.5	n.a.
Olive oil	9.0	11.2	10.6	10.8	12.1
Oilseed oil	4.2	10.3	10.5	11.8	n.a.
Sugar	22.3	27.6	30.9	28.3	27.1
Wine (litres)	108.2	112.7	92.9	69.5	60.5
Beer (litres)	6.1	12.1	17.6	22.7	n.a.
Vegetables total	168.9	192.6	204.4	207.5	n.a.
Fresh fruit total	90.3	119.3	110.7	118.3	132.1

(Source: Our elaboration, data from Casati [1990] and ISTAT [1992])

Table 4.3 Annual average rates of change in food consumption.

	Total change			Quantity component ¹			Price component ²		
	88/80	89/88	90/89	88/80	89/88	90/89	88/80	89/88	90/89
Total food consumption	10.1	6.7	6.5	1.1	0.6	0.4	8.9	6.1	0.6
Bread and cereals	10.5	7.2	6.6	0.5	0.7	0.5	10.0	6.4	6.1
Meat	9.2	7.0	5.9	0.7	0.2	0.1	8.4	6.8	5.8
Fish	15.9	7.6	5.7	3.7	1.3	0.3	11.8	6.2	5.4
Milk, cheese, eggs	11.2	9.1	5.4	1.6	0.4	-0.1	9.5	8.5	5.4
Oils, fats	8.4	8.0	5.5	0.9	-0.4	-0.3	7.4	8.4	5.9
Fruit, vegetables	9.9	5.3	7.0	0.8	1.3	0.5	9.0	4.0	6.5
Potatoes	8.8	8.8	12.8	0.3	0.3	-0.2	8.5	8.4	12.9
Sugar	6.0	2.1	4.0	-0.4	-	0.8	6.4	2.1	3.2
Coffee, tea, cocoa	9.0	1.4	2.7	1.9	-	1.0	7.0	1.3	1.7
Other	14.0	4.7	10.3	3.0	1.3	2.4	10.7	3.4	7.8
Non-alcoholic drinks	16.4	11.7	17.6	6.0	7.6	8.2	9.8	3.8	8.7
Alcoholic drinks	8.8	4.8	7.6	-0.9	-1.7	-1.4	9.8	6.5	9.2
Total final domestic consumption	13.6	10.1	9.1	2.5	3.6	2.7	10.8	6.3	6.2

(Source: INEA Yearbook 1989 p. 68)

¹ Calculated at 1980 prices for the years 1980-88 and at 1985 prices for the last two years.

² Calculated as residual between total change and quantity component.

Table 4.4 Family food consumption: annual average quantity in Kg of some food products consumed by component, 1990.

Regions	Bread	Pasta	Meat ³	Fish	Milk (litres)	Cheese	Sugar	Wine (litres)
Piedmont	64.6	31.4	49.9	10.8	81.6	14.1	18.9	62.4
Valle d'Aosta	58.1	28.5	45.5	12.6	94.8	17.3	25.1	90.0
Lombardy	55.4	27.1	45.8	10.0	81.6	16.1	16.3	61.2
Trentino-A. A.	50.5	20.2	31.1	5.5	99.6	14.8	18.4	43.2
Veneto	51.3	24.0	45.1	12.0	93.6	15.2	17.1	75.6
Friuli-V. G.	53.7	22.0	39.5	11.4	90.0	17.8	14.8	58.8
Liguria	53.2	26.1	42.0	13.9	78.0	13.1	19.2	60.0
Emilia Romagna	59.3	21.7	44.0	11.0	78.0	13.3	12.1	57.6
Tuscany	71.9	31.3	53.2	12.9	81.6	11.5	16.5	70.8
Umbria	79.4	37.2	73.8	12.9	88.8	11.7	19.7	82.8
Marche	68.3	31.3	58.1	18.6	74.4	10.9	14.0	68.4
Lazio	64.8	36.3	57.3	17.2	80.4	12.0	18.4	58.8
Abruzzo	70.0	36.6	53.1	15.4	69.6	12.8	20.5	50.4
Molise	76.3	46.9	49.7	15.7	66.0	13.2	18.3	58.8
Campania	77.3	43.5	50.1	19.2	64.8	13.1	17.7	48.0
Apulia	63.9	38.1	52.1	22.4	67.2	14.2	15.0	75.6
Basilicata	84.2	47.5	52.3	17.4	85.2	15.3	18.1	56.4
Calabria	79.5	46.0	47.7	16.1	70.8	16.0	19.7	45.6
Sicily	84.8	43.6	44.8	18.9	64.8	9.2	16.8	30.0
Sardinia	82.4	33.1	56.2	18.8	93.6	9.4	20.5	39.6
Italy	66.3	33.3	49.1	14.8	78.0	13.4	17.0	58.8
North-centre	60.2	28.4	48.7	12.3	82.8	14.0	16.7	63.6
Mezzogiorno	76.9	41.7	50.1	19.1	69.6	12.4	17.6	49.2

(Source: ISTAT [1992], data from a sample of 35,000 families)

³ Salumi and tinned meat excluded.

Table 4.5 Breakdown of income by macro-region.

Region	Population as a % of total Italian population	Average family income, 1987 (thousand lire)	Average income per capita, 1987 (thousand lire)	Annual average family expenditure devoted to food, 1990 ⁴	% of total family expenditure devoted to food, 1990 ⁴
North	47.4	2,243	872	7,136,676	21.8%
Centre	19.1	2,234	792		
South	33.5	1,828	613	7,202,424	27.8%
Italy	100.0	2,110	751	7,158,756	23.5%

(Source: Our elaborations, data from ISTAT [1992] and Eurofood [1991] p. 26)

Table 4.6 Estimated average monthly per capita spending by product grouping and geographical area, 1990.

Product	North		Centre		Mezzogiorno	
	,000 lire	%	,000 lire	%	,000 lire	%
Bread, cereals	39	15	37	14	36	15
Meat	75	29	86	31	65	28
Fish	12	5	19	7	21	9
Milk, eggs, cheese	35	13	33	12	29	12
Oils, fats	16	6	20	7	17	7
Fruit, vegetables	39	15	41	15	32	14
Coffee, tea, other	19	7	17	6	16	7
Beverages	27	10	21	8	19	8
Total	262	100	274	100	235	100

(Source: Eurofood [1991] p. 27)

⁴ ISTAT data from a sample of 35,000 families.

Table 4.7 Percentage of consumers finding a particular product characteristics appealing, 1989.

The relative appeal of...	Italy	EEC average
Convenience dishes		
Frozen recipe dishes	10	21
Chilled recipe dishes	17	16
Microwave dishes	2	8
% ownership of microwaves	3	15
Health foods		
Additive free	36	39
Low fat	54	47
Low sugar	36	36
High fibre	21	35
Health drinks/food	40	22

(Source: Eurofood [1991] p. 30)

Chapter 5 - The Productive-Side in the Italian Agri-Food System.

5.1 Agricultural production and food production.

The evolution of capitalism has coincided with an intensified process of division of labour. This process corresponded to a growing fragmentation of the productive process and a segmentation in economic and social sectors. Nowadays, segmentation turns into recomposition. From this point of view, "restructuring appears as a process of recomposition, which brings about a reduced significance of the traditional sectoral delimitation, in reality and in its scientific interpretation"¹. The economy, and society *tout court*, seem to experience a growing inter-change and interaction between their components.

This tendency is noticeable in the context of the food function. Production is constituted by a number of different productive moments, linked in a complex operational network. There has been a progressive *explosion* of the activity of food production, which used to be concentrated in the farm, from the local to the global spatial dimension, as food consumers were moving away from the countryside to the cities. The growing importance of food processing activities, due to increasingly sophisticated consumers' needs, has induced a growing scope for integration between the chain of different operations that build up the final food product and the distribution channels.

The process of food production takes place in association with a system of economic, social, cultural and institutional factors, which interact with productive activities *sensu stricto*, resulting in a particular configuration of the food system. The complexity of the food

¹ "La ristrutturazione appare come un movimento di ricomposizione che rende sempre meno significative, tanto nei fatti quanto nell'interpretazione scientifica di essi, le tradizionali delimitazioni settoriali". Mottura [1990] p. 105.

production network normally involves in its operations extremely different social and economic environments. Commonly, an agricultural product is produced, transported, processed, distributed and consumed, involving in this process different regional and national environments, from the countryside to the cities.

Agricultural production, or more precisely primary production, represents one point in the overall functioning of the system. Food processing is another point of the network and has acquired growing weight and hierarchical importance, due to its relative market power (see Table 5.1). Thus, although an analysis of agriculture constitutes a necessary step towards a better understanding of the food system, a valid insight of the process of food production cannot leave apart the external conditioning of agriculture, especially regarding the food processing industry. Furthermore, market power and concentration in the food distribution sector have grown considerably, so as to force food production to stick to the requirements drawn by those organizations capable of directly reaching the consumer.

Indeed, the remarkable changes which are operating in the Italian, and more generally European, countryside cannot be analysed without considering that these changes affect more than just agricultural productive organization: the growing integration of agriculture into an international food system has constantly to be taken into account. In other words, "the main problem of agriculture in the current phase, in which knowledge relative to production techniques is acquired and the techniques themselves are consolidated, become therefore that of the products' market"².

5.2 Agricultural production and rural income.

The activities included in the primary sector are agriculture, forestry and fishery. Crops and livestock together account for 96.7% of the primary sector's final production and are mostly devoted to food production³. For this reason, the term agriculture commonly refers to the primary activities in general.

² "il problema principale dell'agricoltura, in una fase come quella attuale in cui le conoscenze relative alle tecniche di produzione sono ormai acquisite e ... consolidate, diviene perciò quello del *mercato dei prodotti*" Casati [1990] p. 134.

³ Bertelè and Brioschi [1981] p. 118.

Agricultural value added in 1988 accounted for 4.1% of the total economic value added in Italy as a whole. Regional variations are significant: farming is relatively more important in the South, with 7.1%, compared to the Centre-North in which its weight drops to 3.2%⁴ (see Map 5.1). However, it has to be remembered that this is a measure of the importance of agricultural activities in relation to other activities and not in absolute terms. Indeed, southern agriculture has retained a greater importance in producing the region's income despite being less developed.

5.2.1 Final agricultural production

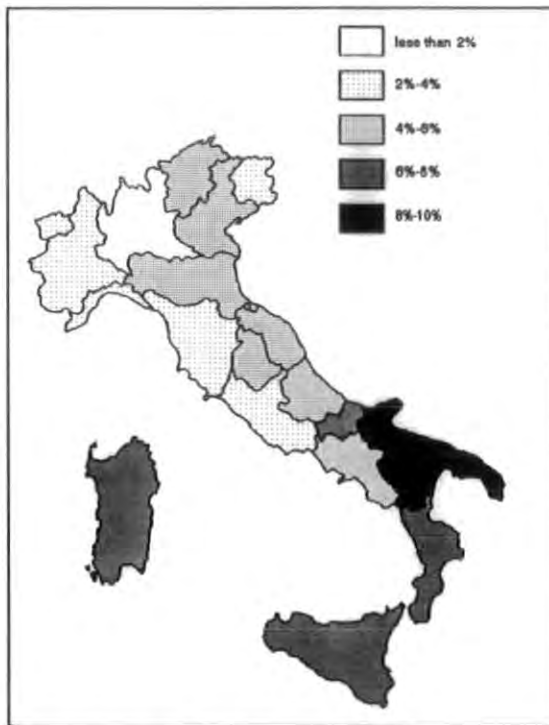
Italian agriculture produces a mix of products, which is strongly characterized by its uneven spatial distribution⁵ (see Map 5.2). The limitations which are implicit in using national averages as a description of Italian agriculture have to be borne in mind. Moreover, production is highly differentiated within regions, according to the heterogeneous physical environment, so as to impede a simple classification of agricultural activities even at a regional level. Nevertheless, *average descriptions* could offer a preliminary characterization of the production of food in Italy, describing its recent development.

In the *Mezzogiorno*, the presence of intensive agricultural production (for example fruit and horticulture) in the scarce plain coastal areas contrasts strikingly with the extensive kind of activities, such as cereals and livestock, mainly sheep and goat, which are undertaken in the less favoured hilly and mountain areas of the interior. The central part of Italy is basically characterized by a kind of Mediterranean polyculture (vines, olives, cereals, livestock), normally on a small-scale basis. The northern part of the country is identified, from the productive point of view, with the highly intensive irrigated agriculture of the Po Valley, one of the most intensely cultivated areas of Europe, and produces a mix of products similar to northern Europe: cereals, industrial crops (sugar beet, soya, sunflower, tobacco, etc.), fruit, vegetables and intensive livestock. In the Alps, agriculture is based on extensive livestock and traditional products, whereas in the hilly areas vines are common⁶.

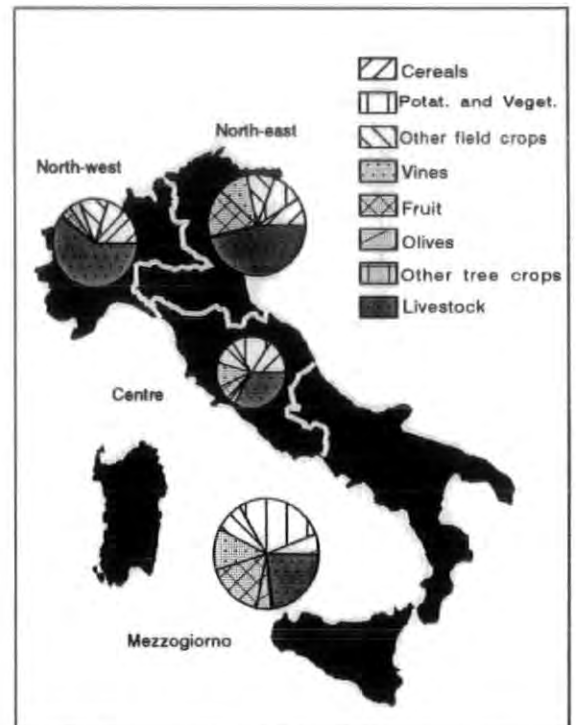
⁴ data from ISTAT [1992] relative to 1988.

⁵ see Chapter 2.

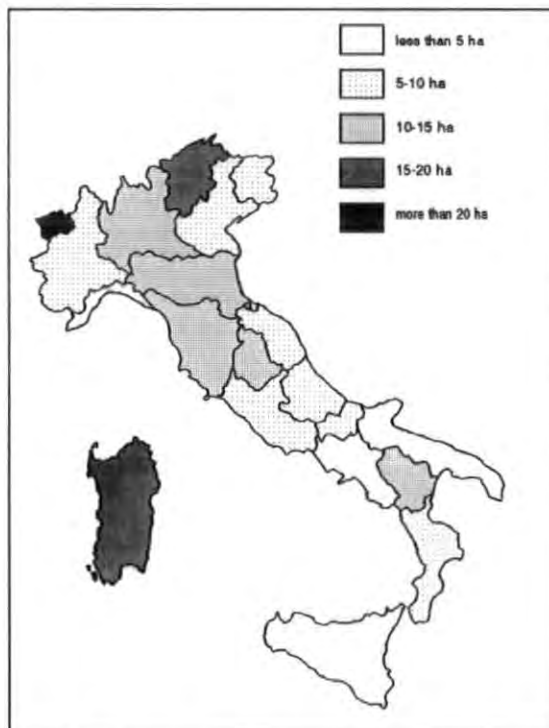
⁶ see Houston [1964] for a detailed physical description of the Italian, and generally Mediterranean, environment.



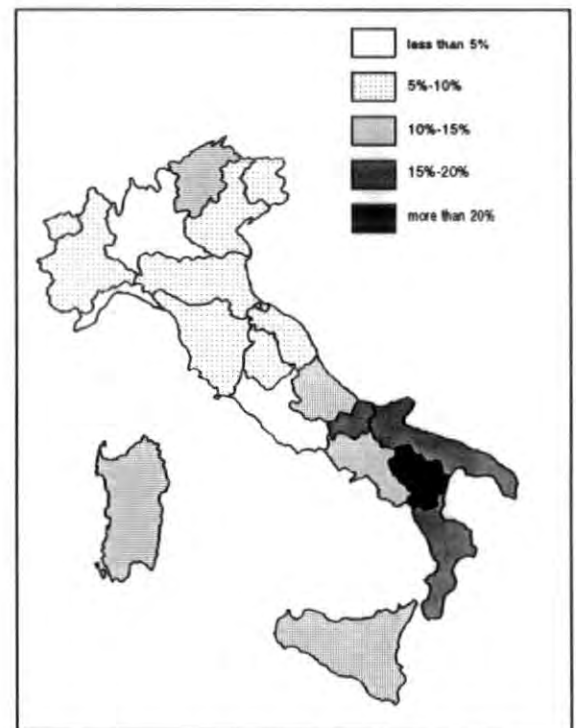
Map 5.1 - Share of the agricultural value added at factor cost, 1988. (Source: Our elaboration, data from ISTAT [1992])



Map 5.2 - Composition of the value of final agricultural output by broad geographical area, 1990. (Source: Our elaborations, data from INEA [1992])



Map 5.3 - Average farm size, 1990. (Source: Our elaborations, data from INEA [1992])



Map 5.4 - Share of agricultural employment, 1991. (Source: Our elaborations, data from ISTAT [1992])

Northern agriculture produces as much as 51.3% of the value of Italian final agricultural production, whilst the South contributes 34.2%⁷ (see Figure 5.1). The situation

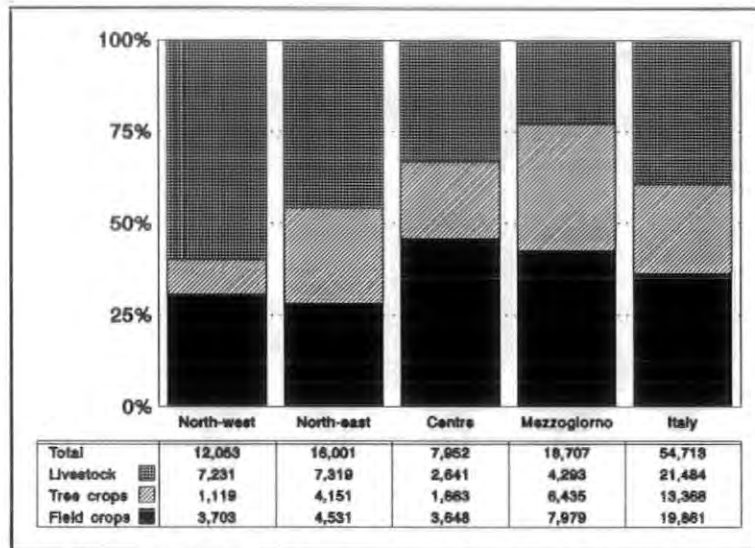


Figure 5.1 - Composition of the value of final agricultural output by broad geographical areas in trillion lire, 1990. (Source: Our elaboration, data from INEA [1992] p. 70).

is different with respect to the value added: the *Mezzogiorno* still generates a significant 41.8% of the total value added, the Centre 15% and the North 43.2%⁸. This peculiarity derives both from the different productive structure of southern agriculture and from the indirect kind of protection accorded to Mediterranean products, as for example deficiency payments. In fact, the Community's price

policy relative to northern products affects the value of final output of agriculture, while the aids to production affect the value added but they are not counted in the calculation of the final output figure.

It is also important to notice the prominence of lowland areas' agricultural product: plain areas, mainly located in the North, account for a large and growing portion of Italian agricultural output (see Figure 5.2). However, considering Italian physical configuration (plain areas constitute just about 23% of Italian total area), a strategy of agricultural development has to consider hilly and mountain areas, in order not to charge environmentally the already highly exploited plain areas and to spread the benefits of a healthy farming sector to the whole Italian territory.

The composition of the value of agricultural production, as shown in Table 5.2 and Map 5.2, confirms a remarkable degree of inequality between northern and southern agriculture. In fact, while the South produces almost half of total tree crop value, the North as a whole accounts for the two-thirds of the Italian livestock sector. In other words, this verifies the results of the analysis of the Medit region described in Chapter 2. Thus, it would

⁷ data from INEA [1992] relative to 1990

⁸ data from ISTAT [1992] relative to 1988.

be worth inquiring further into these regional characteristics, extending the term of comparison beyond the variable *productive mix*, to account for other aspects which characterize the agricultural sector.

5.2.2 The evolution of agricultural production in the 1980s.

Final agricultural production has grown from 29 to almost 31 trillion lire (1980 lire) between 1980 and 1989, equivalent to an annualized average rate of increase of 1% in constant lire over the 80s. According to a study by Mastrostefano, the rate of growth in the Italian final agricultural production, between 1980 and 1987, slowed considerably in comparison with the previous decades⁹. With reference to Table 5.1, the whole primary sector final production scored even worse, averaging a real growth of 0.8% in the same period. Taking into account the overall evolution of the economy (the extra-agricultural sectors' value added grew on average about 2.5% per annum), the agricultural sector has not performed well. Indeed, in the period 1980-1990 the share of agriculture on total GDP halved in current lire from 6.3% to 2.9% and decreased in real terms from 6.3% to 4.4%. This reflects the fact that agricultural

price increases remained much lower than inflation.

The value of field and tree crops accounts, in 1987/89, (see Table 5.3) for almost 62% of the farming sector's total value, compared with the modest, by European standards, quota of livestock. In the last decade, the livestock sector has grown marginally in terms of value, therefore losing importance in relative terms, particularly if compared to the field

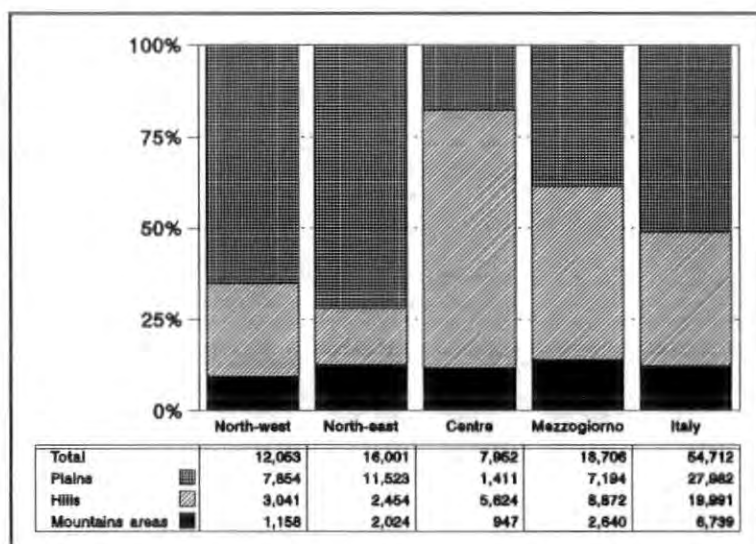


Figure 5.2 - Composition of the value of the final agricultural output by altitude (trillion lire), 1990. (Source: Our elaborations, data from INEA [1992] p. 70).

⁹ see Mastrostefano in Fabiani (ed.) [1991].

crops aggregate, that grew from 33% to 38%. Within this latter category, the sectors whose production value grew more have been the industrial crops (especially oilseeds) and flowers, that almost doubled their importance in the context of Italian agricultural final production. It is also important to notice for vine the negative marked change in the value of production over the period considered and, on the other hand, the positive trend in fruit production.

In the last ten years some important changes have appeared, modifying the balance of territorial activities in a way still difficult to interpret. The first results from the Agricultural Census carried out in 1990 by the National Institute of Statistics (ISTAT) show a remarkable change in the structural aspects of livestock farming in Italy. This activity characterized the development of northern agriculture in the last decades. According to INEA, "amongst the more striking changes are the decline in cattle and pig raising in the Po Valley, where there has been a clear decline in numbers of both species, and the significant increase in sheep and goats in the South"¹⁰. The total number of cattle fell by 12% from 1982 to 1990, and the smaller dairy farms of northern plain regions were the most heavily affected. Pig fattening also suffered a 7.5% decrease in the same period, especially in the North-east and Centre¹¹.

Regarding the evolution of agricultural production in Italian regions, the analysis by Mastrostefano shows that the growing difference between the more dynamic North, except for the regions of Emilia Romagna and Valle d'Aosta, and the rest of Italy is confirmed in the eighties in which the regional differences tended to increase. Agricultural production in the North grew considerably, during the 80s, whereas the *Meridione* experienced a 10% decrease over the decade¹². On the other hand, the phenomenon of increasing diversification does not allow a simple description based on the contrast between macro-regions. In fact, some southern regions (Sicily, Calabria, Sardinia) experienced a positive evolution during the last decade, whereas others did not succeed in confirming their past performance, such as Campania and Apulia. In central regions the situation is even more evident: all these regions showed a worsening rate of growth in agricultural production in relation to the previous period and in some cases, as Lazio and Toscana, also in absolute terms¹³.

¹⁰ INEA [1992] p. 14.

¹¹ data from INEA [1992].

¹² see Casati in Ministero dell'Agricoltura e delle Foreste (MAF) [1992].

¹³ Mastrostefano in Fabiani (ed.) [1991] pp. 40-47.

The analysis of the changes in the composition of Italian agricultural production has been undertaken by Balestrieri, who presents a study of the territorial changing nature of agricultural Mediterranean productions in the context of the Italian regions. With reference to a study by Bartola and Fantini¹⁴, Balestrieri concludes that the importance of horticultural products, vines and olives has grown in the period under consideration (1964-1983) in the *Mezzogiorno*, also in the second period (1972-1983), when the overall weight of southern agriculture diminished (see Table 5.4). In other words, "the substantial stability of the quotas in value retained by the various branches in the national aggregate corresponds to an appreciable process of territorial specialization"¹⁵. The process of specialization consisted of a limited, but still significant rising orientation of southern regions towards Mediterranean products and northern regions towards northern products. It is also possible to notice that the phenomenon has been slackening during the 70s-early eighties. According to Balestrieri, the causes of the extent to which productive specialization affected Italian agriculture are structural. In particular, the structural constraints relative to agriculture and the food industry appear to be related, and the results have enhanced the territorial differences in activities and products.

The process of specialization commonly had an outcome at a district level, due to the local food system characteristics: in many cases an integrated agri-industrial system, concentrated on a particular production, can be identified. In conclusion, this process of specialization of Italian agricultural activities has acquired a connotation more at a local than at a regional level.

5.2.3 Agricultural income.

The particular characteristics of agricultural employment cause complications in the definition and analysis of agricultural income. According to Bertelè and Brioschi, there are a number of problems which deserve consideration. Firstly, the majority of workers are self-employed and therefore their remuneration includes not only labour, but also capital and land. The value added per work unit, valued at factor cost, which is normally used as a proxy for

¹⁴ see Bartola and Fantini [1988].

¹⁵ "Dunque, alla sostanziale invarianza delle quote in valore detenute dai vari comparti nell'aggregato nazionale, si accompagna un apprezzabile processo di specializzazione territoriale." Balestrieri in Balestrieri (ed.) [1990] p. 18.

income, presents problems both for the denominator, namely the imputation of work units to agriculture, and the numerator. In fact, it does not take into account the different fiscal and contributive treatment compared to other sectors of the economy, and the remarkable potential capital gains due to the rising price of land. Regarding the latter component, however, it has to be remembered that the rise in land value has ceased to affect the bulk of rural enterprises in the last decade.

Because of the limitations implicit in using the agricultural value added (at factor cost) per worker (AVAW) as a proxy of income, Eurostat has been directing its effort to a European statistical definition of *global income* available to agricultural families. The project is currently being implemented in Europe and it has already provided a few results. For example, it is worth noticing that, in 1987, an average of one out of four Italian agricultural workers received non-agricultural income¹⁶. Nevertheless, a comparative analysis of agrarian income still needs to consider the traditional indicator of the AVAW.

The overall situation of agriculture, and the decreasing agricultural workforce, made possible a substantial stability in the revenue per worker during the eighties, although the relative position of agricultural wages has worsened in comparison to other sectors of the economy. The geographical differences in the indicators of income and their variation are indicative of a situation of profound difference between the northern part of the country and the *Meridione* (see Table 5.5). For example, in 1989 the Basilicata region registered an average income per worker that does not reach 30% of the value indicated for Lombardy¹⁷. Also the alternative indication of the net per capita income, estimated by INEA, gives a similar impression: Lombardy scored the highest value, equal to 29 million lire a year in 1989, whereas Basilicata achieved a mere annual 8.2 million lire per capita.

The situation of the earnings in agriculture cannot therefore be concluded with an all-embracing statement. Even though the situation of agriculture seems now to be worsening in general terms, after some years of relative prosperity in the mid-eighties, the inequalities between the different situations of agricultural incomes requires a new approach to policy, more capable of discriminating between different needs in different regions. In addition, given the far from homogeneous economic situation of agricultural holdings within regions, the income support policy should make sure that help reaches the people in need.

¹⁶ INEA Yearbook 1989 p. 84.

¹⁷ INEA Yearbook 1989 p. 93.

5.3 The productive factors in agriculture.

The situation and the recent evolution of the factors of production of agriculture, i.e. credit, physical capital, physical inputs, land and labour gives a simplified idea of the relative changes in the way the agricultural sector obtains its final product.

5.3.1 Investment and credit in agriculture.

The evolution of investment in Italian agriculture, has been rather feeble, experiencing a constant smooth decrease during the eighties. In constant lire, its value has decreased by 1% a year during the last decade. Geographically, the area that suffered most from the lack of investment, by comparison to its past levels, has been the north-western region. The scarce propensity to invest in the agricultural sector can be partly related to financial constraints, resulting from the continuous decline in subsidized credit and public intervention in the last decade. "Indebtedness in agriculture in Italy due exclusively to agricultural credit has increased considerably over the decade, especially in proportion to value added in which the financial component is included. ... Thus, the agricultural sector has become more dependent on the financial sector"¹⁸. In fact, in the 80s the credit proportion of the total available finance resources accounted for more than 40%, compared with an average of 10% during the fifties¹⁹. The weight of debt is particularly high in the North-west, but the greatest increase has been experienced in the *Mezzogiorno*.

In addition to this, it has to be considered that the importance of subsidized agrarian credit is predominant in the Italian agricultural credit market. The bureaucratic management of this activity causes delay and inefficiencies in the process of investment in agriculture²⁰. This is related to the more general uncertainty felt by investors about the future shape of Italian agriculture confronted by growing difficulties and operating in a context of governmental indecisiveness about the future of the food sector. Moreover, the importance

¹⁸ INEA [1992] p. 15.

¹⁹ *ibid.* p. 37.

²⁰ see Chapter 10 for a further consideration of these problems.

of investment in research and development in agriculture, especially from the environmental point of view, has not received enough attention by the authorities²¹.

Finally, it could be argued that the new developments at a EC level on the future of the Common Agricultural Policy, and the consequent reduction of support, have played a major rôle in influencing the decision-making process. The very basis of the agricultural income of a large proportion of European agricultural holdings have been put under threat, inducing a general uncertainty about the future of agriculture itself²².

5.3.2 Physical inputs and capital in agriculture.

The dynamic of investment in physical capital in agriculture in the 80s has inverted the positive evolution of previous decades. In general, demand for new machines decelerated remarkably and even declined, except for high technology and minor type motor tools. The study by INEA identifies two causes:

- ◀ the reduction in state subsidies for machinery purchase;
- ◀ the progressive diffusion of agricultural contracting.

In particular, the growing diffusion of the *contoterzismo*²³ (see Table 5.6) has caused the agrarian enterprise, which operates in contracting regime, not to own the machines used for most of its activity²⁴. The differences in the geographical distribution of the phenomenon is partly due to the fact that this activity has interested more intensely the medium-large agricultural enterprises, and then appeared to extend to the smaller firms²⁵.

In relation to the intermediate input prices, the second half of the decade has experienced a tendency towards a decreasing relative price of agricultural inputs, which has favoured increases in farm profitability²⁶. Taking into account the composition of the intermediate input expenditure change in the last decade, in Table 5.7, some tendencies emerge:

- ◀ total expenditure for intermediate inputs has changed very little over the decade;

²¹ see Munton *et al.* [1990] for a detailed consideration of these matters in the general European context.

²² see Chapter 9 and Chapter 10.

²³ The enterprise *contoterzista* supplies services, physical capital and/or labour to the agrarian enterprise for a definite time.

²⁴ see INEA Yearbook 1989.

²⁵ see 5.5.

²⁶ INEA Yearbook 1989 p. 81.

- ◀ absolute expenditure in transport and irrigation decreased significantly in real terms, even though their weight in current money has remained unchanged or has even increased;
- ◀ the absolute real expense has appreciably increased in the case of electricity, seed and pesticides, and these have also increased their share of total expenditure (in current terms);
- ◀ finally, it is interesting to notice that, even if the expenditure for feed concentrates stayed high in the period, the actual quota of current expenditure devoted to this input has decreased significantly in the period 1980-1989.

5.3.3 Agricultural land.

According to the Agricultural Census of 1990, the Italian total agricultural area is 22,651,400 hectares, of which 15,041,900 are actually utilized. The North accounts for the 34.8% of the utilized agricultural area (UAA), the Centre for 18% and the *Mezzogiorno* 47.2%. In qualitative terms, plain areas constitute about half of the northern region's agricultural area, whereas in the *Mezzogiorno* about one-fifth, and in the Centre about one-tenth. Irrigated land is equivalent to 18.5% of the Italian UAA and more than half is situated in the North of the country. Northern farms, between 1986 and 1988, practised irrigation on two-thirds to three-quarters of their farm area, contrasting with other regions in which irrigated land accounted for no more than half of farm area²⁷.

The Census data shows a number of interesting developments of the agricultural land structure in the last decade. Firstly, both the number of farms and the total farm area diminished, respectively by 7.1% and 4.1% in the period 1982-1990. The change is particularly evident in the North-west, which experienced a 17% fall in the number of farms and 6.4% in the total area. However, farm size has increased only in the northern part of the country, remaining almost unchanged in the Centre and the *Mezzogiorno*, so that the average size at a national level grew only from 7.2 hectares in 1982 to 7.5 hectares in 1990 (see Map 5.3). The average area actually utilized grew, in the same period, from 4.8 to 5 hectares²⁸.

The situation is serious: in 1989 Italian agricultural enterprises with more than 10 hectares accounted for only 1% of the total number of enterprises whilst 28.6% of farms

²⁷ data from INEA [1992].

²⁸ INEA [1992] p. 87-88.

were characterized by a size of less than 1 hectare²⁹. This means that most of Italian enterprises enter the 1990s in a situation of insufficient economic capacity, due to a size that does not allow any possible rôle in the modern food market.

According to INEA, the situation of the land market in Italy in 1990 is still characterized by a very high degree of rigidity. Demand and prices in plain and tourist areas persist at an extremely high level, as they are under pressure from non-agricultural alternative land uses. Disadvantaged areas, especially in mountain and peripheral regions, experience falling prices and insubstantial demand, and this results in a growing phenomenon of land abandonment and environmental decline. Anyway, a certain revival of the land market in certain regions has been operating, in consequence of a growing need for farm restructuring. This occurred especially in the irrigated plains devoted to livestock farming and vineyards in hilly areas, especially in the North and in Tuscany. The phenomenon affected mainly portions of land instead of entire farms and the interest of non-agricultural buyers was weak, due to gloomier prospects of capital gains, except for areas of potential agro-tourism, which often found keen foreign investors.

Moreover, "the scarcity of financial resources made available to farmers through regional administrations for farm mortgages at subsidized interest rates has undoubtedly limited transactions, and the effect was more pronounced in the South"³⁰. Similarly, the set of public incentives directed to enhance land rentals, for example Law 203/1982, has not provoked a significant rise in the supply of land and the market has not shown a great deal of revival. In addition, the possibility given by the Community of setting aside part of the land acted as a quite profitable substitute for rental. This is also verified by the tendency of settling rents at the level of the Community price for set-aside³¹.

5.3.4 Labour in agriculture.

Certain aspects of labour in agriculture are worth identifying. Bertelè and Brioschi listed some of the more important. First of all, the duality of the agricultural labour market: workers are supposed to be hired according to technological and organizational efficiency,

²⁹ Calcaterra [1993] p. 11.

³⁰ INEA [1992] p. 42.

³¹ INEA [1992] p. 42.

but there still is a strong character of *residuality* in Italian agricultural employment, especially in disadvantaged traditional rural areas. Indeed, the all too scarce capacity of employing a good percentage of the workforce in extra-agricultural activities in many rural areas, especially in the *Mezzogiorno*, makes impracticable a restructuring of agriculture without a further rise of unemployment. It has to be remembered that the rate of unemployment in Italy has reached 10.9% of the working population in 1991, and 19.9% in the *Mezzogiorno*³².

Other features, typical of farming employment in Italy, are the high percentage of independent producers, of elder workers and women employed, compared with the rest of the economy. Moreover, agricultural labour has traditionally a strong character of seasonality, which constitutes a powerful incentive to part-time employment. All these characteristics lead to difficulties in defining statistically the category of 'people employed in agriculture', which therefore assumes a significance relative to its definition. In other words, the complexity of situations aggregated under the same heading is such, that numbers alone have only a partial capability of exposing the real extent of agricultural employment.

Agricultural activities in Italy still employ 1.823 million people in 1991, equivalent to 8.4% of the working population. Again, regional variations are impressive (see Map 5.4): in the *Meridione* 14.6% of the working population is still employed in agriculture, whereas in the Centre-north the quota drops to 5.8%³³. The percentage of independent workers is high. Indeed, INEA estimates that in 1989, 62% of the total number of workers were self-employed³⁴. At a more disaggregated level, it is worth noticing that the southern part of the country experiences a weight of self-employment in agriculture to a much lesser extent (47%) than the Centre-north (72%). Finally, female workers accounted for 35% of the agricultural workforce.

The last decade confirmed the declining trend in agricultural employment. In 1980, the agricultural workforce was of 2.76 million people, equivalent to 13.4% of total Italian employment³⁵. Independent agricultural workers suffered the more intense decrease, whereas employed labour in many cases grew, according to INEA. From the territorial point of view, employment in agriculture during the 80s decreased more in southern regions: in the

³² data from ISTAT [1992].

³³ data from ISTAT [1992]: part-timers are weighted half of full-time employed in agriculture.

³⁴ INEA Yearbook 1989 p. 231.

³⁵ Bertelè and Brioschi [1981] p. 145.

Mezzogiorno the average annual rate of change has been a negative -3.7%, whereas Italy as a whole experienced an average annual of decrease of -3.5%³⁶. Thus, the trend of *southernization* of Italian agricultural labour force, which had been observed by Bertelè and Brioschi in 1981, seems partly to have been reversed in the 80s. In fact, the quota of southern workforce has diminished from 54.5% of the total agricultural labour force in 1979 to 51.7% in 1990.

The phenomenon of *part-time* employment in agriculture has flourished in the last decade both in the North and in the South. This circumstance may be either a sign of a new flexibility in agricultural labour (especially in the richer North) or a signal of rural decline, such as in the marginal areas, due to retirements of elder agricultural workers. Anyway, part-time employment tends to impede the necessary structural growth of agrarian enterprise, since it encourages micro-producers not to sell their land to more dynamic entrepreneurs.

A brief final remark about the characteristics of agricultural labour in Italy, especially in the South, has to be dedicated to the phenomenon of labour migration from extra-EEC countries. This circumstance has occurred throughout the Medit region and is related to the seasonality of agricultural work demand in horticulture, vines, olives and fruit sector³⁷. With reference to Torregrosa, this migration flow partly compensates the lack of agricultural workforce in the intensive Mediterranean productions at certain times of the year³⁸.

5.4 Productivity in agriculture.

The state and evolution of the productivity in agriculture has been estimated by Mastrostefano by using three indicators:

- ◀ the final agricultural production per work unit in agriculture (FAP/AWU), which constitutes a measure of labour productivity;
- ◀ the final agricultural production per unit of utilized agricultural area (FAP/UAA), which indicates land productivity;
- ◀ the utilized land per worker (UAA/AWU).

* INEA [1992] p. 81.

³⁷ The extent and the implications of this growing international migrations go beyond the purpose of this study. For further specifications, see the results of the INEA's monitoring activity in the latest INEA Yearbooks.

³⁸ see Torregrosa [1990] and Allaya *et al.* [1988].

The simple relationship between these variables

$$(FAP/AWU)=(FAP/UAA)*(UAA/AWU)$$

gives some indications of the regional configuration of agricultural productivity. In general, it could be argued that the production per hectare of UAA is influenced by the actions of agricultural entrepreneurs and by public policies, whilst the utilized agricultural area per worker represents more of a structural constraint relatively more difficult to control³⁹.

The analysis carried out by Mastrostefano draws some interesting conclusions:

◀ the evolution of labour productivity, in the last years, appeared to favour a correction of the imbalances between regions, whereas the indicator of land productivity showed a tendency towards greater regional differences;

◀ northern Italy, which experienced a growth of the agricultural area per worker during the seventies, in the 80s sees this trend reversed, while the contrary happened in the *Mezzogiorno*, which underwent an interruption in the process of intensification;

◀ with reference to the evolution of the production per worker, it seems that the positive evolution of regions relatively rich, in terms of labour productivity, (i.e. Piedmont, Lombardy, Emilia Romagna, Friuli, Veneto and Lazio) has slowed down considerably, whereas low-productivity southern regions such as Basilicata, Sicily, Apulia, Sardinia and Molise became relatively more dynamic in the period 1980-1987⁴⁰.

In general, according to Mastrostefano, "the tendency in the last few years brought about a reduction between rich regions and disadvantaged regions Nevertheless, the forms in which this gap has been reduced are not always comforting"⁴¹. The reduction in agricultural production growth between 1980/82 and 1985/87 has been particularly severe in the Centre (land productivity stagnated), whereas the *Mezzogiorno*, and above all the North, experienced a reasonable performance both regarding labour and land productivity.

³⁹ Mastrostefano in Fabiani (ed.) [1991] pp. 47-49.

⁴⁰ *ibid.* pp. 47-56.

⁴¹ "la tendenza degli ultimi anni è stata verso una riduzione del divario tra regioni ricche e regioni svantaggiate Ma non sempre confortanti sono state le modalità con cui tale divario è stato ridotto." *ibid.* p. 66.

5.5 Vertical integration in the process of food production.

The process of vertical integration constitutes a clear expression of the necessity to reconstitute the unity of food's productive process that used to be concentrated in the farm⁴². Here, integration is considered with emphasis on the process of production, but the linkages between production and distribution systems have to be borne in mind in order to maintain a systematic view of the food system.

According to Galizzi, vertical integration, in a broad sense, is "a process by means of which various functions operated by firms of subsequent stages of the production and marketing system of a [certain] product get harmonized with regard to:

- ◀ which good to produce and sell,
- ◀ how much of this good to produce and sell,
- ◀ when to undertake its production and marketing,
- ◀ where to produce and sell it,
- ◀ how to produce and sell in order to maximize the overall value added, for example, eliminating stages not necessary or combining overlapping purposes,
- ◀ which adaptation to introduce to the production and marketing methods so as to make them promptly respondent to the transformations expressed in demand, technology, and in the other factors of profit"⁴³.

According to Casati, the main advantages of vertical integration for agricultural producers are:

- ◀ the placing of agricultural production is guaranteed;
- ◀ the selling-price is determined;
- ◀ the trends in consumption are better monitored;
- ◀ quantities and prices are stabilized.

In addition to this, it has become evident that it is not only technical progress which can assure adequate levels of agricultural efficiency. Fabiani argues that the process of inter-

⁴² Casati [1988a] p. 58.

⁴³ " L'integrazione verticale è qui intesa nella sua più ampia accezione di processo attraverso il quale le varie funzioni svolte da imprese di successivi stadi del sistema di produzione e di mercato di un prodotto vengono armonizzate riguardo a: a) quale bene produrre e vendere, b) quanto di questo bene va prodotto e venduto, c) quando attuare la sua produzione e la sua vendita, d) dove produrlo e venderlo, e) come produrlo e venderlo per massimizzare il valore aggiunto complessivo, ad esempio, eliminando stadi non necessari o combinando fini che si sovrappongono, f) quali adattamenti apportare ai metodi di produzione e di vendita perché essi rispondano prontamente alle trasformazioni che si manifestano nella domanda, nella tecnologia, e negli altri fattori di profitto." Galizzi [1987] p. 19.

sectoral integration plays a pivotal rôle in influencing agricultural productivity, opening a communication channel with the consumers, favouring the provision of productive resources and assuring a greater international connection⁴⁴.

Conversely, the food industrial activities take advantage of:

- ◀ secured supplies;
- ◀ input cost certainty;
- ◀ possibility of controlling input quality;
- ◀ market stability.

The process of vertical integration cannot be regarded as uniform in all contexts, but nevertheless, the different means of integrating agricultural with industrial activities can be conveniently grouped into three categories:

- ◀ integration by *direct acquisition* by one enterprise, or a group, of one or more enterprises vertically linked to itself;
- ◀ integration by *contractual agreement* between one or more enterprises, and/or groups, vertically connected to each other;
- ◀ integration by *joint ventures* in specific projects between vertically related subjects.

The first case represents the maximum degree of integration, since ownership maximizes control⁴⁵, and it could be led both by industrial and agricultural (e.g. agricultural cooperatives involved in food processing) subjects. On the other hand, tight links tend to bring lack of flexibility, which has to be offset by consistent positive aspects. In the case of agricultural cooperatives, the advantage is one of concentrating supply and eventually of retaining part of the profit made by processing the agricultural products available to farms.

The integration by contract should guarantee a degree of flexibility suitable for the particular conditions of the agreement. Nevertheless, agricultural producers tend to suffer from their lack of market power, due to greater food industry (and distribution) concentration and market awareness. Hence, the need for concentrating agricultural supply and for governments to guarantee fairness to weakest contractors⁴⁶. In addition, it seems that integration has been often equivalent to a degree of hierarchical control of industry upon agricultural process of production. In fact, "the farm is less and less a locus of

⁴⁴ Fabiani [1984] p. 53.

⁴⁵ Galizzi [1987] p. 21.

⁴⁶ see Chapter 10 for a description of the Italian normative.

entrepreneurial decision making [and] ... an increasing number of decisions originally taken at a farm level are transferred to either the input supply or to the food processing sectors"⁴⁷.

5.5.1 The phenomenon of agricultural cooperatives in Italy.

In the last few years, the world of cooperative enterprises has been experiencing unusually fast changes. The new developments are a consequence of the difficulty intrinsic in operating in an increasingly competitive environment. "Often, the aggregation of enterprises is the only way of getting a minimum economic size that is necessary for carrying out certain productive activities"⁴⁸. The efficiency of the cooperative instrument as a strategic organization of enterprises in the agri-food context is an object of discussion also at a political level⁴⁹. This problem, in the Italian environment, assumes particular gravity due to the importance of the cooperative organizations in the national productive tissue.

With reference to agricultural cooperatives, according to INEA, northern Italy has experienced a significant process of *concentration*: the number of cooperatives decreased while the total turnover and the number of associates remained stable. This process is still weak in central regions, whereas in the *Mezzogiorno* the number of coops is actually increasing⁵⁰. This is a consequence of the new relationship between agriculture and the downstream activities, and the need for vertical integration, which pushes towards greater concentration and standardization of agricultural supply⁵¹. Another aspect is related to the different attitude of the newly-formed cooperative enterprises: they seem, in general, rather reluctant in relation to the management and patrimonial constraints present in the traditional model of mutual cooperative⁵².

⁴⁷ Gorgoni [1988] p. 99.

⁴⁸ "Spesso, l'aggregazione di imprese è l'unico mezzo per attingere quel minimo di dimensione economica, che è necessario per attuare determinate attività produttive." Zigarella [1989] p. 193.

⁴⁹ Cooperative laws reform proposals are currently under discussion at a political level.

⁵⁰ INEA Yearbooks, various years.

⁵¹ see 5.6.

⁵² In Italy, fiscal benefits are attributed to the legal institute of the *mutual cooperative* in exchange for substantial *social equity* qualities that the cooperative has to pursue in its activity.

5.5.2 Contracting practices in the Italian food sector.

Casati analyzes the integration of agricultural with processing activities in relation to the practice of stipulating contracts between agricultural producers or cooperatives and industrial enterprises or distributors, utilizing the complete data of the 1982 Agricultural Census. From the structural point of view, the farms involved in contracting turned out to be quite evenly distributed in the different size classes. Some *filières* tended to be more inclined towards vertical links of this kind than others, such as for sugar, dairy products, pork and poultry. Geographically speaking, there are no dramatic differences in these practices between Italian regions. It could also be noticed that the phenomenon is growing considerably⁵³.

The study also estimated that, in 1982, the weight of agricultural production under contracting régime was equivalent to 17.2% of the final agricultural production, whilst the quota produced by cooperatives was 19.5%. Casati considers that in the late 1980s *cooperative* and *contracted production* exceeded half of final production of the Italian agricultural sector⁵⁴. Two features are worth identifying:

- ◀ the weight of cooperative production had a more definite Centre-North predominance than the weight of contracted production, which was more evenly distributed (although in the Centre the quota was low);
- ◀ the percentage of final agricultural production produced by farms included in the different size classes tended to grow with size, both for contracted production and cooperative production, but in the Centre and in the *Mezzogiorno* these circumstances are reversed.

In conclusion, agricultural enterprises can be divided, according to Casati, into two groups:

- ◀ firms experiencing a kind of integration with the market (marketing oriented) and
- ◀ agricultural producers utilizing traditional channels (non-integrated).

The Italian experience shows that the phenomenon of greater vertical integration is spreading independently of the means of farm management (e.g. full- or part-time), and it is present in all size classes and in all geographical areas⁵⁵.

⁵³ see Casati [1988a].

⁵⁴ Casati [1988a] p. 44.

⁵⁵ Casati [1988a] p. 57.

The growing importance of food processing, relative to agriculture, results in a growing need for new formal relationships between sectors. Indeed, the dichotomy between agricultural activities producing ready-to-sell products and the ones supplying raw materials to the processing industry is bound to become increasingly evident. In the first case, a direct link between primary sector and large-scale distribution implies a greater effort by agricultural entrepreneurs to understand market functioning, otherwise farms might become just a productive layer of international distribution. Again, agricultural activities that produce for industry need to be even more concerned about the qualitative needs of their products' buyers and about the timing of product availability⁵⁶.

5.6 Some considerations of the problems of Italian agriculture.

Trends in Italian agriculture in the last few years cannot be simply described as a North-South polarization. "Agricultural development has been concentrated in just 20% of the Italian territory, which includes important southern areas, whereas it has marginalized the regions defined as 'internal areas', mainly constituted by hilly and mountains areas"⁵⁷. The rural decline of these areas has pushed the Italian government to intervene heavily to reduce the social distress provoked by an absence of alternative economic activities. Unfortunately, this kind of intervention brought neither a restructuring of agriculture nor the development of new activities, confirming the *logica dell'assistenzialismo* dominant in most economic policies pursued by Italian governments. In the meantime, the most productive regions proved to be an insufficient source of meeting Italian food consumption needs, thus, giving scope to increased imports and agri-food balance deficits⁵⁸.

The difficulties of the primary sector cannot be isolated from the broader context of national development. It is indeed clear that a failure of Italian agriculture to compete in the international arena, with the consequent further productive reappraisal, is likely to act as a constraint upon the food industry, which relies in most cases on domestic production. Another

⁵⁶ Casati [1990] p. 154.

⁵⁷ "Lo sviluppo agricolo si è invece concentrato su un 20 per cento del territorio nazionale che comprende anche importanti regioni meridionali, mentre ha lasciato ai margini quello che oggi viene definito il complesso delle «aree interne», costituito prevalentemente da zone di collina e montagna." Fabiani [1984] p. 55.

⁵⁸ see Chapter 7.

possible cause of disadvantage stands in the poor quality of services offered in the context of the Italian food market, especially regarding public sector inefficiency.

The organizational aspects of the Italian agricultural sector are particularly important, according to a study by the Nomisma research observatory, presented by Prodi and Castro⁵⁹. The inefficiency of a bloated public structure, especially at a regional level, interacts with highly politicized unions of producers (*Confagricoltura*, *Coldiretti* and *Confcoltivatori*) and workers' trade-unions. This has posed serious obstacles to the process of vertical integration and concentration. The rôle of cooperatives as a linkage between agricultural producers and the markets of their products has been too often identified with "a magnificent means for consolidating ... [the political parties'] electoral base"⁶⁰ and a legal way to transfer public money towards party representatives in the productive spheres. In this framework the dramatic case of *Federconsorzi*'s bankruptcy is indicative of the dangers involved in such operations⁶¹.

5.7 The analysis of the food industry: concepts and instruments.

"The agri-food industry constitutes the industrial supra-structure of agriculture: it extracts the elements to utilize, it selects the products, it transforms them, it adapts them to the food régimes, it diversifies them"⁶². The food processing sector has acquired in the last few decades a certain connotation of *indeterminacy* due to its being extremely diversified and integrated with other activities. In addition, activities included in the food distribution aggregate are increasingly involved in food manipulation⁶³. This situation partly explains the great difficulties in finding suitable up-to-date data⁶⁴.

⁵⁹ see Prodi and Castro [1992].

⁶⁰ "Il mondo politico vedeva nella cooperazione agricola uno strumento magnifico di consolidamento della propria base elettorale e spesso un tramite legittimo per fare in modo che il denaro dello Stato fosse indirizzato verso propri esponenti." Prodi and Castro [1992] p. 20.

⁶¹ see Reali [1990] for a study of the importance of *Federconsorzi* as one of the leading Italian cooperative holding.

⁶² *L'industrie agro-alimentaire* constitue la superstructure industrielle de l'agriculture: elle extrait les principes utiles, stabilise les produits, les transforme, les adapte aux régimes alimentaires, les diversifie." Ghersi and Bensharif in Malassis and Ghersi (ed.) [1992] p. 96.

⁶³ Bertelè in MAF [1992] p. 5-7.

⁶⁴ The Annual Report on Italian food industry published for the first time in 1992 by the *Ministero dell'Agricoltura e delle Foreste* will be a valuable help in the activity of research in the context of the Italian food industry.

It is useful to distinguish, within the industrial sector, between the food firms involved predominantly in activities of primary processing, typically linked to agricultural productive activities (*industrial activities orientated towards agriculture*) and the firms operating further transformations to agricultural products, that have detached themselves from the primary sector in a progressive shift towards meeting the new consumers' requirements (*industrial activities orientated towards the consumer market*). In general, the first kind of enterprise will be located in the areas of agricultural production and they will have a strong endogenous character⁶⁵, whereas the firms involved in further transformation will favour locations closer to the markets, i.e. the cities peripheral areas⁶⁶.

According to Ghersi and Bensharif, the analysis of the food industry has to be undertaken at three different levels. The *growth strategy* of industrial enterprises and the widespread growing *concentration* resulting from this, impose a new aspect of the food industry in western societies. The weight and influence of large-sized firms operating in oligopolistic markets over the myriad of small enterprises still present in the Italian food market is undoubtedly increasing in the last decades. Therefore, the industrial structure analysis regarding the importance of the most important industrial groups and food multinationals and the consideration of their strategies are believed to offer a precious view of the recent developments in the food sector. The degree of concentration in a certain industry is normally an adequate index of the ability of the major enterprises to intervene in the markets (horizontal relationships), to control the *filières* (intervention and coordination) and to protect their dominant position in the market.

The orientation towards greater *specialization* or alternatively *diversification* is a consequence of the firm's *production strategy* and this is connected to:

- ◀ products and markets policies,
- ◀ differentiation and advertising strategies and the
- ◀ research of different ways of achieving economies of scale.

Finally, the localization of food plants' activities depends on the overall *geographical strategy* of food industry's enterprises, which in turn is affected by several factors:

- ◀ availability of supply (accessibility to convenient communication and transport means, presence of a suitable agricultural structure of production);

⁶⁵ see Garofoli (ed.) [1992] for a *panorama* of recent studies on *endogenous development*.

⁶⁶ see Paunero [1993].



- ◀ commercial strategies (proximity to the final markets);
- ◀ possibility of achieving economies of scale;
- ◀ multinationalization strategies (technical requirements, commercial constraints, financial objectives) aiming towards a global optimization of resources, potentials and markets⁶⁷.

5.8 Present situation and recent evolution of the Italian food processing industry.

The food processing sector produced, in 1990, an equivalent of 105,000 billion lire while it employed 375,000 people. The importance of the food industry in the Italian economy is demonstrated, first of all, by the quota of value added at factor cost produced in relation to the overall industrial sector (8.7%) and to the economy as a whole (1.9%). The proportion of total workforce employed in the food industry is equal to 1.6% (7.3% of industrial employment). Even though the influence of the food processing aggregate on the food system is not in discussion, the above findings highlight that the Italian food industry still accounts for only 54.7% of the agricultural value added and 16.8% of agricultural employment⁶⁸.

The evolution of the Italian food industry during the eighties has been remarkable. The *value added* has grown marginally in the last decade, whereas *employment* experienced a marked 13.2% decrease over the period, especially in larger firms. On the other hand, *physical production* has grown considerably more than other industrial branches (+22% in the period 1980-1990). However, the situation in different sub-sectors is uneven (see Table 5.8):

- ◀ the *most dynamic sub-sectors*, the mineral water and soft drinks industries, have more than doubled their production over the decade;
- ◀ the *more-than-average rate of growth sub-sectors*, e.g. fruit and vegetable processing, bakery and pastry and the brewing industries, have experienced a remarkable performance (about a 3% annual growth);

⁶⁷ Ghersi and Bensharif in Malassis and Ghersi (ed.) [1992] pp. 133-134.

⁶⁸ data from Bertelè in MAF [1992].

◀ the sub-sectors suffering most seem to be the most affected by declining demand (e.g. alcohol and spirits) and by the changing agricultural productive structure in the last decade (such as the *filières* of meat, sugar and fats).

In the last decade, the Italian food industry has undertaken a period of intense restructuring. According to Alò and Bedetti, the period has been characterized by:

- ◀ investments of rationalization of production, mostly directed to labour substitution;
- ◀ relaxation of social tensions and more flexibility in the use of labour;
- ◀ restrained monetary policy and over-valued national currency⁶⁹.

All of these factors promoted and made possible a re-organization of the productive process, especially in the context of the most dynamic companies.

From the geographical point of view, the situation of the Italian productive structure in the food processing sector is extremely polarized. Northern regions generate around two-thirds of the Italian global value added, the regions of the *Mezzogiorno* about one-fifth and the Centre one-seventh. In addition, within the North the food industry appears to be highly concentrated: especially in Lombardy and Emilia Romagna which together account for 40% of the Italian value added. Moreover, a further consideration of food processing activities' spatial distribution shows that these figures actually underestimate the extent of polarization. For instance, the distribution of innovative, directional and research activities clearly shows that the qualitative distribution of industrial activity is even more asymmetrical. Finally, the restructuring phase of industrial activities and the declining public rôle in the economy (e.g. the process of privatization and the CAP reform) are bound to be particularly harmful for southern regions' food production⁷⁰.

Considering the predominant weight of food processing activities in richer and more responsive (in terms of consumption trends) areas, with reference to the distinction between activities orientated to agriculture and to the market, it seems that the latter component prevails. Yet, incidentally these regions are also the most developed in terms of agricultural structures, and therefore the location of activities of alimentary transformation appears to be the result of several inter-connected forces, which would be worth inquiring into further. In particular, it is important to consider the negative effect of the lack of industrial processing plants upon agricultural development.

⁶⁹ Alò and Bedetti [1988] p. 25.

⁷⁰ Bertè in MAF [1992] pp. 38-40.

5.9 The world of the most important food processing enterprises operating in Italy.

The last few years have shown remarkable changes in the structure of the Italian food industry. The extent of this recent development is not easy to typify, because of the lack of up-to-date results from the Industrial Census. In this context, a description of some of the current tendencies in relation to the market leaders could offer some ideas of the changes occurring in general in the overall food sector.

The analysis conducted by Bertelè on the structure of the upper segment of food enterprises takes into account the *leading* firms and groups based in Italy. It is considered that these enterprises, which are identifiable with the large-sized ones, constitute, for many respects, the cutting edge of the Italian food sector. In other words, they are deemed to be a useful experimental sample for understanding the future developments of the food processing sector. In addition to this, Bertelè mentions the unavailability of data suitable for analyzing the sector in its complexity also because of the slow release of the 1991 Industrial Census results. The enterprises involved in agriculture and in retailing are not included in the examination⁷¹.

5.9.1 The leading Italy-based enterprises.

Several factors have been taken into account in order to define the set of *leading companies*: turnover, value added, net profit and return on equity (net profit/net capital), cash flow (net profit+sinking fund), net capital (brought by shareholders), invested capital (net capital+debt), people employed, and advertising expenditure. Bertelè defines three classes of enterprises.

◀ The *top 30* enterprises are in the first twenty-five positions in at least three out of eight indicators listed above (see Table 5.9). These firms employ almost 60,000 people and have a total consolidated turnover (excluding the revenues realized within the food industry) of 20,000 billion lire.

◀ The *top 60* are in the first twenty-five positions in at least one of the indicators. The top 60 have a total workforce of 72,000 people, equivalent to one-fifth of the total, but only one-

⁷¹ see Bertelè in MAF [1992].

third of the total number employed by *Nestlé*, the largest food company in the world. They account for more than a quarter of the consolidated turnover of the overall Italian food industry, but only for about two-thirds of total turnover of *Nestlé*. This fact confirms that the sector is still far from being highly concentrated. Anyway, it is interesting to notice that the largest enterprises' advertising expenditure is equivalent to more than 60% of the total for the food industry, confirming the importance of advertising for the larger companies.

◀ A third category of enterprises comprises the firms in the first thirty-five positions in at least one of the indicators⁷².

5.9.2 Industrial groups and multinationalization.

"Multinational food corporations are not a new phenomenon but their importance has expanded with the industrialization and attenuation of the food system, with growth in international food tastes and habits, with the general reduction in transportation times and real costs, and with the integration of food into other sectors of the global economy"⁷³. According to Bertelè, the level of industrial concentration and multinationalization for the overall Italian food industry is low. Nevertheless, if industrial groups in the context of leading companies are referred to, the situation proves to be different: the bulk of enterprises are components of larger corporations, which are commonly operating in an international context.

Indeed, with reference to Table 5.9, the situation of the top 30 companies in 1992 indicates that:

- ◀ twelve out of thirty enterprises had a total or majority stake controlled by foreign multinationals;
- ◀ three firms were characterized by significant minority quotas owned by foreign multinationals: *Star* and *Birra Peroni* (controlled by *Bsn Groupe* respectively for 45% and 24.5%) and *San Pellegrino* (one-third owned by *Perrier*);
- ◀ four enterprises (*Ferrero*, *Eridania*, *Cereol Italia e Isi*) are subsidiaries of the Italian multinationals *Ferrero* and *Ferruzzi*⁷⁴;

⁷² see Bertelè in MAF [1992].

⁷³ Munton [1992] pp. 28-29.

⁷⁴ The *Ferruzzi* group ran into serious financial troubles in June 1993.

◀ *Barilla Alimentare* and *Barilla Dolciaria* are divisions of the *Barilla* group, which is internationally very active;

◀ three enterprises (*Cirio Bertolli De Rica*, *Italgel* and *Alivar*) are subsidiaries of the state company *Sme* controlled by the *Istituto per la Ricostruzione Industriale (Iri)* and they are on the way to being privatized⁷⁵, presumably during 1993⁷⁶;

◀ five Italian firms are still autonomous: *Parmalat*, *Lavazza*, *Fiorucci*, *Campari* and *Branca*⁷⁷.

The number of multinationals operating in the upper segment of the Italian food industry is therefore predominant. Even more importantly, the weight of multinationals groups on total turnover and employment indicates an even greater influence of these groups upon the leading enterprises.

5.9.3 The cooperatives in the food industry.

The presence of cooperatives involved in food production and processing is extremely important in the Italian agri-food market. The leading cooperative groups in Italy are the *Lega delle Cooperative*, the *Confcooperative* and the *Federconsorzi*, which has entered recently the struggle of the bankruptcy insolvency procedure. Within the cooperative reality, some enterprises have acquired remarkable sizes (see Table 5.10).

Cooperative companies present a greater relative presence:

◀ in particular *filières*, such as in dairy products, meat, wine, olive oil, and some horticultural and fruit products;

◀ in activities *oriented towards agriculture* (preliminary transformation of agricultural products);

◀ in some *regions*, especially in the *Mezzogiorno*.

The recent evolution of the phenomenon has shown a certain growth stabilization in northern regions, whilst the Centre and, above all, the *Mezzogiorno* have experienced a remarkable increase in the number of cooperatives in the last few years. The process of concentration has nonetheless operated. According to Banterle, cooperative groups have been

⁷⁵ *Italgel* has been sold to *Nestlé* in July 1993.

⁷⁶ The proposal for the privatization of *Sme* has opened a political debate in Italy in the last few years. For example see Florio [1987].

⁷⁷ Bertelè in MAF [1992] pp. 62-64.

expanding following a productive and commercial strategy, mainly within the national boundaries. Often, the extent of these operations has been limited by the scarce financial resources and the huge debts of these organizations⁷⁸.

5.9.4 The leading industrial groups operating in Italy.

The Report on the Italian food industry provides a useful index of the leading industrial groups operating in the Italian food processing context (see Table 5.11). The group is thereby defined as the association of the enterprises *influenced strategically* by the controlling company. This *command* over subsidiaries is not necessarily identified with ownership of a controlling stake, if direction by the controlling company over the management of the controlled firm is not exercised.

Bertelè divides the *top 10* groups in two categories, according to them being mainly *consumer oriented* or *industrial/commercial* (producing undifferentiated products or intermediate inputs or commercializing agricultural commodities):

- ◀ eight are mainly consumer oriented (*Bsn* (F), *Barilla*, *Nestlé* (CH), *Ferrero*, *Unilever* (NL/UK), *Sme-Iri*, *Philip Morris* (US) and *Parmalat*;
- ◀ two are primarily orientated towards industrial and commercial activities: *Ferruzzi* and *Veronesi*.

It is important to notice that the planned re-organization of the cooperative groups under the control of the *Lega delle Cooperative* and connected minor organizations should create a new group with more than 1,000 billion lire consolidated turnover. This group when eventually formed will have to be included within the leading groups in the Italian food processing context.

5.9.5 The leading food processing groups in the world.

The past decade has been characterized by an intense process of evolution of the international food markets. Most of the contenders in the world arena have been moving extremely fast towards a critical adjustment of their positions in the markets, characterized

⁷⁸ Bertelè in MAF [1992] pp. 425-444.

by the *big confrontation* occurred between 1982 and 1988 and by the subsequent period of *re-organization* of the international competitors on the world food markets.

According to Bertelè, the world's leading groups have integrated their presence in Europe and North America, operating a series of strategic mergers and acquisitions during the eighties. This process of *concentration* and *internationalization* has operated notably in the European Community context and it has had a major effect on the configuration of the Italian food sector. In the last few years, the strategy of *organic growth*, accomplished by investments in research and development, in productive structures, in distributive networks and in *image building*, has come back into fashion after the years of *financial growth*. *Soft integration*, through joint ventures and financial cross-participation, has acquired greater relevance. Finally, the leading groups appear to restructure their activities by reducing their business areas and acquiring in those areas a dominant position and image.

5.9.6 The leading Italian multinationals.

The presence of Italian groups within the major world groups is quite rare. Notable exceptions are the *Ferruzzi* group, the *Ferrero* group and the *Martini & Rossi* group. Moreover, the *Agnelli* group (*Ifil* and *Ifint*) represents an example of financial interest in the food market that has not turned into direct management of productive activities⁷⁹. The recent financial difficulties encountered by the *Ferruzzi* group show the inadequacy of the Italian form of family-ownership in the increasingly competitive world market.

5.10 The growth strategy of food enterprises: some considerations upon the growing industrial concentration and internationalization in the Italian food industry.

It is highly deceptive to give a description of the Italian food industry by considering only the upper size segment. In reality, the Italian food processing aggregate is still predominantly characterized by a large number of small- and medium-sized enterprises. Some of these firms are performing extremely well in terms of efficiency, quality of products, and

⁷⁹ The presence of the *Agnelli* group in the food sector has been declining in the last period, after the sold of numerous participations to the french group *Bsn* (in which the *Agnelli* group has a minority participation).

returns. Nevertheless, this structure of micro-firms has been put under discussion during the last decade: international competition and multinationals' strategies of expansion have demonstrated that small, but also medium, firms are not able to compete against the financial power of food giants.

In general, the situation of the agri-food industry in Italy a decade ago, with respect to the degree of industrial concentration was extremely feeble: few companies achieved a notable national scale and they were operating amongst a myriad of small local or regional firms. During the eighties, the situation began to develop, due to a growing influence of large international companies in the domestic market and their strategy of expansion, mostly by take-overs. This process seems to have strongly affected the upper segment of the food processing aggregate.

The internationalization of European markets, due to the implementation of the Single Market, contributed an increase in the minimum threshold size required for a strong market position of the leading food processing firms. In turn, the relative low dynamic of food consumption makes enterprises' potential internal growth particularly slow, causing the rapid growth by acquisition to be preferred. Another determinant factor is the transformation in upstream and downstream activities, especially the process of concentration in the distribution sector. According to Caiati, "in the modern economy an inevitable conflict comes into effect between food industry and distribution"⁸⁰. In consequence of this conflict, an increase in the food industry level of concentration is likely to provoke an identical move in the distribution sector and vice versa⁸¹. Moreover, the acquisition of an established firm presents substantial other advantages for the buyer: acquisition of branded products and know-how; possibility of re-organizing activities in common and opportunity of geographical diversification.

Large companies operating outside the food sector demonstrated to have a growing interest in acquiring food sector enterprises. This is fundamentally related to the management of risk: food processing companies are characterized by low-risk, stable profits and substantial cash-flows. This latter element is of vital importance for servicing the huge debts of multinational giants⁸².

⁸⁰ "Tra il settore distributivo e l'industria si instaura, nelle moderne economie, un inevitabile conflitto che dà luogo ad una condizione di causa ed effetto tra la concentrazione dell'industria alimentare e della distribuzione." Caiati [1992] p. 17.

⁸¹ see Caiati [1992].

⁸² see Fagan [1993].

A study carried out by Ravazzoni shows that, in the period 1986-1989, the 52% of all operations involving acquisitions or strategic alliances were acquisitions of majority stakes; 15.5% were acquisitions of minority participations; 5.5% were mergers and 25.1% were joint ventures and commercial agreements. The group of the leading enterprises has played a major rôle in this process: more than 60% of controlling stake acquisitions were attributable to the group of the first 50 food firms. Small- and medium-sized enterprises seem to prefer commercial agreements. From the sectoral point of view, these operations have affected more the sectors characterized by a lower degree of concentration⁸³.

In relation to the international aspects of the process described by Ravazzoni, it is possible to notice significant differences in the strategy pursued by Italian and foreign enterprises. The empirical evidence shows that foreign companies preferred to acquire a direct control in national firms they were interested in, whereas Italian enterprises chose a relatively softer approach in entering foreign markets (more emphasis on commercial agreements and joint ventures). In conclusion, "it is possible to confirm that Italy has proven to be definitely more a terrain of conquest than a conqueror"⁸⁴. This is due partly to a relative financial vulnerability of Italian enterprises, which have often retained a form of family control even within the leading enterprises. Furthermore, the scarce propensity demonstrated in the past by national firms towards European markets cause today an inability to invest in foreign markets "due not only to financial problems but also organizational and commercial difficulties , in contexts in which they have never been present with direct investments"⁸⁵.

Despite these recent developments, the situation of the Italian food industry is still controversial⁸⁶. A study published by Loseby and Matteucci on the structure of the Italian food industry produces a quite multi-faceted situation, in the period 1985-1990. There were 75,677 registered⁸⁷ enterprises in the food sector in 1990 (up from 62,390 in 1985): 63.9% were run by individual entrepreneurs (67% in 1985), 26.1% were unlimited companies

⁸³ Ravazzoni [1991] pp. 29-44.

⁸⁴ "Nel settore alimentare l'Italia è risultato un paese decisamente più conquistato che conquistatore." *ibid.* p. 50.

⁸⁵ "La scarsa propensione manifestata in passato dalle imprese nazionali verso i mercati europei fa sì che oggi si debba talvolta rinunciare a buone occasioni di acquisizione in quanto l'operazione comporterebbe non solo problemi di tipo finanziario ma anche delle difficoltà organizzative e commerciali, in contesti in cui non si è mai stati presenti con propri investimenti diretti." *ibid.* p. 51.

⁸⁶ Numerous studies on the evolution of the concentration in the Italian food industry, in the 1970s, have been carried out. In particular see Levoli [1986] and Levoli [1988]. The unavailability of the data from the 1991 Industrial Census made impossible a complete study of concentration and size of food firms in the 1980s.

⁸⁷ The study considers the registration of enterprises to the *Camere di Commercio*. For further methodological specifications see Loseby and Matteucci [1992].

(22.9%) and 9.8% (9.8%) were limited companies. It is notable that the bulk of food processors are still small-sized and independently owned. The trend in the last five years has demonstrated that the number of *artisanal enterprises*⁸⁸ has grown considerably from 39,482 (63.3%) to 53,405 (70.6%)⁸⁹.

According to Loseby and Matteucci, in 1990, the sectors characterized by higher weight of small enterprises were those involved in the production of:

- ◀ bakery products, confectionery and biscuits (only 9.4% of the total number of enterprises were companies);
- ◀ pasta preparations (12.7% were companies);
- ◀ cocoa, toffees and ice creams (16.7% were companies).

It is also important to notice that the latter two sectors are characterized by a remarkable polarization, due to the presence of few important companies (*Barilla, Alivar, Ferrero*), which control an important share of the Italian market, and a large number of small-scale enterprises mainly concerned with regional and local specialities⁹⁰. On the other hand, the activities in which the presence of larger-sized and more capitalized enterprises is relatively important are:

- ◀ the brewing sector (35.2% were companies);
- ◀ the sugar sector (34%);
- ◀ the starch materials sector (28.7%).

In conclusion, it could be argued that the process of concentration has been more remarkable with respect to the activities involved in sectors more open to international competition. Artisanal processors have been able to prosper in niches. The penetration of aggressive national and international competitors in the regional and local products' market in the last few years still seems marginal. Indeed, "it has been impossible to prove that better economic and productive results correspond to those sub-sectors in which larger sized enterprises seem to predominate"⁹¹, although the sub-sectors more integrated in the international economy are characterized by a larger share of bigger firms. Finally, the degree of uncertainty and risk in each sub-sector also affects the industrial structure in that sub-

⁸⁸ These are defined by Law n. 443/1985 as labour intensive firms employing at the maximum 18 workers (and eventually 7 apprentices).

⁸⁹ Loseby and Matteucci [1992] pp. 47-51.

⁹⁰ *ibid.* p. 53.

⁹¹ "Non si è trovata alcuna che migliori risultati produttivi ed economici si riscontrino in quei sotto-settori dove sembrano predominare imprese di maggiori dimensioni." *ibid.* p. 60.

sector: the more demand is erratic and entry barriers weak the less likely it is that the particular industry will be characterized by high degree of concentration and plant size⁹².

5.11 The localization of food plants in the Italian territory.

The impossibility of obtaining the data from the 1991 Industrial Census prevented a quantitative analysis of the spatial distribution of food processing activities during the eighties. Nevertheless, some inferences from studies carried out in the last few years relative to the 1970s are important in order to prepare the ground for further studies⁹³.

The most important feature to notice in the seventies was the "diminishing territorial concentration in the decade"⁹⁴. The geographical implications were also very important. Indeed, industrial production in general is extremely concentrated in some areas, especially in the North. The situation, with respect to the food industry is less polarized but nevertheless remarkable. With reference to Table 5.12, it is possible to identify the distribution of food industrial activities between Centre-North and *Meridione*.

Terrasi draws some interesting conclusions from a *shift and share analysis*, on the seventies:

- ◀ more dynamic activities tended to grow faster in northern regions, whereas those more static were dismissed more quickly in the North;
- ◀ "between localization factors, the rôle played by agricultural supply emerged clearly ... [together with] the remarkable attraction exerted by industrial agglomeration economies, whereas it was impossible to identify a positive rôle of the consumer market, at least at the territorial level analyzed"⁹⁵.

When the complete data of the 1991 Industrial Census are finally published, it will be valuable to consider the above findings in the context of the last ten years, in order to assess

⁹² see Ievoli [1986] and Ievoli [1988].

⁹³ For a deeper consideration of the spatial connotations of the Italian food industry in the 1970s, see Terrasi [1985] and Balestrieri [1988].

⁹⁴ Terrasi [1985] p. 66.

⁹⁵ "Tra i fattori di localizzazione è emerso indiscusso il ruolo svolto dalle materie prime di origine agricola. Accanto ad esso è apparsa rilevante l'attrazione esercitata dalle economie di aggregazione industriale, mentre non è stato possibile rintracciare un ruolo positivo svolto dal mercato di consumo, almeno al livello territoriale analizzato." *ibid.* p. 76.

whether the relative *southernization* of the Italian food industry, in terms of employment, has continued to play an important part in the geographical localization of food processing plants.

5.12 Tables.

Table 5.1 National agri-food accounts (1980 constant prices).

	Billion lire 1980	Billion lire 1986	Billion lire 1989	% average real annual change
Gross primary sector production	30,980	32,263	33,187	0.8%
Value added food industry	10,521	10,686	12,005	1.48%
Total agri-food production	41,501	42,949	45,192	0.95%

(Source: Our elaborations, data from INEA Yearbook 1989)

Table 5.2 Value of final output in agriculture by broad geographical area, 1990¹

	North west	North east	Centre	Mezzogiorno	Italy
Field crops	3,703,116	4,530,842	3,647,787	7,979,028	19,860,773
Cereals	1,546,049	1,418,885	1,238,294	1,086,398	5,289,626
Pulses	24,785	13,261	20,752	56,897	115,695
Vegetables, potatoes	837,443	1,625,809	1,498,619	5,183,367	9,145,238
Industrial, flowers	1,242,583	1,433,829	865,868	1,624,960	5,167,240
Forage	52,256	39,058	24,254	27,406	142,974
Tree crops	1,119,095	4,151,114	1,663,306	6,434,611	13,368,126
Vines	506,326	1,589,750	860,101	2,264,106	5,220,283
Olives	11,234	3,778	137,234	809,804	962,050
Citrus	269	-	13,302	1,798,036	1,811,607
Fruit and nuts	499,769	2,463,938	444,655	1,430,098	4,838,460
Other	101,497	93,648	208,014	132,567	535,726
Livestock	7,230,904	7,319,260	2,640,896	4,292,662	21,483,722
Meat	4,644,626	4,644,626	1,817,570	2,630,058	13,586,884
Milk	2,386,632	2,182,308	635,741	1,327,230	6,531,911
Eggs and other	349,642	492,326	187,585	335,374	1,364,927
Total	12,053,115	16,001,216	7,951,989	18,706,301	54,712,621

(Source: INEA [1992] p. 70)

¹ provisional data.

Table 5.3 Evolution of the composition of the Italian agricultural final production over the last decade.

Agricultural products	1978/1980 average		1980	1987/1989 average	
	value (1970 prices)	weight (%)	value (1980 prices)	value (1980 prices)	weight (%)
Field crops	2,524.83	33.2%	9,650.6	12,037.43	37.9%
Cereals	902.20	11.9%	3,301.0	3,748.87	11.8%
Pulses	21.23	0.3%	72.0	76.37	0.2%
Vegetables, potatoes	1,104.23	14.5%	4,392.3	4,556.90	14.3%
Industrial crops	280.87	3.7%	995.2	2,106.37	6.6%
Forage	17.47	0.2%	79.8	94.23	0.3%
Flowers	198.83	2.6%	810.3	1,454.70	4.6%
Tree crops	1,869.23	24.6%	7,943.2	7,577.93	23.8%
Vines	908.23	12.0%	3,015.7	2,341.17	7.4%
Olives	328.93	4.3%	1,618.9	1,266.10	4.0%
Citrus	182.03	2.4%	835.1	1,013.37	3.2%
Fruit and nuts	425.60	5.6%	2,235.4	2,698.57	8.5%
Other	24.43	0.3%	238.1	258.73	0.8%
Livestock	3,205.30	42.2%	11,608.1	12,173.23	38.3%
Meat	2,148.10	28.3%	7,454.8	7,973.33	25.1%
beef	767.17	10.1%	3,010.6	3,099.00	9.7%
pork	584.07	7.7%	1,792.8	2,076.37	6.5%
poultry	736.93	9.7%	2,357.3	2,536.50	8.0%
Milk	787.33	10.4%	3,283.8	3,313.27	10.4%
Eggs and other	269.00	3.5%	869.5	879.83	2.8%
Total	7,599.37	100.0%	29,201.9	31,788.60	100.0%

(Source: Our elaborations, data from INEA Yearbooks various years)

Table 5.4 Price and quantity components in the growth differentials of the final agricultural production, excluding industrial livestock breeding, and Mediterranean products.

	Final Agric. Production ² (% change)		Vines and olives (% change)		Fruit and citrus (% change)		Vegetables and Potatoes (% change)	
	'64-83	'72-83	'64-83	'72-83	'64-83	'72-83	'64-83	'72-83
<i>North-west:</i>								
Final production in current lire	-0.21	0.10	-3.69	-1.09	-0.78	0.04	-2.38	0.40
prices	-0.36	-0.34	0.75	-0.23	0.55	-0.49	-0.64	-0.53
quantities	0.15	0.45	-4.49	-0.86	-1.33	0.52	-1.75	0.93
<i>North-east:</i>								
Final production in current lire	0.09	0.45	2.90	-2.62	-4.10	4.84	-1.78	-0.11
prices	-0.94	-0.43	4.00	-1.13	-3.41	5.01	-1.10	-1.11
quantities	1.04	0.87	-1.09	-1.49	-0.69	-0.16	-0.67	1.00
<i>Centre:</i>								
Final production in current lire	-0.49	0.58	-1.01	-0.07	-0.05	-0.21	-3.49	-1.81
prices	-0.05	-0.09	0.64	-0.15	0.15	-0.77	0.10	0.29
quantities	-0.44	0.67	-1.65	0.07	-0.20	0.56	-3.60	-2.10
<i>Mezzogiorno:</i>								
Final production in current lire	0.60	-1.13	1.80	3.78	4.92	-4.67	7.65	-1.53
prices	1.32	0.90	-6.34	1.54	2.89	-3.66	1.42	1.34
quantities	-0.72	-2.04	8.14	2.24	2.04	-1.01	6.24	1.80

(Source: Balestrieri (ed.) [1990] p. 17, emphasis added)

Table 5.5 Agricultural value added per worker, at constant 1980 prices.

Region	1987	1988	1989
North-west	13,821	13,308	15,103
North-east	13,869	14,480	15,548
Centre	11,409	10,913	12,189
Mezzogiorno	8,514	8,471	9,018
Italy	10,844	10,776	11,744

(Source: INEA Yearbook, various years)

² excluding industrial livestock breeding.

Table 5.6 Agricultural enterprises utilizing *contoterzismo* (contracting) in Italy.

Region	n° firms, 1987 (thousand)	weight (%)	1987/85 (% change)	Contracting firms percentage on total agricultural firms	
				1985	1987
North-west	130.0	13.0	4.3	32.1	33.6
North-east	264.6	26.4	7.7	51.4	56.0
Centre	182.7	18.2	-4.2	41.8	40.2
South	300.5	29.9	44.5	21.1	30.8
Islands	125.3	12.5	23.6	20.7	25.7
Italy	1003.1	100.0	15.2	31.1	36.1

(Source: INEA [1991] Yearbook p. 263)

Table 5.7 Intermediate consumption of the agricultural sector by categories of goods and services purchased.

	1980		1987	1988	1989			
	Value (billion lire 1980)	Weight (%)	Value (billion lire 1980)	Value (billion lire 1980)	Value (billion lire 1980)	annual average change 1989/80	Value (billion lire 1989)	Weight (%)
Fertilizers	943.1	10.9	1012.2	1,006.5	966.0	0.3%	1,737.5	10.9
Pesticides	470.9	5.5	568.3	585.8	575.8	2.3%	1,044.1	6.6
Seed	331.8	3.8	459.5	447.7	462.7	3.8%	801.5	5.0
Feed concentrates	5,125.4	59.4	5,088.7	5,094.3	5,059.2	-0.1%	8,422.9	53.8
Other livestock expenses	131.0	1.5	127.9	125.6	130.4	-0.05%	229.3	1.4
Electricity	771.2	8.9	1,005.0	1,084.9	1,101.7	4.0%	1,720.5	10.8
Transport	62.1	0.7	53.1	51.8	52.8	-1.8%	122.3	0.8
Irrigation water	87.0	1.0	77.2	73.8	76.5	-1.4%	227.7	1.4
Credit and insurance	375.5	4.4	377.5	368.4	375.8	0%	805.1	5.1
Various	334.4	3.9	283.5	271.9	282.2	-1.9%	665.4	4.2
Total	8,632.4	100.0	9,053.0	9,110.7	9,083.1	0.6%	15,927.4	100.0

(Source: Our elaborations, data from INEA Yearbooks, various years)

Table 5.8 Evolution of physical production in the different sub-sectors of the Italian food industry in the 1980s.

Sub-sector	Sub-sector total %growth 1980-1990	Annual average %growth
Most dynamic sectors		
Mineral water and soft drinks industry	119.2	8.2
Confectionery industry	61.3	4.9
More-than-average rate of growth sectors		
Fruit and vegetables processing and storage industry	37.2	3.2
Bakery, pastry and biscuits industry	35.2	3.1
Various alimentary products aggregate	32.8	2.9
Brewing industry	29.1	2.6
Pasta industry	27.9	2.5
Dairy industry	26.1	2.3
Less-than-average rate of growth sectors		
Alcohol and spirits industry	18.9	1.7
Fish processing and storage industry	18.6	1.7
Grain processing industry	16.6	1.6
Stagnant and declining sectors		
Meat slaughtering, processing and storage industry	-8.0	-0.8
Sugar production and refining industry	-20.2	-2.2
Vegetable and animal fats industry	-23.8	-2.7
FOOD INDUSTRY	22.0	2.0

(Source: Bertelè in MAF [1992] p. 22)

Table 5.9 The Top 30 food enterprises in Italy in 1990.

Enterprise	Group (updated to 31/1/1992)	Turnover (billion lire)	Employ- ment (n.)	Value Added (billion lire)	Cash flow (billion lire)	Invested capital (billion lire)	ROE ³ (%)	Advertis- ing exp. (billion lire)
Ferrero	Ferrero	1779.7 (1)	5503 (2)	518.2 (2)	126.1 (3)	486.1(11)	17.3	251.8 (2)
Unilever	Unilever (NL/UK)	1757.0 (2)	4200 (4)	350.0 (3)	111.1 (4)	649.6(7)	9.3	239.2 (1)
Galbani	Ben (F)/Ili-Agnelli	1677.2 (3)	6815 (1)	606.2 (1)	212.9 (1)	1516.6 (1)	8.4	19.8
Nestlé Italia	Nestlé (CH)	1322.8 (4)	4633 (3)	291.8 (4)	-55.4	1442.1 (2)	-21.2	71.2 (9)
Barilla Alimentare	Barilla	1092.7 (5)	378	217.7 (5)	167.0 (2)	266.5(23)	11.1	96.3 (3)
Parmalat	Parmalat	964.6 (6)	1316(18)	208.2 (7)	47.8(12)	665.5 (6)	11.5	41.7(19)
Kraft	Kfç P. Morris (US)	832.8 (9)	2560 (7)	212.4 (6)	-10.2	109.2	-43.5	75.4 (7)
Eridania	Ferruzzi	819.9(10)	2065 (9)	206.7 (8)	90.3 (5)	1039.0 (4)	10.2	..
Cirio Bertolli De Rica	Sme-Iri	681.0(11)	1748(12)	131.2(15)	24.2	332.8(17)	0.1	28.5
Star	Foesati/Ben (F)	675.9(12)	2317 (8)	184.7(11)	39.8(14)	197.9	13.8	74.3 (8)
Italgel	Sme-Iri	670.2(13)	1882(10)	167.3(12)	46.8(13)	427.3(13)	4.4	40.2(20)
Lavazza	Lavazza	620.3(14)	911(24)	186.7 (9)	54.9 (9)	329.4(18)	14.5	60.0(14)
Cereol Italia	Ferruzzi	564.5(15)	506	39.6	18.8	557.6 (9)	5.1	..
Barilla Dolciaria	Barilla	551.4(16)	372	90.5(25)	62.4 (7)	266.2(24)	2.1	92.5 (5)
Alivar	Sme-Iri	520.0(17)	3533 (5)	154.5(13)	54.8(10)	294.2(21)	27.8	60.8(13)
Gemeaz Cusin Alimentari	Accor (F)	507.6(19)	2742 (6)	95.8(22)	8.1	17.0	45.9	..
Plasmon	Heinz (US)	463.0(21)	1557(15)	185.3(10)	82.4 (6)	160.5	51.9	51.3(16)
Birra Peroni	Peroni/Ben (F)	456.7(25)	1638(14)	133.5(14)	32.6(17)	334.6(15)	3.2	27.7
Fedital	Cragnotti	433.0	963(22)	24.5	-3.5	316.3(20)	-18.9	..
C. Fiorucci	Fiorucci	414.2	1375(16)	121.8(17)	52.1(11)	476.0(12)	0.3	..
Iai	Ferruzzi	398.3	776	100.2(20)	33.6(16)	543.6(10)	-3.4	..
Birra Dreher	Heineken (NL)	391.0	1371(17)	127.0(16)	29.6(22)	230.6	-4.2	34.1(24)
Perugina	Nestlé (CH)	364.9	1829(11)	11.3	31.5(19)	350.4(15)	0.3	34.0(25)
Quaker C&F	Quaker Oats (US)	362.5	710	90.7(24)	31.0(20)	83.3	34.9	64.5(12)
Simmenthal	Kfç P. Morris (US)	355.4	734	11.8	62.2 (8)	321.1(19)	5.6	32.1
Sangemini Ferrarelle	Ben (F)	303.2	757	97.1(21)	36.1(15)	119.4	18.9	85.8 (6)
San Pellegrino	Mentasti/Perrier (F)	286.3	818	112.2(19)	27.6(23)	73.2	25.5	12.6
Buitoni	Nestlé (CH)	273.3	999(21)	46.1	-22.6	789.3 (5)	-8.1	14.4
D. Campari	Campari	170.2	603	83.2	31.8(18)	N.A.	16.2	22.9
Branca	Branca	120.8	219	58.6	27.1(24)	147.0	17.3	20.4

(Source: Adapted from Bertelè in MAF [1992] pp. 54-55)

³ Return On Equity.

⁴ only food activities.

Table 5.10 The leading five cooperative enterprises in Italy in 1990.

Enterprise	Group (updated to 31/1/1992)	Turnover (billion lire)	Employment (n.)	VA ⁵ (billion lire)	Invested capital (billion lire)
Cerpl	Lega delle Cooperative/ Confcoop	547.8	922	65.8	230.8
Giglio Gruppo Lattiero Caseario	Lega delle Cooperative/ Confcoop	480.0	705	43.0	344.0
Conservas Italia	Confcoop	311.9	71	18.2	44.1
Massalombarda Colombani	Federconsorzi ⁶	276.7	545	66.2	242.1
ACM ⁷	Lega delle Cooperative	276.0	519	N.A.	N.A.

(Source: Bertelè in MAF [1992] p. 70)

Table 5.11 The Top 10 food processing industrial groups in Italy.

Group	Estimated consolidated turnover of Italian strategically controlled enterprises ⁸ (billion lire)
Bsn (F)	4,000
Ferruzzi	3,000
Barilla	2,650
Nestlé (CH)	2,000
Ferrero	1,850
Unilever (NL/UK)	1,750
Sme-Iri	1,550
Philip Morris (US)	1,400
Veronesi	1,100
Parmalat	1,100

(Source: Bertelè in MAF [1992] p. 74)

⁵ Value added.

⁶ *Federconsorzi* is currently under bankruptcy administration.

⁷ *ACM* together with *Ciam* and others have later formed *Unibon*.

⁸ Data relative to 1990, groups composition updated to 31/1/1992.

Table 5.12 Sub-classes of the Italian food industry: average size of the local production units (LPUs) and other indicators.

Sub-classes	Employment (1981)			Employment (1981). Quota of the national total in the <i>Mezzogiorno</i>	
	Average size (LPUs)	Quota in the LPUs with workforce less than 20 (%)	Quota in the LPUs with workforce of more than 500 (%)	1971 (%)	1981 (%)
Margarine	15	24.07	-	0.16	8.32
Olive oil	5	67.67	2.41	75.56	75.16
Vegetable oil	19	17.84	20.33	8.31	10.72
Meat	10	37.58	9.50	5.49	9.42
Dairy	12	33.05	13.34	19.00	21.30
Fruit, vegetables	24	16.37	3.58	42.50	54.90
Fish	19	23.53	-	34.80	51.62
Grains	4	66.77	-	29.91	30.55
Pasta	8	33.97	18.76	37.68	35.67
Starchy products	50	9.61	54.09	4.96	1.98
Bread	3	94.28	-	39.05	33.49
Confectionery, biscuits	8	42.29	10.85	12.79	14.60
Sugar	141	1.42	9.27	16.02	11.34
Cocoa, chocolate and toffees	35	11.54	38.81	7.95	10.01
Ice cream	7	40.95	9.98	39.47	15.27
Animal feedstuffs	14	32.95	5.28	10.73	9.63
Various foods	12	30.29	21.27	14.91	17.37
Frozen food	40	9.50	47.29	n.a.	33.13
Alcoholics	11	36.21	5.53	13.80	16.46
Wine	8	48.71	3.51	26.18	34.73
Beer, malt	103	3.24	19.10	36.36	46.91
Mineral water	15	29.89	9.82	26.29	23.61
Food industry	8	39.68	12.17	26.77	28.14

(Source: Adapted from Terrasi [1985] p. 64)

Chapter 6 - Food Distribution in Italy.

6.1 The organization of the food distribution sector.

The distribution channel links supply of food to final demand. Food supply may comprise, in addition to the producers of those primary products sold directly on the final market, also the means of transforming the raw material into food to be sold to the final consumer. A direct contact between producers and final consumers would be excessively expensive in terms of transaction costs and probably materially impossible. Hence, the need for intermediaries arises.

The distribution function comprises, according to the products under consideration, a variable number of operations, that can be divided, according to Ghersi and Bensharif, in two categories:

◀ *material operations* that consist of those manipulations operated in order to present the product at the right moment, at a sensible price and in the form suitable for consumption: pre-commercialization procedures (selection, calibration, gathering, normalization and conditioning), stocking operations, transport, and marketing operations (break of bulk, sorting, packing etc.);

◀ *commercial operations* linked with the legal and regulatory aspects of the transactions: relationships with the customers, organization of the markets, advertising activities etc.¹.

It is also possible to differentiate between the operations within the food sector and the extra-sectoral commercial operations between the food sector and the auxiliary sector. It is also

¹ Ghersi and Bensharif in Malassis and Ghersi (eds.) [1992] p. 97.

important to remember that a significant quota of both intra- and extra-sectoral operations involves international transactions.

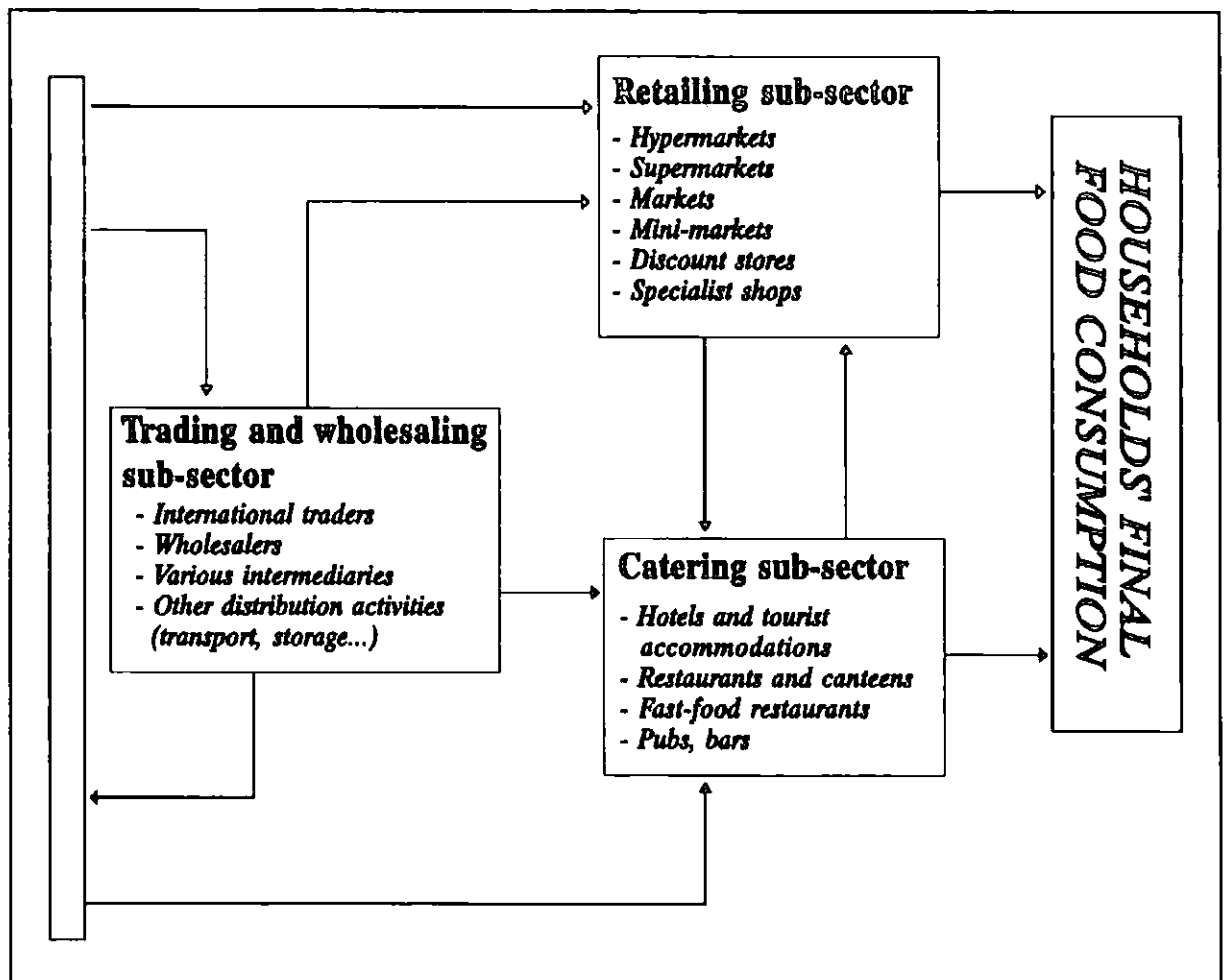


Figure 6.1 A descriptive model of the food distribution aggregate.

From another point of view, the activities of food distribution could be schematically divided into three components (see Figure 6.1).

- ◀ The *trading and wholesaling sub-sector* includes all the enterprises predominantly involved with trading and commercializing food and which are not directly linked to the consumer market. These enterprises typically provide merchandise to further downstream distribution activities and they are commonly characterized by large quantities of both inputs and outputs.
- ◀ The *retailing sub-sector* consists of activities, either small- or large-scale, predominantly involved in purchasing and selling food to consumers for private use.
- ◀ The *catering sub-sector* is constituted by firms that sell their products for consumption in public premises in which their outputs are consumed directly by customers.

In Italy, and more generally in the North Mediterranean Countries, the distribution system represented in Figure 6.1 presents two basic configurations.

◀ The *traditional distribution system* formed by a local circuit linking farms to independent processors to the fragmented network of family groceries has survived in marginal areas, especially in the *Mezzogiorno*. National and international producers entered this circuit only with a considerable effort, due to the necessity of reaching a myriad of small retailers. This situation acted as a barrier to the entry of new competitors and it contributed to inflationary pressures².

◀ The *modern distribution system* includes the *large distribution* sector (supermarkets and hypermarkets) and the *organized distribution* sector (cooperatives³, buying groups⁴, voluntary unions⁵). This form of organization is predominant in easily accessible areas, particularly in the North.

6.2 The growing importance of distribution in the context of the food system.

Several trends can be identified in the remarkable development of food retailing in Europe in the last few decades. Some of these tendencies have already profoundly affected the Italian food distribution system in the last few years, and others are bound to exert important effects in the future.

The structural evolution of food retailing activities in general has shown a clear tendency, in the last decades, towards:

◀ growing market concentration, with increasing market shares for the leading organizations (in correspondence of this phenomenon the number of food stores has declined and the floorspace devoted to food retailing has risen);

◀ greater diversification across store product ranges and retail sectors (food distribution firms are offering not only greater choice but also additional services to the consumer and are increasingly investing in other activities);

² see Alò and Bedetti [1988] and Cannata and Olini [1988].

³ Groups of consumers who become members of a retail organization in order to acquire an improved service.

⁴ The buying groups are associations of either wholesalers or retailers with the purpose of administering purchases and selling services.

⁵ The voluntary unions represent a form of vertical integration achieved by wholesalers and retailers, which manage purchases and some other activities in common.

◀ a certain degree of internationalization, which has occurred throughout Europe mostly by take-overs and joint ventures and has contributed to the process of concentration⁶.

The evolution of demand has caused a process of polarization in European food markets, which has resulted in the cohabitation of small specialist food retailers, and targeted shop types, such as health food shops and limited-line discount stores, together with the larger hypermarkets and supermarkets⁷. In the context of an integrated European market, the importance of marketing organization has grown considerably and this is reflected, for instance, in the massive advertising expenditure undertaken by major food organizations.

Technological change has also contributed to shaping the structure of modern food distribution, not only in relation to food transport and conservation developments, but also in operational control. New technologies contributed to build, in the most developed European markets, integrated management information systems as a basis for control over the overall food chain. "Operational standards now allow inter-organizational communication networks through electronic data interchange systems"⁸ and contribute to a more integrated management of the activities of the food system.

The situation of the Italian distribution sector is still relatively less developed in comparison with northern European countries, especially in the *Mezzogiorno*. The weight of the commercial sector in the food system is higher in Italy than in other European countries. This proves the difficulties still present in the distributive process and the fact that extensive phenomena of inefficiency are still common⁹. Small commercial operators have been protected in the past by government policies and the distribution sector has often represented, together with agriculture, a way of absorbing structural unemployment. These factors have made it difficult to introduce new practices in Italian food distribution. Nevertheless, the situation in the last decade has started to develop quicker, due to increased competition and international influences¹⁰.

⁶ see Shaw, Burt and Dawson in Traill (ed.) [1989].

⁷ see Shaw, Burt and Dawson in Traill (ed.) [1989].

⁸ Shaw, Burt and Dawson in Traill (ed.) [1989] pp. 14-15.

⁹ Casati [1990] p. 153.

¹⁰ see Alò and Bedetti [1988].

6.3 Integration in the food system and the food distribution aggregate.

The greater scope for integration in the food system has already been discussed in Chapter 5. Nevertheless, there are some aspects of the process of integration, relative to the distribution aggregate, which are worth identifying. In particular, the upper segment of the retailing sub-sector presents numerous aspects of integration. Indeed, Shaw, Burt and Dawson note that "multiple retailers are not only closer to consumers than manufacturers but also are in a position to undertake market research, product testing and monitoring of changes in sales patterns"¹¹. This position has been increasingly exploited by these organizations by using both informal communication practices and formal vertical integration with upstream activities.

This process is bringing several important developments to the overall structure of the distribution aggregate and, more generally, of the food system. The most striking features have been:

- ◀ the absorption of most of the wholesaling and distribution function by major food retailers and
- ◀ the growing importance of the phenomenon of distributor labels.

In Italy, this experience is still somehow limited, "only 5% of market share by volume in 1986 was accounted for by private label products compared with 25% in the UK and 16% in Germany"¹². Nevertheless, retailer labelling is expected to develop faster in the 1990s.

Another important feature in modern food systems is the growing market power of large retailing companies in correspondence of the growing proportion of food sales that these organizations control. "The food retailer has generally been in the position to extract concessions from the manufacturer in addition to the terms of supply which already favour those retailers able to purchase in large quantities"¹³. Italy is still at an early stage of this process, nevertheless conspicuous changes have occurred in the last few years and further developments are likely in the future.

Italian distribution channels have been characterized until the recent past by the proliferation of intermediaries. This in turn is time-consuming and leads to higher costs. In

¹¹ Shaw, Burt and Dawson in Traill (ed.) [1989] p. 24.

¹² Eurofood [1991] p. 41.

¹³ Shaw, Burt and Dawson in Traill (ed.) [1989] p. 27.

the food sector, the development of a more efficient food market implies a substitution of middlemen with an expansion of producers and distributors' distributive functions. This is possible, for instance, through cooperatives of agricultural producers, which concentrate supply, to operate a preliminary processing and make easier the contact with the processors or distributors, through the media of super- and hyper-markets. A simplified distribution channel, in which less operators perform the same functions, increases the efficiency and rapidity of the whole food system.

A separate consideration of the sub-sectors of food distribution will be carried out noting the fact that the process of integration causes distribution activities to interact with each other. It is impossible to follow a strictly sectoral classification in the context of the food system in general. Nevertheless, the different processes of change are better identified when focusing on each sub-sector.

6.3.1 Food wholesaling and trading.

The case of wholesaling highlights the importance of vertical integration in the food system with respect to the distribution sector. In the last few years, the quantity of food transiting through the wholesalers has reduced significantly. Wholesaler enterprises operating in the food sector diminished in the North and remained stable in the Centre, whereas they increased in the *Mezzogiorno*¹⁴. The declining importance of wholesaler markets is certainly related to the evolution of modern distribution. According to INEA, the decline is also a consequence of the lack of modernization of the structures of this kind of market¹⁵. Nevertheless, the importance of wholesaler markets and commodity stock exchanges remains in relation to the process of product price formation.

6.3.2 Structural change in the Italian food retailing sector.

The Italian distribution system, in recent years, has experienced extremely important developments. "Although in Italy the traditional retailing sector remains predominant from a numeric point of view, new forms of retail distribution have developed in the last decade,

¹⁴ see INEA Yearbook 1990.

¹⁵ see Chapter 10.

with a drastic reduction of the number of traditional retailers and increasing degree of concentration"¹⁶. In particular, there has been a considerable increase in the number of super- and hyper-markets (see Table 6.1). The large distributors' share of the market, between 1987 and 1989, has also grown from 20% to 25.7% together with the size of the outlets¹⁷. According to Eurofood, "those retailers affiliated to business organizations accounted for 45% of the market share in 1987 and this proportion is estimated to [have] increase[d] to just over fifty percent in 1990"¹⁸. It is important to bear in mind that the large distributors' share of the Italian market is much lower than the corresponding 80% in France, and more than 60% in both Germany and the United Kingdom¹⁹.

The internationalization process in the Italian food retailing sector is under way, although having still a secondary importance. Eurofood states that "the underdeveloped Italian retail sector is an invitation to foreign companies. Even the biggest companies are prey to European predators, for example, the combined turnover of Standa and La Rinascente, the two largest multiples ... would not put them in the top ten retailers of Europe"²⁰ (see Table 6.2). In the last few years, foreign groups have started to enter the Italian retail sector and this process is likely to continue in the future.

From the geographical point of view, southern regions are still characterized by the importance of the traditional distribution system. The outlet density per head of population is much higher in the South than it is in the *Settentrione* (see Table 6.3). Nevertheless, the situation is evolving in all regions, despite the unfavourable physical characteristics of hilly and mountain areas. It is interesting to notice the changing geographical distribution of supermarkets in Italy: in the 1987-1990 period, the percentage of supermarket in County towns has decreased from 40% to 34% of the total number and the total number of supermarkets in northern County towns fell in the same period. According to INEA, this phenomenon could be partly explained by referring to new extra-urban settlements and increased consumer mobility²¹.

¹⁶ "Sebbene in Italia il dettaglio tradizionale continui ad essere predominante numericamente, nell'ultimo decennio si sono sviluppate nuove forme di distribuzione al minuto, con una drastica riduzione del numero dei dettaglianti tradizionali ed un aumento del grado di concentrazione." INEA Yearbook 1990 p. 486.

¹⁷ see INEA Yearbook 1990.

¹⁸ Eurofood [1991] p. 38.

¹⁹ INEA Yearbook 1989.

²⁰ Eurofood [1991] p. 41.

²¹ INEA Yearbook 1990 p. 489.

In relation to the development of organized distribution, Eurofood estimated that buying groups and voluntary unions accounted, in 1990, for 24% of the market value²² (see Table 6.4). It could be noted that, at the end of 1989, the proportion of food retailers associated in buying groups or voluntary unions was a considerable, although declining, 11.2%. This reduction is due to the fact that these forms of association tend to promote their members' re-organization and concentration in the long run. Indeed, these associations also organize super- and hyper-markets. Cooperative groups have developed rapidly in the retail sector and accounted in 1990 for 17% of the market²³.

6.3.3 Some considerations on the development of catering.

The development of the food catering aggregate in the last decades has been characterized by a number of influential factors, which have already been discussed in relation to food demand evolution in Chapter 4:

- ◀ the changing social conditions of consumption (family structure, urbanization etc.) and the growing consumer income has contributed immensely to the importance of the outside-home food market;
- ◀ the autonomous rôle of contract catering firms has been enhanced by the recent practice of contracting-out services in public and private organizations;
- ◀ the recent transformations of the social conditions of production, for example the decline of heavy industries and large-scale plants, have given an impulse to new ways of providing catering services directly or indirectly for employees.

The European catering industry is undertaking far-reaching structural developments. Goodman argues that the growing effort by major food organizations to acquire a dominant position in the fragmented catering markets of Europe will occur in association with a process of "internationalization of production and consumption [which] is eroding national cultural barriers and intensifying the international standardization of catering services"²⁴. This evidence seems to apply in a diverse way to different national contexts. Although the data are extremely inappropriate for comparisons, and although a more detailed analysis of the Italian

²² Eurofood estimate.

²³ Eurofood estimate.

²⁴ Goodman in Traill (ed.) [1989] p. 200.

case is not available, it is possible to argue that the Italian market seems relatively less affected by this process of homogenization. Indeed, it seems possible to say that foreign caterers will have to satisfy the Italian consumers' propensity towards quality and way of life before successfully entering the Italian market in this sub-sector²⁵.

It is important to highlight the differences between consumers from the economic and geographical point of view: lower income families and consumers living in rural areas have little opportunity to enjoy outside-home meals in comparison to richer and urban characters. Although, aggregated pictures cannot give a precise idea of the phenomenon, it is important to notice how southern regions tend to enjoy a lower density of public premises, if compared with the Centre-North (see Table 6.5).

Another important feature, typical of catering activities is the particular structure of the workforce: female, part-time and hidden employment are common in catering activities. Finally, technological developments in the catering activity of the last decade (microwaves, cook/chill technologies) also had a major influence upon the operation of catering activities and also on food consumption.

6.4 Future patterns of demand and the distribution sector.

The rôle of demand in the overall food system has been enhanced, partly as a result of greater information exchange along the agri-food chain. Producers will not be able any more to sell only the products easily available to them; increasingly they will have either to find a convenient way of marketing their products or to cease production. Global competition between food enterprises, which has also started to affect Mediterranean Europe, has increased the variety of products available to consumers. In addition, large distribution organizations have enhanced the consumers' power to choose the foods they want, according to their tastes and their beliefs. Advertising also has a major influence upon consumers' decisions.

Munton suggests that the recent slowdown in the rate of growth of market share of the major UK retailers, in one of the most concentrated distribution sectors in the world, may

²⁵ The failure by American-style fast food restaurants to consolidate a significant position in the Italian market during the 1980s demonstrates the difficulty of imposing alien models of eating out upon Italian consumers by foreign enterprises.

anticipate problems for big organizations in the process of adaption to new consumer demands. In fact, the increasing importance of regional and other niche food markets entails growing efforts by large retailers. "As a matter of principle, consumers may wish to get closer to producers, ... so encouraging local and regional foods and ways of producing them. The counter trend to this is the determined effort by discount retailers ... to increase their market shares"²⁶.

The evolution of demand in Italy shows that differentiation is occurring very rapidly across the peninsula²⁷. Italian consumers are increasingly aware of the importance of a balanced diet and they are strongly oriented towards quality food, especially in richer areas. In other words, the current segmentation of demand experienced in the more developed European markets seems occurring also in the *Belpaese*. This phenomenon is particularly important in the context of food distribution, but also carries significant consequences for the production of typical foods by traditional farms and manufacturers. Indeed, a better functioning of the food distribution sector and in particular a re-organization of marketing channels for traditional foodstuffs is essential for a strategy of development valid for the overall food chain.

²⁶ Munton [1992] p. 40.

²⁷ see Chapter 4.

6.5 Tables.

Table 6.1 Evolution of the retailing sector structure: number of enterprises.

	North		Centre		South		Italy	
	1987	1989	1987	1989	1987	1989	1987	1989
Total food retailers	136,113	130,123	62,265	61,245	117,559	115,108	315,937	306,476
Super-markets	1,485	1,798	509	619	576	759	2,570	3,176
Hyper-markets	28	50	3	11	1	8	32	69
Voluntary unions, purchasing groups	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	36,155	34,349

(Source: INEA Yearbook 1990 p. 487)

Table 6.2 Market shares and number of outlets of food multiples in some European countries, 1987.

Company	Country	Market share (%)	Number of outlets
Aldi	Germany	10.40	1,900
Tengelmann		6.70	3,400
Rewe-Leibbrand		6.50	2,360
Tesco	United Kingdom	14.20	376
Sainsbury		13.70	283
Dee Corporation		12.90	852
Carrefour	France	11.00	64
Auchan		7.80	39
Casino		6.00	3,001
Esselunga	Italy	1.20	64
G.S.- Sico		1.07	137
Standa		1.06	147
Pam		0.82	64
La Rinascente-Sma		0.64	60

(Source: INEA Yearbook 1989 p. 459)

Table 6.3 Number of inhabitants for each food retailer enterprise.

	1987	1989
North	369	391
Centre	175	179
South	176	183
Italy	180	188

(Source: INEA Yearbook 1990 p. 486)

Table 6.4 Food retail market shares by business type (business ownership).

	% of market share by value	
	1987	1990
Cooperatives	8	17
Buying groups and voluntary unions	19	24
Multiples	9	10
Independents	64	49

(Source: Eurofood [1991] p. 38)

Table 6.5 Registered public premises on the Italian territory, 1989.

Region	Total number	Public premises per 1,000 inhabitants		
		Total	Restaurants etc.	Bars, Cafes
Centre-North	160,219	4.4	1.8	2.6
Mezzogiorno	62,995	3.0	1.1	1.9
Italy	223,214	3.9	1.6	2.3

(Source: ISTAT [1992])

Chapter 7 - International Agri-Food Trade.

7.1 The Italian trade of agricultural and food products¹.

This chapter aims to offer an introductory view on trade in the context of the Italian food system. The reaction of Italian productive structures to the evolution of demand has been already examined, together with the most striking features of the growing direct international influence in the domestic market². This description needs to be completed by explicitly considering the inter-changes between the national activities involved in the food function and the external world. Trade is of major importance in the context of a country, such as Italy, that is by necessity connected with international markets. Moreover, the particular case of agricultural and food products' trade is an extremely important one in relation to the huge agri-food deficits experienced in the last few decades in Italy³.

The steady quantitative growth in food demand in Italy, during the last forty-five years, substantially stimulated the food production sector, which experienced a significant growth both as regard to agriculture and even more to the food industry. Nevertheless, the rate of growth in food demand has been greater than the capacity of expanding production. Indeed, the gap has been filled by growing imports of food, which took off in the mid-sixties,

¹ The *agri-food trade balance* concerns all food products (originating in both the primary and the industrial sectors) and all the non-food primary and agri-industrial products. This definition excludes the industries whose linkages with agriculture are weak, such as the textile industry and the wood industry. For a reference see Frappetta [1991].

² see Chapter 4 and Chapter 5.

³ see De Benedictis and De Filippis in De Benedictis and De Filippis (eds.) [1988] for a *panorama* of the studies published on agri-food trade in Italy.

intensified during the 1970s and then consolidated in the 1980s when the expansion of demand slackened⁴.

However, the expansion of demand is not the only factor influencing the Italian trade situation. Agricultural supply, under the operation of both the Common Agricultural Policy (CAP) and the national agrarian policies, has been unable to adapt to a powerful evolution of demand⁵. In particular, the CAP has aimed to develop the cereals and livestock sectors, comparatively more important in northern European countries, and has operated less decisively with Mediterranean products. Commonly, national agrarian policies have merely taken a neutral position. In this condition, Italy "has obviously become the market outlet of other [European countries'] surplus productions. ... [Thus,] it is opportune not to undervalue the determinant contribution of these lacks of agrarian policy in the formation, composition and persistent growth of the agri-food trade balance's deficit condition"⁶. This situation partly explains why the vertically integrated livestock-meat-dairy sector accounts for a major share of the Italian agri-food deficit⁷.

The current situation of trade in agricultural and food products is clearly characterized by remarkable deficits in almost all sub-sectors (see Table 7.1). Casati indicates the most important Italian imports: meat, which accounted for 28% of the total value of imports on average in the last 5 years, and dairy products (12%). Animal feed, wheat, fish and sugar, with single quotas around 8-9%, also represent important Italian imports. On the other hand, Italian leading exports are: fresh and processed fruit and vegetables (40%), processed cereals like pasta and rice (15%) and wine (11-12%)⁸.

The normalized balance (NB) provides a comparative measure of the degree of orientation towards import or export for each sector. It is apparent that only the wine sector can be regarded as truly export-oriented ($NB_{\text{wine}}=74\%$). In fact, Italy imports a considerable amount of horticultural and fruit products, even though the balance for these products is positive, and this results in a lower comparative measure of export ($NB_{\text{vegfr}}=36\%$). On the

⁴ see Chapter 4.

⁵ see Chapter 9 for a further analysis of the rôle of the Common Agricultural Policy in the agri-food context.

⁶ "In condizioni di scarsa competitività del settore primario, pur in presenza di un consistente (ma comune) sostegno dei prezzi, in Italia la spinta di un consumo nazionale crescente non poteva trovare risposta adeguata nella crescita dell'offerta interna. Era ovvio che divenisse lo sbocco di mercato delle produzioni eccedentarie altrui. ... Non si può sottovalutare il contributo determinante di queste carenze di politica agraria nella formazione, composizione, e nella persistente crescita della condizione deficitaria della Bilancia agricolo-alimentare." Fabiani in Medici and Fabiani (eds.) [1987] p. 28.

⁷ see Caselli and Committeri in Banca d'Italia [1987].

⁸ see Casati [1990].

other hand, the sub-sector which contributes most, in absolute terms, to the agri-food deficit (agri-industrial food products) has a respectable ability to export, and this fact results in a value of the normalized balance NB_{indfood} equal to -25% (see Table 7.1)⁹.

The nominal growth in the negative balance of agri-food trade in the period 1970-1990 has been impressive. This explosion of the deficit is partly due to inflation and, in general to growing prices. According to Frappetta, "in twenty years the deficit has expanded 11 times in nominal terms; but only half in real terms"¹⁰. The imports in real terms have grown at an average compound annual rate equivalent to 3%, exports have grown by 4.4% and, in consequence, the deficit by 2.2% in constant lire (see Table 7.2). It is interesting to note that in the sub-period 1983-90 the situation worsened significantly, due to a severe slackening of export growth coinciding with a constant growth in imports¹¹.

The situation is particularly critical with reference to the horticultural-fruit aggregate: although in the last twenty years the balance remained positive, it has reduced its size in real terms by 28%, due to a continuous decline in exports and a parallel increase in imports. Conversely, the situation of the agri-industrial food aggregate seems in a better shape, although its deficit has been growing by an annual average of 1.4% (see Table 7.3). Indeed, exports show a positive evolution in comparison with the slackening growth of imports¹².

7.2 Structural aspects of the Italian agri-food deficit.

It is interesting to highlight some aspects of the evolution of the Italian agri-food deficit surpassing the traditional sectoral and commercial perspective, and considering explicitly the structural characteristics of supply and demand, the commercial and productive rôle of each sub-sector in the economy and the objectives of public policy. These circumstances are the basis of a new disaggregation of the Italian agri-food balance operated by INEA for the first time in 1991¹³.

⁹ Frappetta [1991] pp. 58-59.

¹⁰ "In vent'anni il deficit si è allargato in termini monetari di 11 volte; ma, in termini reali, di mezza volta!" Frappetta [1991] p. 60.

¹¹ see Frappetta [1991].

¹² Frappetta [1991] pp. 59-61.

¹³ INEA Yearbook 1989 p. 38.

In particular, the first three categories of the disaggregation reflect the components of the Italian agri-food trade balance which are relatively resistant to public policy corrections. Indeed, the action for reducing the agri-food deficit is limited by internal and external constraints. The evolution of this section, which represents a particularly important portion of the Italian agri-food deficit, depends upon exogenous factors and therefore does not represent an index of the agri-food system's performance. The sectors of the *rigid component* include:

- ◀ *goods whose production is not suitable* for the Italian physical environment (coffee, tea, tropical fruit, etc.) and therefore whose import, at least in raw form, is unavoidable and directly geared to demand;
- ◀ *non-agricultural items* (fish, mineral water) or with *negligible agricultural base* (beer, super-alcoholic drinks, etc.);
- ◀ *inputs for export-oriented industries* (leather, cotton, etc.) and *products with a fixed medium term supply* for agronomical reasons, such as wood.

The remaining three sectors are identified by value added and different degree of commercial and/or productive differentiation:

- ◀ *undifferentiated agricultural commodities* utilized as raw inputs for the processing industry;
- ◀ *agricultural products differentiated* by quality, season, specific characteristics, partly utilized for fresh consumption;
- ◀ *residual processed food products*¹⁴.

The overall picture obtained helps us to understand the phenomenon of the agri-food deficit under the structural constraints that characterize the Italian food system and economy as a whole.

Italy is highly dependent on the imports of those products included in the *rigid agri-food balance* ($NB_{\text{rigbal}} = -84\%$ in 1989) and in the *agricultural commodities* section of the balance ($NB_{\text{agcomm}} = -81\%$) in which the comparative advantage of Italy is negligible. Italian reliance upon imports of *differentiated agricultural products*, although growing rapidly, is still less remarkable ($NB_{\text{agdiff}} = -29\%$), whereas the situation of the *industrial food products* shows that the balance in 1989 turned positive¹⁵.

¹⁴ see INEA Yearbook 1989.

¹⁵ see INEA Yearbook 1989.

Taking into account the physical geography of the Italian peninsula, its productive and population structure, the phenomenon of the agri-food deficit assumes less dramatic connotations. Almost half of the deficit (47.3% in 1980 and 46.8% in 1989) is due to the rigid balance, which accounts for less than one-quarter of the total trade volume, and another 40% is a consequence of the deficit in the undifferentiated agricultural products. The situation of processed products has evolved positively in the eighties: the volume of trade grew considerably and the export performance has been above average. On the other hand, the negative development of differentiated products, which contains the important fresh fruit and vegetables aggregate, has to be considered (see Table 7.4).

This preliminary analysis offers a general idea of the problems involved in the management of trade problems in the Italian context. This picture of the situation could be deepened by considering particular *filières* in the context of a future study more focused upon particular products¹⁶. It would be also valuable to characterize the various inter-dependent aspects of agri-food trade by using the methodology proposed by De Muro, based upon the inter-sectoral tables used for constructing a basic kind of input-output matrix. However, De Muro points out that "Italian statistics do not allow [an adequate degree of disaggregation] ... and inter-sectoral tables have normally pluri-annual and variable recurrence and they are untimely"¹⁷.

De Muro utilized the 1978 inter-sectoral tables of the Italian economy¹⁸ (published in 1983) and presented some conclusions that are worth identifying, because they emphasize those inter-relational aspects of the food system that are impossible to quantify using the traditional techniques of trade investigation. In particular, it is important to stress that final demand determines not only the *direct effect* operated by the final demand directed abroad, but also an *indirect effect* of the demand directed towards national sectors that utilize agri-food inputs coming from abroad (see Figure 7.1). Therefore, the demand for national products which affects sub-sectors particularly dependent on foreign inputs, produces equivocal effects upon the magnitude of imports. A typical example of this situation is

¹⁶ see for example the studies of the horticultural-fruit sector by Pasca *et al.* [1989] and Balestrieri in De Benedictis and De Filippis (eds.) [1988].

¹⁷ "Volendo lavorare con un adeguato grado di disaggregazione ci si accorgerebbe, però, che le statistiche italiane non lo permettono ... [e] le tavole intersettoriali hanno di solito frequenza pluriennale e variabile e sono intempestive." De Muro [1986] p. 87.

¹⁸ see also Bernini Carri [1987] and Costa *et al.* [1991] for an application to 1980 tables.

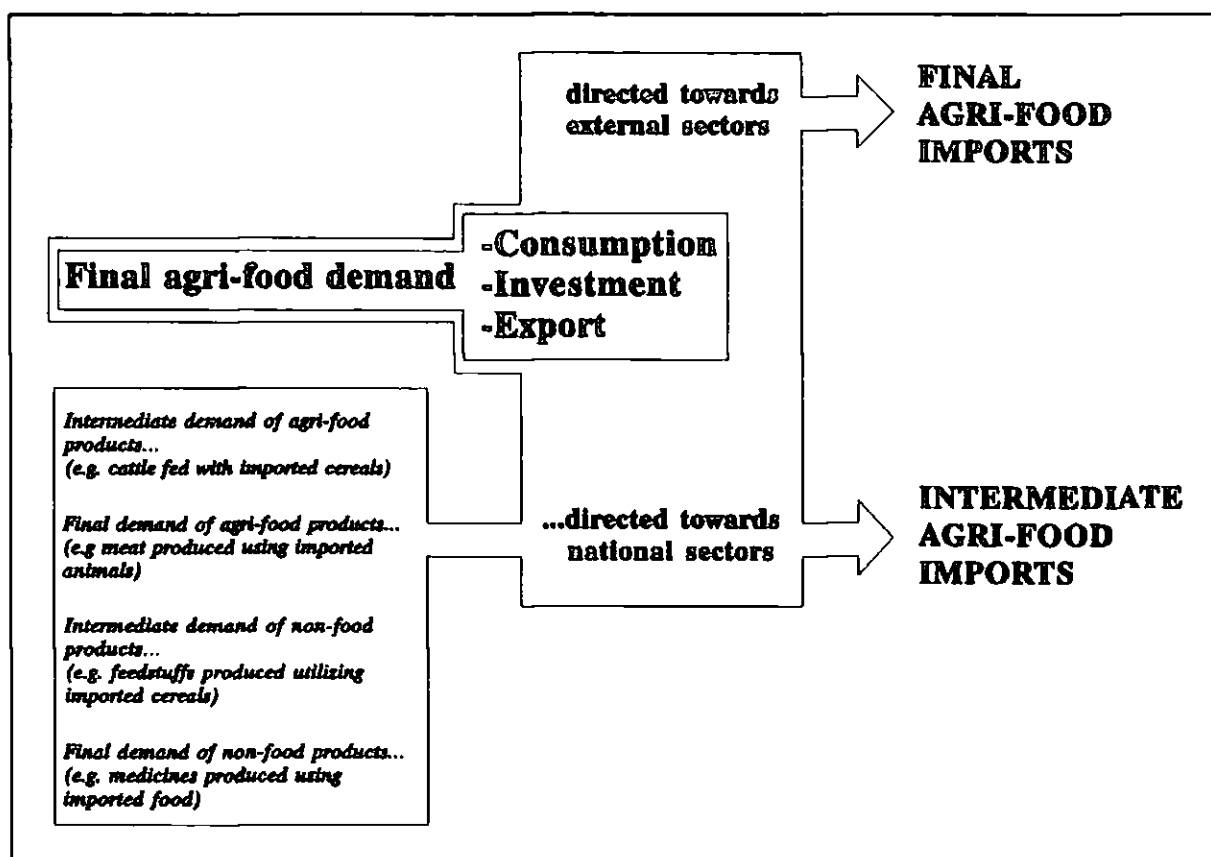


Figure 7.1 - The direct and indirect demand effects upon imports.

represented by the categories other food products¹⁹ (starch products, fats and oils, processed fish etc.) and meat. The same circumstances are valid also for exporting sectors such as in the case of processed cereals²⁰.

These inter-relationships between sub-sectors are impossible to describe using traditional techniques. On the other hand, it could be argued that, since current availability restricts us to 1980 tables, the macro-economic analysis would be unable to describe the changes which occurred in the eighties. Therefore, the analysis will be carried out using the traditional techniques, in order to investigate the recent changes in the external relationships of the Italian food system.

¹⁹ This result highlight the difficulty of obtaining suitable indications using the disaggregation provided by the ISTAT inter-sectoral tables.

²⁰ see Bernini Carri [1987] and Costa *et al.* [1991].

7.3 The evolution of the food trade balance²¹ during the 1980s.

It is opportune to concentrate our attention upon the evolution of trade in those food products which are suitable for production in Italy and which are not under Community restrictive policies. The case of processed foodstuffs is particularly relevant in the context of the Italian economy. Indeed, future developments of the Italian food system, also in relation to trade balance improvements, are undoubtedly linked to the ability to make the most profit from those sectors which are involved in producing quality high-value added food and from the sectors that traditionally represent export capacity. However, it has to be considered that the trade balance relative to *industrial food products sensu stricto* is equal to a positive 850 billion lire, whereas agricultural products characterized by a *low degree of industrial transformation* and *animal feed products* are showing a 6,500 billion lire trade deficit. The additional deficit relative to *agricultural products*, of equivalent dimension, constitutes the residual element of the worrying Italian food deficit²².

Despite a relatively better shape of the Italian trade of industrial foodstuffs, in the last few decades Italy's performance has not been remarkable in either exporting sectors or in the typical gastronomic products. In addition, according to Fabiani, "it is impossible to assert that the Italian agri-food system has a clear position as a convertor, solidly orientated towards production of technologically advanced products"²³.

In the period 1983-1990, the pressure of quantitative

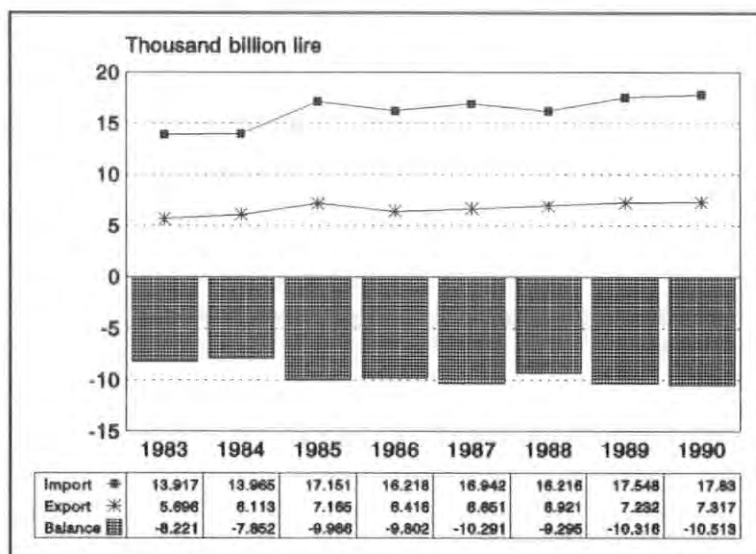


Figure 7.2 - Evolution of the Italian external food trade balance in constant 1981 lire in the period 1983-1990. (Source: Data from INEA Yearbook 1990)

²¹ The food trade balance concerns only products of both primary and industrial origin that have a direct or indirect alimentary utilization. For a reference see the INEA Yearbooks.

²² see Ministero dell'Agricoltura e delle Foreste (MAF) [1992].

²³ "Non si può sostenere che il sistema agricolo-alimentare italiano abbia una netta posizione trasformatrice, solidamente orientata verso la produzione di beni tecnologicamente avanzati." Fabiani in Medici and Fabiani (eds.) [1987] p. 26.

growth in food consumption has considerably eased, but nevertheless, food consumption still rises, on average, more than overall consumption and the development in qualitative terms has assumed remarkable features in the last few years. These effects on the demand-side have to be taken into account together with the supply-side management, especially regarding the policy-making process, at both a national and European level, in order to understand the origins, other than structural, of the food trade deficit (see Figure 7.2). The reduction of the food deficit should not be an objective of policy in itself, on the contrary, the food deficit acts as a signal of inefficiency for the Italian food system, in relation to the other European countries. To eliminate inefficiencies is the objective of policy, and this will have beneficial effects on the deficit as well.

Italian trade in the past few years has become even more concentrated with other EC

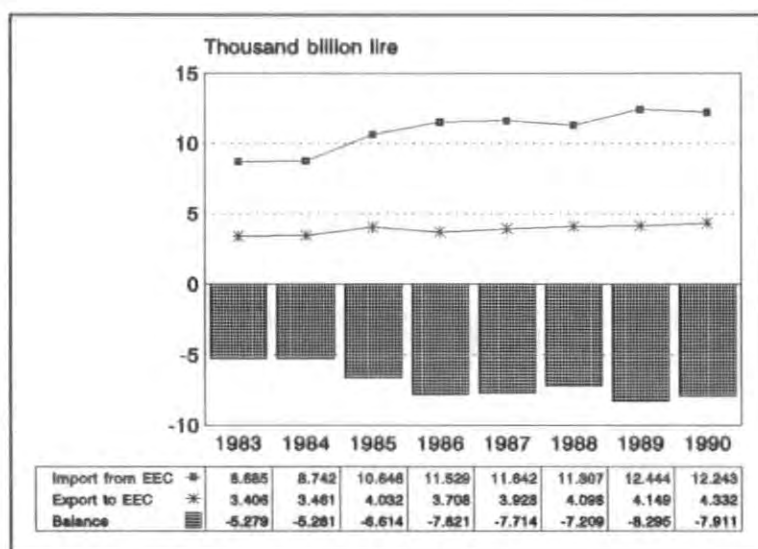


Figure 7.3 - Evolution of the Italian external food trade balance with EEC countries in constant 1981 lire in the period 1983-1990. (Source: Data from INEA yearbook 1990)

countries: 73.2% (63.4% in 1983) of the total value of imports and 67.4% (61.1%) of the total value of exports in 1990 were exchanged with other EC countries. In consequence the Italian food deficit in 1990 was mostly determined (75.2%) by intra-EC trade (see Figure 7.3). Fabiani points out that in relation to the other European economies, which are characterized by their agri-

industrial component, the Italian dependency is clear, especially regarding processed items. An indicative fact is the change of the Italian commercial position with Germany: the evolution of trade has caused the balance to turn from positive to a situation of serious deficit²⁴. In fact, unlike Italy, other European countries with structural deficits (Germany and United Kingdom) have experienced substantial improvements in their commercial performance²⁵.

²⁴ see De Filippis and Mastrostefano in Medici and Fabiani (eds.) [1987].

²⁵ see De Benedictis and De Filippis [1985], De Benedictis and De Filippis in De Benedictis and De Filippis (eds.) [1988] and Sabbatini [1989].

The poor performance of the Italian food sector, especially in relation to the other industrial countries, in the international trade context is again determined by the inability of Italian public and private operators to adopt a coherent commercial policy. The operation of the Common Agricultural Policy, for instance, has represented the only coherent effort to pursue public policy objectives in the Italian food sector. The lack of strategic decision-making by Italian public powers has left those sectors in which Italy was relatively more specialized in the EC without a clear guide, provoking therefore their relative decline on the international markets.

7.4 Food trade in a global perspective and the General Agreement on Tariffs and Trade (GATT).

The issues arising from a consideration of the external relations of the Italian food system have to be examined in a broader context in order to grasp the conditions of trade under which the Italian, and generally European, food system is operating. In fact, the national connotation of the trade systems has increasingly been replaced by an international, even transnational, connotations. The current Uruguay Round GATT negotiations are making apparent the transition under way in the global economy "between a *residual* national principle deriving from a period of relatively managed trade and capital movement, and an *emergent* global principle of relatively free trade and capital movement"²⁶.

In the last fifteen years the most developed countries (MDCs), and in particular the EC, have considerably increased their weight in the world export of both food products and agricultural raw material, and they have reduced their imports, especially from the less developed countries (LDCs)²⁷. The Community accounted in 1985 for one third of the world exports and thus, it has become the most important exporter in the world, at the same time improving considerably its position as an importer (see Table 7.5). It is also interesting to note that the EC has increased substantially its penetration into the developed countries' markets, especially in food products. The European Community also reduced its dependence

²⁶ McMichael [1993] p. 199.

²⁷ Sabbatini [1989] p. 558.

on both agricultural raw and food imports. By comparison, the relative position of the United States on the world markets seems to have weakened.

In conclusion, the European Community appears to be specialized in transforming raw inputs into processed food products, and indeed, the share of food products in the EC export is extremely high (around 90%). Nevertheless, the EC has been increasingly able to produce internally its raw material, offsetting in this way both American and LDCs exports of raw inputs for industrial food processes. This remarkable performance of the EC, and the substantial improvement of other developed countries with respect to agricultural and food production, resulted in crises of over-production at a world level during the 1980s²⁸. The situation became paradoxical in the Community in which over-production has reached unbearable levels in the last decade²⁹.

The latest Uruguay Round of negotiations in the General Agreement on Tariffs and Trade (GATT) commenced in 1986 in this particular context of international trade and it is currently deadlocked. McMichael specifies that GATT "was originally designated to liberalize trade in manufactured goods among contracting parties, [whereas] the current Round is concerned with a different set of economic relations prefigured in the activity of transnational corporations. Beyond farm liberalization these include the internationalization of investment, services and intellectual property rights"³⁰. Obviously, this process of global competition is bound to reduce dramatically the possibility, for national governments, of *nationalizing* their economic systems and in this way transnational players in the global economy will be increasingly able to enter those markets capable of attracting their productive activities or, at least, the products they are interested in selling³¹.

The process of *de-nationalization* of trade policy is markedly affecting national farm and food policies, which also have to take into account international ties, and in the European case the Common Agricultural Policy in particular has been under pressure in the last few years, especially from the United States³². Although the conventional American position in the GATT context is associated with free trade, Grant points out that "the US follows a dual

²⁸ see Tubiana [1989].

²⁹ see Chapter 9.

³⁰ McMichael [1993] p. 200.

³¹ see Ufkes [1993] for an analysis at the level of changing 'food régimes'.

³² see Commission of the EC [1988c] for a description of the EC-US trade relationships.

agricultural trade policy: free trade in sectors in which it has a comparative advantage and protectionism in less advantaged sectors"³³.

Another aspect that encourages liberalization in agricultural trade is connected to the growing agri-industrial relations and the industrial trade interests which are increasingly influencing agricultural sectors, and which are bound to reduce further national independence in agricultural policy-making. "The ability of major trading blocs, such as the European Community, to isolate their internal agricultural markets from external developments will diminish and necessitate a narrowing of the gap between world market and domestic prices"³⁴. Nevertheless, the coordination at a world level of increasingly aggressive trading blocs poses serious doubts about the GATT adequateness as an instrument of commercial integration³⁵.

The positive effects of a kind of trade liberalization on the efficiency of the world food system are not in doubt, but nevertheless, McMichael has a point when he states that "a GATT free trade regime would be likely to centralize food power in the hands of ... transnational food corporations, continue the conversion of Southern natural resources and food systems into cash cropping systems producing inputs for global agri-industrial complexes, and intensify Southern dependency"³⁶. The global view reinforces the perception of a growing influence of international capital in the food system. Again, "contemporary struggles over agricultural trade liberalization can be seen as an elaboration of the tension ... between efforts to preserve extant agrarian forms and accordant structures of national regulation and efforts to promote global accumulation and globalization in the agri-food system"³⁷.

In conclusion, the choice between a multi-lateral system of commercial exchanges, governed by the powerful interests of food corporations and aimed at free trade, and a relatively protected system of trading blocks, more accountable to domestic interest groups and lobbies, does not seem an easy one. The evaluation of the different options cannot be included in the current discussion, but it could be argued that the TWCs' trade interests are unlikely to prevail in any case. Nevertheless, the current situation cannot be tolerated any

³³ Grant [1993] p. 254.

³⁴ Munton [1992] p. 42.

³⁵ see Josling [1993].

³⁶ McMichael [1993] p. 209.

³⁷ Ufkes [1993] p. 219.

longer: domestic policy should aim towards the long-term objective of a fairer (and may be freer) international trade system.

7.5 Public policy and trade.

The effect of public intervention on international trade has already been emphasized. Now, it is opportune to give an idea of the different forms of policy measures affecting agricultural and food trade. According to a study published by the OECD, the public policies related to the evolution of trade

are numerous³⁸ (see Figure 7.4). This study is not concerned with analyzing in detail these policies with respect to agricultural and food trade and in fact, only the general effect of some of these policies on the food system will be considered in Section III. Nevertheless, it is important to highlight one more time the importance of the Common Agricultural Policy in this

context. Indeed, "the most significant set of policies affecting agricultural trade are border measures and in the case of the EC especially those that arise from the imposition of import levies and duties and the granting of export restitutions within the CAP"³⁹.

Hence, public intervention in agricultural trade is clearly connected to domestic farm policies. "Perhaps the most important reason why the negotiation process in agricultural trade has accomplished so little is that the industrial countries do not have a separate and

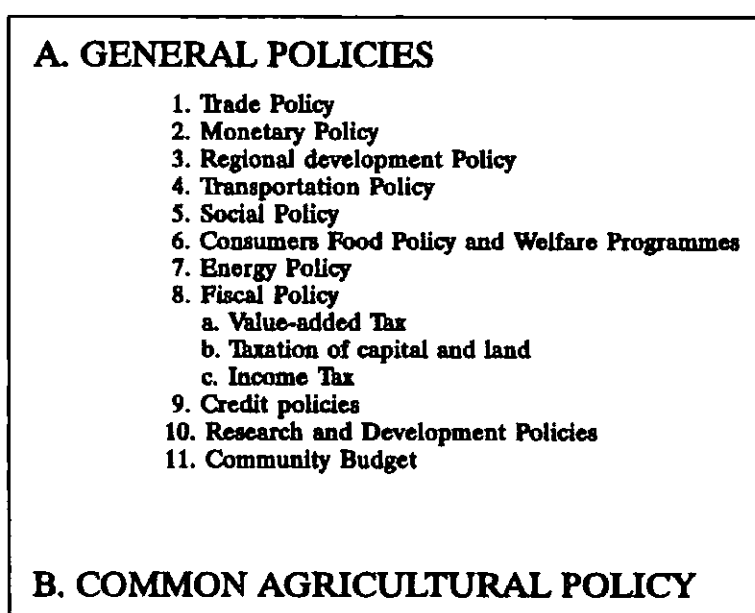


Figure 7.4 - Policy measures affecting agricultural trade (Source: Adapted from OECD [1987])

³⁸ see OECD [1987].

³⁹ OECD [1987] p. 113.

identifiable trade policy for farm products. The trade measures that each country adopts are an adjunct of its domestic farm policies"⁴⁰.

In conclusion, public policy plays a primary rôle of in the evolution of international trade and therefore, the consideration of those issues originated from the discussion above are directly related to the debate on the future function of national states and the EC in the development of the European food systems. Indeed, international constraints are extremely important in the determination of a strategy for development, especially considering the rôle of Mediterranean countries in the international food system.

⁴⁰ Johnson (1991) p. 5.

7.6 Tables.

Table 7.1 Italian agri-food trade balance (current values; average 1989/90).

Aggregate	Import (I) (billion lire)	Export (E) (billion lire)	Balance (B) (billion lire)	Normalized balance (B/(I+E)) (%)
Cereals	2,528	347	-2,182	-76
Fruit and vegetables	1,307	2,799	1,492	36
Wine	238	1,604	1,366	74
Tropical products	1,393	19	-1,374	-97
Other crops	2,315	608	-1,708	-58
Livestock	4,614	64	-4,551	-97
Forestry	1,162	87	-1,075	-86
Fishery and hunting	2,121	145	-1,976	-87
Agri-industrial food products	11,706	6,975	-4,731	-25
Agri-industrial non-food products	3,403	311	-3,093	-83
Total agri-food balance	30,789	12,959	-17,830	-41

(Source: Adapted from Frappetta [1991] p. 58)

Table 7.2 Average compound annual rate of percentage variation of the volume of the Italian agri-food external trade (constant average 1979/81 lire).

	1971/77	1977/83	1983/90	1971/90
Import	3.2	2.6	3.1	3.0
Export	4.3	5.0	3.9	4.4
Balance	2.7	1.2	2.6	2.2

(Source: Frappetta [1991] p. 60)

Table 7.3 Average compound annual rate of percentage variation of the volume of the Italian external trade relative to the aggregate 'Agri-industrial food products' (constant average 1979/81 lire).

	1971/77	1977/83	1983/90	1971/90
Import	5.2	4.5	3.3	4.3
Export	5.5	9.7	6.7	7.3
Balance	5.0	0.7	-0.9	1.4

(Source: Frappetta [1991] p. 61)

Table 7.4 Italian agri-food balance disaggregated by structural sectors: annual average rate of increase (%).

Year	Rigid balance	Undifferentiated agricultural commodities	Differentiated agricultural products	Processed products	Total
Import					
1980-86	11.3	10.6	12.2	13.3	11.7
1986-88	6.4	-1.1	7.8	6.8	4.5
1988-89	3.9	19.1	8.2	9.5	9.8
Export					
1980-86	16.9	21.7	9.7	13.8	13.1
1986-88	9.1	9.5	2.7	7.2	6.2
1988-89	12.9	8.9	2.9	15.1	11.2
Balance					
1980-86	10.9	9.8	17.6	5.1	10.9
1986-88	6.2	-2.3	16.2	-2.3	3.8
1988-89	3.1	20.4	15.3	-	8.8
Trade volume					
1980-86	11.6	11.4	11.2	13.6	12.1
1986-88	6.6	-0.2	5.8	7.0	5.2
1988-89	4.5	18.1	6.3	12.2	10.2

(Source: INEA Yearbook 1989)

Table 7.5 World quotas of imports and exports according to area.

	Export (%)			Import (%)		
	1970	1980	1985	1970	1980	1985
	Food products					
Developed countries	57.9	65.0	62.1	71.6	61.8	63.3
Developing countries	33.7	29.6	32.1	18.0	25.2	25.1
EC	28.7	34.8	35.6	42.6	39.1	36.8
USA	14.9	18.0	14.2	12.6	7.8	10.3
World	100.0	100.0	100.0	100.0	100.0	100.0
	Agricultural raw materials					
Developed countries	55.4	60.5	63.7	73.6	73.4	71.5
Developing countries	33.5	30.6	25.7	14.4	15.7	18.8
EC	11.4	14.0	17.2	42.0	39.2	35.6
USA	11.4	15.3	14.4	9.3	8.0	11.3
World	100.0	100.0	100.0	100.0	100.0	100.0
	Agri-food products (Total)					
Developed countries	57.3	64.1	62.4	72.9	64.5	65.0
Developing countries	33.6	29.8	30.9	16.3	23.0	23.8
EC	24.3	30.3	31.9	42.4	39.1	36.6
USA	14.0	17.4	14.2	11.7	8.0	10.5
World	100.0	100.0	100.0	100.0	100.0	100.0

(Source: Sabbatini [1989] p. 552)

Section III

The Rôle of the Public Sector in the Development of the Agri-Food System

Chapter 8 - Attitudes of Public Policy Towards Food.

8.1 Importance of public policy in the context of the food system.

The agri-food policies are a set of public interventions that regard the various aspects of the food system from both a sectoral and a co-ordinated point of view. The need for an active participation of public agents in the food system arises from the fact that "it is not very likely that the market economy can reach a satisfactory equilibrium without the operation of appropriate policies"¹. In the same way, in order to maintain a convenient balance between food supply and demand, state policies must act as regulators of the system in anticipation of exogenous shocks.

For these reasons the food system has traditionally been the object of substantial intervention by national states and international public agents. The case of the European Community is clearly one of great importance considering both member states' policies and the Community's action in the agri-food context. Analyzing the Italian case within the Mediterranean framework means considering EC intervention, especially in agriculture and the rural milieu in general.

Another aspect to be borne in mind is that policy action in developed countries has critical effects on the global food system and that national interests in the food context cannot be pursued in isolation any more². The evolution of the world food system in the last few decades has come to an unacceptable situation of the relationship between the richest countries

¹ "Il est peu probable que l'économie de marché puisse parvenir à un équilibre satisfaisant, sans la mise en œuvre de politiques appropriées." Malassis [1992b] p. 11.

² see Chapter 7.

and the underdeveloped world. This circumstance has become a major constraint in the process of long-term political planning in and outside the European Community.

8.2 Instruments of analysis in policy-making.

Many policy-making activities are based mainly on macro-economic studies performing input-output analyses. These kinds of analyses construct matrix models (of either the international, national, regional or local economy) which represent the commercial inter-connections between economic activities. Developments in the last decades have allowed researchers to build models of quantities and prices and to account for changes in productivity and to simulate the effect of scale economies³. The use of these instruments is important in managing food supply and demand with the objective of adjusting to a better allocation of resources and adapting to external shocks. The comprehensive view of the food system and its relations with the economy as a whole, obtained by using the macro-economic techniques, is extremely important for setting the food system against its broader economic framework and for considering the potential effects of general policies. Nevertheless, a more convenient availability of data, currently untimely and grossly inadequate, is necessary for undertaking more precise planning exercises⁴.

In practical planning it is convenient to focus on the effects of different policies upon specific *filières*⁵. This approach offers a much more detailed picture of reality, since it allows us to account for a set of socio-institutional factors, together with the purely commercial relations. Moreover, the hierarchical relationships between enterprises operating at different stages along the food chain can be described properly by confining the analysis to a definite group of homogeneous products. Yet, the behaviour of the enterprises within the *filière* appears to be increasingly differentiated nowadays into other activities so as to make studies conducted at a level of single *filières* insufficient for the assessment and planning of policy strategies⁶.

³ see Ghersi and Laonde [1992] for a summary of the main instruments of macro-economic analysis.

⁴ see also the discussion of methods in Chapter 1.

⁵ see Chapter 1 for a definition of the concept of *filière*.

⁶ see Montigaud [1992] for a description of the procedures involved in the analysis by *filière*.

This greater emphasis on an intermediate level of analysis is related to the importance of *meso-systems* analyses in the study of the food system⁷. The *filière* in the policy-making activity can be profitably utilized, together with other instruments, in order to consider other important aspects of the current situation in the food system, such as the growing involvement of multinationals and the enhanced importance of associations such as cooperatives, buying groups etc.. These aspects of research will have to be further examined by using newly defined methods (e.g. the study of the behaviour of industrial groups), since the development of the food system as a whole depends on the behaviour of these complex socio-units.

8.3 Rôle of the state and public policy options.

Agri-food policies have an important rôle in both stimulating economic development and producing a set of coherent regulations for the units operating in the food context. On the other hand, policies should aim to obtain an acceptable level of nutritional satisfaction to the whole population (*society characterized by generalized satiety*⁸). The central question underlying public intervention in the food system is related to the opposition between the interests of producers and consumers. The fundamental dilemma is whether "food development and consumers' satisfaction progress via priority development of upstream activities in the food chain, namely agriculture, or via an improvement of the consumption capacity of consumers at the other end of the chain"⁹.

Public intervention in the food context usually takes the form of subsidies to consumption and aids to production. According to Malassis and Padilla, the former strategy may yield short-term equity although the latter could eventually be more appropriate for achieving long-term efficiency¹⁰. The policies of agricultural price support may be directly financed by consumers (high food prices) or by taxpayers (low food prices, but compensation subsidies for agricultural producers) and they are designed primarily to improve agricultural

⁷ see Chapter I.

⁸ see Padilla *et al.* in Malassis and Ghersi (eds.) [1992].

⁹ "Le développement alimentaire et la satisfaction des consommateurs passent-ils par le développement prioritaire de l'amont de la chaîne alimentaire, autrement dit l'agriculture, ou par une amélioration de la capacité de consommer des consommateurs, à l'aval de la chaîne?" Padilla and Malassis [1992] p. 178.

¹⁰ Padilla and Malassis [1992] p. 176.

productivity. Conversely, the growth of consumers' purchasing power, achieved by subsidizing food prices, leads to growth in food demand which in turn requires an adjustment of supply. If food production is unable to expand, due to insufficient revenues for farm entrepreneurs or to structural constraints in the food complex, then inflationary pressures and greater food import needs are likely to arise. From this point of view, policies oriented towards food production, capable of boosting productivity growth and structural development, offer greater possibilities of increasing the national food system efficiency in the long run.

The situation of agri-food policies in the European Community is characterized by an attitude of intervening in the productive-side of the food system, particularly in agriculture. Malassis and Padilla point out that in the Community 80% of public funds are directly allotted to agricultural producers in the form of aid for agricultural structural development and, above all, sustenance of farmers' revenues via price support policies¹¹. Indeed, a substantial bias toward sectoral intervention in agriculture, embedded in the operation of the Common Agricultural Policy, has emerged clearly at a EC level in the last three decades. The negative effect on equity has become unbearable and the effect on efficiency of production produced massive over-production which is unjustifiable from a productive point of view and has caused a steep rise in spending requirements. Furthermore, the CAP has proven to be extremely uneven in its geographical effect and among producers in different areas¹².

8.4 Macro-economic policies.

It is important to take into account that the evolution of the food system has also felt the effect of public policies not directly related to agri-food activities. National economic policy, in matters such as employment, prices, trade, research and education etc., contribute substantially to agri-food development, operating on both consumption and production. Macro-economic manoeuvres in the monetary and budgetary spheres determine the consumers' purchasing power via inflation, whereas employment and social policies act on

¹¹ Padilla and Malassis [1992] p. 181.

¹² see Chapter 9.

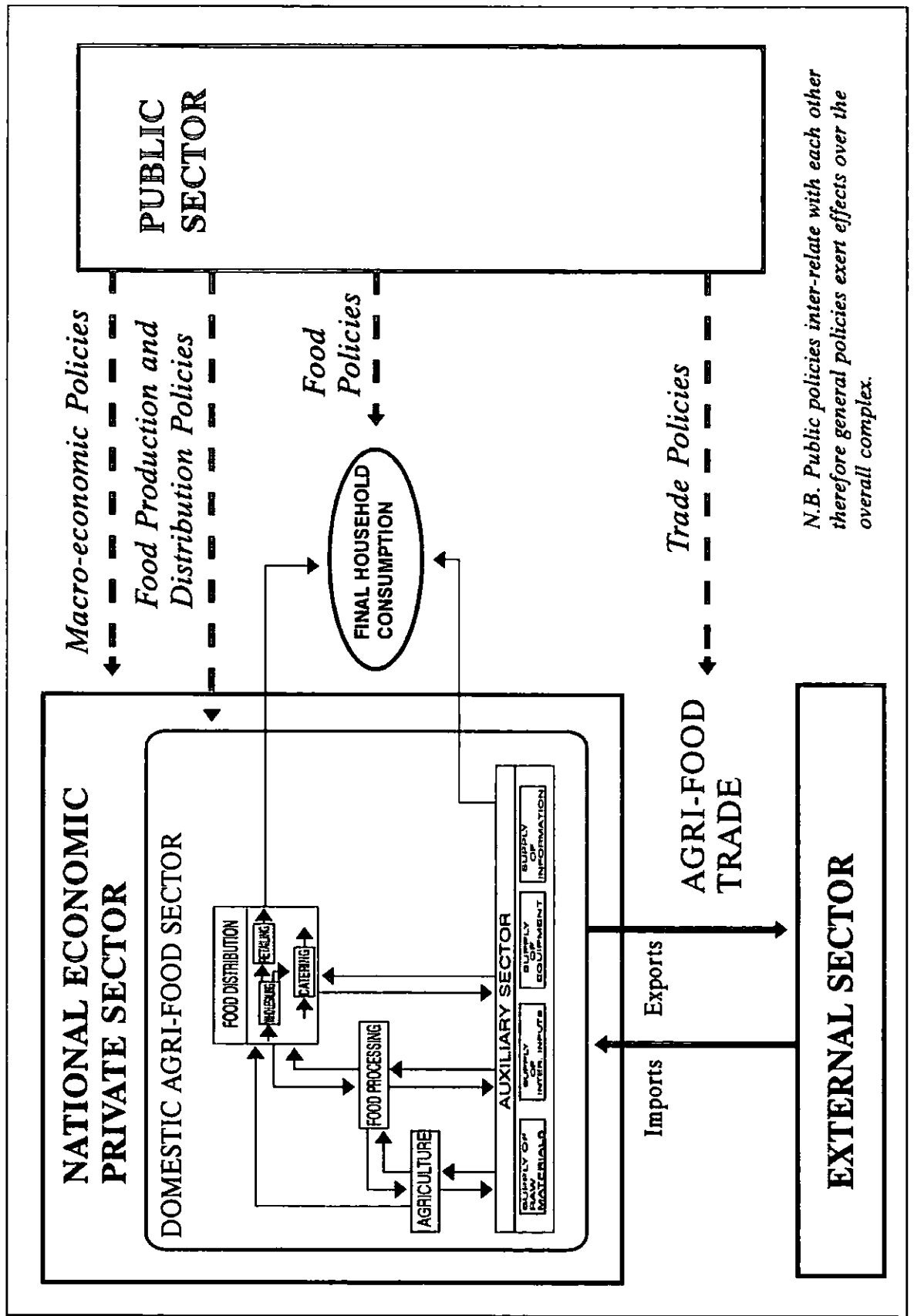


Figure 8.1 - The rôle of the public sector in the context of the food system.

revenues. These policies also affect the producers conditions of production and competitiveness, for instance in the case of foreign exchange policies¹³.

The relationship between macro-economic policies and the agri-food system are difficult to typify: these policies affect the food system only indirectly, and within the food system causal relations are multiples and interact with each other at different levels. Moreover, the temporal effects of macro-economic policies are normally deferred, partly because of consumers' greater conservatism in alimentary matters, and this makes evaluation a difficult task. For these reasons, macro-economic policies will not be considered explicitly in the present research, even though the importance of the general economic context in the development of the Italian food system has to be underlined.

8.5 Agri-food policies.

Agri-food policies are targeted specifically to the food system or its functional components. Malassis specifies that in general "agri-food policies aim to develop research, formation and information in the agri-food sector, to reduce the social cost of nutrition, to guarantee product quality and they include specific measures for different sub-sectors within the agri-food system"¹⁴. Public intervention is typically orientated towards:

- ◀ food production and distribution (sectoral policies, co-ordinated intervention in the *filière*, etc.);
- ◀ food consumption (food supply quality policies, consumer policy);
- ◀ internal and external agri-food trade¹⁵.

¹³ Padilla *et al.* in Malassis and Gherzi (eds.) [1992] p. 279.

¹⁴ "Les politiques agro-alimentaires visent à développer la recherche, la formation et l'information dans le secteur agro-alimentaire, à réduire le coût social de l'alimentation, à garantir la qualité des produits et comprend des mesures spécifiques aux différents sous-secteurs composant le système agro-alimentaire." Malassis [1992a] p. 50.

¹⁵ see Chapter 7 for a general description of public intervention in agri-food trade.

8.5.1 Food production and distribution policies.

The aim of *food production and distribution policies*¹⁶ is to stimulate and orientate food production and distribution units which take part in the process of supplying food. Public intervention in this field has been traditionally identified with the following *sectoral policies*:

- ◀ *agrarian policies*, which aim to ameliorate agricultural structures and to sustain rural income;
- ◀ *agri-industrial policies* functional to improve the performance of food processing activities;
- ◀ *commercialization and marketing policies* directed towards achieving greater efficiency in the food distribution activities¹⁷.

Public intervention in this context intends to encourage productivity gains. These improvements originate from a better combination of production factors, utilization of more efficient inputs and equipment, new technology, etc.. The state may also favour a redistribution of the surplus generated between the different socio-economic agents especially in favour of disadvantaged activities¹⁸.

It is important to note once again that agri-industrial activities are vitally important in the context of regional development in the Mediterranean context, and therefore, public powers should have a strategic plan of selective territorial impact of agri-industrial policies. This is to confirm that public policy objectives cannot simply aim to maximize efficiency and production and that distributional aspects have constantly to be taken into account. The problem of development in most rural areas of the Medit region is related to the development of sources of employment alternative to agriculture. From this point of view, the development of farming downstream activities, such as food processing, appears to be a "natural starting point for industrial development in rural areas"¹⁹.

Another important aspect, which is too often neglected by public planners, is related to the degree of inter-connection in the agri-food system. Nowadays, sectoral logic is proving to be highly inadequate for managing the growing horizontal and vertical relations between

¹⁶ The term *food production and distribution policies* is preferred to the term *agri-industrial policies* normally used in the literature, because it stresses intervention in the commercial sector and in marketing, which has assumed fundamental importance in the modern food system. However, the term *agri-industrial policies* will be sometimes used as a synonym in the text in its more general meaning.

¹⁷ Padilla *et al.*, in Malassis and Gherzi (eds.) [1992] pp. 283-284.

¹⁸ see Padilla *et al.*, in Malassis and Gherzi (eds.) [1992].

¹⁹ Brito Soares [1990] p. 6.

food activities. Therefore, it is necessary to follow a systematic approach, capable of accounting for the growing inter-dependencies. It could be argued that integrated policies will be capable of producing beneficial effects at different stages of the food chain, overtaking the traditional sectoral vision. Intervention should be increasingly focused on the constraints acting upon a certain set of activities. There should be greater consideration for the bottlenecks existing in preceding and subsequent stages of the food chain that inhibit the development of a targeted set of economic operations.

8.5.2 Food policies.

Public actions in the sphere of food consumption are designed to meet two basic requirements:

- ◀ to guarantee a level of food quality appropriate to society's demand and protect consumer health by formulating a set of coherent regulations and incentives (*food quality regulations, consumer health protection policies*);
- ◀ to enable consumers to afford a minimum dietary régime by providing subsidies to the poorest (*consumer policies*);
- ◀ to direct consumers towards a more appropriate nutrition for preventing dietary disorders, particularly in case of consumers with special need (e.g. children, elder people, etc.), by giving greater scope to information and devising appropriate instruments of control and direction (*nutritional policies*).

Padilla points out that "OECD countries, except for the United States, have not undertaken policies aimed at the elimination of under-consumption. ... Governments are above all concerned with agrarian and supply management policies as well as food hygiene. ... Whilst there is [production] over-capacity of the agri-food system, residual poverty and under-consumption pockets persist if not expand in affluent societies"²⁰. Indeed, consumer policies in the European Community have not been developed adequately, in contrast with the effort lavished on the Common Agricultural Policy²¹.

²⁰ "Les pays de l'OCDE, à l'exception des Etats-Unis, n'ont pas de politiques visant à l'élimination de la sous-consommation. ... Les gouvernements sont surtout préoccupés par les politiques agricoles et d'approvisionnement ainsi que par l'hygiène des aliments. ... Alors qu'il y a surcapacité du système agro-alimentaire, des poches résiduelles de pauvreté et de sous-consommation persistent sinon s'amplifient dans ces sociétés pléthoriques." Padilla *et al.* in Malassis and Ghersi (eds.) [1992] p. 297.

²¹ see Malassis [1992a].

Referring to the nutritional aspects of public policy, Brun specifies that the term nutritional policy is restricted to policies that affect the nutritional elements of diet²². It is also important to underline that nutritional policies are not concerned with those aspects of malnutrition directly correlated with poverty. "Nutritional policies ... can avoid challenging the causes of poverty which is itself cause of malnutrition"²³. In developed western societies, these kinds of policies are needed in order to correct the excesses of current diets (excessively rich in terms of fats, poor in fibre, etc.).

²² see Padilla *et al.* in Malassis and Ghersi (eds.) [1992].

²³ "Les politique nutritionelles ... peuvent éviter d'aborder les causes de la pauvreté, elle-même cause de malnutrition." Padilla *et al.* in Malassis and Ghersi (eds.) [1992] pp. 311-312.

Chapter 9 - The European Community and Its Influence on the Food System at a Sectoral and Regional Level.

9.1 The European Project: the influence of the Community's construction upon the agri-food system.

The process of European integration is an extremely important factor in the development of the member states' food systems: "the EC has affected the range, quality, composition and price of food"¹ available to European consumers, with effects that are bound to grow in the coming years.

This action has taken different forms. First of all, the Common Agricultural Policy deserves a primary consideration, because it is the most evident and massive intervention of European institutions in the economies of European countries. EC intervention at a regional level, particularly in the Mediterranean areas, acquires also a fundamental importance in relation to the future of the disadvantaged rural areas in southern Europe. Third, the realization of the European Single Market, which involves the Community's actions in fiscal, competition, transport and commercial policies, has been another influential factor in the development of the European food system.

In the field of *productionist intervention* the EC has played a primary rôle, but on the other hand, "it is more dubious that Europe had a properly defined food policy"². In particular, European (and also national) institutions seem to lack a coherent strategy in the definition of food policies, which are determined in a number of different political centres.

¹ Swinbank (1992) pp. 63-64.

² "Il est plus douteux que l'Europe ait une politique alimentaire proprement dite." Malassis [1992a] p. 47.

These public policy actions have had different effects, which are often contrasting, and always difficult to evaluate. Nevertheless, some discussion is necessary for understanding European agri-food development.

9.2 The Common Agricultural Policy (CAP) and its function in the European framework.

9.2.1 General characteristics.

Agricultural policy has been the main instrument of intervention in the history of European integration, from both a financial and political point of view. The differences of economic and political interests among different member states, and interest groups within them, have appeared every time the Community has taken a decision in the thirty-year history of the CAP. Moreover, the expenditure devoted to the functioning of the European Agricultural Guidance and Guarantee Fund (EAGGF) has consistently absorbed a major share of Community budget (more than two-thirds in 1989).

This considerable effort has been directed, at least in principle, to objectives of agricultural structural development with a view to the

reduction of the sectoral and territorial dis-equilibria that characterize agricultural activity and rural environment. The objectives of the Common Agricultural Policy can be found in article 39 of the Treaty of Rome:

◀ to increase agricultural productivity, favouring technological improvement, assuring a

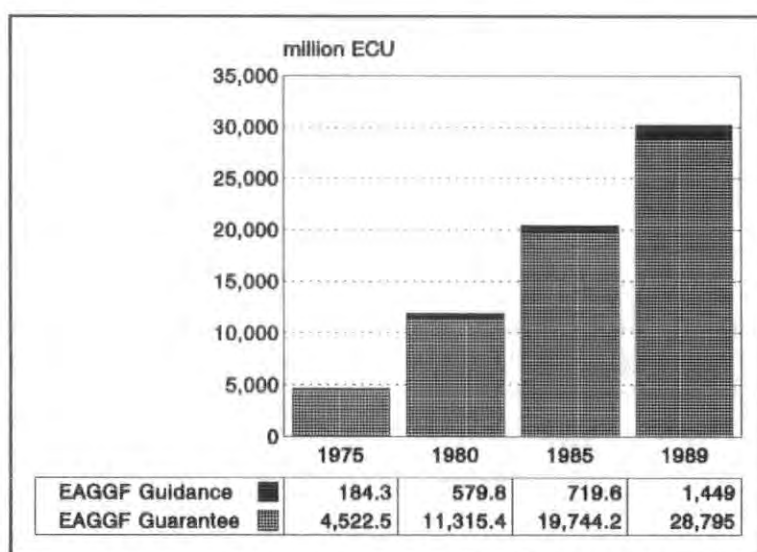


Figure 9.1 - Evolution of the value distributed by the European Agricultural Guidance and Guarantee Fund. (Source: Our elaboration, data from Fanfani [1990])

rational evolution of agricultural production as well as a better use of the factors of production, in particular of the workforce;

◄ to guarantee a fair standard of living to the agricultural population, derived from an improvement in individual income of the people working in agriculture;

◄ to stabilize the markets;

◄ to assure security of food supplies;

◄ to assure reasonable prices to consumers.

In practice, EC intervention has to a large extent been limited to a policy of high prices, financed by the EAGGF Guarantee Section, almost entirely dis-associated from the structural policy of modernization of agrarian enterprises and reduction of regional inequalities. From 1972, the structural policy within the CAP has received around only 5% of the total expenditure devoted to keeping agricultural prices at a level higher than market prices³. Therefore, the situation has not only been one of a lack of coordination between structural and price policies, but also one of limited material means for the policies financed through the Guidance Section of the EAGGF (see Figure 9.1).

9.2.2 The mechanism of agricultural price support.

The agricultural prices and markets policy of the European Community has effectively regulated the functioning of the primary product markets within the EC and it has maintained agricultural prices at a level notably higher than world prices. The mechanisms of intervention determine agricultural prices at a Community level and provide uniform organization of the markets in all member states. Until the early eighties, price support for some commodities maintained a form of unlimited guarantee to farmers, whatever quantity they had produced, with the objective of indirectly sustaining agricultural income. The first attempts of CAP reform date back to that period and were motivated by the necessity of a greater control over the growing budget devoted to the CAP.

The CAP has been based upon the implementation of Community preference in intra-Community trade by instituting a series of common levies and tariffs with the rest of the world. The principle of financial solidarity between member states has been implemented by

³ Fanfani [1990] p. 86.

jointly financing agrarian policies through the European Agricultural Guidance and Guarantee Fund⁴.

The policy of sustaining agricultural prices has designed a system of principles and regulations complex and diversified by products. Even though variations do exist, according to Swinbank, the basic mechanisms are (see Figure 9.2):

◀ imports are subject to a variable levy that bridges the gap between the world price and

a pre-determined minimum import price (normally designated as a *threshold price*);

◀ exports are subsidized;

◀ different interventions are commonly provided for when the price on the domestic market falls below a determined *intervention price*⁵.

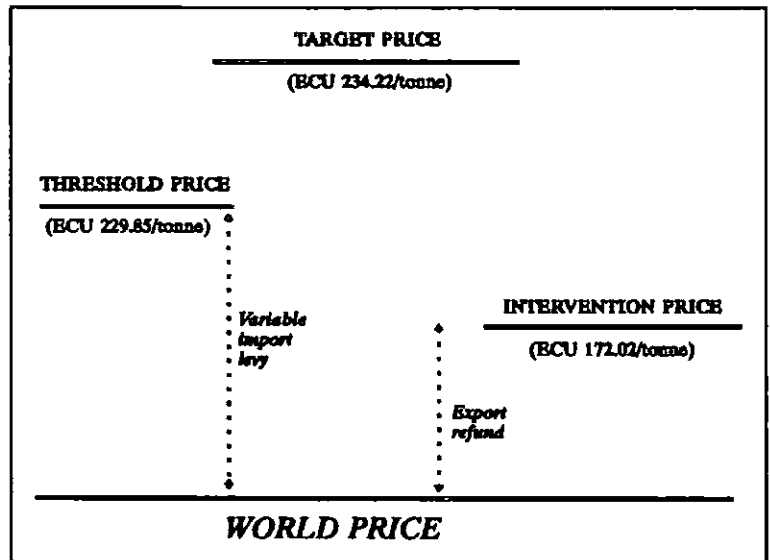


Figure 9.2 - CAP price support for wheat (beginning of the 1990/91 marketing year). (Source: Swinbank [1992] p. 57)

9.2.3 An analysis of the effects of the CAP from 1957 to the 1980s.

The 'CAP effect', until the early eighties, was almost entirely limited to productive development associated with the policies of agricultural prices and markets, with the attempt at implementing structural policies in the seventies remaining ineffective. The guarantee of high agricultural prices provoked a steady growth of agricultural output while demand grew to a much lesser extent, and this in turn assured the accumulation of surpluses for many products (meat, dairy, cereals, etc.). Higher prices encouraged the use of intensive methods and more expensive high-yield inputs. The management of this massive over-production caused the EC to face an increasing financial burden from the CAP which in the eighties became unsustainable from both the financial and political point of view. The stabilization of

⁴ see Commission of the EC [1992b] for a description of the CAP price support mechanism.

⁵ Swinbank [1992] p. 56.

agricultural prices on the internal front seems likely to de-stabilize world markets, provoking world prices to vary in relation to European dumping⁶.

At European level, from the distributional point of view, some effects can be identified⁷.

◀ Consumers are penalized, due to higher food prices on the internal market, although it should be remembered that processing and distribution costs have a greater effect on food prices on the final markets. Swinbank asserts that "for the majority of EC's citizens ... [the CAP] probably has only a marginal impact on the range and quality of food they eat"⁸. Therefore, the negative effect on consumers cannot be regarded as particularly stringent for the average European.

◀ Within the farming community, price support policies have "favoured the largest and most intensive enterprises, widened the dis-equilibria between structural and territorial configurations, and stimulated an excessive intensification of production"⁹.

◀ At a national level, "the current functioning of the CAP does not guarantee a fair distribution of costs and benefits between member states"¹⁰.

Geographically, the impact of the CAP has been unequivocal: "the Guarantee Section of the EAGGF has clearly favoured the larger-scale northern EC cereals and livestock farmers at the expense of the smallholders of the south dependent on Mediterranean crops which have received less or no funding"¹¹. The Italian agricultural sector, in particular, "has benefitted relatively less, as shown by the relation between the total cost to consumers and taxpayers and the benefit to producers"¹² and by the invisible transfers connected with intra-EC exchanges, "due to the fact that ... [Italy] is structurally in deficit"¹³. According to Fanfani, the share of Italy (and in general of the North Mediterranean Countries) in the total value of

⁶ This situation is particularly damaging for the agricultural producers in the Third World.

⁷ see Brown [1990] for an assessment of the distributional effects of the CAP on different kinds of farms.

⁸ Swinbank [1992] p. 57.

⁹ Cesaretti *et al.* [1991] p. 477.

¹⁰ "L'attuale funzionamento della PAC non garantisce un'equa distribuzione di costi e benefici fra gli stati membri." De Weer in Tarditi *et al.* (eds.) [1988] p. 147.

¹¹ Atkins [1988] p. 15, see also Mykolenko and Calmes [1985], Bowler [1986] and Commission of the EC [1987].

¹² "Il nostro settore agricolo ha beneficiato relativamente meno, come evidenziato dal rapporto tra costo complessivo e dei consumatori e contribuenti e beneficio dei produttori." Bernini Carri [1992] p. 10

¹³ "I trasferimenti invisibili intracomunitari sono la causa principale delle differenze che si riscontrano tra l'Italia e la Comunità nei vari comparti produttivi, a causa del fatto che il nostro è un paese strutturalmente deficitario." *ibid.* p. 10.

European agricultural production is less than the quota it receives from the EAGGF Guarantee Section (see Figure 9.3).

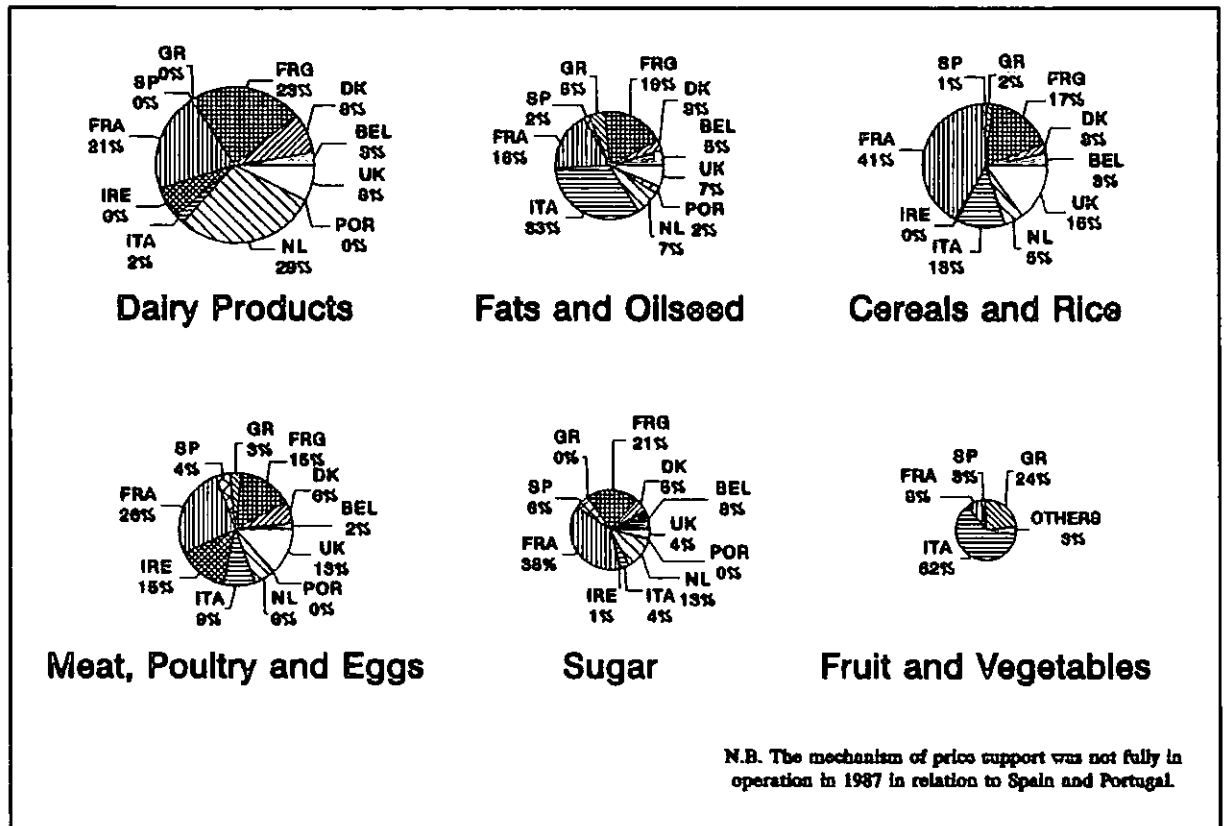


Figure 9.3 - Distribution of EAGGF payments in 1987. (Source: Our elaboration, data from Fanfani [1990])

Finally, environmental effects seem to have been negative, due to the intensification of production in already highly exploited farming areas. Nonetheless, the operation of the CAP has allowed many small farms in disadvantaged areas to remain in the market, reducing the danger there of environmental decline¹⁴.

9.2.4 The development of the CAP's structural policy.

The evolution of European integration in the agricultural context has had to face a situation of profound structural and productive differences between different countries and between regions within them. The contrasts between northern European regions and the poorer and structurally handicapped Medit region has proved to be particularly striking¹⁵.

¹⁴ see Perez in Vroom (ed.) [1990] for a discussion of CAP environmental impact in Mediterranean Europe.

¹⁵ see Chapter 2.

According to Atkins, "the Guarantee Section of the EAGGF has exacerbated these inequalities as a result of its enthusiastic support for the products ... of northern EC agriculture and neglect of Mediterranean commodities"¹⁶. This is partly due to the insufficient support and ineffectiveness of structural interventions provided through the Guidance Section of the EAGGF, especially in the areas genuinely in need, and partly to the rigid sectorial principle that has characterized the intervention plans¹⁷.

Another inconsistency is related to the definition of disadvantaged areas. Indeed, an important element of the Community structural policy regards disadvantaged and mountain areas, that represent 55% of the total European Utilized Agricultural Area (UAA) and almost half of the total number of agricultural enterprises¹⁸. Normally, the disadvantaged areas are defined according to national proposals approved by the Community. In this way, northern European countries have been encouraged to classify as disadvantaged areas, regions that in the Medit would have been considered rich¹⁹.

To make the things even worse, while the governments of northern countries implemented national intervention policies to further support the structural adjustment of their production structure (e.g. France), in Italy there has been a worrying lack of a true national policy for agriculture and this has delineated a rôle of Italian agriculture within the EEC certainly inferior to its productive and occupational importance²⁰.

The failure of the structural policies implemented in the CAP during the 1970s was partly due to a lack of coordination with the price support policies. Recently, the discussion about the reform of the EC's price policy poses once more the question of coordination with the structural policy. Moreover, the construction of the European Single Market involves a profound revision (and re-financing) of the Community's strategy regarding the structural funds (European Social Fund, European Regional Development Fund and Guidance Section of the EAGGF)²¹ and thus, a new strategy for an integrated structural action becomes necessary in the EC framework.

¹⁶ Atkins [1988] p. 23.

¹⁷ see also Olivi [1985].

¹⁸ Bazin [1992] p. 40.

¹⁹ *ibid.* p. 41.

²⁰ Fanfani [1990] pp. 81-83.

²¹ Bernini Carri [1992] p. 13.

The situation during the 1980s seemed to improve, although only marginally. The Community Regulations n. 797/1985 and n. 1760/1987, relative to the improvement of efficiency in agrarian structures and adaptation to the market situation, present some interesting changes in comparison to earlier years. Indeed, the possibility of getting help is assured also to low-income agricultural entrepreneurs and consideration has been given to objectives such as:

- ◄ support of farm income;
- ◄ preservation of employment levels;
- ◄ encouragement to young farmers; and
- ◄ environmental protection.

Moreover, it is proposed, for the first time, to apply measures according to the objective of re-equilibrating market imbalances, therefore avoiding subsidized over-production and it is also attempting to coordinate the actions of the Community and of local authorities. Regulation 797 provides *compensatory indemnities* for agricultural farms in disadvantaged areas. Unfortunately the application of this compensation in Italian regions has been particularly limited (see Table 9.1). The subsidies provided by the CAP account "for less than one-third of agricultural revenue in the Spanish, Italian and Greek disadvantaged areas ... [but for] more than 50% in Germany and in France and they reach almost 90% of revenues in the United Kingdom"²² (see Table 9.2). Bazin proposes to revalue the aids in the Mediterranean in order to provide a first step towards balancing the inequality of treatment²³.

The Regulations 1094/1988 (set-aside of cultivated land) and 1096/1988 (farmers' early retirement) recognize the correction of production surpluses and the adaptation of disadvantaged areas as the objectives of short-medium term. However, the proposed instruments of intervention seem unable to match adequately with the objectives, especially considering the difficult situation of Mediterranean agriculture. For example, with reference to Fanfani, in Italy the implementation of the set-aside "has concerned particularly the South and the disadvantaged hilly areas... . This [measure] certainly contributes neither to the reduction of surpluses, at least in the expected way, nor does it favour restructuring processes

²² "Les subventions d'exploitation vont de moins du tiers du revenu agricole dans les zones défavorisées espagnoles, italiennes et grecques à plus de 50% en Allemagne et en France et atteignent près de 90% du revenu au Royaume-Uni." Bazin [1992] p. 43.

²³ see Bazin [1992] and Commission of the EC [1992a].

in agriculture at a local or regional level²⁴. The positive environmental effects have been negligible and practically the most important effect has been in favour of the *rentiers*²⁵.

The possibility of applying the new regulations has been limited by the insufficient finance available. Furthermore, in the Medit region the actual utilization of these opportunities is very much related to the availability, at a local level, of adequate supporting services. The possibility of being sufficiently equipped for innovating, in Mediterranean regions, is still scarce and extremely dear. From this point of view, public agents have to provide both the finance and, above all, the appropriate supporting services for enterprises, devising an integrated approach able to exploit local possibilities for enhancing the overall productive and entrepreneurial environment²⁶.

Finally, the Regulation 2052/1988 on the structural funds reform exposes the aims of the structural funds. The Guidance Section of the EAGGF aims to develop and favour the adjustment of underdeveloped regions and promote rural development through integrated programmes and to encourage the general structural development of all agricultural enterprises on the Community's territory. More specifically, these latter actions, financed by the Guidance Section, aim towards:

- ◀ improving the ability of agricultural enterprises to adapt to the new requirements connected with CAP reform;
- ◀ maintaining a minimum level of rural activities and life by promoting income generating activities alternative to agriculture; and
- ◀ protecting the environment by promoting an *extensification* of agricultural production²⁷.

However, Bernini Carri points out that "the future of agrarian structures policy will continue to be conditioned by the evolution of price policy"²⁸.

²⁴ "Il *set-aside* ha interessato in modo particolare il Sud e le aree di collina svantaggiate... . Esso certamente non contribuisce né alla riduzione delle eccedenze, almeno nella maniera sperata, né tanto meno avvia processi di ristrutturazione a livello zonale e regionale." Fanfani [1990] pp. 201-202.

²⁵ see Chapter 5.

²⁶ see Olivi [1985].

²⁷ see Bernini Carri [1992].

²⁸ "Ma il futuro della politica delle strutture agrarie continuerà ad essere condizionato dall'evoluzione della politica dei prezzi." Bernini Carri [1992] p. 13.

9.2.5 The impact of the CAP on activities connected to agriculture.

"The food industries ... are responsible for operating the major part of the CAP policy mechanisms. Few farmers are *directly* involved with the price support systems"²⁹. Normally, EC intervention is available to products which have undergone at least a preliminary degree of transformation, and thus, first-stage processing enterprises actually acquire a privileged position having "a guaranteed and unlimited outlet for their production, a known and stable price, and the benefit of a built-in 'cost-plus' processing margin"³⁰. The enhanced investments in these industries (sugar, dairy, etc.) are not surprising in this situation.

There are two connected aspects of the Community intervention in relation to the food industry and distribution: an indirect effect due to the fact, underlined above, that most payments of guaranteed prices are directed to processors and a direct intervention of the CAP in the activities connected with agriculture. In addition, the EC commercial policy, which derives from the CAP operation or from other trade regulations, offers a considerable degree of protection to the European food industry³¹.

Harris, Swinbank and Wilkinson note that the interests of agricultural producers and processors do not always coincide. Preliminary food processing enterprises, and farmers, generally derive greater advantage from the high level of protection accorded by the CAP régime than second stage processors. Increasingly, these latter are tempted by the potential gains achievable by using cheaper agricultural inputs imported from non-EC agricultural producers while they still support protectionism for processed foods³².

The direct CAP intervention in the field of processing and marketing activities was enacted by Regulations 17/1964 and 355/1977 with negligible results in the Italian case. This was partly due to an inability by public powers to support Italian programmes in an effective way. The recent Regulation 1932/1984 modifies marginally the 355/1977, intervening also in the harvesting of agricultural products and highlighting the objective of market

²⁹ Harris *et al.* [1983] p. 235.

³⁰ *ibid.* p. 238.

³¹ see Harris *et al.* [1983] for a description of the mechanisms of protection of the CAP and set of provisions for *non-Annex II* processed products.

³² see Harris *et al.* [1983].

enlargement. Also the important Regulation of the associated forms of production (1360/1978) has been applied only marginally in Italy³³.

9.2.6 The price support mechanism in the 1980s and the transition to reform.

The situation of EC agriculture in the early eighties was rather inconvenient: in response to a CAP increasingly onerous in financial terms, European agricultural markets showed substantial excesses of supply over demand, which required additional interventions and expenditure. This situation has given birth to a growing opposition both internally and internationally to the management of agriculture in the Community.

Numerous measures have been implemented in order to limit the distortive effect of the policy of prices and markets. The most relevant have been:

- ◀ the co-responsibility levies from the prices paid to producers of dairy products (1977) and cereals (1986);
- ◀ physical quotas of production for sugar (1979) and milk (1984);
- ◀ automatic balance stabilizers (1988) that reduce automatically and progressively the intervention prices for the following year when surplus productions overtake a pre-determined guaranteed quantity.

Even though these measures have had a relative success in impeding a further worsening of the situation, they have not solved the basic incongruities of the Common Agricultural Policy. The price support mechanisms have not changed and a clear strategy for small enterprises has not emerged. Even more importantly, "new cultivation strategies, capable of effectively reconverting or enhancing the quality of European agricultural productions, have not been identified"³⁴. The intervention which operated in the 80s improved the situation in some sectors but also produced dis-equilibria in others³⁵. For this reason it is necessary to abandon the approach by product and face the problem of CAP reform in the context of a general revision of the agricultural strategy of the EC.

³³ see European Community [1983a].

³⁴ "Non vengono individuate nuove strategie delle colture che consentano una effettiva riconversione o una valorizzazione della qualità delle produzioni agricole europee." Fanfani [1990] p. 159.

³⁵ see Kroll [1992].

9.2.7 The MacSharry plan and CAP reform.

The proposal for CAP reform proposed by the Agriculture Commissioner Ray MacSharry in 1991 introduced an innovative principle for the CAP: guaranteed agricultural prices of surplus products should approach their world level, with compensations to farmers linked to capital (cultivated land or livestock capital). Moreover, there was an explicit reference to environmental problems in both the new rules of market re-organization and in the accompanying measures. Finally, a policy for compulsory set-aside was proposed.

The reduction in prices was to have been compensated for by a *decoupled* payment related to the size of the agricultural enterprise and not directly linked to the farm's actual production. In the case of cereals and oilseeds, which were the most affected by the proposed reform, the subsidies would have been related to the average productive capacity of each region in addition to the area of farmland. In consequence of this, the current situation of structural dis-equilibrium would be institutionalized by continuing most support for more productive areas and, within the less productive ones, paradoxically penalize the most competitive enterprises³⁶.

However, the MacSharry proposal provided a partial correction to these undesired negative effects upon disadvantaged regions and small producers. Indeed, smaller farms and disadvantaged areas were protected by the non-applicability of compulsory set-aside measures and by compensation inversely related to farm size (*modulation*). Moreover, a portion of the proposed reduction in the milk quotas would have been redistributed to smaller farms and the additional help provided for extensive livestock farming.

The accompanying measures presented some progress in the definition of a more efficient environmental policy, with subsidies provided to environmentally-friendly farmers and at forestation programmes. Also the support for early retirement was improved. These measures are not a breakthrough in relation to the past, but an attempt to reinforce already existing policies. Their effect depends upon the concrete support that they will receive from the EC and the member states. In the past agri-environmental programmes have been implemented mostly in northern European countries and they have almost never been set in motion in the disadvantaged Mediterranean areas³⁷.

³⁶ see Cesaretti *et al.* [1991].

³⁷ Bazin [1992] p. 45.

The Council of EC ministers approved a modified version of the reform in May 1992. This definitive version of the reform further reappraises the already non-revolutionary MacSharry proposal.

◀ In the field crops sub-sector, wheat prices will decrease only by 29% (in 3 years); the modulation principle in the compensation for setting aside has been abandoned and non-rotational abandonment of land is allowed.

◀ In the bovine livestock sub-sector, the maximum amount of contributions per farmer, as proposed by Mac Sharry, will not be applied.

◀ In the dairy sub-sector, the quota will not be reduced and prices will decrease less than previously proposed.

In conclusion, the final reform plan is a compromise in which the interests of large northern producers have prevailed over the timid attempts of the MacSharry plan to re-equilibrate a situation in which "80% of the support provided by the European Agricultural Guidance and Guarantee Fund ... is devoted to 20% of farms which account also for the greater part of the land used in agriculture"³⁸. Also the problem of surpluses remains because the cuts in subsidies to larger producers proposed by MacSharry have been cancelled in the final draft thanks to British intercession³⁹.

9.3 CAP reform and the Italian prospects.

The CAP reform originates from the need to change the mechanisms of price support, that cause distortions both internally and internationally. Indeed, beyond its internal financial difficulties the CAP obliged the Community to sell subsidized Community products on the world market, depressing and de-stabilizing world prices.

The effects of a price liberalization in the Community have been estimated by using econometric models and hypothesizing different scenarios⁴⁰. These models generally agree that European agriculture would suffer from a price liberalization, although they predict that

³⁸ Commission of the EC [1991b] p. 9.

³⁹ Marsden, Murdoch and Williams, highlight the different structure of British agriculture in comparison with the rest of Europe. In Britain, the proposals aimed to maintain "small-scale farming, or [the] strategies for the protection of particularly vulnerable rural areas, fails to gain comprehensive political or ideological support, particularly within the last decade of neo-conservative economic philosophy." Marsden *et al.* [1992].

⁴⁰ see Tarditi *et al.* (eds.) [1988].

food prices would fall, and this would allow for a "reduction of real wages, increasing competitiveness and value added in extra-agricultural sectors"⁴¹. This would result in an increasing Community GDP and in a stable employment situation, even though the gross agricultural product would decrease significantly. Burniaux estimates that the per capita income generated in rural areas would decrease, eliminating in this way the improvements in rural incomes obtained by farmers' lobbies in the last decades⁴².

The effects upon different European countries and regions have also been estimated. In general, these theoretical analyses conclude that, since consumers and taxpayers tend to gain from lower prices and taxes as opposed to the losses of producers, Italy and other net importers would gain from a liberalization. In this interpretation the relative price liberalization in the context of the CAP tends to disadvantage those northern European countries that benefitted more from the massive support received in the last thirty years.

This latter conclusion is based on the assumption that farms in different regions have the same adaptability to change in policy. Unfortunately, this is not the case. "Large, efficient farms ... may remain competitive, even following significant declines in prices but small marginal farms may find it difficult to survive Lower prices may also contribute to the withdrawal of land from farming, particularly in less favoured areas, with detrimental consequences in regional development terms and for rural population"⁴³. The characteristics of Mediterranean Europe make it particularly exposed in these aspects, in comparison with the better equipped North.

The attempt of relative liberalization of the CAP interacts with other circumstances, only indirectly connected to agriculture. Again, northern European productive structures appear to have a superior capacity of adaptation to the Single European Market. A research project aimed to evaluate the adaptation of European agricultures during the eighties to the new market requirements, undertaken by Bartola and Sotte, concludes that the North Mediterranean Countries (Spain excluded), and Italy in particular, have found themselves in serious trouble. The primary cause of the poor performance of Mediterranean agriculture lies in the inferior adaptability of Mediterranean structures. Due to lowered levels of protection

⁴¹ "Nella CE un livello più basso di prezzi agricoli ridurrebbe l'offerta, l'occupazione e il valore aggiunto in agricoltura, diminuendo contemporaneamente il prezzo dei prodotti alimentari e l'indice del costo della vita. Ciò permetterebbe una riduzione dei salari reali aumentando la competitività ed il valore aggiunto nei settori non agricoli." Tarditi *et al.* (eds.) [1988] p. 27.

⁴² Burniaux in Tarditi *et al.* (eds.) [1988] p. 103.

⁴³ Alexandratos (ed.) [1990] p. 90.

for its own products, northern agriculture has shown a growing propensity of investing in some of the most promising Mediterranean products or their substitutes and exploiting their structural advantages "that compensate the geographical-environmental disadvantages, they succeed in entering successfully all the previously neglected sub-sectors"⁴⁴. Finally, Italian agriculture suffers particularly for the relaxation of the additional protection accorded to Italian products in the past.

It is not difficult to predict that the agriculture with the most critical structural deficiencies and lacking services to farming enterprises will be the least equipped for market competition in the future⁴⁵. These difficulties are judged not to be easily overcome, at least in the short run. This situation, in the context of the North Mediterranean Countries, does not only concern the Medit region or the Mediterranean products, but more generally the whole agriculture in those countries. It is in the light of this difficulty that the reform of the Common Agricultural Policy has to be evaluated, considering the relationship between the objectives of the *nouvelle* CAP and the instruments available for fulfilling them.

According to Cesaretti, Coppola and Marotta, the reformed CAP aims to increase the competitiveness of the most efficient portion of European agricultural enterprises and, at the same time, it attempts to maintain a certain degree of activity in rural areas⁴⁶. In the Medit region, characterized by high levels of agricultural employment and low productivity, the problem of efficiency acquires even more importance. With reference to Italy, Tarditi argues that it is opportune to force inefficient smallholders to cease activity and sell their land to those who will remain in agriculture, in order to attain a sufficient size for increasing productivity and income. In other words, the solution would be a greater mobility of labour that should allow Italian farms to grow and thus, increase competitiveness⁴⁷.

But if "only enterprises able to compete against those of Argentina, Canada, Australia, New Zealand and United States⁴⁸ have to survive ... [then] they will not be numerous in the

⁴⁴ "Quando i livelli di protezione vengono abbassati, le agricolture nord-europee mostrano interesse crescente per le produzioni ortofrutticole e vitivinicole e, sfruttando la più rapida capacità di adattamento, il positivo differenziale tecnologico e la maggiore capacità di penetrazione nel mercato, che compensano gli svantaggi geografico-ambientali, riescono a penetrare con successo in quei comparti che precedentemente erano da esse trascurati." Bartola and Sotte [1992a] p. 92.

⁴⁵ see Bartola and Sotte [1992a].

⁴⁶ see Cesaretti *et al.* [1991].

⁴⁷ Tarditi [1992] p. 63.

⁴⁸ The average size of farms is 188 ha in the US, 231 ha in Canada, 297 ha in New Zealand and 2,900 in Australia whereas only 14 ha in the European Community. Blanchet [1991] p. 50.

Community"⁴⁹. This means that the bulk of European enterprises, especially in the Mediterranean region, will find themselves in a situation of not being able to attain a sufficient level of competitiveness in the medium term and therefore they will disappear. Hence, the possibility of competing within a régime of declining protection is precluded to most farms in southern Europe. A recent study on agricultural enterprises in the Italian regions, published by Mariani and Viganò, concludes that the CAP reform will make the situation of medium-sized farm income worse especially in the North and in the Centre. Paradoxically, farms located in the agriculturally more developed areas of Italy risk finding themselves in difficulty in a situation of growing competitiveness. In the *Mezzogiorno* the study foresees "negligible and even positive effects"⁵⁰ in some cases. In any case this slightly positive effects would not secure "a recovery, in terms of income, in relation to other areas"⁵¹.

It is possible to conclude that the compensation provided by a reform which favours the most productive regions and the better capitalized enterprises⁵², would cut off the bulk of Italian medium-sized farms, particularly in the most competitive regions. This mechanism neither seems able to sustain agricultural and rural income nor appears to be a valid support for structural adjustment. It is necessary rather to devise specific measures aimed directly at the determinants of competitiveness, but in this respect the Community policy seems inadequate⁵³.

Italian, and more generally Mediterranean, agriculture will be able to survive as a significant activity if appropriate linkages between production and markets can be established, in a clearer normative situation. It is also necessary to provide the financial and orientation instruments that favour the structural adaptation of enterprises potentially able to find a successful way to the final market. In other words, the present author does not believe in the simplistic view of developing agriculture by favouring the exit of *inefficient* small- and medium-sized enterprises and labour inter-sectoral mobility. In fact, this latter prescription does not guarantee gains in productivity: from 1951 to 1975 employment in agriculture

⁴⁹ "Seules doivent subsister les exploitation capables de rivaliser avec celles de l'Argentine, du Canada, de l'Australie, de la Nouvelle Zélande et des Etats-Unis. Elles ne seront pas nombreuses dans la Communauté." Blanchet [1991] p. 50.

⁵⁰ "Nelle regioni del Mezzogiorno si registrano effetti trascurabili o addirittura positivi." Mariani and Viganò [1992] p. 503.

⁵¹ "L'impatto favorevole stimato per il Mezzogiorno ... non appare così elevato da lasciare ipotizzare un suo recupero, in termini di reddito, rispetto alle altre circoscrizioni." *ibid.* p. 504.

⁵² Kroll [1992] p. 37.

⁵³ Cesaretti *et al.* [1991] p. 482.

decreased dramatically from around 9 million to 3 million people but "despite this reduction ... productivity levels per worker and hectare remained almost stable"⁵⁴.

The final judgement on the Common Agricultural Policy reform cannot therefore be other than negative, not only due to the negative effects that it is bound to produce, but also for what it is not capable of accomplishing. In the future, the bulk of Mediterranean producers would consolidate their rôle as *nature-wardens*, they will be deprived of any productive ambition and reduced to silence by subsidies barely sufficient to guarantee a slower pace of economic death. This will have a disastrous effect upon rural areas' development in the Medit region, which could be attenuated only by operating a courageous application of structural policies, in addition to a further correction of the price policy. Indeed, "the full implementation of the structural funds reform is ... a pre-condition that cannot be disregarded in order to accomplish the policy of [agricultural] markets"⁵⁵.

9.4 The rural development policy in the Mediterranean area.

Despite the Community's effort to promote economic development in the Mediterranean regions of the Community, the results achieved appear to be quite modest. In this respect, it has to be remembered that "the funds deployed are modest by comparison with the scale of the task, but also by comparison with the size of the Community budget. Taking the period 1973 to 1982, the total aid allocated to the Mediterranean regions from the structural Funds ... represents only 31% of the overall budget for these Funds and some 6% of total Community expenditure"⁵⁶. Moreover, the EC approach tended to ignore the structural constraints present in the Mediterranean environment, that on many occasions hindered the proper functioning of the sectoral interventions financed by the Community.

The introduction of the Integrated Mediterranean Programmes (IMP) (Regulation 2088/1985), aimed to develop Mediterranean rural economic environment in the regions of France, Greece and Italy⁵⁷. These programmes are not, however, limited to agricultural

⁵⁴ "A fronte della contrazione ... i livelli di produttività per lavoratore e per ettaro rimangono pressoché costanti." Sassi [1992] p. 42.

⁵⁵ "La piena attuazione della riforma dei fondi strutturali è, infatti, una precondizione imprescindibile per la realizzazione della politica dei mercati." Cesaretti *et al.* [1991] p. 484.

⁵⁶ European Community [1983b] p. 5.

⁵⁷ Then extended to Spain and Portugal.

activities; they are directed towards a number of other economic activities in rural areas. Indeed, "it is through measures to improve their 'environment' in its widest sense, and to revitalize the economic structure, that it will be possible to effectively mobilize the development potential of the Mediterranean regions and in particular their human resources"⁵⁸.

Konsolas highlights that even though the idea of integrated programmes of regional development represents a breakthrough in Community policy, its implementation has been problematic. There are four types of common problems:

- ◀ lack of technical expertise, inadequate preliminary planning, scarcity of qualified personnel and insufficient administrative efficiency;
- ◀ financial difficulties in some countries for their national or regional quota in the project investment;
- ◀ difficulty in carrying out parts of the investment because of a clash of interests between centres of power;
- ◀ the IMP Overseeing Committee has been in competition with the national agencies in some cases causing the latter to "avoid a regular and honest accounting of the actual state of progress of the projects in which they are involved"⁵⁹.

9.5 The European Single Market, the Monetary Union and the agri-food system.

Recent developments in the European political situation have produced, and are expected to produce in the near future, a number of major influences upon the evolution of the activities of food production, distribution and consumption. Most of the effects of the Single Market have already been in operation and thus, it is possible to single them out⁶⁰, whereas the foundations of a European Monetary Union, expressed in the Maastricht Treaty, are still more of an enigmatic topic of political discussion than a factual influence over the economy. Nevertheless, the latest monetary disturbances in the European Exchange Rate

⁵⁸ *ibid.* p. 15.

⁵⁹ Konsolas [1992] p. 45.

⁶⁰ see Casati [1988].

Mechanism (ERM), and the monetary issues in general, are bound to produce broad effects on the process of European political integration and in its productive connotations.

9.5.1 The problem of green currencies and the Monetary Union.

The CAP has been based in the last few decades on the operation of a system of *green currencies* relatively detached from their equivalents on the monetary markets. The green currencies have enabled national governments to have a relative national control over the internal agricultural prices: a devaluation (revaluation) of the national currency might have been partly or wholly offset by the movements of the correspondent green currency. In this way, green currencies and their 'real' equivalent currencies have maintained a diverging evolution in the thirty years of operation of the CAP. The price paid in intra-Community trade comprised therefore the CAP price calculated in the appropriate national currency plus or minus a variable component calculated on the basis of a green exchange rate, called Monetary Compensatory Amount (MCA).

The efficient functioning of the ERM in the last few years and the climate of stability in the EEC monetary situation produced a series of adjustments in the functioning of the mechanism of the green currencies that have generally re-approached the value of the corresponding national currencies. This process of alignment has required overvalued green currencies, such as the Italian lira, to devalue, causing a rise in the internal agricultural prices, and undervalued green currencies (e.g. the German mark) to revalue. Moreover, in 1984 the mechanism was partly modified with a view to a gradual equilibration⁶¹.

This process of alignment of the green currencies was supposed to be completed in the framework of the completion of the Single European Market. However, the difficulties and oppositions to the project of European Monetary Union in some member states has contributed to undermine the monetary stability in Europe and this circumstance required an extension of the MCAs régime⁶². The monetary turmoil of September 1992 and the following monetary disturbances have forced some European currencies (Italian lira and British pound) out of the ERM and other have heavily devalued their currencies against the German mark. Although the new system proposed by the Commission "will entail an

⁶¹ see Fanfani [1990] and Harris *et al.* [1984] for a further consideration of agri-monetary problems.

⁶² The political discussion on the Maastricht Treaty and the EMU is vast and diverse therefore it cannot be included in this occasion.

agricultural conversion rate equal to the central rate for fixed currencies or a rate aligned on a monthly average of the market rates for floating currencies"⁶³ from January 1993, the situation of uncertainty impedes any sensible forecast on the future of the agri-monetary situation and of the effects of monetary adjustment on agriculture in the Community.

9.5.2 The abolition of health and veterinary intra-EC barriers.

The national measures in the protection of consumers health are still extremely diversified and often they have acted as an implicit restraint to free trade within Europe. Lately, the application of the principle of *mutual recognition* has undermined any attempt of closing a national market to EC products. Under the complete operation of this principle, any product which is lawfully sold in one EC country can legitimately enter any other member state's market. "The community strategy has become that of establishing a framework of legislation at EC level, dealing with public health, consumer protection and enforcement procedures, whilst leaving national authorities free to determine detailed provisions, and trusting to the principle of 'mutual recognition'"⁶⁴.

This circumstance is bound to produce serious effects on the European agri-food system. Even though it is likely that the European Community will be able to set minimum requirements for consumer care, this process of mutual recognition will not guarantee equal competition rules in the different member states. Indeed, the producers in the strictest countries have to face higher connected costs in relation to the competitors in more acquiescent countries⁶⁵. In consequence, the competitiveness of the national food industry will increasingly be a function also of the normative environment in the country, and this fact is likely to influence firms' location strategies.

9.5.3 Mutual recognition in the field of food legislation.

"For foodstuffs, the criteria for legislation would be the protection of health and life of humans, referred to article 36 of the Treaty which, together with consumer protection and

⁶³ Commission of the EC [1993] p. 20.

⁶⁴ Swinbank [1992] p. 60.

⁶⁵ Casati [1988] p. 21.

fair trade, would justifiably override the application of the free movements of goods enshrined in Article 30 of the Treaty"⁶⁶. The harmonization of national legislation in the field of foodstuff control and consumer protection has been considered both unnecessary and practically unmanageable, therefore the EC provided a guideline in Directive 397/1989 on the official control of foodstuffs, but it did not intervene directly in existing national implementations.

The extension of the principle of mutual recognition to food legislation causes major strains for high quality and traditional food producers. This circumstance is particularly important in the North Mediterranean Countries, and in particular in Italy. Indeed, the Italian productive system largely relies upon traditional high quality products which can now be competitively produced by outsider manufacturers operating on lower quality standards (e.g. the case of mixed soft wheat and durum wheat pasta). This is bound to affect negatively the whole *filières* of traditional products, but in particular that weakest stage of production, such as Mediterranean agriculture.

9.5.4 Fiscal integration.

The situation of indirect taxation in EC member states is still characterized by a high degree of heterogeneity. The process of fiscal integration has become a necessary step towards the full implementation of the Single Market and it will influence the exchanges of foods in the Community and in the Italian case the situation of agricultural producers. Indeed, the Value Added Tax (VAT) in Italy has been applied under a special régime for farmers in Italy, like a hidden subvention: the necessary harmonization will thus be painful for agricultural producers.

9.5.5 Other measures.

The effect of the Single Market on the whole economy of member states means a new environment for the enterprises in the food system. The process of *financial integration*, for example, has proved to be extremely important for the development of the food industry and

⁶⁶ Garvey in Commission [1992c] p. 13.

distribution companies⁶⁷. Last, but not least, the influence of the Community intervention in the field of industrial and competition policy has been significantly growing in the last few years of the European Single Market implementation⁶⁸.

9.6 The necessity of a new approach of the European Community to the food function.

In Europe, the scope for public intervention in the context of the food function is still profound, not only in the production-side of the food system. Although the previous discussion demonstrated that intervention in food production in Europe have not ceased to be opportune, a new view of the whole system from the demand-side is needed. First of all, Malassis underlines that "the passage from a *society of average quantitative satiety* to a *society of generalized satiety* requires to operate an appropriate food policy"⁶⁹. It is unacceptable that a portion of the population of rich countries still suffers from an inadequate level of food consumption. This situation requires a more effective policy of aid to the consumption of the poorest. This aid can take the form of income subsidy or direct food aid⁷⁰.

Second, the European Community has to undertake a vast task in the direction and harmonization of national food legislation in the field of consumer protection and information and the increasingly vital matter of food quality regulations⁷¹. According to Garvey, the need for Community intervention in the matter of food regulation and consumer protection is increasing for a number of reasons:

- ◀ the introduction of new products based on new technologies at an increasing pace;
- ◀ the food industry will increasingly utilize genetically engineered agricultural inputs and chemically improved processes;
- ◀ the completion of the Single Market;

⁶⁷ see Chapter 5 and 6.

⁶⁸ see Traill [1993].

⁶⁹ "Le passage de la société de satiété quantitative moyenne à la société de satiété généralisée nécessite la mise en œuvre d'une politique alimentaire appropriée." Malassis [1992a] p. 51.

⁷⁰ see Padilla *et al.* in Malassis and Ghersi (eds.) [1992].

⁷¹ see Commission of the EC [1992c].

◀ the increasing consumer concern in the matter of health protection, hygiene and contaminant control.

All of these changing circumstances will require a careful monitoring and regulation activity from the Community⁷².

Moreover, another aspect of interest for the European consumers is linked to food quality assurance. The certification and testing of food products is increasingly operated by collaboration between producers, retailers and consumer groups with Community support. The method approved by the Community in the field of testing and certification has been emphatically designated as a *Global Approach*. "The Community's intention is not to harmonize all national legislation relating to technical aspects of products; it is to apply the principle of mutual recognition in all cases where that is possible. ... Of course, harmonization will still be necessary in those areas where it is extremely difficult to apply mutual recognition, where governments have applied, quite legitimately, specifications relating to products in order to safeguard health and safety, and where it is necessary to establish a consensus within the Community as to what common safety requirements will have to be"⁷³.

Finally, the European products characterized by *Particular Qualities (PQPs)* are acquiring greater importance in the Community⁷⁴. A study published by the Commission estimates that these quality products already cover 7.5% of the whole European market and their weight is growing rapidly (it will expand by 50% up to the year 2000)⁷⁵. These products have a much greater importance in the North Mediterranean Countries and in France than in northern Europe, and indeed, they acquire a particular significance in connection with the problems of rural development in Mediterranean areas (see Table 9.3). Not only the consumer will gain from a redefinition of food policies in this field: a better system of recognition and control of quality products can also offer Mediterranean distinctive productions a way of escaping the problem of the inability of competing on costs⁷⁶.

⁷² Garvey in Commission of the EC [1992c] pp. 16-17.

⁷³ Farnell in Commission of the EC [1992c] p. 259.

⁷⁴ see Capelli in MAF [1992] for a deeper consideration of the problems involved in the regulation of European typical quality food products.

⁷⁵ see Commission of the EC [1991c] for a further consideration of this matter.

⁷⁶ see Chapter 11.

9.7 Tables.

Table 9.1 Results of the compensatory indemnity in 1989.

	Number of beneficiaries enterprises	% of enterprises located in disadvantaged areas ¹	Indemnity per enterprise (ECU)	Indemnity per hectare (ECU)	Total indemnity (Million ECU)
Germany	245,679	59	1258	45.5	309.1
Belgium	8,073	62	983	26.1	7.9
Luxembourg	2,986	71	3101	56.7	9.3
United Kingdom	56,091	59	2908	16.3	163.2
Ireland	96,110	74	702	19.0	67.5
France	154,897	48	1354	15.3	209.87
Italy	56,533	5	519	5.1	29.4
Greece	215,516	38	322	14.8	69.4
Spain	224,318	34	293	2.1	65.6
Portugal	96,218	23	323	11.7	31.1
EC 12	1,157,670	30	832	13.8	962.8

(Source: Bazin [1992] p. 43)

¹ Farms size more than 1 hectare.

Table 9.2 Total subsidies to agricultural enterprises in the farming revenues in normal and disadvantaged areas.

Subsidies as a % of total agricultural revenues	Normal areas (%)	Disadvantaged areas (%)
Germany	25.1	55.8
Netherlands	6.6	n.a.
Belgium	15.7	34.7
Luxembourg	n.a.	21.6
United Kingdom	20.7	87.6
Ireland	21.3	43.5
Denmark	60.6	n.a.
France	15.8	69.3
Italy	10.0	14.6
Greece	17.8	30.0
Spain	10.7	12.7
Portugal	36.4	44.0
EC 12	15.4	36.1

(Source: Bazin [1992] p. 43)

Table 9.3 Relative importance of Particular Quality Products (PQPs) in the EC market in 1989.

	Food Market (Billion ECU)	PQPs (%)	PQPs (Billion ECU)
Belgium/Luxembourg	16.8	6.1	1.0
Germany	103.4	5.4	5.6
Denmark	11.4	3.1	0.4
United Kingdom	75.8	2.8	2.1
Netherlands	21.5	3.1	0.7
Ireland	6.5	1.0	0.1
France	98.2	10.6	10.4
Italy	107.3	11.6	12.4
Greece	14.0	8.1	1.1
Spain	54.5	6.1	3.3
Portugal	8.7	5.2	0.4
EEC	518.0	7.3	37.8

(Source: Commission of the EC [1991c] p. 31)

Chapter 10 - Italian Agri-Food Policies.

10.1 Food production and distribution policies in Italy.

10.1.1 Agrarian policy.

The rôle of the Italian state in the field of agricultural intervention has been traditionally constrained on the one hand by the operation of the Common Agricultural Policy and on the other by the substantial power acquired by regional administrations¹. Casati points out that, in general, "Italian agricultural policy has been lined up with the Community's on the main issues, often forgetting about the specific domestic problems"². The national administration is basically concerned with strategic planning, research support, external trade, health aspects, relationship with the EEC and implementation of European regulations³. The regions prepare regional plans for agricultural activities and obtain funding from the national budget.

According to Bertelè and Brioschi, national intervention in agriculture can be classified in four categories:

- ◀ *horizontal intervention* (common for all agricultural units of production) on prices and production costs;
- ◀ *infrastructure improvements*;

¹ Law 382/1975 and Presidential Decrees 616-617-618/1977.

² "La politica agricola nazionale si è allineata a quella comunitaria nei principali indirizzi, spesso rinunciando ad una sua specifica caratterizzazione sul piano interno." Casati in Ministero dell'Agricoltura e delle Foreste [1992] p. 344.

³ It should be noticed that the functions of the Ministry of Agriculture and Forestry (MAF) are being currently re-allocated partly to the regions and partly to a newly defined Ministry, after the Referendum vote of April the 10th 1993, in which the MAF was abolished.

- ◀ *structural policy* directed to investment or management operations;
- ◀ *direct assistance* to agricultural enterprises⁴.

Traditionally, *horizontal intervention* in Italy has been carried out by using *fiscal relief* for agricultural activities and a particularly favourable régime of *social welfare contributions*. Second, Italian governments have extensively used *administrative instruments* such as subsidized prices for energy and fertilizer. Third, among the *normative instruments*, the most important has been the legislation on land mobility which has discriminated heavily in favour of tenants and obstructed the necessary re-organization of funds and ultimately failed in reaching the poorest farmers⁵. The reform of the regulations relative to land rentals (for example Law 203/1982), has improved the situation only marginally⁶.

In relation to *structural policies*, Bertelè and Brioschi stress that it is difficult to operate a rigorous analysis of financial relations between state and regions because of administrative inconsistencies in the presentation of data. The most striking feature of the Italian structural policies has been the lack in concentration of public spending in the sectors and areas in which the adjustment of agricultural structures is most needed. This has caused a relative ineffectiveness in these kinds of policies in past years.

National policy in the last few years has attempted to improve the definition of objectives and has refined the relationship between state and regions. The objectives of the *Piano Agricolo Nazionale (PAN)* 1986-1990 are the traditional ones: improvement of agricultural revenues, reduction of the agri-food deficit, employment preservation and territorial re-equilibration especially in favour of the *Mezzogiorno*⁷. This Plan has better distinguished between regional and national competence: horizontal actions are managed by the central administration whilst vertical interventions are mainly regional⁸. The resources devoted to horizontal intervention have been utilized especially for the support of cooperation and associations of producers. Casati concludes that horizontal intervention tended to be directed to the whole agri-food system rather than being strictly sectoral. This is indeed a very important development in the Italian attitude to agriculture.

⁴ Bertelè and Brioschi [1981] p. 70.

⁵ see Bertelè and Brioschi [1981].

⁶ see Chapter 5.

⁷ Casati in MAF [1992] p. 346.

⁸ Horizontal actions utilized about 30% of the total whereas vertical actions used the 51%. Casati in MAF [1992] p. 346.

However, a deeper consideration of the horizontal activity of the MAF, operated by Finuola, concluded that the Ministry of Agriculture and Forestry has expanded its operations in areas of dubious legitimacy and highlighted the "prevalent use of the funds provided by the Law 752/1986 for the financing of the Ministry's ordinary operations"⁹. This is a direct consequence of the contraction of the MAF's finance (which has caused the Ministry to absorb part of the funds provided for strategic planning) and of the inability of some regions to undertake the activities assigned to them¹⁰.

The actions of vertical integration are less easy to typify due to the relative heterogeneity of regional actions and circumstances. Nevertheless, in general, the regions implement agrarian policies along the lines set by European and national authorities with relatively scarce autonomy and deal with more specialized 'niches' such as development services, product quality and new products¹¹. The resources allocated to regional administrations have been utilized mainly for structural investments and improvements. According to Calcaterra, the regions have intervened without the appropriate selectivity and, in this way, they have provided resources in many cases without an adequate assessment of the recipient's characteristics¹².

The new *Piano Agricolo Nazionale*, which should have already been prepared, has been delayed due to a period of relative political instability. The parliament has approved an extension of the old plan for the years 1991 and 1992 (Law 201/1991). In practice, the Italian strategic plan for agriculture in the 1990s will emerge with at least 3-4 years of delay.

In conclusion, the Italian agrarian policy has been unable to impose strategic objectives on the sector and it has been subordinate to the interests of agricultural organizations. These latter have formed a vehicle of building political consensus among the fragmented system of micro-farms and at the same time assured a generalized support to everyone. It could be argued that the Italian political situation and the inefficiency of both national and regional administrations has played a major rôle in the failures of Italian agriculture in the context of international competition.

⁹ "... l'utilizzo prevalente dei fondi recati dalla l. 752/86 per finanziare le attività ordinarie del Ministero stesso." Finuola [1990] p. 114.

¹⁰ see Finuola [1990].

¹¹ INEA Yearbook 1989.

¹² Calcaterra [1993] p. 14.

10.1.2 Industrial policies.

State intervention in the food industry is partly determined within the framework of agricultural policies (food processing cooperatives, commercialization of agricultural products, etc.). In addition, it is important to bear in mind the direct intervention of the state in the ownership and management of public enterprises¹³. This *state participation* in food enterprises is currently under review: most of the activities of the *SME*, one of the leading groups in the food sector, will be privatized probably during 1993.

10.1.3 Policies concerning food distribution.

The general policies of the state in this strategic sector have contributed to maintaining a fragmented system of retailers in order to safeguard the considerable employment guaranteed by the distribution system and, at the same time, securing a stable political support to Italian governments of the post-war-period. Despite the fact that state action has not given any incentive to the modernization and improved efficiency of the distribution channel, the situation has been developing quite rapidly in this sector in the last decade, especially as far as the retailing sub-sector is concerned¹⁴.

Still, there are many problems concerned with the inefficiency of a distribution system based on an excessive number of centres of collection and concentration of food products, often under-sized and lacking in appropriate services and transport. For example, Orlando points out that there are about 200 centres for the collection of horticultural products in the *Mezzogiorno* and that there is no European terminal for the concentration of such products¹⁵. Certainly, this situation partly explains why Italian exports have been gradually replaced by products which are supported by more efficient systems (e.g. the Netherlands).

¹³ see Chapter 5.

¹⁴ see Chapter 6.

¹⁵ Orlando [1990] pp. 35-38.

10.1.4 Integrated policies in the food sector.

The regulation of the inter-professional agreements (Law 88/1988) has contributed to a better definition of vertical relations in the food chain by favouring the orientation of agricultural production to the consumer market, by promoting the quality of products, and by defining more precisely the requirements of contractual agreements¹⁶.

In 1990 a national *Piano Agro-Alimentare (PAA)* has been approved by the Italian Committee for Economic Planning (*CIPE*) with the scope of favouring a better relationship between the evolution of production and distribution and the trends identified in food demand. In practice, the most important innovation concerns the definition of a new contractual requirement between food enterprises in the food chain. The document defines three kinds of contracts:

- ◀ a new definition of the *contract of assignment* between producers and downstream enterprises;
- ◀ the introduction of a *contract of filière* for the constitution of new vertical integration between existing enterprises;
- ◀ the introduction of *contracts for research and development* which aim to improve the quality of products and the satisfaction of new consumer requirements, with the investment of public funds.

This proposal has not been yet implemented, but it surely represents an innovative way of coordinating a strategy of intervention outside the traditional schemes of sectoral planning. The inter-connections within the food system are such, that they require the policies directed towards the sub-sectors to be under the guidance of unified or highly coordinated institutions.

The forthcoming reorganization of the Ministry of Agriculture will hopefully be undertaken in this direction, with the creation of a Ministry concerned with all the activities connected to the food function. The action of the Ministry must not suffocate regional initiative, conversely it should contribute to the enhancement of the regions' capacity of undertaking autonomous planning in the context of the food system. The function of the Ministry will be mainly one of coordination and control of regional administration. It could

¹⁶ see Colombo and Zezza [1992] and INEA Yearbook 1988.

be argued that the new Ministry should also play a major rôle in the direction and finance of research and development in order to avoid a detrimental regionalization of research activity.

However, the rôle of public agents in this context should not be limited to normative and research aspects. It seems important that regional and national administrations present a number of *integrated plans*, possibly in connection with the EC, capable of giving momentum to new private initiatives in the pursuance of a modernization of the decrepit public structures predominant in southern Italy. Orlando, for example, presents a number of interesting proposals for the re-vitalization of the horticultural system in the *Mezzogiorno*, stressing the importance of providing an efficient system of infrastructures and public services for Italian producers to be able to compete internationally¹⁷.

10.2 Food policies.

Traditionally, state intervention on food consumption has been carried out in Italy mainly by operating a system of controlled prices of staple foodstuffs. Policies of consumer protection and information have had a much lesser importance in the history of state intervention¹⁸. Nevertheless, these latter policies have acquired increasing weight in the last few years, thanks to a greater consumer awareness and influence in relation to the food function¹⁹.

In the important field of *public control of foodstuffs*, the Italian system is regionally decentralized and directed nationally by the Ministry of Health²⁰. The prevention of frauds is undertaken by the Ministry of Agriculture at the moment, but it is likely to be reorganized in the near future.

The regulations regarding Particular Qualities Products (PQPs) represent another important aspect to be considered. The Italian system is based upon three basic instruments:
◀ the *denominazione di origine*, which characterizes foods produced in a delimited area, using certain specific methods;

¹⁷ see Orlando [1990].

¹⁸ see Bertelè and Brioschi [1981].

¹⁹ see Chapter 4.

²⁰ see Verardi in Commission [1992c] for an international comparison.

- ◀ the *tipicità*, which characterizes foods produced according to certain rules anywhere in the national territory;
- ◀ the label (*marchio di qualità*) intends to certify that the product has certain characteristics (see Table 10.2)²¹.

"Whilst in most cases denominations of origin and typicality are to certify *a posteriori* the specific qualities of a long tradition, with the objective of protecting them, the label appear as a creation ... aimed at assuring a better remuneration to the farmer"²². With reference to Table 10.3, it is possible to note that the traditional denominations of origin and typicality still retain a predominant share of the Italian market of PQPs and, on the other hand, the negligible spread of foods produced organically. In the future, the innovative component of the market is bound to grow, and this requires a considerable public effort capable of responding with appropriate regulatory incentives.

Finally, the *consumer orientation policies* have witnessed some developments in the last few years, although successive national governments have not produced an adequate effort. Cooperatives and consumer groups, together with some regional and local administrations have recently started to operate some projects in the field of consumer information²³. It is necessary to give greater scope to these initiatives in order to increase the effectiveness of disease prevention policies.

10.3 Public action in disadvantaged areas.

Recent changes at the European level are bound to affect profoundly the productive situation of large areas of the Italian territory, which suffer from particularly serious constraints. In particular, the *Mezzogiorno* is in an extremely weak situation in comparison with the most advanced areas of Europe and the rest of Italy.

The greater openness of the Italian market to foreign (mainly EC) competition is a process that cannot (and should not) be stopped. "The main repercussion will be on the

²¹ Commission of the EC [1991c] p. 46.

²² "Alors que dans la plupart des cas l'appellation d'origine et la typicité viennent constater ... a posteriori des spécificités qualitatives de longue tradition avec l'objectif de les protéger, le label apparaît comme une création ... destinée à assurer à l'agriculteur-éleveur une meilleure rémunération." Commission of the EC [1991c] p. 47.

²³ Wheelock *et al.* [1987] p. 291-292.

products' commercialization and transformation. It will become impossible to defend the internal market with technical [and fiscal] barriers. ... It is [therefore] necessary to rethink the whole philosophy that has inspired the extraordinary intervention in the *Mezzogiorno*"²⁴. In other words, the *era* of the political management of productive activities in the *Meridione* must now be ended, not only because it has turned out to be source of *malaffare*²⁵, but also because it is unable to be self-sustaining in the long run. According to Colombo and Zezza, the productive situation in the South, characterized by products with reduced storability and transferability in their fresh form, requires a kind of support more directed towards the activities downstream of agriculture. In addition, the supply of technological and scientific services is greatly inferior in the South, especially in marginal areas. In relation to this problem, the INEA has started a project, financed jointly with the EC, of offering services to agricultural enterprises in the *Mezzogiorno*²⁶.

Finally, the importance of the *prodotti tipici* as a means of escaping the difficulty of competing on the basis of the cost of production should also be considered, together with an enhanced support to activities alternative to agriculture in rural areas (agri-tourism, leisure activities, etc.). The eventual environmental services offered by farming activities should also be adequately remunerated²⁷. These concerns have to be part of an overall re-organization of the economic activities in disadvantaged rural areas, in which national and regional policies play an essential rôle.

²⁴ "Le ripercussioni principali riguarderanno la commercializzazione e la trasformazione dei prodotti. Diventerà inoltre impossibile la difesa del mercato interno con barriere di tipo tecnico [o fiscale]. ... Occorre [pertanto] ripensare a tutta la filosofia che ha ispirato l'intervento straordinario nel Mezzogiorno." Colombo and Zezza [1992] p. 753.

²⁵ Italian for 'dirty business'.

²⁶ Colombo and Zezza [1992] p. 752-755.

²⁷ see Chapter 11.

10.4 Tables.

Table 10.1 Funds utilized for horizontal actions in the National Agricultural Plan (Law 752/1986 art. 4 and Law 201/1991).

	Total 1986-1991 (Billion lire)	As a percentage of total expenditure
Research and agricultural experimentation	351	5.95
Genetic improvement, etc.	791.05	13.41
Mechanization innovation and development	418	7.09
Quality recognition and enhancement	85	1.44
Fraud prevention and prosecution	71.3	1.21
Commercial promotion	378	6.41
Information systems	310	5.26
Support to cultivators' ownership of farms	447	7.58
Support and development for associations of producers	123.65	2.10
Cooperation support and development	1745	29.59
Irrigation	586	9.94
Forestry, protected areas and fire protection	444	7.53
Others	147	2.49
Total	5897	100.00

(Source: Our elaboration, data from Casati in MAF [1992])

Table 10.2 The regulation of Particular Qualities Products (PQPs) in Italy.

	<i>Denominazione di origine</i>	<i>Prodotti tipici</i>	<i>Marchio di qualità</i>
Level of recognition	state	state	state
Main objective	protection	protection	value added
Main fields of application	wine, cheese, <i>salumi</i>	cheese	fresh meat

(Source: Commission of the EC [1991c] p. 47)

Table 10.3 The Italian market of Particular Qualities Products (PQPs) in 1989.

Products	Market (Billion lire)	% of the total food market
<i>Vini di Qualità Prodotti in Regione Demarcata (VQPRD = DOC + DOCG)</i>	2500	1.43
Alcoholic drinks	250	0.14
<i>Prosciutti DOC</i>	2800	1.60
Cheeses <i>DOC</i> and typical	5000	2.86
Labelled bovine meats	370	0.21
Others PQPs	600	0.34
Fruits	100	0.06
<i>Salumi</i>	1100	0.63
Extra-virgin olive oil	2910	1.66
Table wines	2520	1.44
Total PQPs	18750	10.71
Organic products	n.a.	0.1

(Source: Commission of the EC [1991c] p. 54)

Section IV

Conclusions

Chapter 11 - The Agri-Food System in the Context of General Economic and Social Development of the North Mediterranean Countries.

11.1 Varied environments and different problems in the North Mediterranean Countries.

The research carried out shows various aspects of the Mediterranean economic and geographical space in relation to the food system. Several conclusions can be drawn at different levels of analysis. First of all, it can be stressed that the productive activities included in the food system play a fundamental rôle in local and regional development. The activities of food production, especially agriculture, have demonstrated their importance in achieving development diffusion to marginal areas. For this reason, it is impossible to consider the activities of food production without constantly referring to the effects that the evolution of the agri-food sector has on the development of the overall economic and social system in the concerned areas.

At a level of *physically disadvantaged areas*¹ across the Medit region, there are a number of common factors throughout the Medit region. It seems opportune to develop a greater information exchange and collaboration between public and private organizations throughout Mediterranean disadvantaged areas². An enhanced circulation of experience and competence could be one of the most effective weapons against the marginalization of physically handicapped areas.

¹ In practice this notion is coincident with the definition of the *MEDEF (Méditerranée Défavorisée)* region (see Chapter 1).

² see Commission of the EC [1992a].

At a *national level*, the Italian case study has shown how the lack of a coherent national strategy in the food system can be detrimental in terms of development of a competitive food sector. The evolution of the Italian food system shows that the activities in the northern part of the country, in which entrepreneurship has been less suffocated by a system of generalized state-subsidized inefficiency prevailing in the *Mezzogiorno*, show to a greater extent innovative behaviour and economic vitality. Anyway, it has to be remembered that northern regions are generally better equipped in terms of infrastructures and services and therefore southern enterprises are competing in disadvantaged conditions both nationally and internationally.

At the *international level* of the North Mediterranean Countries (NMCs), it has been shown that their considerable Mediterranean component has acted as an economic burden in relation to their northern European counterparts. Again, this situation is arguably more a result of the *lack of organizational ability* common to private and public operators in Mediterranean Europe than an effect of the *environmental disadvantages* typical of much of the Medit region³. In this context, it should be noted that neither the NMCs themselves nor the European Community seem to have taken seriously the development problems of the Medit region.

11.2 The rôle of the food sector in the process of development.

The author believes that food production has to be considered on a par with other strategic activities such as energy production and transmission, transport provision, defence, etc.. The state should aim at the objective of national food security, that can only be achieved by differentiating food trade exchanges adequately and by putting the domestic food system in the condition of working efficiently in relation to domestic food demand. Public action may also provide supporting services, favouring the opening of new market channels, and regulate food supply and demand. Yet, historically public intervention in the food sector has been mainly directed towards agriculture.

³ see Perez [1990].

Agriculture may become the object of additional public action when it satisfies a social, cultural or environmental function within a certain community, and in this case alone it may justifiably receive positive discrimination. In such well-identified cases, "farming's main rôle would be to guarantee a basic socio-economic fabric which ... [is] stable and well distributed territorially. This is necessary for the maintenance and development of other economic activities, and for the continuation of a model of society characterized by a highly structured and relatively harmonious interaction between urban habitat, rural habitat and natural environment"⁴. When the process of development menaces the structure of society itself and the environmental equilibrium in a certain situation, public action may be advocated, in order to correct a socially unacceptable polarization of economic life and a dangerous environmental decline of vast rural areas.

At present, it is arguable that the bulk of public policy intervention is mis-targeted to large-capitalist firms, integrated with the market and potentially competitive. These enterprises, mostly located in the northern regions of the Community, have been able to profit from the situation of indiscriminate high protection provided by the Common Agricultural Policy and therefore, not pressed by external competition, have invaded internal and external markets with their surpluses.

The reformed CAP is guided by the same principles as the old one. The practical aspects of the CAP reform seem as careless about public opinion about the non-economic functions of farming as the previous framework: of course, this is in line with the interests of the strongest producers. Well equipped agricultural enterprises can survive the current phase in which indiscriminate protection is no longer fashionable and some might even be able to expand at the expense of weaker competitors in agriculturally productive areas. Conversely, in the long run, many farms in less productive areas will succumb and their land will be either abandoned or, in some cases, converted to more productive non-agricultural uses.

This process could be successful in promoting a further restructuring of agriculturally more productive areas, but promises to be completely ineffective in producing rural development in disadvantaged areas, such as the hilly and mountain areas across the Medit region. In other words, the Community's strategy of agricultural development is still very

⁴ Commission of the EC [1992b] p. 67.

much controlled by the more powerful northern European interests, and structural intervention in rural areas has not assumed a sufficient incisiveness and seems now unfashionable in time of recession.

In this situation, the Commission reminds us that "the Community rôle in local, regional or national initiatives is only a supporting or parallel one. Pinning all one's hopes on a single public authority, especially when it is situated at the highest territorial level, can only result in disillusion and in any case overlooks the fact that legal and technical responsibilities need to be strung out along a chain of subsidiarity beginning as near as possible to those bearing the real responsibility for rural development - the people themselves"⁵. In the case of Italy, it is possible to argue that the rôle of the national, regional and local authorities has been insufficient and ineffective.

It is vital for the future of the Mediterranean food system that there is a greater involvement of national, regional and local authorities in agricultural and rural matters. In addition, the North Mediterranean Countries have to devise a new collaboration, within the Community framework, in order to present concrete strategies for the development and adaptation of their traditional products in the internationalized European food system. In conclusion, Mediterranean public agents must abandon their traditionally passive rôle and undertake a primary responsibility in the matters of rural development.

For an appropriate strategy of development of the agri-food sector, it is necessary to think to the *filières*, inverting the traditional emphasis upon agriculture and considering the importance of downstream activities, especially in the commercialization of food products. It is convenient to start from considering the final markets and the conditions for their functioning, such as the evolution of consumption, the role of distribution, etc. In this context, the strategy for developing Mediterranean food products has to take into account that often it is more convenient to emphasise the quality of products, pursuing a strategy of product differentiation, instead of attempting an unlikely reduction of costs⁶.

⁵ Commission of the EC [1992b] p. 75.

⁶ Perez [1990] pp. 9-10.

11.3 The factors of resistance to marginalization in the Medit region.

The extremely valuable study carried out by Bazin and Roux, published by the EC Commission, identifies some interesting connotations of Mediterranean economic activities in *physically disadvantaged areas*. Several examples (micro-scale studies) of rural activities scattered in the Medit region contribute to form a fascinating view of the recent adjustment of Mediterranean productive structures. The economic activities analyzed in the study show the factors of resistance to economic decline in areas of the Medit region with particularly serious physical handicaps⁷. "From the analysis ... the following factors have been isolated:

- ◀ improvement of traditional production in the agricultural enterprise,
- ◀ involvement of farmers in the *filières* of traditional products,
- ◀ introduction of new agricultural production,
- ◀ industry,
- ◀ enhancement of natural resources,
- ◀ tourism and leisure activities,
- ◀ micro-regional development and institutional activities"⁸.

Among *traditional Mediterranean enterprises*, the study recognizes in the extensive livestock breeding potentially one of the most successful activities. In this respect, some of the findings of the case studies considered can apply to other activities. Indeed, the economic results of the enterprises included in the study are related to the farmers' ability rationally to exploit the most convenient local inputs, using innovative methods compatible with the local species and environments. "But the thing that appeared as decisive, for the transformation and development of the enterprises, was the presence, locally, as close as possible to the farms, of a framework capable of elaborating and diffusing techniques and production means"⁹. For

⁷ The study areas are classified by Directive n. 268/1975: mountain zones and rural areas in which low-productivity land is associated with de-population.

⁸ "A partir de l'analyse ... les 7 facteurs suivants ont été isolés:
- l'amélioration de la production traditionnelle dans l'exploitation agricole,
- l'engagement des agriculteurs dans les filières des produits traditionnels,
- l'introduction de nouvelles productions agricoles,
- l'industrie,
- la valorisation des ressources naturelles,
- les activités de tourisme et de loisir,
- le développement microrégional et les initiatives institutionnelles." Commission of the EC [1992a] p. 47.

⁹ "Mais ce qui apparaît comme décisif, pour la transformation et le développement des exploitation, c'est la présence, localement, au plus près des exploitation, d'un encadrement capable d'élaborer et de diffuser techniques et moyens de production." Commission of the EC [1992a] p. 54.

example, the French regional development agency supplies advice about research and development in the food system, in addition to legal services, financial and technical advice. Finally, the Community contributes to the existence of numerous examples of extensive livestock farms by providing compensatory indemnities¹⁰.

Farmers may expand and diversify their activities, including downstream activities of processing or commercialization of their products, thus improving their *integration in the filière*. This circumstance allows agricultural producers, especially those in cooperatives, to realize "a portion or the whole of the value added created outside their farms and appropriate the intermediaries' margins and the profits of the processing industry. This conquest constitutes a decisive factor of 'resistance' as far as it allows the improvement of farmers' revenue and product marketing conditions"¹¹.

Another factor of resistance operating in the Medit region is the *introduction of innovative production*. It is particularly important that such production has a good prospect of demand evolution and that it is not alien to the Mediterranean environment. Organic agriculture seems a particularly good example of such innovation which follows the local tradition. The study demonstrates the importance of public support in the introduction of innovative elements in the Mediterranean space.

The introduction of *industrial activities* in Mediterranean rural areas is a powerful means of inducing economic development in marginal areas. The study by Bazin and Roux illustrates how endogenously generated industrial activities (typically agri-industrial activities) are able to spread the benefits of industrial activity in the marginal countryside. The alternative strategy of exogenous development, characterized by the installation of manufacture branch plants in rural centres, demonstrates a greater capacity for generating industrial employment, but it has caused an uneven spatial distribution of economic activity and has accelerated the de-population of the most marginal mountain areas¹². Other studies confirm this circumstance¹³.

¹⁰ see Chapter 9 for an evaluation of the functioning of the compensatory indemnity.

¹¹ "L'objectif des agriculteurs et des éleveurs est de conquérir une portion ou la totalité de la valeur ajoutée créée en dehors de leurs exploitations en s'appropriant les marges commerciales des intermédiaires et les profits de l'industrie de transformation. Cette conquête constitue un facteur de 'résistance' décisif dans la mesure où elle permet d'améliorer le revenu des exploitants et les conditions de écoulement des produits." Commission of the EC [1992a] p. 57.

¹² Commission of the EC [1992a] p. 68.

¹³ see for example Paunero [1993] and Brito Soares [1990].

Economic activities which exploit the *natural resources* of a certain area for economic reasons should be made to operate in the context a regulated set of public regulations able to impede an excessive use of the environmental capital of rural areas. Also *leisure and tourism activities* can play an important rôle in the rural development of the Medit region. In particular, *agri-tourism* seems to have acquired a significance as income producer in economically marginal areas, especially in France and Italy. On the other hand, the investment required for starting an agri-tourism farm can be considerable and the professional standards must be high, therefore public support and incentives seem appropriate.

Finally, institutions can support the struggle against the marginalization of peripheral areas by creating *integrated programmes of economic development at a local scale*. This kind of intervention aims to develop a series of integrated projects capable of stimulating a endogenous economic activities at a micro-scale. The implementation of these kinds of programmes should be able to involve mainly those public agents more linked to the local society.

11.4 A new policy for marginal areas.

The negative weight of environmentally handicapped areas in the Medit region is undoubtedly remarkable. For this reason, the rôle of public intervention in such areas is critical for the development of Mediterranean Europe. Agricultural and agri-food activities have a primary rôle in the inducement of endogenous development in marginal areas.

The potential revenues from activities carried out in the disadvantaged Mediterranean areas are low. "In spite of all the efforts showed by those who are locally engaged in the process of 'resistance', the valorization of local resources cannot be conceived without the recourse to financial means and subsidies supplied by local authorities, states and the European Community"¹⁴. The problem of Mediterranean producers is chronic and requires a long-term therapy, which is difficult in areas with serious environmental handicaps, such

¹⁴ "Malgré tous les efforts déployés localement par ceux qui s'engagent dans les processus de 'résistance', la valorisation des ressources locales ne peut être envisagée sans les concours de financements et de subventions de la part des collectivités locales, des Etats et de la Communauté Européenne." Commission of the EC [1992a] p. 90.

as the Medit region, in competition with internationally efficient producers. Therefore, a policy of income support has to be devised to reach farmers in real need.

Moreover, Bazin and Roux draw a number of conclusions from their study of the most disadvantaged areas throughout the Medit region:

- ◀ economic activities carried out in peripheral areas should be aimed to satisfy market requirements and should be encouraged to *enter market mechanisms*;
- ◀ the territorial structure of these areas makes necessary and opportune to support *small-scale programmes* operating at a local level;
- ◀ the effort by agricultural producers to achieve greater *vertical integration and control over the filière* has to be encouraged;
- ◀ the process of resistance to the marginalization of disadvantaged areas has to be operated by enhancing locally based natural and human resources;
- ◀ the *cohesion of the local community* and/or the presence of suitable *leaders* of the process of change constitute potential factors of success of an initiative¹⁵.

The public policy prescriptions suggested by the study are worth considering, since they highlight some ways of preserving the social and environmental qualities of an essential part of the Mediterranean environment. First of all, the study underlines the importance of agriculture in the enhancement of local resources and recommend the implementation of the following actions:

- ◀ the modernization of agricultural enterprises has to be carried out by devising a set of measures aimed to favour selected *agricultural investments*;
- ◀ the allocation of *compensatory indemnities* at a European level has to be reformed more in favour of Mediterranean disadvantaged areas and, within these, the availability of these aids should be extended;
- ◀ the activities capable of inverting the process of land abandonment and desertification, such as extensive livestock farming, deserve support, regarding in particular the *structural growth of farms* and the *development of new techniques* suitable for the Mediterranean environment¹⁶.

Furthermore, the problem of land-market rigidity has to be tackled, so as to favour a necessary *structural growth* of Mediterranean farms, which will improve the ability of such

¹⁵ Commission of the EC [1992a] pp. 86-90.

¹⁶ see Commission of the EC [1992a].

farms to integrate with their markets. Anyhow, the strategy of structural growth hereby proposed does not aim to promote an implausible process of capitalization of Mediterranean farms, but is intended to allow entrepreneurs that want to pursue agricultural production to grow at the expenses of the myriad of *micro-farms*, which do not have any economic or productive significance.

It seems also important to consider the rôle of agriculture in environmental protection, by promoting:

- ◀ balanced *relationships between forestry space and agricultural land*;
- ◀ a more adequate economic recompense for the environmental services performed by farmers and a better capacity of North Mediterranean Countries of managing EC agri-environmental funds.

Third, it is extremely important to favour a greater retention of value added in Mediterranean areas for their own primary production by means of:

- ◀ reinforcing the ability of *small scale processing plants* to cope with the new Community restrictions on food hygiene by financing their technical upgrading;
- ◀ realizing an incisive strategy of *marketing 'typical' and regional food products*;
- ◀ *improving food quality*.

Other important fields of intervention lie in the *promotion of rural tourism* and in the *help to endogenously linked industrial activities*¹⁷.

It seems extremely opportune to support the final proposal by Bazin and Roux of setting up a network of *Regional Agencies Against Territorial Marginalization* in the Mediterranean regions, capable of offering a regional policy of coordinated intervention, technical and research support, information and orientation services and acting as an intermediary between financing bodies and recipients. These regional bodies should be coordinated by a *European Observatory of the Resistance to Territorial Marginalization* which would undertake the necessary evaluation of the economic and financial methods for fighting marginalization, construct information databases, promote research and exchange information between regions and disseminate research results¹⁸.

¹⁷ see Commission of the EC [1992a].

¹⁸ see Commission of the EC [1992a].

11.5 Italy and the Medit region: not only a matter of environmental obstacles.

This discussion of the areas handicapped environmentally is valid also for those Medit region activities which are potentially competitive, but whose general social and economic environment does not favour a realization of that potential. The typical example for Italy is the horticultural *filière* in the *Mezzogiorno*: the public agencies failure to support an efficient development of distribution and marketing activities has provoked a serious decline of one of Italy's most competitive sectors in international markets. Another case that is worth remembering is the falling reputation abroad of Italian wine, due to the methanol scandal of the 1980s: a more efficient public sector would have probably avoided some of the worst features by implementing more effective regulations, and therefore protecting the bulk of serious wine producers. Thus, it is arguable that the Italian food sector has been affected, not only in the *Mezzogiorno*, by the absence of a responsible management of the public sector's activities.

Public agencies have to make sure that producers have access to supporting services (technical, orientation, marketing, etc.) and to credit. The supply of credit, and services in general, in Italy is still bureaucratically controlled and this circumstance provokes delay and inefficiencies in the process of modernization.

Another important rôle for public agencies would be to provide facilities for upgrading the economic operators' information and competence. The situation is particularly urgent in relation to farming activities. Johnson stresses that "for the average individual, be he a farmer or not, by far the most important resource that he or she owns is his or her mental and labour capacities. ... [Nevertheless, this circumstance] is entirely neglected in agricultural policy"¹⁹.

The rôle of the public sector is also essential in the task of "bringing [food] supply into line with demand, as regards both quality and changing consumer behaviour. ... However, any efforts in this area are likely to be of little effect if at the same time the problems of consumer information and product promotion are not tackled. ... In the absence of objective information, the consumer is necessarily influenced by the advertising of the large food-processors"²⁰. In this context, it has to be underlined that the food system management cannot be identified with its importance as an instrument for promoting

¹⁹ Johnson [1991] p. 282.

²⁰ Commission of the EC [1992b] pp. 66-67.

economic development. Modern consumers have to be put in condition of obtaining reliable information about the food produces they consume: it seems that the situation in Italy requires a serious public effort in this direction.

In conclusion, the first step towards a normalization of the relationships between public and private sector in Italy must be directed to cutting the relations which are justified only by the *logica dell'assistenzialismo*. Public funds must be directed towards clearly defined aims: in other words, social assistance and productive support must be kept separate. Too often Italian authorities have been more concerned with improving their electoral performance by providing easy funding to unjustifiable uses, rather than improving the efficiency and competitiveness of recipients, let alone environmental or socially acceptable reasons.

11.6 Concluding remarks.

The analysis presented has sought to introduce the problems encountered by the North Mediterranean Countries in relation to food production, distribution and consumption. The productive aspects of the food system have been often privileged, in view of their importance in the economic and social life throughout the Mediterranean. Anyway, the idea of food consumption as a primary influential factor in the development of food production and distribution has been constantly referred to. A general discussion of the social consequences of food consumption, for example on consumers' health, and of the environmental effects of food production has been provided. Moreover, a description of the differences in the European food production and consumption at a national and regional level has been presented and the Mediterranean region (Medit) has been defined.

Finally, a detailed description of the most important features of the Italian agri-food system has been carried out. The Italian case shows clearly that the efficiency of the public sector represents one of the most important factors in the development of an adequate food system. There are many reasons to believe that the action of the Italian governments in the past few decades have not always been directed towards the public interest, and this conclusion seems also valid outside the specific topic of the current study. The lack of a responsible public management, nevertheless, has not impeded Italian governments in providing businesses with a comfortable domestic environment, amply subsidized (legally and

illegally) and shielded against foreign competition, in exchange for political support. Fortunately, the Italian political system is now collapsing, along with the 'cold-war' international order and the new challenges originating from a more integrated European Community, and this hopefully will allow the re-foundation of an efficiently functioning modern economy.

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