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# Support for Farmers' Cooperatives

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## *Country Report* Italy

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Paolo Bono

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## Disclaimer

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# Support for Farmers' Cooperatives; ***Country Report Italy***

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## Preface and acknowledgements

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives”, that will provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, and by the European Commission in its effort to encourage the creation of agricultural producer organisations in the EU.

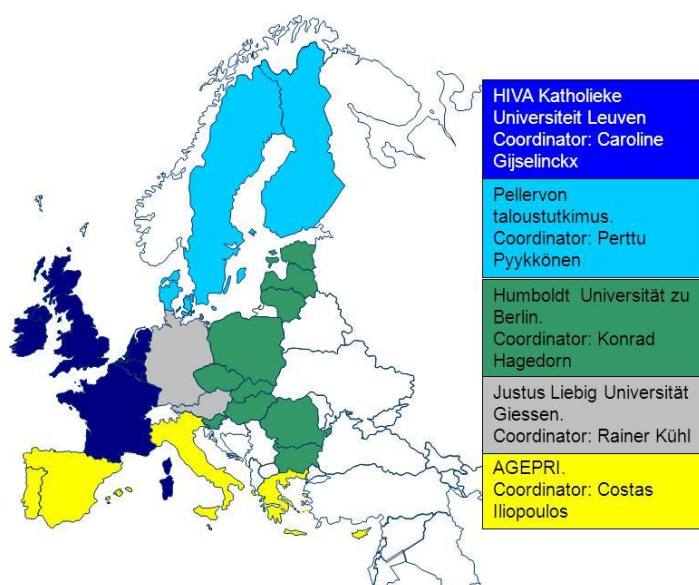
Within the framework of the “Support for Farmers’ Cooperatives” project this country report on the evolution of agricultural cooperatives in Italy has been written. Data collection for this report has been done in the summer of 2011.

In addition to this report, the project has delivered 26 other country reports, 8 sector reports, 33 case studies, 6 EU-wide synthesis reports, a report on cluster analysis, a study on the development of agricultural cooperatives in other OECD countries, and a final report.

The author would like to express his gratitude to all those who have contributed to this study by kindly agreeing to be interviewed. Special thanks go to the interviewed representatives of the national associations of cooperatives, namely:

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- Ugo Menesatti, Head of economic and legal Department, Fedagri-Confcooperative
- Cristian Maretti, Director – North Italy, Legacoop Agroalimentare

The Country Report Italy is one of the country reports that have been coordinated by Costas Iliopoulos, AGEPRI. The following figure shows the five regional coordinators of the “Support for Farmers’ Cooperatives” project.



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# **1 Introduction**

## **1.1 Objective of the study**

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives”, that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income. In the framework of this study, this report provides the relevant knowledge from Italy.

In this context, the specific objectives of the project, and this country report, are the following.

First, to provide a comprehensive description of the current level of development of cooperatives and other forms of producer organisations in Italy. The description presented in this report will pay special attention to the following drivers and constraints for the development of cooperatives:

- Economic and fiscal incentives or disincentives and other public support measures at regional and national;
- Legal aspects, including those related to competition law and tax law;
- Historical, cultural and sociologically relevant aspects;
- The relationship between cooperatives/POs and the actors of the food chain;
- Internal governance of the cooperatives/POs.

Second, identify laws and regulations that enable or constrain cooperative development and third, to identify specific support measures and initiatives which have proved to be effective and efficient for promoting cooperatives and other forms of producer organisations in the agricultural sector in Italy.

## **1.2 Analytical framework**

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

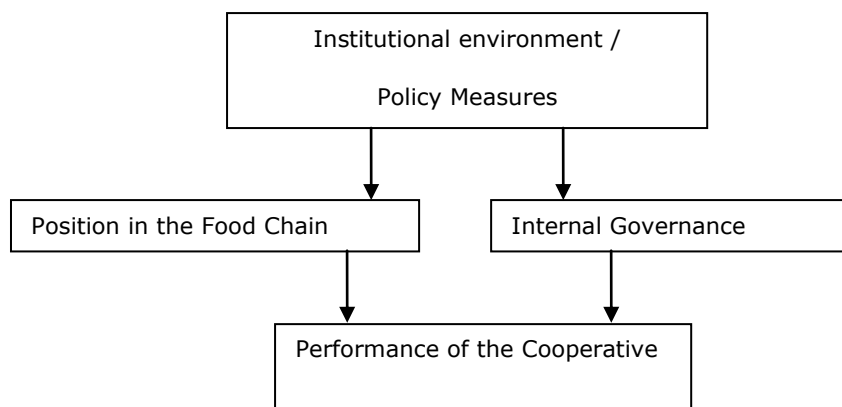


Figure 1. The core concepts of the study and their interrelatedness

### 1.3 Definition of the cooperative

In this study on cooperatives and policy measures we have used the following definition of cooperatives and Producer Organisations (POs). A cooperative/PO is an enterprise characterized by user-ownership, user-control and user-benefit:

- It is user-owned because the users of the services of the cooperative/PO also own the cooperative organisation; ownership means that the users are the main providers of the equity capital in the organisation;
- It is user-controlled because the users of the services of the cooperative/PO are also the ones that decide on the strategies and policies of the organisation;
- It is for user-benefit, because all the benefits of the cooperative are distributed to its users on the basis of their use; thus, individual benefit is in proportion to individual use.

This definition of cooperatives and POs (from now on shortened in the text as cooperatives) includes cooperatives of cooperatives and associations of producer organisation (often called cooperatives).

### 1.4 Method of data collection

Multiple sources of information have been used, such as databases, interviews, corporate documents, academic and trade journal articles.

The databases used are FADN; Eurostat; Copa-Cogeca; Aida – Bureau van Dijk; MIPAAF – Ministry of Agricultural, Food and Forestry Policies (database on Producer Organisations in different sectors); Italian Registry of enterprises; Registry of Cooperatives (established in 2004 by the Ministry of Economic Development); Italian agricultural cooperation Observatory (established in 2005 by the MIPAAF and managed by National Associations of cooperatives).

In addition, information on individual cooperatives has been collected by studying annual reports, other corporate publications and websites. Interviews have been conducted with representatives of national Associations of cooperatives, managers and board members of individual cooperatives, and academic or professional experts on cooperatives.

### 1.5 Period under study

This report covers the period from 2000 to 2010. In any case, the report presents the most up-to-date information. This refers to both the factual data that has been collected and the literature that has been reviewed.



## 2 Facts and figures on agriculture

### 2.1 Share of agriculture in the economy

A study on farmers' cooperatives must start from the farmers' side, that is, agriculture. In 2009 agriculture was 1.7% of GDP (Figure 2). This was the final result of a continuous decrease that had taken place during the preceding five or six decades, from a starting point in which agriculture was the most important sector in the Italian economy. Manufacturing and services, because of a faster increase in their productivity, have surpassed agriculture, in terms of GDP shares. The most part of this process had developed before 1995; in the last fifteen years, the share of agriculture has decreased from 3.1% to 1.7%.

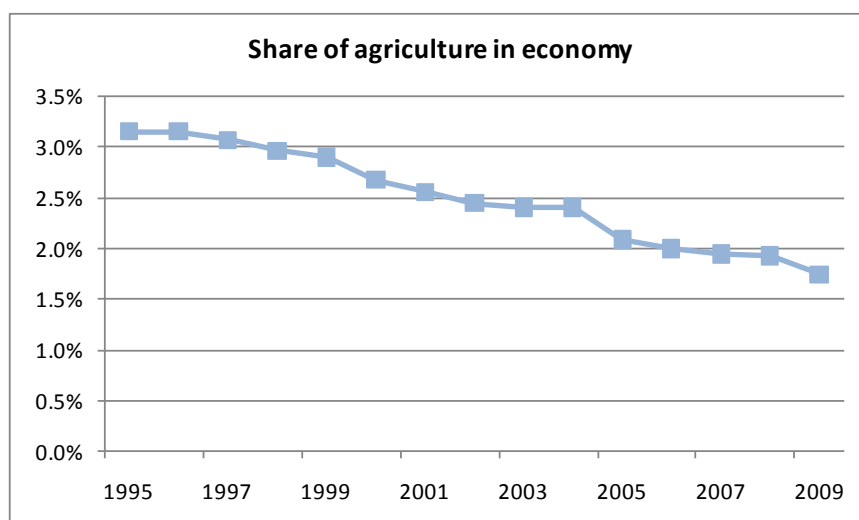


Figure 2 – Share of agriculture in GDP Source: National Accounts, Eurostat.

### 2.2 Agricultural output per sector

Italian agriculture consists of many different sectors. Figure 3 provides information on the main agricultural sectors in Italy. The situation in the last twenty years has not shown a remarkable change in the current value of production, despite the inflation trend. Thus the real value of production has decreased.

Among the agricultural sectors studied in this report, the most important one, in terms of production value (in million €), is that of fruits and vegetables (10.6 billion euros in 2010), followed by dairy (4.5 of which cow milk 4.0 and sheep milk 0.5) and wine (3.6). Then there are cereals (3.2), pig meat (2.4), olive oil and table olives (1.5), sheep meat (0.2) and finally sugar (0.15). Other sectors count for 13.5 billion euros and the most important are beef meat (3.1), plants and flowers (2.9), poultry meat (2), forage plants (1.6) and eggs (1).

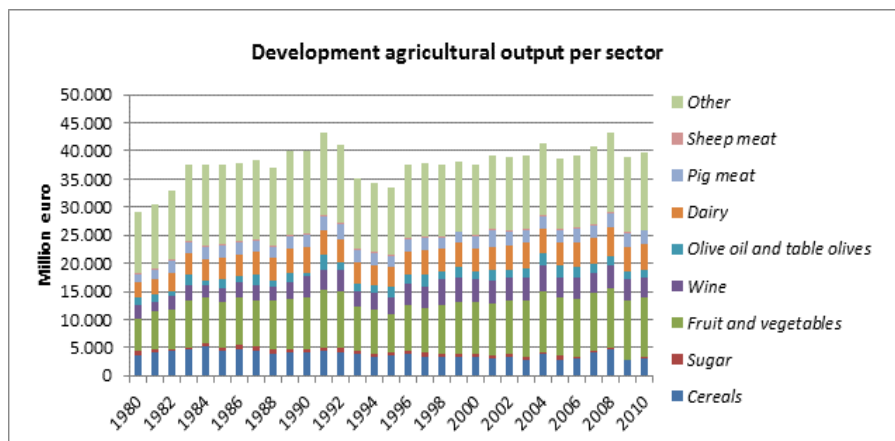


Figure 3 – Development of the different sectors in agriculture, value of production at producer prices, in millions of Euro. Source: Agriculture Economic Accounts, Eurostat.

As shown in Figure 4, sectors with a high presence of cooperatives (see next paragraph) have exhibited in the last ten years the best performance, in terms of average annual growth, thanks both to increasing volumes and higher capacity of organizing themselves and marketing their products. For example, in the period 2001-2009, fruits and vegetables have strongly increased their average growth at an average rate of 1.5%; the same goes for the dairy industry, at a rate of 1.2%.

Cooperatives are also important in the wine sector, which, however, has experienced a little decrease at an annual rate of -0.8%. Nevertheless, the wine sector's performance is better than the performance of the other sectors, except that of the pig meat sector. The slight decrease in the annual output of the wine sector seems to be related to the attention paid to high quality wines (which leads to lower yields in comparison to the past) and to the effect of the measures provided by the new wine CMO: the grubbing-up scheme which has contributed to reducing the surface of vineyards in Italy, the restructuring and conversion of vineyards.

As far as the other sectors are concerned, the sector of pig meat has increased at a rate of 0.1% while cereals (-2.8%), olive oil and table olives (-3.6%), and sheep meat (-4.6%) have experienced a strong drop in the study period. Finally, there is the sugar beet sector, which has decreased at an annual rate of -13%; the explanation is to be found in the revision of the Common Market Organisation (CMO) for Sugar decided by EU in 2005, which caused the closedown of 12 sugar factories out of the 16 which were operating in Italy.

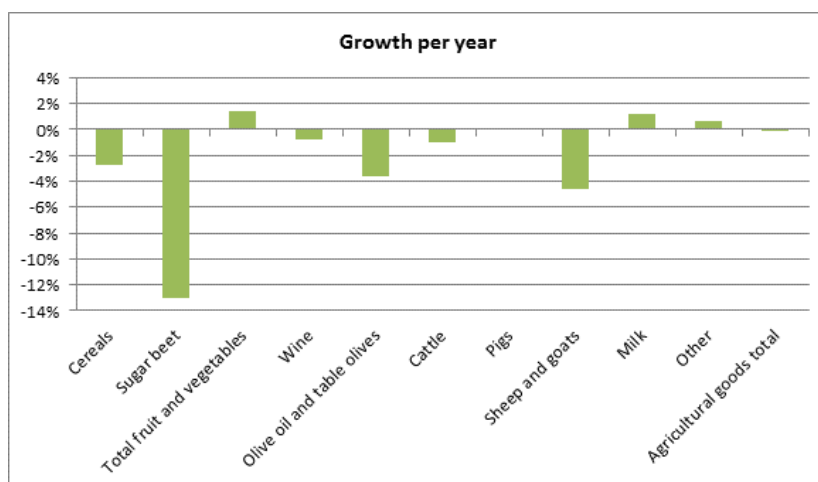


Figure 4– Trend in output (value) per sector "2001" - "2009" (annual average change). Source: Economic Accounts of Agriculture, Eurostat.

## 2.3 Development in the number of farms

The number of farms in Italy is given in Table 1 and Figure 5. In 2007 there were approximately 1,680,000 farms. Among these about 354,000 were specialized in olive oil and table olives production, followed by those specializing in cereals - 239,000 farms - fruits and vegetables (175,000), general field crops (e.g., around 10,000 specialised in sugar beet) and wine (both at 166,000 units) and, finally, breeding sheep (109,000<sup>1</sup>). The number of farms specializing in other fields is sharply lower; they are mainly intensive breeding farms such as beef (28,000) and dairy farms (26,000), and farms specialized in granivores (pigs and poultry, 9,000), of which pig meat production constitutes a relevant amount.

Table 1 – Number of farms

	2000	2007	% change per year
Cereals	334,710	238,540	-4.7
General field crops*	190,330	165,690	-2.0
Total fruits and vegetables**	243,310	174,950	-4.6
<i>Horticulture</i>	44,930	28,830	-6.1
<i>Fruit and citrus fruit</i>	198,380	146,120	-4.3
Olive oil and table olives	401,620	354,280	-1.8
Wine	204,260	165,700	-2.9
Dairy	54,570	26,070	-10.0
Granivores***	10,130	8,740	-2.1
Breeding sheep	150,950	109,210	-4.5

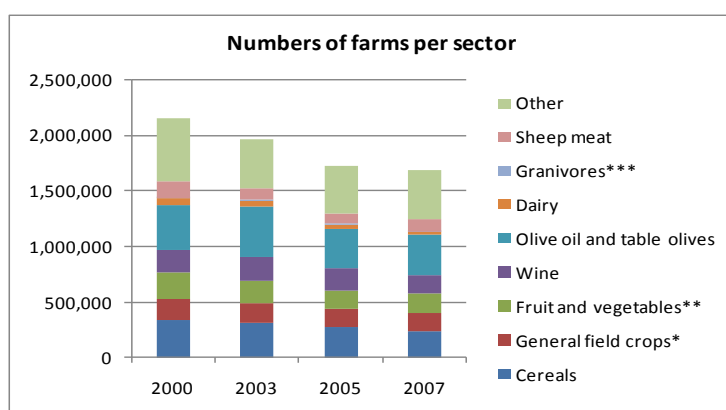
\* Sugar beet specialised farms are a small amount, around 10,000 (source ANB), of this group.

\*\* In this group there are not the specialist field vegetables farms which are included in general field crops farms.

\*\*\* Pig meat farms are a relevant share of this group.

Source: Farm Structure Survey, Eurostat.

During the period taken into account there was a clear and continuous downward trend in the number of farms; from 2000 to 2007, the total number decreased by 22%, at an average annual rate of 3.5%. Dairy, cereals, sheep, and fruits and vegetables farms are all decreasing faster than average. On the other hand, general field crops, granivores, olive oil and wine farms are decreasing more slowly.



\* Sugar beet specialised farms are a small amount, around 10,000 (source ANB), of this group.

\*\* In this group there are not the specialist field vegetables farms which are included in general field crops farms.

\*\*\* Pig meat farms are a relevant share of this group.

Figure 5 – Number of farms 2000 - 2007 with data per specialist type of farming

Source: Farm Structure Survey, Eurostat.

<sup>1</sup> Many of them are focused mainly on milk and dairy products.

## 2.4 Size of farms

Farms can be of different sizes: from small part-time farms to large exploitations. Figure 6 shows the distribution of farms per size class, measured in European Size Units (ESU).

In the Italian agricultural sector, the average farm size is small, especially compared to other countries (Nomisma, 2008). This could be a big problem for many reasons (limited capacity of investment, lower bargaining power, etc.), if some organisational adjustments (like co-operation or other kinds of supply co-ordination) are not implemented.

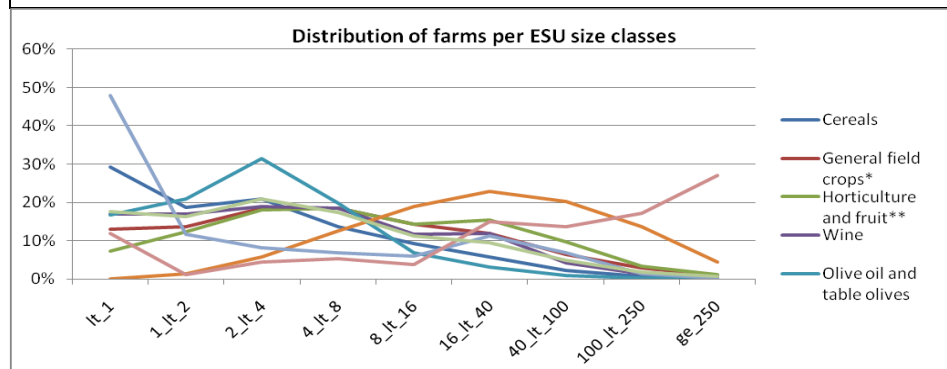
Nevertheless there are significant differences among the main specializations. For example, granivores farms (specialized in pig meat or poultry) have a very large number (27% in total) of big units, with a Standard Gross Margin (SGM) higher than 250 ESUs. Around 58% of this group stands in the upper size classes, above 40 ESU (European Size Unit; 1 ESU = 1,200 euros); on the other hand there is also a significant share of microscopic farms (12%) with SGM less than 1 ESU. Consequently, farmer heterogeneity is high and may pose significant problems to the development of cooperatives.

Other groups show a deeper homogeneity, with the majority of farms concentrated in three or four contiguous classes.

As far as size is taken into account (from big to small), the situation is the following: milk farms are mainly concentrated (62%) in the three classes between 8 and 100 ESUs; fruits and vegetables enterprises are above all (67%) in the four classes between 2 and 40 ESUs; general field crops farms in the four classes (65%) between 1 and 16 ESU; olive oil specialized farms are present mainly (72%) in the classes between 1 and 8 ESU.

Finally, there are specializations with smallest farms: wine with 71% of farms under 8 ESU, cereals with 69% of farms under 4 ESUs and sheep with 59% of farms under 2 ESUs.

	Lt_1	1_lt_2	2_lt_4	4_lt_8	8_lt_16	16_lt_40	40_lt_100	100_lt_250	ge_250
Cereals	29.2%	18.7%	20.9%	13.6%	9.2%	5.6%	2.1%	0.6%	0.1%
General field crops*	13.0%	13.7%	18.5%	18.5%	14.3%	11.8%	6.4%	2.9%	0.9%
Horticulture and fruit**	7.1%	12.4%	18.2%	18.5%	14.4%	15.3%	9.6%	3.3%	1.1%
Wine	16.9%	16.8%	18.8%	18.3%	11.7%	11.8%	4.1%	1.3%	0.2%
Olive oil and table olives	16.7%	20.9%	31.5%	19.8%	6.8%	3.1%	0.9%	0.2%	0.0%
Milk	0.0%	1.4%	5.7%	12.6%	19.0%	22.9%	20.3%	13.6%	4.4%
Granivores***	12.0%	1.1%	4.5%	5.4%	3.9%	15.0%	13.7%	17.3%	27.1%
Breeding sheep	47.9%	11.6%	8.0%	6.9%	5.9%	11.3%	6.8%	1.4%	0.3%
Total	17.6%	16.2%	20.9%	17.5%	11.2%	9.5%	4.8%	1.7%	0.6%



\* Sugar beet specialised farms are a small amount, around 10,000 (source ANB), of this group.

\*\* In this group there are not the specialist field vegetables farms which are included in general field crops farms.

\*\*\* Pig meat farms are a relevant share of this group.

Figure 6 – Number of farms per size class, measured in ESU, per specialist type of farming  
Source: Farm Structure Survey, Eurostat.

## 2.5 Age of farmers: distribution of farms to age classes

The age of farmers is a fundamental issue in agricultural development policies, especially in Italy. In fact, Italian farmers are, averagely, among the oldest in the EU: farmers under 35 years are only 3.1% of the total. Even if we consider the group between 35 and 44 years and sum the two youngest classes, the amount is very low, around 14% of the total, much below the EU average, which is almost 22%. Only in Portugal and Bulgaria the sum of the two youngest classes is lower than in Italy: respectively 10% and 13%.

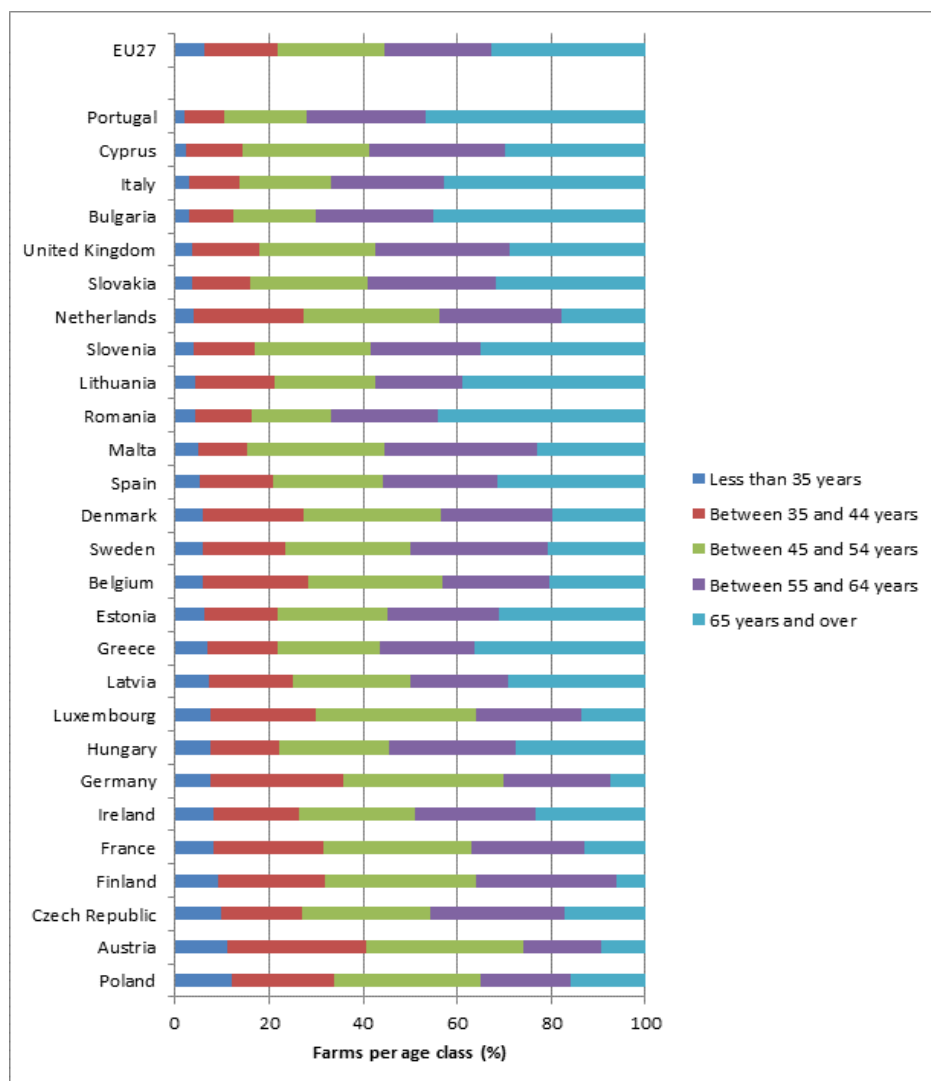
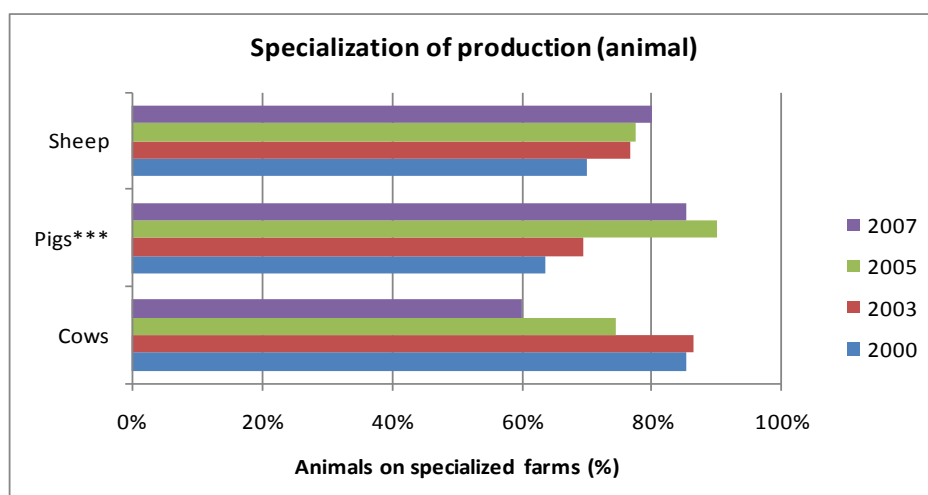
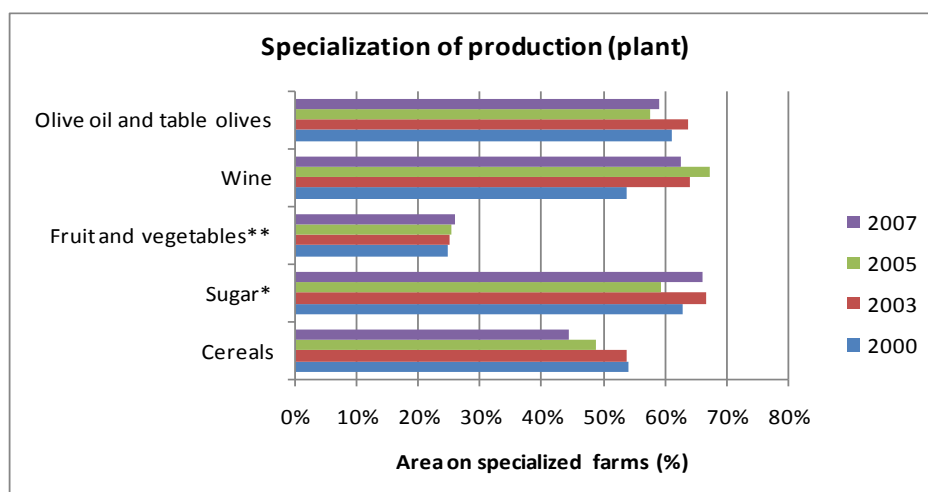


Figure 7 – Percentage of farmers per age class, per Member State and EU-27, 2007 (ranked with countries with the lowest percentage of young farmers on top). Source: Farm Structure Survey, Eurostat.

A high average age can be a problem, for many reasons. Old farmers could not have great motivation and enthusiasm to invest in the renovation of their farms, to seek efficient forms of supply coordination or to invest in other stages of the vertical supply chain through a modern form of collective entrepreneurship in order to raise their economic margins. Moreover, policies in favour of generation shift in agriculture are very important, but they are not enough: in order to attract young people to become farmers, there must also be other factors, such as investments in agriculture-related education, as well as a more widespread 'business approach', which means that a farmer should be considered an entrepreneur, such as those in other sectors.

## 2.6 Specialization of farm production

Farms can also be characterized by a different composition of their production and therefore their inputs. This also applies to specialized farms, where for instance some so called specialist dairy farmers also have beef or sheep or sell hay. In addition to that a lot of mixed (non-specialized) farms exist.



\* The percentage is calculated on 'General field crops – FADN group' in which sugar beet farms are just a small part.

\*\* The percentage does not include the production of field vegetables specialised farms, which are included in general field crops group.

\* The percentage is calculated on 'Granivores – FADN group' of which pig meat farms are an important share.

Figure 8 A & B – Heterogeneity in farm production: the share of specialist farm types in total production. Source: Economic Accounts of Agriculture, Eurostat.

The heterogeneity of farming in terms of specialization can be estimated by calculating the share that specialized farms have in the total production. This is what Graph 7 (split in 7A for plant production and 7B for animal production) shows.

There are significant differences in relative importance of specialized farms depending on type of product. In animal productions, the total percentage in terms of heads bred by specialized farmers is averagely very high: 85% for pigs, 80% for sheep and 60% for cows (2007). This is probably due to the fact that for not specialized farms holding a small breeding activity together with the main activity is difficult and does not lead to an economic profit.

Instead, for plant farmers it's easier to have two or more different specialization. It could be also a good practice for some aspects, because it allows them to shift productions in order to better satisfy market demand. Thus, the percentage in terms of cultivated hectares is quite lower than the specific index of specialization for breeders. The highest one is the sugar farms', which cultivate around 66% of the national sugar beet area (2007); similar to sugar's are also the data for wine (63%) and olive oil and table olives (59%), while for cereals (44%) and fruits and vegetables (just 26%), the ratio is much lower.

## 2.7 Economic indicators of farms

The description of agriculture is concluded with some economic indicators (Table 2a for DG Agri's FADN data 2006-2008 and Table 2b for national data 2005-2007). These indicators focus on net value added and on income from farming, as well as on level of investments. There is a significant difference between crop farmers and breeders in terms of total assets. Farms in the first group have normally a lower level of farm assets; values range from 158,000 € for olive oil farms to 469,000 € for cereals farms. In the case of the second group of animal farms, total assets range from 336,000 € of sheep farms to 1,264,000 for granivores farms.

Income data show a wide range of situations, according to the type of specialization. As far as animal production is taken into consideration, granivores and dairy farms are economically larger, have high level of assets (respectively 1,264,000 and 935,000 €) and also hold a broader agricultural area used for cultivation of feedstock for intensive breeding of livestock. Breeding sheep farms show, instead, a lower economic dimension, with lower assets as well (336,000 €), and the largest agricultural area used, constituted above all by pasture land. The situation of crop production is more heterogeneous. Speaking of permanent crops, fruit and grapes are similar, with a medium-small economic dimension, both in terms of income and average agricultural area, and a medium level of total assets (respectively 207,000 and 316,000 €) as well; olive oil and table olive farms have the smallest economic dimension and level of assets (just 158,000 €). Finally, for what concerns annual crops, cereal and crops of other fields (such as sugar beet, but also field vegetables) show high level of assets (respectively 469,000 and 361,000 €).

Table 2a – Economic indicators for farms

Economic indicators average per farm (2006-2008)									
	Fruits and vegetables					Olive oil and table olives	Dairy	Pig meat***	Sheep meat
	Cereals	General field crops*	Horti-culture**	Fruits	Wine				
Economic size - ESU	19.83	37.20	68.17	29.13	25.27	12.23	71.00	377.20	37.00
Total labour input - AWU	0.97	1.40	2.75	1.20	1.53	0.92	2.00	3.05	1.43
Total Utilised Agricultural Area (ha)	25.7	21.68	3.1	5.7	8.9	6.8	29.5	25.6	45.6
Total output €	35,263	46,405	139,751	38,296	62,798	16,326	171,098	502,257	46,956
Farm Net Value Added €	21,026	28,901	82,392	24,889	39,119	12,376	84,735	248,824	30,375
Farm Net Income €	16,786	21,281	61,633	19,933	29,799	9,477	75,110	216,107	27,061
Total assets €	480,029	356,182	249,021	207,572	363,265	149,708	880,658	1,175,584	327,287
Net worth €	478,238	352,486	239,407	205,576	357,250	149,518	858,738	1,151,823	325,697
Gross Investment €	1,964	2,695	1,623	1,388	2,830	308	8,634	7,467	2,817
Net Investment €	-4,544	-3,154	-10,095	-4,019	-6,396	-2,162	-6,974	-14,029	-2,699
Total subsidies - excl. on investm. €	11,376	8,312	297	1,075	1,221	3,452	16,668	11,618	9,420
Farms represented	74,337	89,847	26,247	78,233	77,240	109,147	23,093	6,937	31,830

note: less than 3 years available

\*Sugar beet specialised farms are a small amount, around 10,000 (source ANB), of this group.

\*\* In this group there are not the specialist field vegetables farms which are included in general field crops farms.

\*\*\* Pig meat farms are a relevant share of this group.

Table 2b – Economic indicators for farms (average 2005-2007)

	Cereals	General field crops*	Fruits and vegetables		Wine	Olive oil and table olive	Dairy	Grani-vores***	Sheep meat
			Horti-culture**	Fruits					
Economic size-ESU	19.50	33.70	64.23	27.03	23.67	12.57	68.60	385.73	33.50
Total labour input-AWU	0.95	1.40	2.67	1.19	1.41	0.92	2.09	3.30	1.41
Total Utilised Agricult. Area-ha	24.64	21.78	2.96	5.66	8.31	6.99	30.05	27.98	44.84
Total output €	34,125	45,978	128,511	35,616	52,717	16,269	169,142	558,261	44,967
Farm Net Value Added €	21,111	28,907	73,668	22,448	31,565	12,839	81,609	263,673	28,784
Family Farm Income €	16,948	21,338	55,495	18,063	24,293	10,034	72,721	224,574	25,900
Total assets €	469,298	360,773	225,185	206,939	316,249	158,115	934,907	1,264,339	336,419
Net worth €	467,363	357,245	220,997	204,887	310,574	158,005	911,292	1,233,389	334,828
Gross Investment €	7,597	5,521	1,947	1,934	3,735	902	14,860	13,333	9,735
Net Investment €	1,553	-311	-8,211	-3,379	-4,555	-1,407	-1,362	-9,802	4,661
Total subsidies-excl.investm. €	10,803	8,451	269	945	1,209	3,850	17,048	14,767	9,217
Farms represented	82,630	89,327	26,577	77,150	83,693	98,167	24,980	7,043	31,417

\*Sugar beet specialised farms are a small amount, around 10,000 (source ANB), of this group.

\*\* In this group there are not the specialist field vegetables farms which are included in general field crops farms.

\*\*\* Pig meat farms are a relevant share of this group.

Source: DG Agri, FADN.



## 3 Evolution, position and performance of cooperatives

### 3.1 Types of cooperatives

The rise of the cooperative movement in Italy can be traced to the creation of the first consumer cooperative in the city of Turin in 1854. The constant development of this form of enterprise led to the recognition of the cooperative movement in 1882 by the new Code of Commerce.

Between the late 1890s and the First World War, the cooperative movement expanded significantly. This was a result of both the industrial growth of Northern Italy and, more importantly, the specific legislation enacted by Giolitti. Between 1904 and 1911, twelve laws regarding cooperatives were approved.

During World War I, cooperatives expanded even further. A significant reason for this was the fact that the government made use of consumer cooperatives to implement food ration policies, but it can also be attributed to the fact that the war contracts were awarded to production cooperatives.

The expansion of cooperatives continued into the years following the First World War. However, in those years the cooperative movement was also put under pressure from the Fascist movement. This culminated in the creation of the National Fascist Cooperative Agency in 1926, which brought Italian cooperatives under the leadership of a state organisation. The branches that grew the strongest during this time were processing agricultural cooperatives and those engaged in collecting cereals – *“Agricoltura Consortia”*. The latter were in fact turned into state-controlled agencies.

After the Second World War ended, the cooperative movement picked up momentum and force once again thanks to the political attention given to their enterprises. To this end, all that was needed was to point out how cooperatives were constitutionally relevant. In fact, the Constitution of the Italian Republic, which entered into force in 1948, expressly promotes this particular business model in Art. 45 which states that: *“the Italian Republic recognises the social function of cooperatives of a mutual character and without private speculation purposes. The law promotes and favours their growth through the most appropriate means, and ensures, with the proper controls, their character and purpose”*.

The aim of a cooperative is to provide jobs or exchanges of goods and services to its members through the conclusion of agreements, providing the most favourable conditions possible for its members<sup>2</sup>.

Based on this idea, a series of regulatory acts<sup>3</sup> have been progressively introduced that over time have enabled the establishment of this type of business model in the Italian economy<sup>4</sup>.

As testimony to the role that the cooperative system plays in the national economy, consider the way in which the current Italian legal system provides specific regulations for these types of enterprises. Indeed, the cooperative organisation can almost be considered an autonomous legal entity that, referring to many matters, is different from all others governed by Italian law. Specific, broad and complex cooperative law exists in Italy; there are general rules applicable to all cooperatives, the majority of which are inside the Civil Code (at art. 2511 ff)<sup>5</sup>.

The social and economic relevance of cooperatives<sup>6</sup> is also confirmed by the statistics.

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<sup>2</sup> This purpose is called “mutual purpose” by Italian law.

<sup>3</sup> For example, the “Basevi Law” – Legislative Decree 1577/1947 –, law no. 904/1977 or law no. 59 del 1992.

<sup>4</sup> Bianco I., (1975); Fornasari M., Zamagni V., (1997); Zamagni S., Zamagni V., (2008); Zamagni V., (2006); Zangheri R., Galasso G., Castronovo V., (1987).

<sup>5</sup> Moreover, there are special rules on particular types of cooperatives. The rules on private limited liability companies (SRL: società a responsabilità limitata) or those on joint-stock (public limited liability) companies (SPA: società per azioni) may also apply to cooperatives, but only in the absence of a specific cooperative rule, either general or special, and only as long as they are compatible.

<sup>6</sup> In accordance with Italian context, and for the sake of simplicity, Producer Organisations (PO) was treated as separate from cooperatives at the end of this section.

According to data found in the Registry of enterprises<sup>7</sup> in 2010 over 81,000 cooperatives were in operation and employing around 1.7 million people (Table 3).

The classification by sector indicates how the presence of cooperatives is more incisive in a few sectors such as construction, the agri-food sector<sup>8</sup>, transportation and storage, administrative and support services, health and social work and commercial distribution (retail). Cooperative banks also play a key role in the national context, in terms of economic value created, even if not for their number or quantity of employees.

Compared to 2005<sup>9</sup> the number of cooperatives has grown by 15%. Regarding the number of persons employed, it is not possible to make a similar assessment since the system of registration changed in 2008<sup>10</sup>.

Table 3 – Registry of enterprises: number of cooperatives and employees

Economic activities	2005				2010			
	Cooperatives	%	Employees	%	Cooperatives	%	Employees	%
Construction	12,778	18%	44,298	8%	16,891	21%	162,546	10%
Agrifood ( <i>agriculture and food industry</i> )	11,718	17%	76,574	14%	11,191	14%	206,522	12%
Transportation and storage	7,034	10%	91,558	17%	8,670	11%	280,293	17%
Administrative & support service activities	n.a.	n.a.	n.a.	n.a.	8,158	10%	229,862	14%
Human health & social work activities	5,750	8%	66,268	12%	7,787	10%	235,048	14%
Wholesale & retail trade; repair of motor vehicles and motorcycles	4,411	6%	22,801	4%	4,947	6%	102,963	6%
Manufacturing ( <i>excluding food industry</i> )	3,903	6%	37,008	7%	3,764	5%	58,297	3%
Financial and insurance activities	1,239	2%	18,520	3%	1,104	1%	67,638	4%
Other activities	23,564	33%	175,560	33%	18,763	23%	352,818	21%
<b>Total (Italy)</b>	<b>70,397</b>	<b>100%</b>	<b>532,587</b>	<b>100%</b>	<b>81,275</b>	<b>100%</b>	<b>1,695,987</b>	<b>100%</b>

Source: Italian Registry of enterprises.

Another agency that deals with monitoring the cooperative movement in Italy is the Registry of Cooperatives, established in 2004 by the Ministry of Economic Development. This agency is of particular importance due to the fact that membership in the Registry is a prerequisite for cooperatives that want to take advantage of the fiscal benefits available to cooperatives that meet the requirements of “*mainly mutual activity*” (mainly mutual cooperatives).

In fact, after the 2003 reform of company law - Legislative Decree 6/2003 (in effect since 2004), there currently exist in Italy two types of cooperatives: mainly mutual cooperatives, and other cooperatives. To each of these corresponds a different ranking and tax treatment, with preferential treatment given to the mainly mutual cooperatives.

In order to qualify for the mainly-mutual-cooperative status, the mutual exchange relation with members is scrutinized. In this regard, it is important to note that in Italy, based on the type of mutual exchange with the members, the following three types of cooperatives are identified:

- Consumers’ Cooperatives: members are users/consumers. This type of cooperative is usually found in retailing and construction sectors.
- Workers’ Cooperatives: members are workers. These cooperatives extend across the various economic sectors.

<sup>7</sup> The Italian Registry of enterprises is managed according to a provincial basis by the Chamber of Commerce and registration is necessary for legal recognition of the company regardless of its legal status.

<sup>8</sup> However, not all the cooperatives indicated by the Registry of enterprises under the agri-food industry are agricultural cooperatives. Take, for example, the workers cooperatives that operate in the production of food products without having any connection with the agricultural industry.

<sup>9</sup> Last year for availability of information on many economic sectors. As will be seen shortly, focusing attention on the agri-food sector, the availability of data is extended until 2000.

<sup>10</sup> In particular, since 2008, the overall amount of employees is considered, in other words, the sum of the employees along with all other local secondary units, even those outside of the province or region in respect of the location of the cooperative.

- **Production Cooperatives:** members are entrepreneurs who are supported by the activity of the cooperative. These types of cooperatives are widespread in the agri-food sector (processing and marketing cooperatives) and in the commercial distribution sector.

The aim of the Registry is to classify the cooperatives in categories that are expressly provided for and to identify mainly mutual cooperatives in order to guarantee them the most important fiscal benefits (e.g. the partial exemption from corporate tax income, under certain conditions<sup>11</sup>). Therefore the Registry is divided into two sections: one for mainly mutual cooperatives and the second for other cooperatives.

In this scenario, agricultural cooperatives represent one of the most important cluster, both in number and in regards to the economic and occupational influence they hold. According to data from the Registry of enterprises<sup>12</sup> (Table 4), the number of cooperatives that operate in the agro-food sector was approximately 11,000 in 2010, showing a slight increase in comparison to 2000. In regards to the number of employed persons, it is not possible to evaluate the progress over this time period because the classification system that was implemented in 2008 does not allow for reliable comparisons with previous data.

Of the 11,000 cooperatives reported by the Registry of enterprises as operating in the agri-food sector, about 9,400 belong to the agricultural sector, which corresponds to about 94,000 employees. This information is of great importance because the majority of the almost 1,800 cooperatives that operate in the food industry can not be considered agricultural<sup>13</sup>. Often, in fact, labour and service cooperatives who work in the production of food products enter under this aggregate through the Registry of enterprises but at the same time are characterized by the fact that their members are not farmers or agricultural companies. Only a small portion (not quantifiable but surely a minority) of these 1,800 businesses correspond to processing and/or marketing farmers' cooperatives, that collect agricultural products from their members in order to process and/or commercialize them and that, at the same time, register themselves under the classification code for the food industry<sup>14</sup>.

Table 4 - Registry of enterprises: number of cooperatives and employees in Italy in the agrifood sector (agriculture and food industry)

	2000		2010	
	Number of Cooperatives	Number of Employees	Number of Cooperatives	Number of Employees
Agriculture	8,331	23,150	9,414	94,300
Food Industry	2,595	14,240	1,777	112,222
<b>Total Agri-food</b>	<b>10,926</b>	<b>37,390</b>	<b>11,191</b>	<b>206,522</b>

Source: Italian Registry of enterprises.

Considering the high number of cooperatives and their role in the national economy, different national Associations that promote the cooperative idea have been developed over time<sup>15</sup>:

<sup>11</sup> For more details see section 5.3.

<sup>12</sup> The data from the Registry of enterprises seem to present a more adequate portrayal of the cooperative entity, notwithstanding the evaluation of the Registry of Cooperatives. There are several reasons for this: the recognition of Registry of Cooperatives follows registration in the Registry of enterprises; there exist entities registered in the Registry of enterprises but not in the Registry of Cooperatives since they do not engage in a concrete economic activity. Furthermore, as recently reported by a noted national source on economics, *Il Sole 24 Ore* (march, 26, 2011), it seems that the Ministry of Economic Development is evaluating the possibility of cancelling about 15,000 cooperatives who haven't had a balance sheet in over 5 years from the Registry of Cooperatives.

<sup>13</sup> A cooperative is agricultural when the primary function is the carrying out of agricultural activities or activities connected (e.g. processing and marketing of agricultural products) and it uses mainly the agricultural products of members.

<sup>14</sup> These specifications are important when comparing data from the Registry of enterprises with more detailed data regarding the agricultural cooperatives (table 5).

<sup>15</sup> This division is partly due to past ideological differences within the cooperative movement; anyway in latest years these differences are gradually fading as shown by recent efforts of the 3 main national Associations of cooperatives, i.e.

1. Confederazione Cooperative Italiane - Confcooperative;
2. Lega Nazionale delle Cooperative e Mutue - Legacoop;
3. Associazione Generale Cooperative Italiane - AGCI;
4. Unione Nazionale Cooperative Italiane - UNCI;
5. Unione Italiana Cooperative - UNICOOP.

Each one of these Associations has an internal section dedicated to the agri-food cooperatives due to the weight of this sector on the national cooperative movement. They are respectively:

1. Confcooperative - Fedagri;
2. Legacoop Agroalimentare;
3. AGCI - Agrital;
4. ASCAT - UNCI;
5. UNICOOP Agricoltura

Most agri-food cooperatives are associated with the five recognized national associations. In numeric terms, the percentage of cooperatives registered with the five associations is estimated between 50-70% of all agri-food cooperatives<sup>16</sup>. Nevertheless, their economic and occupational weight is far more relevant and the estimates indicate an economic weight of about 90% considering that all of the main sales related businesses adhere to the five aforementioned associations. The main services provided by the associations are fiscal, regulatory, and labour-related, among others.

As a demonstration of the representativeness of agri-food cooperatives, it can be noted how the Ministry of Agricultural, Food and Forestry Policies (MIPAAF) instituted the *Italian agricultural cooperation Observatory* under law 231 in 2005<sup>17</sup>, which, in its analysis and monitoring, uses the data of cooperatives that are members of the national associations. The objective of the Observatory is to study agri-food cooperatives and thus it is the most appropriate source of detailed information on Italian agricultural cooperatives<sup>18</sup>.

The most recent data refer to 2008<sup>19</sup> and indicate the presence of around 5,800 agri-food cooperatives that represent almost 900,000 farmer members<sup>20</sup>. Most agri-food cooperatives are characterized by marked prevalence of mutual exchange with members<sup>21</sup>; on average, 86% of the agricultural products that the cooperatives process and commercialize come from its members<sup>22</sup>.

Together, these businesses employ approximately 94,000 people due to revenues exceeding 34 billion euros. As shown in Table 5, cooperatives focus on the main sectors of the Italian agri-food industry.

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Confcooperative, Legacoop and AGCI; in the first months of 2011 these national Associations set up the “Italian cooperatives Alliance” which is an agreement to coordinate strategies and policies and eventually join into one Association in the future.

<sup>16</sup> These numbers are actually influenced (downwards) by the fact that the data from the Registry of enterprises, just as that from the Registry of Cooperatives, may contain non-active businesses as a result of difficulty in maintaining timely updates. This data is not updated as frequently as that of the Associations, which monitor their member-businesses much more frequently and with a higher attention to detail.

<sup>17</sup> The five representative associations in Italy participate to this one, while only three are associated with COGECA (Confcooperative-Fedagri, Legacoop agrifood, AGCI-Agrital).

<sup>18</sup> From now on, unless otherwise specified, all information will be related solely to agri-food cooperatives associated with the five national representative Associations.

<sup>19</sup> The presentation of this data took place on 14 June 2011, in Rome at the Confcooperative-Fedagri headquarters during the presentation of the 2008-2009 Report of the Italian agricultural cooperatives Observatory (MIFAAF – Ministry of Agricultural, Food and Forestry Policies, 2011).

<sup>20</sup> At present it is not possible to discriminate which farmers adhere to more than one cooperative. The high numbers reported as “farmer members” must therefore be understood not as subjects associated with the cooperation but as the numbers of accessions to diverse cooperatives. For simplicity’s sake, however, the terms “members” and “supporters” will be used as synonyms.

<sup>21</sup> On the concept of the calculation of “mainly mutual”, there will be more details following.

<sup>22</sup> This data is consistent with the data from the Registry of Cooperatives, where is shown that 97% of cooperatives respect the “mainly mutual” requirements.

The most important sectors are fruits and vegetables, meat, and dairy. These sectors account for more than two-thirds of the sales and number of employees in the whole category of agri-food cooperatives.

In regards to the fruits and vegetables sector, the cooperatives have a solid presence in both fresh and processed production. The cooperatives that operate in the “fresh” production work primarily in commercialization, side by side with activities such as refrigeration and conservation of agricultural products (in addition to the important organisational logistics that have a hard time managing the single farms, especially if the business relationship is in connection with large retailers). Obviously, the cooperatives that operate in the processed production arena are distinguished by a more defined level of processing activities.

In the dairy sector virtually all cooperatives are characterized by a more or less intense activity which comprises the processing of raw milk provided by members. In terms of final production, products range from milk for drinking (which primarily involves the cooperatives of larger economic size due to the importance of having economies of scale in this type of production) to fresh and processed cheeses where the cooperatives, which are often small firms, play a principle role<sup>23</sup>.

In regards to the production of meat, no system of monitoring the diverse segments of meat production (beef, pork, poultry, etc.) exists. However, the importance of the various branches belonging to cooperatives is evident from the list of the main agri-food cooperatives (Table 11); e.g., the importance of cooperatives in the processing of poultry meat, in terms of economic value rather than quantity. In regards to the other branches of meat production, the presence of cooperatives in the pork sector is considerable at both the first (e.g., slaughtered meat) and second (cold meats) processing levels. The same applies to the beef meat sector (in this case the majority of products are related to slaughtered meat). Lastly, Italian cooperatives are marginally involved in the processing of sheep and goat meat, considering that the sheep and goat breeding is intended mainly for milk production.

Another sector where the presence of cooperatives is quite incisive is the production of wine, with about 3.7 billion euros in sales revenue and almost 9,000 employees. The array of products offered by cooperatives range from raw processing materials to branded product. It is important to note that the wines offered differ greatly based on the geographic location of the cooperative. In other words, they are consistent with the Italian wine industry that is made up of a wide variety of productions in denominations of origin. Indeed, about 63% of the entire Italian wine production is related to more than 500 Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI) wines spread in all Italian regions. As suggested by the great role of these wines within this industry, cooperatives, along with investor-owned firms, are both heavily involved in this type of production. Matching the available data on the geographical distribution of wine cooperatives with the regional distribution of PDO/PGI wines, it seems that there are not big differences among cooperatives and investor-owned firms in terms of propensity to produce this kind of wines<sup>24</sup>.

Another discussion should be devoted to the category that is commonly referred to as “services cooperatives”, which is the top sector, in term of the number of cooperatives. Services cooperatives provide their members with numerous services but their primary activity is in supplying farm inputs to agricultural members (e.g., seeds, feedstuffs, agrochemicals, etc) and in the storage and selling of farm products-primarily cereals. Albeit on a smaller scale, this aggregate also comprises cooperatives that work in the sector of scientific/technical research (analysis, experimentation, etc) and technical or consulting services (insurance services, certifications, etc)<sup>25</sup>.

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<sup>23</sup> Consider the fact that the main part of the production of Parmigiano-Reggiano and Grana Padano – the main P.D.O. of the Italian food system – are made by way of cooperatives.

<sup>24</sup> For more details on this issue see section 4.6 (wine sector) and in particular page 53 (for the geographical distribution of PDO/PGI wines) and page 54 (for the geographical distribution of wine cooperatives). In addition, information on the percentage of the cooperatives producing PDO/PGI wines and on the weight of these wines on total turnover will result interesting but at the moment this kind of data is not available.

<sup>25</sup> This is a very heterogeneous aggregate. To improve the quality of data, in the period 2006-2008, the Observatory provided a partial reclassification of cooperatives in various sectors. One of the most affected sectors was that of services.

The cooperatives in the olive oil industry work in the processing of olives. This activity is often limited to the first processing to obtain intermediate products. There are cases, however, in which cooperatives are vertically integrated and market final consumer products (bottled or loose olive oil). The cooperative system plays a far inferior role in this sector in respect to the other sectors, notwithstanding the importance of olives in Italian agriculture.

Compared to 2006, in 2008 the number of cooperatives has remained fairly stable at around 5,800 units (+1.5%) while revenue has grown by 13%. The number of cooperative members has remained stable (-0.4%), despite the sharp fall in the total number of agricultural farms during the last decade (Table 1 and Graph 4).

The birth of the Italian agricultural cooperation Observatory has filled the previously existing information gap; prior to 2006, detailed data broken down by sector, geographical location or size was not available. Furthermore, the information that was available prior to 2006 was characterized by a lack of control over the overall consistency of the data. Keeping that in mind, according to the INEA<sup>26</sup>, in 2001 agricultural cooperatives in Italy were listed as being around 7,000 with overall sales revenues of about 25 billion euros<sup>27</sup>. The trend of the past decade would therefore seem to rationalize the number of firms accompanied by an expansion of economic value.

Table 5 – The key numbers of associated agricultural cooperatives, 2008 and 2006

	Agricultural cooperatives (N°)		Turnover (billion €)		Farmer members (N°)		Employees (N°)	
	2006	2008	2006	2008	2006	2008	2006	2008
Services	1,409	1,547	7.072	6.230	271,059	269,850	18,873	14,802
Meat	502	494	5.896	7.953	23,988	20,282	18,842	20,664
Fruits and vegetables	1,155	1,321	6.012	8.158	107,620	103,276	21,777	30,448
Olive oil and table olives	341	383	0.220	0.242	169,448	203,273	1,813	1,775
Milk and dairy	978	963	6.734	7.043	42,049	36,236	11,956	11,932
Wine	583	611	3.164	3.736	198,122	190,726	8,848	8,619
Other	780	515	1.232	1.000	54,329	39,680	8,464	5,546
<b>Italy (TOTAL)</b>	<b>5,748</b>	<b>5,834</b>	<b>30.330</b>	<b>34.362</b>	<b>866,615</b>	<b>863,323</b>	<b>90,573</b>	<b>93,786</b>

Source: Osservatorio sulla Cooperazione Agricola Italiana [Italian agricultural cooperation Observatory].

Going back to data from the Italian agricultural cooperation Observatory, it is possible to obtain additional information (e.g., information regarding the territorial distribution of cooperatives and their sales revenue by national territory-Table 6). Notwithstanding the fact that the number of enterprises is nearly identical between the north and the south of Italy, the major part of overall sales revenue stems from the cooperatives in the north, which is the area of the country where almost all large cooperatives are located.

This was quite relevant in the analysis of the service sector (and more general on a single sector level) in the period 2006-2008: the results have, in fact, been altered by this process of methodological refinement.

<sup>26</sup> INEA – Istituto nazionale di economia Agraria (National Institute of Agricultural Economics), (2002).

<sup>27</sup> This information should be considered with caution because it is derived from the simple aggregation of data furnished by the national Associations without checking the sectorial classifications (which might be different within each organisation) or the presence of cooperatives registered to more than one Association (unitary cooperatives). This is particularly significant considering that a large part of the unitary cooperatives are those with larger economic size and then with a big impact on the overall sales revenue of the agri-food cooperatives. In this sense, the only source that provides cooperatives data without considering unitary cooperatives more than once is the Observatory of Italian agricultural cooperatives. Furthermore, in 2001 the fifth organisation representing the cooperative movement, UNICOOP, hadn't yet been instituted and thus, the data refers to the fourth organisation (Fedagri, Legacoop, AGCI, UNCI).

Table 6 – Associated agricultural cooperatives per territorial distribution, 2008 and 2006

	Cooperatives (num.)		Turnover (billion €)	
	2006	2008	2006	2008
North Italy	2,429	2,426	23.715	26.673
Central Italy	868	871	2.591	2.778
South Italy	2,451	2,537	4.024	4.911
<b>ITALY</b>	<b>5,748</b>	<b>5,834</b>	<b>30.330</b>	<b>34.362</b>

Source: Osservatorio sulla Cooperazione Agricola Italiana [Italian agricultural cooperation Observatory].

A further specificity pertains to the particular distribution of cooperatives and sales revenues by size: in 2008, 63% of enterprises generated about 7% of overall sales revenue while just 2% of cooperatives generated about 54% of it. Therefore, the majority of cooperatives are small-sized, but the larger cooperatives represent most of the overall turnover (Table 7).

Table 7 – Associated agricultural cooperatives per size class, 2008 and 2006

	Cooperatives (num.)		Turnover (billion €)	
	2006	2008	2006	2008
< 2 mln €	3,702	3,704	2.088	2.318
2-7 mln €	1,148	1,230	3.979	4.249
7-40 mln €	801	792	10.399	9.258
> 40 mln €	97	108	13.864	18.538
<b>TOTAL (Italy)</b>	<b>5,748</b>	<b>5,834</b>	<b>30.330</b>	<b>34.362</b>

Source: Osservatorio sulla Cooperazione Agricola Italiana [Italian agricultural cooperation Observatory].

In regards to the locations of industries (Figure 9), there is a strong concentration of cooperatives in the olive oil as well as fruit and vegetable sectors in the south and a majority presence of cooperatives in the dairy sector in the north. This territorial distribution reflects the productive specializations of the Italian agricultural industries in the different geographical locations of the country.

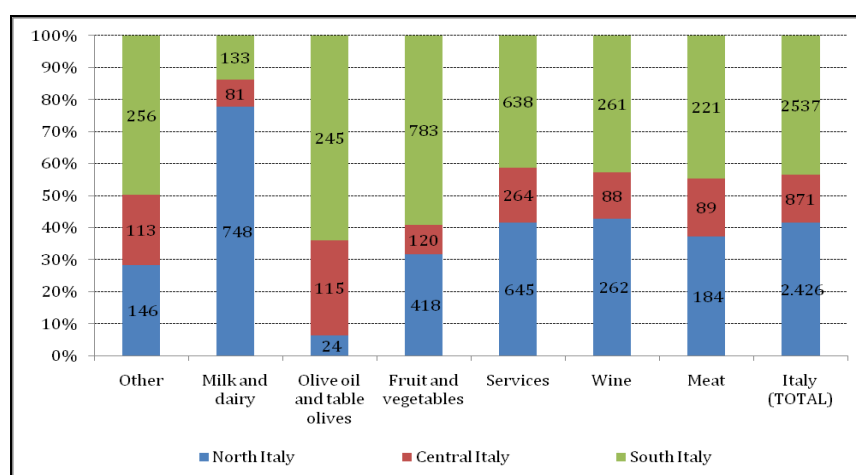


Figure 9 – Associated agricultural cooperatives per sector and location, 2008. Source: Osservatorio sulla Cooperazione Agricola Italiana [Italian agricultural cooperation Observatory].

The data examined up until this point illustrate the current situation of Italian agri-food cooperatives by focusing on aspects such as sector division and products offered, geographical location and the size of the industry.

Cooperatives can also be classified according to aspects such as:

- *Type of members*

According to the type of members, farmer cooperatives can be:

- ✓ Primary Cooperatives: except for rare occasions, members are natural persons (farmers) that provide raw agricultural materials to the cooperative (in the case of processing/marketing cooperatives) or rather who purchase farm inputs from the supply cooperatives.
- ✓ Secondary Cooperatives (also commonly known as cooperative consortia): members may be exclusively legal persons (i.e. other cooperatives or farms) or both legal person and natural persons (i.e. cooperatives, farms and farmers) that collect first processed or final consumer products and then create a further transformation or commercialization.

- *Main function and position in the food chain*

The activities carried out by agricultural cooperatives and their position in the food chain is closely related to the sector that they operate in. Nevertheless, it can generally be affirmed that the largest part of the Italian agricultural cooperatives are processing or marketing cooperatives. In many cases, these types of cooperatives carry out both the transformation of agricultural products by members and the commercialization of the finished products (processing and marketing cooperatives).

These cooperatives represent a very large part of Italian agricultural cooperatives in the sectors of wine production, dairy, meat and fruits and vegetables, i.e., the sectors with a great potential in processing the agricultural products of their members<sup>28</sup>. Naturally, transformation and commercialization activities can be carried out, when appropriate, by the individual cooperatives or they can be divided amongst more cooperatives (primary cooperatives and secondary cooperatives) or between the cooperative and the subsidiaries that it controls.

In all four sectors where the presence of cooperatives is more intense – fruit and vegetable, meat, wine production and dairy – the cooperatives are often part of the final market (detail distribution) and only a lower part of the sales are related to intermediate products destined for a second transformation<sup>29</sup> by non-cooperative entities. Additionally, where cooperatives are focused on the first transformation process, the downstream phases of the food chain are in some cases covered by other cooperatives.

The ability of a firm to be part of the final market with own brand products and the ability to produce private label products through large scale retail channels is influenced by its size. The costs of promotion or branded product development require adequate investments that are more easily realized by larger cooperatives (Stock G.N., Greis N.P., Fischer W.A., 2002). Additionally, the requirements of large scale retail channels in both Italy and abroad can only be respected in the presence of an adequate capacity in terms of range, trading volume, process standardization and the obtainment of certifications, all of which are more easily accomplished by bigger sizes.

The situation of cooperatives focusing on the olive sector is very different. Apart from a few exceptions, this industry is less developed in a strictly economic sense (Table 5). In many cases, the olive cooperatives limit themselves to first transformation processes or to the production of oil destined for the consumption of members.

Aside from the development of cooperatives in the various sectors, most of the agricultural products that the cooperatives process and commercialize come from its members. Indeed, the cooperatives that comprise a wider range of services with a large share of third-party products, with which they carry out purely commercial activities, are exceptional cases<sup>30</sup>.

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<sup>28</sup> A somewhat different universe is that of fruits and vegetables, considering that an important part of that industry is related to the sale of fresh products.

<sup>29</sup> The weight of intermediate products on sales varies depending on the sector, size of the business or geographical area.

<sup>30</sup> This does not mean that there is not a complete range of third-party products (consider the fruit industry and the need to import products that are out of season or that are tropical to meet retail demands). However, total sales of this type of product almost always have a marginal weight.



Direct sale to consumers, even though practised by many cooperatives, has a small influence on the total amount of sales, especially in larger cooperatives. In smaller cooperatives with a very local consumer base, this sales channel is of more importance.

A type of cooperative that is very different from the processing and/or marketing cooperatives is the so-called services cooperatives<sup>31</sup>. In reality, this cooperative simultaneously carries out different functions and activities, the most important of which include providing farm inputs to members and collecting, storing and selling the agricultural products – often cereals – of its members. Regarding the last activity, the cooperatives generally stop at logistic, storage and brokerage activities while transformation activities are rare.

In addition to these cooperatives (and always according to the function performed) are agricultural labour cooperatives, which are made up of worker-members. However, these have a less significant influence on the agri-food cooperatives, especially considering the economic value realised.

- *Financial/ownership structure*

The financial ownership typology of a cooperative, just like any other business entity, is important considering that business growth, investments in innovation and marketing activities require access to capital (Greiger S.W., Cashen L.H., 2002).

Almost all Italian agricultural cooperatives can be considered “traditional cooperatives” (Nilsson J., 1999). In fact, the net equity of an agricultural cooperative is in a large part indivisible (the tax advantages that cooperatives enjoy when reinvested earnings are allocated to collective, indivisible reserves play a key role in this) and at the same time, net equity is largely subscribed (and in many cases, exclusively) to the *co-operator members* (with whom cooperative has a mutual exchange). Access to *investor members* (with whom there is not a mutual exchange) is confined to a few entities, which are generally among the main processing and marketing cooperatives.

Even where there has been an opening of a cooperative’s capital through financial instrument holders, it has often been the co-operator members who undersign the financial instruments.

The use of acquisition and control of corporations is more consolidated. Usually the latter companies work in the downstream chain, that is, the second processing activities and commercialization of final consumer product. Also in this case, the protagonists are mostly larger cooperatives.

- *Legal form and fiscal aspect*

The main feature of the Italian co-operation is the clear division (introduced with the corporate law reforms in 2003) between two different types of cooperatives:

- ✓ Mainly mutual cooperatives

- ✓ Other cooperatives

In general, the requirements for recognition as a mainly mutual cooperative vary according to the type of mutual exchange. In particular, the predominant activity with members is fulfilled only when:

- a. in consumer cooperatives, sale proceeds from members’ consumption are higher than 50% of total sale proceeds;
- b. in production cooperatives, manufacturing costs for goods and services provided by members are higher than 50% of total manufacturing costs.

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<sup>31</sup> A large part of the main agricultural service cooperatives are the so-called Agricultural Consortia. This is a particular figure that on one hand assumes the form of a cooperative and on the other, has historically had a special regard on the part of policy makers because of its recognition as a public utility.

- c. in worker cooperatives, labour costs for members' jobs are higher than 50% of total labour costs;

When cooperative has different types of mutual exchanges with members (e.g. members are consumers of cooperative products and, at the same time, they deliver their product to the cooperative for processing and marketing activities), the requirements for recognition as a mainly mutual cooperative is verified according to the weighted average of the different mutual exchanges.

In this context, specifically in the case of the Italian agri-food cooperatives, the cooperatives are mainly mutual when:

- a. in processing/marketing cooperatives, the quantity or value of the products provided by members is more than 50% of the total procurement;
- b. in supply cooperatives, the sale of farm inputs to members represent at least 50% of total product sales;
- c. there exists a mutual relationship both in the marketing of agricultural products and the sale of farm inputs (in Italy, usually, in the so-called "services cooperatives") so that the calculation is done as a weighted average of the two types of mutual exchange.

For the verification of compliance with the mainly-mutual requirements, the representative associations must conduct specific records inspections either annually or biannually according to the size of the cooperative. Recognition as a mainly mutual cooperative has a high importance because of specific provisions of the law – mutual clauses<sup>32</sup> – and a favourable tax framework.

For what concerns the corporate legal form, the cooperative organisation can almost be considered an autonomous legal entity in Italy; so all agri-food cooperatives subscribe to the rules that are specifically defined for this legal business form. However, these specific rules do not regulate all business organisational aspects of the cooperatives. Therefore, regarding the aspects for which cooperative entities do not have to abide by specific regulations, cooperatives must refer to the law provided for corporations. In this scenario (when there are no rules specifically provided for cooperatives), it is possible to make a distinction between cooperatives that subscribe to the regulations dedicated to limited liability companies and cooperatives that subscribe to the regulations dedicated to joint stock companies.

Indeed it should be noted that there exist *criteria* that require a cooperative to make reference to either the form of a limited liability company or a joint stock company. If a cooperative has between three and eight members, where the members are natural persons, it must refer to the form of a limited liability company. If a cooperative has at least 20 members and 1 million euros in assets on the balance sheet, it must refer to the form of joint stock company. If one of the aforementioned prerequisites is missing (20 members or 1 million € in assets on the balance sheet) the cooperative can choose between a limited liability company and a joint stock company.

The distinction between cooperatives that must make reference to the limited liability company and cooperatives that must refer to the joint stock company, in case of absence of specific rules for cooperatives, is important. In fact, this distinction partially changes the regulatory framework in which the cooperative operates; for example, in terms of the possibility to issue financial instruments with administrative rights, reserved exclusively to the cooperatives that refer to joint stock company regulations.

Additionally, there exists another possibility in the form of a cooperative consortium. The number of members in this case has to be at least 3 cooperatives. Even if they remain under 9 members, the cooperative consortium must refer to the form of a joint stock company. Another peculiarity of the cooperative consortium is the share of capital; while the minimum share of

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<sup>32</sup> They are: prohibition of profit distribution and remuneration of financial instruments beyond a certain level, prohibition of indivisible reserves distribution, obligation to transfer the equity to Mutual Funds in the case of dissolution.

capital required in the cooperative is 25 euros, in the cooperative consortium it must be at least 500 euros.

Up until this point, the framework of the agri-food cooperation has not specifically considered Producer Organisations (PO) figures since these can also assume a legal business form different from that of a cooperative. In fact, a PO can form itself as a cooperative, a corporation or a consortium<sup>33</sup>. For these reasons, it has been chosen to dedicate to the Producer Organisations a short section that analyzes themselves in detail and their tight bond with the cooperative world.

First of all, the PO system can be divided into two specific branches:

1. the POs that operate in sectors different from the fruit and vegetable industry and that subscribe to national regulations<sup>34</sup>;
2. the POs that operate in the fruit and vegetable sector and that are regulated by both community<sup>35</sup> and national regulations.

Regarding the sectors different from the fruit and vegetable industry, the objective of the PO is to concentrate on selling products from its members, with the obligation to market at least 75% of the produce of each member producer.

Every PO must respect two requirements in order to be recognized:

- a) social requirement: the minimum number of members is 5 producers<sup>36</sup>;
- b) financial requirement: the value of the products marketed must be at least 1 million euros<sup>37</sup> or it must reach at least 3% of the regional production value.

POs can sign framework contracts with the Associations of businesses of transformation, distribution and commercialization and may provide an operational Fund (sustained by members and any public financing) with which to realize functioning operational Programmes that create value for its agricultural products.

Two or more POs can constitute a so-called Common Organisation (CO) that must take on legal and corporate designations for the realization of diverse activities (contract framework agreements, market crisis management, etc.). The requirement for the recognition of a CO is that it must be made of POs that are already recognized and that these must be able to commercialize at least 60 million euros<sup>38</sup>.

Currently (2010), the PO agricultural system relates to 16 sectors (excluding fruits and vegetables). Those in which there are a greater number of OPs are the olive, dairy and tobacco sectors (Table 8). The majority of POs consist of cooperatives (144 out of 155; 93%). The value of the products marketed by these POs with respect to the total national agricultural output is about 4%.

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<sup>33</sup> It follows that a PO in a regulated framework is obliged to follow current legal and fiscal regulations in accordance with the corporate legal form taken. If a PO assumes the form of a cooperative, the rules of the cooperative apply.

<sup>34</sup> Legislative Decree 228/2001 and Legislative Decree 102/2005.

<sup>35</sup> Reg. (CE) no. 2200/1996 & Reg. (CE) no. 1234/2007.

<sup>36</sup> Exceptions include olive oil, wine (50 producers required) and tobacco (40 producers required) sectors.

<sup>37</sup> Exceptions include tobacco (€ 1,500,000) and the sectors of beekeeping, sheep and goat, organic and agro-energy (€ 300,000).

<sup>38</sup> Unlike POs, the COs are regulated by the MIPAAF.

Table 8 – POs (excluding fruit & vegetables) by sector and value of the products marketed (2010)

Sector	Number of POs	Value of the products marketed (mil. €)
Olives and olive oil	36	19.3
Dairy	30	631
Tobacco	22	155
Potatoes	18	n.a.
Cereals	11	288
Beef	7	105.1
Pork	6	34.6
Seeds	5	12.8
Wine	4	n.a.
Beekeeping	3	1.6
Sheep & Goat	3	n.a.
Poultry	3	65
Floriculture	3	14.3
Organic Products	2	2.2
Sugar	1	82
Agro-energy	1	1.4
<b>TOTAL</b>	<b>155</b>	<b>1,412.30</b>

Source: Ministry of Agricultural, Food and Forestry Policies (MIPAAF) and national Associations of cooperatives.

Regarding the POs in the fruit and vegetable sector, these represent the heart of the CMO (Common Market Organisation) in the sector of both fresh and processed goods. The main activities of the POs in the fruit and vegetable sector relate to the aggregation of producers and products; the furnishing of services; the establishment of common rules governing production; the increase in value and commercialization of products; and the prevention and management of market crises. In other terms, the POs in the fruit and vegetable sector have the goal of maintaining the equilibrium of the relationships between supply and demand and protecting the incomes of farmers.

The requirements for the recognition of PO in the fruit and vegetable sector call for a minimum of 5 members. Furthermore, if the PO focuses on fruits or vegetables, the minimum value of the products marketed is 2 million euros whereas in the case of a PO with more products in various categories, it rises to 3 million euros.

Even in the sector of fruits and vegetables there exist two operating levels: the PO, which is the base level, and the APO (Associations of Producer Organisations), which is the higher level consisting of POs. Both of these levels can engage in the same economic functions and must prepare an operational Programme in which all actions to be undertaken are defined. The operational Programme is financed by the operational Fund, 50% of which is contributed by the EU and 50% of which is contributed by the members of the PO. The operating Programme, that may last 3-5 years, can implement actions for the planning of production; the improvement of the quality of products, the commercialization; the implementation of environmental measures or in favour of conservation and processing. The European Union grants to POs an annual contribution equal to 4.1% of the value of the products marketed from a single PO; this amount can be raised to 4.6% in the event of actions for the prevention/management of market crises.

In Italy, on April 2010, there were 291 POs and 11 APOs in operation<sup>39</sup> (Table 9). Of these, the majority were in the form of a cooperative (76%), which is not surprising considering that the requirements to be recognized as a PO are already “naturally” present in the farmers’ cooperatives.

It is estimated that the value of the products marketed by POs compared to the overall output of the national fruit and vegetable sector is about 33%, an average share that sees the maximum in the north (about 70%) and this minimum in the south (about 16%).

<sup>39</sup> There could be differences between these data and the data available for the European Commission about Producer Organizations in the fruit and vegetables sector, due to timing problems from national to European institutions.

Table 9 – POs in the fruits and vegetables sector by legal form (2010)

Type	Number	%
Cooperative	229 (5 of which are APOs)	76
Corporation	7	2
Consortium	66 (6 of which are APOs)	22
<b>TOTAL</b>	<b>302 (11 of which are APOs)</b>	<b>100</b>

Source: Ministry of Agricultural, Food and Forestry Policies (MIPAAF) and national Associations of cooperatives.

### 3.2 Market share of farmers' cooperatives in the food chain

To start, it might be useful to note some data about the role of the cooperatives in the whole Italian agri-food industry<sup>40</sup>:

- The share of processing/marketing cooperatives turnover on total food industry turnover: 24%
- Share of Italian farmer production (value) processed/marketed by farmers' cooperatives: 36%
- Among the main 50 Italian agri-food firms (in terms of turnover), 11 are cooperatives.

Regarding specific analysis on the market share of cooperatives in the eight sectors that are the object of this report (Table 10), it should be stressed that each share has a purely indicative character as this data is the result of a process of estimation<sup>41</sup>. Before passing to brief comments regarding the data, some of the specific methods used are highlighted.

In regards to the sector of cereals, it is difficult to isolate the cooperatives that deal exclusively in the storage and sale of cereals. This is due to the fact that the same cooperatives usually perform other tasks such as supplying farm inputs to agricultural members (e.g. seeds, feedstuffs, agrochemical, etc.). Consequently, the calculation of the market share of the cooperatives in the cereal sector, just as in the sales of agrochemicals, had to be done through interviews with sector experts.

In regards to the meat sector, no specific form of monitoring the individual segments exists. Thus, only the market share of the overall meat sector was estimated. However, as shown in Table 11 regarding the first 50 Italian cooperatives, the main firms in the sector are specialized in the production of poultry; cooperatives that operate in this specific segment are not high in number but many of them have shown significant economic importance. The presence of cooperatives is also important in pig and beef sectors, while it is marginal in the processing of sheep and goat meat.

The market shares in 2008 (2009 in some cases) show the importance of cooperatives in some of the main sectors of the “*made in Italy*” food products<sup>42</sup>. The share attributable to the cooperatives reaches and surpasses 50% of the entire sales revenue of the fruit and vegetable sector and the wine production sector. The weight of the dairy and meat sectors is also significant; in both cases, cooperatives represent more than 40% of the sales revenue of the sector.

These four sectors are what place agricultural cooperatives at the heart of the Italian food industry as prominent as they are. In other sectors, the cooperative presence is marginal; for example, the cereals processing for making bakery products, pasta and sweets.

<sup>40</sup> The data pertains to 2008 and refers to the Observatory of Italian Agricultural Cooperation (MIPAAF, 2011).

<sup>41</sup> For the sectors comprising fruits and vegetables, olive oil and table olives, dairy, wine and meat, the market shares were estimated based on data from sales revenue of the cooperatives (Source: Observatory of the Italian Agricultural Cooperation) and on sales revenue data for the whole sector (Source: Eurostat and Federalimentare). In both cases, the most recent data refer to 2008. In regards to the sugar, cereal and agrochemical sectors, the market shares are based on interviews with experts.

<sup>42</sup> Nomisma (2008).

In fact, the cooperatives present in the cereal sector typically occupy themselves with the collection of agricultural products from members and their sale while rarely engage in transformation activities. In this framework and under these premises, agricultural cooperatives take on a certain relief with a market share that fluctuates between 20% and 30% of collected and commercialized cereals.

Cooperatives play an important role in the sugar sector. It is necessary to point out, however, that after the abolition of the European aid, the Italian sector now has just three companies, one of which is a cooperative that has a market share that is around 20%. In reality, the share of this cooperative in the production of sugar in Italy (as assigned by the EU) is much more elevated (284,000 tonnes, 56% of the national share). This reveals the fact that a non-negligible portion of the national demand for sugar is covered by imports. In the last decade, in a difficult market, the cooperative was able to increase its weight in the sector. This firm was the only Italian sugar cooperative in 2000 as well, but at that time its market share was far less (7% in both production and final market) due to heavy competition from investor-owned firms.

In contrast to the aforementioned sectors, in the olive oil sector the cooperatives haven't been able to create significant added value. Consequently, their market share of the Italian olive oil has contracted compared to the beginning of the last decade. This may be related to many factors, among which the geographic location of the cooperatives in the sector (such as in the south of the country where firms are often weak and less oriented to the production of final consumer products). It could also be related to the tradition and culture of self-consumption in many areas or the entrance into the sector of foreign investors that have increased the productive and commercial capacity of investor-owned firms (IOFs).

The market share trend of the cooperatives in the last decade shows a large variability in the different sectors: the contraction of the olive sector; the maintenance of the market share in the dairy sector, the collection of cereals, and the supply of agrochemicals; growth in the fruits and vegetables and meat sectors. Regarding this last sector, the development between 2000 and 2008 is, in large part, due to what happened in the poultry industry and, in particular, to the significant growth of the first two cooperatives in the sector.

Another topic is that of wine production. Cooperatives continue to be the principle point of reference in the production of Italian wine and between 2000 and 2008 it saw a growth in sales revenue. The slight decrease in market share during this period is related to the higher growth of sales in investor-owned firms (IOFs). This is consistent with the minor export-orientation of cooperatives in comparison to IOFs during a period in which Italian wine was pulled by exporting<sup>43</sup>.

Table 10 – Estimates on market share of cooperatives (on total turnover of the sector)

Sector	2000	2008 (where not specified)
Olive oil and table olives	13%	5%
Dairy	40%	42%
Wine	56%	52%
Fruits and vegetables	44%	50%
Meat	25%	42%
Sheep meat	n.a.	n.a.
Pig meat	n.a.	n.a.
Sugar	7%	20% (2010)
Cereals	The market shares were really similar to the 2010 shares	25-28% on collecting (2010) 20-25% on commercialization (2010)
Agrochemicals	35%	35% (2010)

*\*The difference between the two market shares is a result of the reuse of a part of the cereals collected for feedstuff production.*

Source: Osservatorio sulla Cooperazione Agricola Italiana [Italian agricultural cooperation Observatory], Eurostat, Aida - Bureau Van Dijk, Federalimentare, interview with experts.

<sup>43</sup> For more details on this issue see section 4.6.

### **3.3 List of top 50 largest farmers' cooperatives**

Table 11 shows the first 50 cooperatives in the agri-food sector, indicating the sales revenues and the appropriate sector.

In regards to the sector, some methods used are highlighted.

The necessity of creating the category “feedstuff, cereals and supply inputs” stems from the fact that, generally, agricultural cooperatives that operate in the cereal market also engage in activities such as the supply of farm inputs to members and the production and sale of feedstuff. Because it is not possible to separate these activities, it was decided to consider them altogether.

If, in the section preceding the report, the data on the meat sector was considered altogether regardless of the different chains (beef, pig, etc.), in Table 11 the detail has been improved thanks to the direct knowledge of the main Italian farmers' cooperatives or via research on the specific segment of activity using agency website resources.

Table 11 – The 50 largest farmers’ cooperatives in the food chain of Italy<sup>44</sup>

Name of the Cooperative	Sector(s) involved in:	TURNOVER (€) 2009 (where not specified)
1 AGRICOLA TRE VALLI	POULTRY MEAT	2,285,696,000
2 GESCO	POULTRY MEAT	1,176,650,647
3 CONSERVE ITALIA	FRUIT & VEGETABLES	995,645,298
4 GRANLATTE	DAIRY	917,957,357
5 CANTINE RIUNITE & CIV	WINE	415,252,000
6 UNIPEG	BEEF MEAT	415,226,723
7 CONSORZIO LATTERIE VIRGILIO	DAIRY	398,497,581
8 CONSORZIO AGRARIO LOMBARDO – VENETO	FEEDSTUFF, CEREALS, SUPPLY INPUTS	316,075,215
9 CONSORZIO PRODUTTORI BIONATURE	POULTRY MEAT	305,665,215
10 COPROB - COOPERATIVA PRODUTTORI BIETICOLI	SUGAR	266,737,000
11 AVI.COOP	POULTRY MEAT	261,990,877
12 PROGEO	FEEDSTUFF, CEREALS	259,276,021
13 CAVIRO	WINE	249,176,000
14 COOPERLAT	DAIRY	225,425,861
15 GRANTERRE	DAIRY	223,280,697
16 LATTERIA SORESINA	DAIRY	222,195,729 (2008)*
17 CARNJ COOP	POULTRY MEAT	220,472,362
18 AGRINTESA	FRUIT & VEGETABLES	211,063,598 (2010)
19 MELINDA	FRUIT & VEGETABLES	206,587,963
20 ITALCARNI	PIG MEAT	202,521,563
21 CONSORZIO CASALASCO DEL POMODORO	FRUIT & VEGETABLES	198,344,000
22 ALL.COOP	POULTRY MEAT	195,570,895
23 APOFRUIT	FRUIT & VEGETABLES	195,561,492
24 COOPERATIVA PRODUTTORI SUINI PRO SUS	PIG MEAT	191,453,204
25 C.L.A.I	PIG MEAT	179,996,371
26 CONSORZIO AGRARIO DI BOLOGNA E MODENA	FEEDSTUFF, CEREALS, SUPPLY INPUTS	177,141,000
27 APO CONERPO	FRUIT & VEGETABLES	172,750,709
28 CAVIT	WINE	154,791,732 (2008)
29 MA.GE.MA.	PIG MEAT	148,274,131
30 CONSORZIO AGRARIO DI PADOVA E VENEZIA	FEEDSTUFF, CEREALS, SUPPLY INPUTS	146,071,230
31 MEZZACORONA	WINE	145,843,871
32 VOG	FRUIT & VEGETABLES	137,878,259
33 CONSORZIO AGRARIO CREMONA	FEEDSTUFF, CEREALS, SUPPLY INPUTS	137,259,859
34 ASSEGNATARI ASSOCIATI ARBOREA	DAIRY	134,592,580 (2008)
35 OROGEL FRESCO	FRUIT & VEGETABLES	133,329,412
36 AZOVE	BEEF MEAT	129,054,119
37 AGRIFORM	DAIRY	127,300,000
38 POLLO DEL CAMPO	POULTRY MEAT	124,666,698
39 TERREMERSE	CEREALS, SUPPLY INPUT, FRUIT & VEGETABLES	124,197,547
40 CONSORZIO AGRARIO DI PARMA	FEEDSTUFF, CEREALS, SUPPLY INPUTS	118,733,738
41 FRUTTAGE	FRUIT & VEGETABLES	117,304,534
42 CONSORZIO AGRARIO DI SIENA	FEEDSTUFF, CEREALS, SUPPLY INPUTS	114,436,464
43 CONSORZIO JONICO ORTOFRUTTICOLTORI	FRUIT & VEGETABLES	112,236,293 (2008)
44 CONSORZIO AGRARIO PROVINCE DEL NORDOVEST	FEEDSTUFF, CEREALS, SUPPLY INPUTS	111,715,106
45 CONSORZIO AGRARIO DI RAVENNA	FEEDSTUFF, CEREALS, SUPPLY INPUTS	108,345,000
46 CONSORZIO AGRARIO DEL FRIULI VENEZIA GIULIA	FEEDSTUFF, CEREALS, SUPPLY INPUTS	105,662,553
47 CONSORZIO AGRIBOLOGNA	FRUIT & VEGETABLES	99,715,089
48 CANTINA LAVIS E VAL DI CEMBRA	WINE	99,296,503
49 OROGEL	FRUIT & VEGETABLES	93,991,256
50 COOPERATIVA ZOOTEKNICA SCALIGERA	BEEF MEAT	92,683,531

\* For 2009 only the non-consolidated balance is available, with a turnover of 196,815,596 €.

Source: Osservatorio sulla Cooperazione Agricola Italiana [Italian agricultural cooperation Observatory] and Aida Bureau van Dijk.

<sup>44</sup> Ranking on consolidated balance, where available.



### **3.4 List of top 5 largest farmers' cooperatives per sector**

In Table 12, the top-5 cooperatives in each of the 8 sectors studied in this report are reported according to the value of sales revenue. For a correct understanding of Table 12, consider the following brief methodological notes.

In the identification of the pertinent cooperative sectors, the prevalent activity of the cooperatives was considered. This method had a partial exception in the case of the cereal sector. As previously explained, generally cooperatives that operate in the cereal sector engage in other activities and the sales are divided into many business lines. In this context, it is difficult to stabilize the share of the sales revenue that is attributable to cereals. The definition of the top-5 cereal producers therefore takes into consideration all of the businesses where cereal is relevant.

In regards to the sugar sector, in Italy today there is only one active cooperative.

Finally, regarding the sheep meat sector, please note that the agricultural cooperatives comprising members that engage in breeding sheep are primarily occupied in the transformation of sheep milk into dairy products<sup>45</sup>. In cooperatives, the slaughter of lamb, sheep and goat, where it exists, has a marginal role. The sale of meat is often done directly by the breeder-members without passing it through the cooperative or sometimes by a non-cooperative, specialized firm.

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<sup>45</sup> Consequently, it follows that these cooperatives then fall under the dairy sector.

Table 12 – The most important cooperatives of the sectors studied in this project

Sector	Name of the Cooperative		TURNOVER (€) 2009 (where not specified)
<b>Wine</b>	1	CANTINE RIUNITE & CIV*	415,252,000
	2	CAVIRO	249,176,000
	3	CAVIT	154,791,732 (2008)
	4	MEZZACORONA	145,843,871
	5	CANTINA LAVIS E VAL DI CEMBRA	99,296,503
<b>Dairy</b>	1	GRANLATTE**	917,957,357
	2	CONSORZIO LATTERIE VIRGILIO	398,497,581
	3	COOPERLAT	225,425,861
	4	GRANTERRE***	223,280,697
	5	LATTERIA SORESINA	222,195,729 (2008)
<b>Fruits and vegetables</b>	1	CONSERVE ITALIA	995,645,298
	2	AGRINTESA	211,063,598 (2010)
	3	MELINDA	206,587,963
	4	CONSORZIO CASALASCO DEL POMODORO	198,344,000
	5	APOFRUIT	195,561,492
<b>Olive oil and table olives</b>	1	OLEIFICIO MONTALBANO	60,340,905 (2010)
	2	COLLEGIO TOSCANO DEGLI OLIVICOLTORI OL.MA.	8,471,081 (2010)
	3	C.A.S.O.	5,331,603
	4	OLIVETI TERRA DI BARI	2,849,985
	5	OLEIFICIO COOPERATIVO CIMA DI BITONTO	2,382,006 (2010)
<b>Pig meat</b>	1	ITALCARNI	202,521,563
	2	COOPERATIVA PRODUTTORI SUINI PRO-SUS	191,453,204
	3	C.L.A.I	179,996,371
	4	MA.GE.MA.	148,274,131
	5	O.P.A.S.	51,231,680 (2010)
<b>Cereals</b>	1	CONSORZIO AGRARIO LOMBARDO-VENETO	316,075,215
	2	PROGEO	259,276,021
	3	CONSORZIO AGRARIO DI BOLOGNA E MODENA	177,141,000
	4	CONSORZIO AGRARIO DI PADOVA E VENEZIA	146,071,230
	5	CONSORZIO AGRARIO DI CREMONA	137,259,859
<b>Sugar</b>	1	CO.PRO.B. COOPERATIVA PRODUTTORI BIETICOLI	266,737,000
<b>Sheep meat</b>		Not available	

\* The main subsidiary is GIV Spa

\*\* The main subsidiary is Granarolo Spa

\*\*\* The main subsidiary is Parmareggio Spa

Source: Osservatorio sulla Cooperazione Agricola Italiana [Italian agricultural cooperation Observatory] and Aida Bureau van Dijk.

### 3.5 Transnational cooperatives

Based on interviews with representatives of the cooperative associations, there does not appear to be significant cases regarding foreign international cooperatives that source agricultural products from Italian farmers (non-member).

While on the subject of foreign transnational cooperatives, there is the French cooperative consortium *Union Invivo* (Table 13), which is one of the major European cooperatives and the primary French cooperative with sales revenue over 4 billion euros. Amongst its 271 cooperative-members, there is also *Progeo*, an Italian cooperative, which operates in the same field of activity, namely, the storage of cereals and the supply of farm inputs to members.

Table 13 – The foreign transnational cooperatives and international cooperatives that are trading with farmers in Italy

Name of the Cooperative	Mother country	Sector(s) involved in:
<b>Transnationals</b>		
Union Invivo	France	Cereals and supply inputs
<b>Internationals</b>		

The relationship between *Progeo* and *Union Invivo* goes both ways given that *Union Invivo* is also member of *Progeo*. As a consequence, this cooperative can be identified as an Italian transnational cooperative with members in France (Table 14).

The relationship between *Progeo* and *Union Invivo* began about 30 years ago. This relationship was initially purely commercial yet it laid the groundwork for a membership that was only initiated at the beginning of this decade. The membership is grounded in a coordinated programme for the collection of cereals in an effort to improve the management of provisions from other countries. In this scenario, this relationship is important especially for the Italian cooperative; in regards to foreign supplies of cereals (that in any case cover only a small part of the marketed cereals) the Italian cooperative relies almost exclusively on its French member.

Another transnational entity in Italy is the Association of Producers Organisation (A.P.O.) FINAF (First International Association Fruit) that operates in the fruit and vegetable sector (Table 14). Founded in 2001, this organisation was comprised of the Italian PO consortium organisation *Apo Conerpo*, and the French PO organisation *Conserve Gard*. The transnational FINAF saw a progressive rise in its members and it now consists of 9 important POs that operate in the fruit and vegetable sector (and that represent more than 10,000 members), of which two are French and seven are Italian. FINAF manages the Operational Programmes of the POs; thanks to the Operational Programmes, the POs are able to get access to community and national funds that are set aside for the fruit and vegetable sector. The members of FINAF have the opportunity to bring their own production into an integrated system that uses over 80 associated structures.

More frequent are the cases of international Italian cooperatives, which obtain supplies from non-member foreign farmers generally to fulfil their products range (Table 14). However, in all these cooperatives, the foreign suppliers cover a limited amount of the cooperatives' total supply.

*Conserve Italia*, the main processing and marketing cooperative in the Italian fruits and vegetables sector, is one of the Italian international cooperatives. Via its subsidiaries in France and Spain, *Conserve Italia* is able to obtain supplies from local farmers.

In the fresh products section of the fruits and vegetables sector, another international marketing cooperative is *Agrintesa*, which obtains farm products from large foreign agricultural entities. Among these are a large agricultural cooperative from New Zealand and several large farms in Chile. The commercial relationships with these suppliers have strengthened over the past decade; although they only represent 2% of agricultural procurement, at the same time they constitute an important source (almost half of the total amount of goods purchased from foreign sources) to complete the range of goods during the periods in which the seasons for the production of fruits and vegetables do not permit the cooperation to satisfy the full demand using only its own members' products.

Another cooperative that has a business relationship with foreign agricultural entities is COPROB, a processing and marketing cooperative that operates in the sugar sector. Following the sugar reforms in Italy, the cooperative in these last years has begun purchasing beet from Germany (about 10% of the total raw materials used). This is a purely commercial relationship between German farmers and COPROB. In fact, the collection of sugar beets takes place directly in Germany through a German subcontractor who obtains sugar from the plant. COPROB receives sugar from Germany and then commercializes it together with its own products.

Even amongst the dairy cooperatives international ties can be found. *Cooperlat*, a processing and marketing cooperative, purchases raw milk and cream from French and primarily German farms both directly and through its subsidiaries. The total amount of milk purchased from foreign farms covers about 30% of the total amount of raw agricultural materials. The supply relationship with the German farms has existed since the birth of *Cooperlat* in the early 1980s. In the case of the French agricultural entities, the commercial relationship was largely built in more recent years.

Another example of an international cooperative in the dairy sector can be found in the group *Granlatte*, the main processing and marketing cooperative group in the Italian dairy sector. Its subsidiary Granarolo Spa (who is dedicated to the processing and marketing of cooperative products) purchases raw milk from French and Slovenian farmers' cooperatives, a business relationship that began in the last decade. These purchases cover a very small part of the raw materials used (about 2%) and they are destined solely to obtain specific products.

Table 14 – The transnational cooperatives and international cooperatives from Italy that are trading with farmers in other countries

Name of the Cooperative	Host countries	Sector(s) involved in:
<b>Transnationals</b>		
F.I.N.A.F. (Association of Producer Organisations)	France ( <i>2 French Producer Organisations</i> )	Fruit & Vegetables
Progeo	France	Cereals
<b>Internationals*</b>		
Conserve Italia	France and Spain	Fruit & Vegetables
Agrintesa	Chile and New Zealand	Fruit & Vegetables
CO.PRO.B.	Germany	Sugar
Cooperlat	Germany and France	Dairy
Granlatte (Granarolo)	France and Slovenia	Dairy

\* The above list is not exhaustive and includes only the leading Italian international cooperatives, supplying also abroad.

## **4 Description of the evolution and position of individual cooperatives**

### **4.1 Data gathering per cooperative**

This section of the report focuses on the results that have been deduced from the information gathered on the five main cooperatives in the eight sectors studied. As is evident from Table 12, there were thirty-one cooperatives studied and not forty.

This is justified by the fact that, in the sheep meat sector, there are no cases of cooperatives mainly focused on slaughtering and marketing of sheep and goat meat. Furthermore, in the sugar sector, today there is only one operating cooperative (together with two other non-cooperative firms).

The data regarding the major Italian cooperatives in the sectors studied were gathered primarily through telephone interviews with representatives of the cooperatives, such as their president, CEO or managing director. This type of data gathering involved twenty-three of the thirty-one cooperatives studied and allowed for a comprehensive analysis of all the subjects examined. With respect to the other eight cooperatives, the data collection was partial and involved an analysis of information found on their respective balance sheets (and from documents attached to them), a survey of corporate websites or from interviews with representatives of the national associations of cooperatives or sector experts.

Finally, it should be specified that in the case of cooperatives that control joint-stock companies and who draft consolidated balance sheets, the qualitative and quantitative information collected pertains to the group in its entirety as driven by the cooperative entity.

### **4.2 Position in the food chain**

In chapter 2, processing and marketing cooperatives were identified as the most important among Italian agricultural cooperatives. It is no coincidence that the sectors where cooperatives (Table 10) play a more prominent role are those where the most important activity is that of industrial transformation (wine, dairy, meat, fruit and vegetable processing). However there are exceptions like the olive oil where the role of cooperatives is rather low despite the importance of processing activities in this sector as well.

These cooperatives have the aim of integrating the downstream stages of the chain in order to increase the value derived from the agricultural products of their members. Thus, cooperatives do not generally focus on the agricultural activities, which are left to their members. As a result, the positioning of cooperatives along the food chain in these cases is comparable to that of the food industry.

These statements can be confirmed from the analysis of the positioning along the chain of the main cooperatives in the sectors studied.

In six of the seven sectors analyzed<sup>46</sup>, it was found in most cases that the top cooperatives derive most of their sales revenue from finished, consumer products that have been through one or more post-farm production stages<sup>47</sup>. There are two cooperatives that are exceptions: one in the olive sector and one in the pig meat sector. These cooperatives focus their activity on intermediate, first-transformation products that are then sent on to other industrial entities.

The way in which products arrive on the final market, however, differs depending on the sector. In many cases, cooperatives that operate in the wine and dairy sectors as well as the processed fruit and vegetable sectors, bring mostly marketing-branded products to the final market. On the other hand, in the fresh fruit and vegetable sector as well as in the pig meat sector, it appears more difficult to

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<sup>46</sup> As indicated previously, no cooperatives are active in the sheep meat sector.

<sup>47</sup> Processing activities are obviously less intense in the cooperatives that operate in the fresh fruit and vegetable sector.

differentiate a cooperative's respective product portfolio since the products sold are most often considered to be commodities.

In any case, the market approach of cooperatives versus large retailers requires a complete range of products and in some cases the wholesale of third-party products.

In the period 2000-2010, many of the major Italian cooperatives increased their investment in downstream stages of the production chain in order to develop branded products that were ready for final consumption. This activity was partly motivated by the increase in retailers' bargaining power. This trend significantly encompassed all of the major sectors examined.

The cereal sector merits a separate discussion due to the uniqueness of cooperatives that operate within it. Traditionally, this sector has always focused on the storage and commercialization of cereals along with the supply of farm inputs to farmer-members. In these cooperatives, transformation activities have always had a less important role as compared to their role in other sectors. Furthermore, industrial transformation is not always functional in obtaining products for consumption; often, in fact, it is used for the production of feedstuff. However in the past decade there have also been some efforts in this sector to increase the supply of final consumer products (e.g., pasta). Today, however, this category of products still represents a small part of sales.

### 4.3 Institutional environment

The development of the Italian agricultural cooperatives was propelled forward mostly because of the structure of the agricultural system. Historically, this system has been characterized by the existence of many small-size companies that often lack necessary management skills and focus primarily on agricultural products.

To this end, the cooperative enterprise has acted as an instrument of agricultural policy<sup>48</sup> to improve the living conditions of farmers and to stimulate an evolution of the primary sector. In fact, the cooperatives have been able to promote the improvement of processes and productive techniques and have also acted as point of reference for the logistic and commercial organisation of agricultural production<sup>49</sup>.

By performing these functions, the cooperatives have developed managerial capabilities that have further enabled them to add value to the agricultural products of their members.

The decision-making processes on operational aspects are often delegated to cooperative management, while farmer members are always involved in strategic decisions. An example of this is the way in which many mergers and acquisitions have been carried out: i.e. cooperatives plan a timetable and modalities for the implementation of these processes (merger and acquisition) that give farmer members the possibility to verify the quality of choices of the cooperative management. This helps to maintain a strong sense of belonging and a "*cooperative culture*" rooted in the membership base<sup>50</sup>.

Throughout its long history, the strategic importance of Italian cooperatives in the agri-food sector, just as in other economic sectors, has been shown through its constitutional relevance as well as by the specific civil and fiscal framework that governs the cooperative entity. While its importance has varied in different historical periods, the institutional environment has always favoured the development of the cooperative model.

This is the just the basic picture; inside the world of agricultural cooperatives can be found many other advancements and diverse histories according to each different sector. The cereal sector is one example; even during the fascist age, the agricultural consortia, which was a type of cooperative

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<sup>48</sup> Amadei G. (1980); Giacomini C. (1980).

<sup>49</sup> Giacomini C. (2000).

<sup>50</sup> MIPAAF – Ministero delle politiche agricole alimentari e forestali (Ministry of Agricultural, Food and Forestry Policies), (2009).

enterprise, was granted a public function (in the collection of cereals). After various changes, alterations and definitions over the years, this function is still in place and still has their mark on the structure of the sector<sup>51</sup>.

## 4.4 Internal Governance

Different corporate governance models can be found within the different cooperatives that have been examined. Nonetheless, several distinctive features are evident.

As is the case with most other types of enterprises in other economic sectors, the major part of agri-food cooperatives has adopted the “one-tier board structure” with supervisors and executives in one board (the Board of Directors). However, since the 2003 company-law reforms, it is now possible to adopt as an alternative the “two-tier board structure” with two separate boards (the Board of Directors and the Supervisory Committee).

Generally, the cooperative’s Board of Directors is made up exclusively of co-operator members (with whom cooperative has a mutual exchange) and, less frequently, investor members (with whom the cooperative does not have a mutual exchange). In a few cases there are also non-member experts and professionals that make up a part of the Board of Directors.

In the major agri-food cooperatives, if the responsibility of management falls (whether directly or indirectly) on the Board of Directors, the same responsibility is also shared amongst the professional managers pertaining to each one’s area of competence.

The distribution of votes among members in the General Assembly follows the general principle of “*One Member One Vote*”. However, there are some exceptions to this principle, among which there are the possibility of multiple votes in proportion to the volume/value of trade with the cooperative or to the equity capital contribution<sup>52</sup>. Of these two types of exceptions to the general rule, the one based on equity capital contribution is the most frequent among the major agri-food cooperatives and applies to both co-operator members and investor members. Co-operator members can, in fact, assume the status of investor members and consequently cast multiple votes instead of the one vote that they would usually be permitted under normal cooperative standards. In any case, the possibility to cast multiple votes based on equity capital contribution has well-defined limits<sup>53</sup>.

In regards to the mutual exchanges between the cooperative and its members, all of the processing and marketing cooperatives are characterized by the primary involvement of its members; the agricultural products of the members always represent the major part of the total amount of processed agricultural materials.

The productive capacity of the cooperatives is therefore tightly connected to the products delivered by its members. In order to get control over the supply of the product and thus be able to plan for the future, in many cooperatives farmer-members are obliged to deliver all their products to the cooperative. This practice is adopted by most of the top-5 cooperatives in the wine, fruits and vegetables sectors.

Another issue that concerns the relationship between the cooperative and its membership base is the degree of openness to new members. There is a wide variety of responses to this issue; some cooperatives have few requirements for farmers to become members while other cooperatives apply many requirements (for instance, product quality) to which potential members have to comply.

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<sup>51</sup> Not by chance, 4 of the top-5 cooperatives operating in the storage and commercialization of cereals are agricultural consortia.

<sup>52</sup> In the secondary cooperatives, legal persons also have the possibility of casting multiple votes; this statute may allow for the casting of multiple votes (up to 5) based on the share amount, or on the number of members in the cooperative.

<sup>53</sup> Precise limits are also established for other “exceptions” to the general rule of “one person one vote”, which nevertheless remains the cardinal principle in the vote distribution system of a cooperative.

## 4.5 Performance of the cooperatives

In the decade of 2000-2010, the sales revenue of the top 5 cooperatives grew substantially in all of the sectors examined, and in many cases, more than doubled. This caused an overall increase in the sales revenue of agri-food cooperatives and at the same time, a higher market share owned by the largest cooperatives (concentration ratio) within the agri-food industry (referring only to cooperative firms).

Going into further detail, the best performance were seen in the fruit and vegetable, wine and dairy sectors, which are the three sectors where the market share held by cooperatives is higher (Table 10)<sup>54</sup>.

Usually, sales growth was not only dependent on investments in structures and resources of the cooperative, but, in most cases, the increase in size was primarily related to the number of mergers and acquisitions that the cooperatives used to achieve a number of strategic goals.

In particular, horizontal growth was generally achieved through mergers with other cooperatives. These operations were undertaken with the aim of controlling an important portion of the supply and thus increase their bargaining power vis-à-vis the retailers.

The growth through acquisitions of investor-owned firms usually follows diverse strategic goals, such as vertical integration of downstream activities, entrance into new markets or channels, or expansion of products range.

Overall, the boost in growth can be explained by research into better business performance. Studies focusing on the relationship between size and performance in agri-food cooperatives have clearly shown how size growth raises efficiency, investment capacity, and company liquidity and solvency; all of these things favour the economic performance of the cooperative and as a result, its capacity to increase member satisfaction in terms of prices paid for products delivered<sup>55</sup>.

The performance of the leverage ratio is heterogeneous and therefore difficult to interpret. In some cases, its growth seems to indicate a conscious choice by the cooperative to take on more debt in order to take advantage of a higher profitability that is superior to the cost of the debt. However, the same indicator may also be heavily influenced by the low level of capitalization of many Italian cooperatives<sup>56</sup>. This last circumstance is closely related to the structure of net equity capital (largely indivisible amongst members) and to the regulatory and fiscal framework of reference<sup>57</sup>.

Finally, it should be noted that investments in R&D are usually an insignificant part of the strategies adopted by agri-food cooperatives; this is also common in the majority of non-cooperative, agri-food firms. This is nonetheless consistent with the fact that in the food industry, the processes of innovation are primarily of an incremental nature and don't have their main source of investment in research and development as much as in formal and informal economic learning<sup>58</sup>. In this context, the drivers of innovation processes are primarily linked to demand pull factors<sup>59</sup> (clients served, evolution of the distribution market, etc).

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<sup>54</sup> The meat sector cannot be included in this evaluation because the majority of the main cooperatives that operate in this sector (table 11) have not been examined due to the fact that they operate in chains that are different (poultry or beef) than that of pig meat.

<sup>55</sup> Italian Agricultural Cooperation Observatory (MIFAAF, 2009 and 2011).

<sup>56</sup> Italian Agricultural Cooperation Observatory (MIFAAF, 2009 and 2011).

<sup>57</sup> For further information on this subject see chapter 5.

<sup>58</sup> Galizzi G., Venturini L., (1996); Christensen J. L., Rama R., Von Tunzelmann N., (1996)

<sup>59</sup> Mowery D., Rosenberg N., (1979); Walsh V., (1984); Dosi G., (1988).



## **5 Sector analysis**

### **5.1 Introduction**

In this chapter we shall discuss the developments in the eight sectors that are the subject of this study. We shall investigate trends in the marketplace as well as important changes in agricultural policy and we shall further attempt to link these to the strategies and performance of the investor-owned firms and cooperatives in their respective sectors. The period of observation is 2000–2010.

### **5.2 Cereals**

The level of concentration of the cereal sector is significantly lower than the Italian agricultural sectors average. The production value per company is about 7,500 euros against the average value of 27,800 euros for the whole sector of agriculture.

When compared to weaker-on-average economic actors, the ‘commodity’ characteristic of cereals themselves (associated with sudden changes in international supply and demand) exposes business activity to an even higher degree of strong fluctuations in income level. This results in considerable uncertainty in both the areas of investments and the levels of production, depending on the expected profitability.

Working in close relationship with the agricultural phase of cereal production (among which the most important are durum wheat, soft wheat and corn) are the businesses engaged in the distribution of farm inputs and the management of agricultural products.

The agricultural production of cereals, particularly durum wheat and soft wheat, is the basis for the subsequent industrial phase of milling. This is characterized by the widespread presence of small plants with low efficiency and a surplus of productive capacity. One of the underlying causes of this is the fact that in the last decade, this sector has not adopted any significant process innovations.

Further along the supply chain, the production of pasta and bakery products is covered by the complex industry of second transformation, which is composed of both large industrial and multinational entities as well as a multitude of small local businesses (pastry shops, bakeries). The latter are positioned primarily in the fresh product segment (fresh bread and fresh pasta) unlike the larger companies, which derive most of their sales revenue from dry goods (dry pasta and baked goods).

A peculiarity of the supply chain is associated with the geographic location of the major companies, where a significant contribution from the south of the country emerges.

The industrial pasta sector (particularly dry products) evidences one of the highest levels of export propensity (between 25% and 30% of sales revenue) when compared with the other various segments of the Italian agri-food sector, a characteristic that continues to strengthen over time.

### **Cooperatives and policies**

Unlike what occurs in other important chains of the agri-food sector, in the world of mills and pasta factories the cooperative system plays a marginal role both in the number of businesses and in economic importance in terms of sales revenue.

The cooperatives present in the cereal sector are engaged in the collection and the commercialization of cereals from members, along with the supply of farm inputs to farmer-members. Differently, in these cooperatives transformation activities have always had a less important role compared to other sectors, probably also because of the historical CAP's support on cereals prices in the last decades that made processing investment less urgent. In the last years, the cooperatives operating in the cereal sector have made some efforts to increase processing investment and thereby the supply of final

consumer products (e.g., pasta). However, this category of products still represents a small part of sales and often processing activities are functional in obtaining feedstuff.

In this framework, agricultural cooperatives represent an important actor in the phase of cereals distribution with a market share that fluctuates between 20% and 30% of collected and commercialized cereals; this share has held steady in the 2000-2010 period (Table 10).

These cooperatives, along with investor owned firms that carry out the same activity, have many difficulties in increasing own countervailing power considering that cereals are commodity and their value strictly depends on fluctuations of prices at international level. Moreover, these cooperatives normally collect cereals at local or regional level; this does not favour the concentration of supply that would be useful to improve the competitive position. In this framework, the strong fluctuations of cereals prices and consequently income levels, cause even more uncertainty in both the areas of investments and the levels of production, especially after the CAP's reform which shifted from coupled to decoupled subsidies. To limit this effect, it could be useful to enhance policies which encourage agreements among firms operating in the different phases of this food chain, such as for instance the "supply chain contracts" (see chapter 5).

The cooperatives active in this sector focus on distribution phase; this is also explained by historical and regulatory framework issues. Even during the fascist era, the Agricultural Consortia, which was a type of cooperative enterprise, was granted a public function in the collection and managing of cereals. Over the years, even if in a different way, this function is still in place and still has its mark on the structure of the sector considering that: 1) Agricultural Consortia operate in a favourable regulatory framework compared to all other farmers' cooperatives; 2) 4 of the top-5 cooperatives operating in the storage and commercialization of cereals are Agricultural Consortia (Table 11 and 12).

### 5.3 Sugar

The Italian sugar beet industry has been reduced to a minimum in the past decade.

In the 2001-2009 period the agricultural output of this sector has decreased at an annual rate of -13% (graph 3); areas dedicated to cultivation of the sugar beet were reduced from about 200-250,000 hectares annually to less than 50,000 hectares annually with around 10,000 farms specialised in sugar beet.

At the same time, only four of the nineteen existing sugar factories at the beginning of 2000s, have remained active, three of which are located in the north and one in the south. These four sugar factories are affiliated with three companies.

As result, the share of national demand for sugar covered by imports has increased.

#### Cooperatives and policies

The explanation of this trend is to be found in the revision of the Common Market Organisation (CMO) for Sugar decided by EU in 2005. This reform reduced the guaranteed price of sugar from 631 €/ton to 404 €/ton, causing a major restructuring of the sector that was financed by the EU with important contributions in compensation.

Nowadays one of the three companies active in production of sugar is a cooperative and the only one to have two plants. In the 2000-2010 period this cooperative entity, which was the only Italian sugar cooperative in 2000 as well, has increased its market share up to around 20% (Table 10), due to the less heavy competition from investor-owned firms.

In order to increase efficiency, in recent years the few remaining sugar factories have increased the volume of sugar beet processing and have begun to install cogeneration energy plants that are able to generate extra income through the energetic exploitation of residue and pulp, a practise encouraged by national and European policies for renewable energy.

The operating conditions are quite precarious and only through inter-professional agreements between farmers and manufacturing bodies, aimed at ensuring an adequate profitability to both parties, can this industry become sustainable in the long run.

## **5.4 Fruits and vegetables**

The fruit and vegetables sector is the most important within the Italian agriculture with almost 11 billion euros of production value in 2010 (about 1 million ha cultivated). Differently from many other agricultural sectors, the economic output of fruit and vegetables tends to rise as shown by the last decade trend (Graph 3).

The level of concentration of this sector is lower than Italian agriculture average; the value of production per farm is estimated at 24,100 euros versus the 27,800 euros of the national agriculture industry. The reduced size makes very difficult for small companies to deal with other players in the industry (industrial, commercial) that have a higher bargaining power.

Fresh fruit and vegetables are destined both directly to the final consumption market and to the manufacturers which use fresh products to obtain packaged and processed vegetables; the latter represent one of the most important industries within the Italian food sector thanks to a turnover close to 5 billion of euros in 2010 (Federalimentare).

The medium to long term progress shows a slight decrease in the number of business entities and a simultaneous increase in sales revenue both in the agricultural and in the packaged vegetable industry, showing a process of concentration.

Fruit and vegetable production is dramatically affected by weather conditions, probably more than any other agricultural industry. Consequently, its structural characteristics have exposed the entire chain (from farms to food firms) to a dynamic of wildly fluctuating prices. To this regard, in the last few years the framework has become even more uncertain as a result of the instability of various production costs.

Italian fruit and vegetable production, both fresh and processed, has the domestic market as its main destination, where there has been a recent trend of decline in consumption per-capita (quantity wise) of fresh fruits and vegetables by Italian families. In regards to distribution channels, a growing number of purchases are channelled through large retail entities.

The fruit and vegetable production is structurally higher than Italian consumption, so it also satisfies the needs of many foreign consumers. The availability of a full range of fruits and vegetables in addition to the geographic location of Italy as compared to the northern European countries, who are less suited to fruit and vegetable production as a result of natural soil and climate conditions, has allowed Italy to acquire a larger market share and gain commercial leadership in the international market.

### **Cooperatives and policies**

Fragmentation of the fruit and vegetables farms was mitigated by cooperation and, in recent years, by the formation of Producer Organisations (POs) after EU's regulations on financial support to POs were adopted.

Focusing on the historical role of the cooperative entities in this sector, it should be noted that the fruit and vegetables is the most important industry for the cooperative movement within the whole food industry: turnover exceeded 8 billion of euros in 2008 (Table 5) and market share controlled by cooperatives reached around half of the entire sales revenue of the fruit and vegetable sector (Table 10).

As in other food industries, the diffusion and the importance of the cooperative firms in the fruit and vegetables are linked to the lower bargaining power of producers compared to those of other actors in the food chain (i.e. retailers and manufacturers). Furthermore, there are many other factors which

over the years pushed farmers to join in cooperatives: e.g. the historical surplus of the national production, the higher investments required compared to annual crops, the need of production and marketing planning, the placement guarantee on the market of their products (through the cooperatives), the concentration process of retailers in the last decades.

Nowadays, within the domestic industry of packaged vegetables, cooperative entities register a larger average size compared to investor-owned firms, in terms of average turnover (5.2 million euros and 3.5 million respectively).

In addition, in the last decade, the competitive position of producer was also supported by the CMO Regulation for the fruits and vegetables sector that has encouraged Italian farms and manufacturers to concentrate the supply of fresh and processed product. The success of this policy seems to be strictly linked to the well-functioning system and the financing scheme which provides for the co-financing of investments carried out by POs, especially focused on the product marketing support.

Indeed, POs in the Italian fruit and vegetable industry recorded better performance compared to those of the POs engaged in other agri-food sectors, where these are regulated by the national law and did not benefit from financial support. Thus, over the course of time, in the fruit and vegetables sector the number of POs has increased, as well as the value of products marketed by them, which reached about 33%. Meanwhile the POs' share in the other sectors is about 4%.

In this context, cooperatives gain advantage compared to other firms in the food chain, because of their easier compliance to the requirements of the CMO Regulation (e.g. in terms of Producer Organisations governance). Not by chance, around  $\frac{3}{4}$  of the POs are cooperative, which is not surprising, considering that the requirements to be recognized as a PO are already "naturally" present in the farmers' cooperatives.

The development of POs in the fruit and vegetables sector certainly favoured the great performance of cooperatives in the 2000-2010 period; in this decade, the market share of cooperatives grew from 44% to around half of the turnover of the entire fruit and vegetables industry<sup>60</sup> (Table 10).

This result is first of all linked to the performance of the main cooperatives operating in this sector; their turnover significantly raised in the same years – also as result of prominent merger and acquisition processes which saw top cooperatives as key players –causing the rise of the concentration level within the cooperative movement engaged in this industry.

Nowadays, cooperatives and POs are well present in both marketing of fresh produce and the processing of fruits and vegetables. Generally speaking, a minor part of the sales is related to intermediate products destined for a second transformation by non-cooperative entities and most of the products are destined to the final market. Moreover, in case of packaged products, cooperatives bring mostly marketing-branded products to the final market.

## 5.5 Olive oil and table olives

The production of olives for oil and for consumption is concentrated mostly in the south of Italy, particularly in certain regions where olive production makes up as much as 20% of the overall value of agricultural production. The first transformation of olives into oil is an activity that is concentrated in the same areas of production for raw materials. More than 81.5% of the value of oil production comes from the south; the regions of, Calabria, Puglia and Sicily, in particular, produce 66% of the overall value of oil produced in Italy. In these regions olive groves are widespread and there are a lot of small olive oil farms.

The industrial segment, just like the agricultural one, shows an elevated fragmentation of businesses; it is no coincidence that just 7 Italian businesses are worth over 100 million euros and no one has a real leadership role. However, it should be stressed here how some foreign multinational companies

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<sup>60</sup> This data refers to 2008.

have recently taken over some of the most widespread Italian brands of olive oil – a demonstration of the high potential of the *made in Italy* mark on this product.

The transformation of olives into oil in olive oil mills has given way to a logic that is more geared towards personal consumption and extensive geographical reach rather than the search for economies of scale. In practice, olive oil mills are many in number and small in size and often, are not capable of maximizing production capacity. This leads to a market characterized by strong competition between olive oil mills; in the majority of cases these firms are price-takers as compared to the bottling and packaging plants in the successive stage on the supply chain, and they are not able to place themselves directly into the domestic market with their own brand names. Moreover, in the southern areas of the country, where agricultural and extraction processes are more widespread, packaging companies are lacking. As a result, the olive oil is transported long distances, primarily to the central regions of the country (Tuscany and Umbria).

Generally speaking, the Italian olive oil chain (from farms to manufacturers firms) shows a lesser degree of industrial and economic development compared to the other main Italian food chains (e.g. fruit and vegetables, dairy, wine, pasta, etc). This may be related to many factors. In many cases, incomes derived by farmers from olive crops have a secondary value and they do not represent the main economic activity of their owners. Moreover, old olive groves (which are really widespread in some regions) are generally less productive and they have, above all, an environment and landscape value (in Puglia, the first Italian region in terms of cultivated area and production, the uprooting of olive groves is legally forbidden). Other factors that could explain the developing deficit of Italian olive oil sector are the geographic focus of olive groves in the south of the country (where the entire economic system is weaker and less developed compared to the national average) and the micro-sized structure of farms and firms (much lower than the average of the entire agricultural or food sector). With respect to the latter issue, greater firm size would grant more bargaining power over downstream firms of the supply chain and it would permit a greater segmentation of supply according to reference markets and the demands of retailers.

The structural characteristics of this industry, associated with the explosion of the Spanish production, have exposed Italian olive oil to a strong downward pressure on prices over the past years. In particular, after the increase of olive oil prices in origin in the first part of the last decade, in 2006 this trend changed and prices started to drop significantly. As overall result, in 2010 current prices in origin for olive oil were only 10% higher than in 2000 (that means that deflated prices have decreased in the same period). Meanwhile, in the same decade, the production costs significantly increased (more than 30%), causing a strong drop in farmers' incomes.

Despite the weak structural framework of this business, the market share of Italian oil in foreign markets is significant, arriving at 20%-25% of total international trade for this product. However, Italian re-exports of Spanish, Greek, or other foreign olive oil contribute to this result; the Italian re-export of these products have significantly increased over the last years, after recent investments of foreign multinational companies in Italy (by taking over some of the main Italian olive oil companies) which use Italian plants and platforms to distribute in the external markets not only Italian oil but also olive oil produced abroad.

### **Cooperatives and policies**

Within the olive oil sector, the cooperatives play a far inferior role in respect to other food sectors. There are around 400 cooperatives primarily engaged in the collection of olives and processing them to obtain oil; overall, their turnover was about 240 million euros in 2008 (Table 5), a value very far from the sales revenue of cooperatives in other sector like for instance dairy, fruit and vegetables, meat or wine. Rarely, cooperatives reach an important economic size; more in details, only one farmer cooperative overcomes 10 million euros in terms of turnover (Tables 11 and 12). As result, the market share of the cooperatives in this industry is low compared to that of investor-owned firms (about 5%; Table 10).

The historical weakness of the cooperative movement in this industry seems to be related first of all to the geographical location of farms and processing firms, that is in the South of Italy: in this area the

cooperative movement is less developed due to a political, institutional and cultural environment being historically less favourable to the cooperative system. Moreover, the olive oil cooperatives are often only engaged in the first processing to obtain intermediate products or olive oil often destined to farmer members; in this way, value added of the activity is generally low. Obviously, there are also cases in which cooperatives supply final and branded products (bottled olive oil) to the market which guarantee a higher value added; in the last years cooperatives tried to develop this strategy but nowadays most of sales generally refer to intermediate products and the sales market is mainly local.

Focusing only on the last decade trend, the market share of the cooperatives in the Italian olive oil has significantly decreased, from approximately 13% to 5% (Table 10)<sup>61</sup>. This may be related to the low orientation of the cooperatives to supply final consumer products and to foreign investors entering the sector and consequently increasing competitive position of investor-owned firms. Furthermore, differently from what happened in other sectors, in the same period there were no prominent mergers processes among cooperatives which could be useful to improve their competitive position, according to the minimum sized required to invest in the downstream phases of the chain (second processing and marketing activities) and to match the demand of national and international retailers.

The policies of the latest years do not seem to successfully support the cooperatives engaged in the Italian olive oil sector.

The decoupling subsidies introduced by CAP health check (2008) favour highly productive olive groves while in the Italian olive oil sector cooperatives' members are mainly small farmers whose incomes are often strictly linked to European subsidies; in this scenario in some cases cooperatives' members have chosen not to produce more. Consequently this has had an impact on the production value of olive oil cooperatives.

On the other hand, European Regulations on private storage, which had to support olive oil prices, did not work successfully in Italy, mainly for two reasons. This policy became effective only in few cases (during strong price crisis), i.e. when market prices would drop below a minimum level defined, and the latter was generally too low compared to the average olive oil prices in Italy. Secondly, the amount of the support was often too low to push firms in storage olive oil, considering that in most cases processing firms (and especially cooperatives) did not have required storage structures and they had to rent them (that means more costs). This kind of support could be a key measure to support Italian olive oil farmers and processing firms (among which cooperatives), but it should be more consistent to the Italian industry characteristics.

Considering the strong difficulties of the Italian olive oil sector, also other policies should support olive oil cooperatives and their farmer members. Among these, the most suitable seem to be: 1) the introduction and the boost of the agreements among firms along the olive oil chain to low uncertainty in production considering the high price volatility; 2) the adoption of the fruit and vegetables Producer Organizations' system and financial scheme also for the olive oil POs with the aim to favour the concentration and organization of the supply. In both cases, cooperatives could benefit from their structural characteristics, i.e. the integration of the agricultural and processing activities of the chain and the governance system which successfully match with the PO requirements.

Finally, it should be noted that the environment and landscape value of the olive groves (in Puglia – the first region in terms of cultivated area – it is also recognised by a regional law which prohibits the uprooting of olive groves) affects the plants turnover and the industry structure and productivity. These characteristics limit the effects of strategies and policies focused on the competitiveness of cooperatives (along with other entities). For these reasons the extra-economic value of olive groves should be taken into more consideration within the CAP (in the “*greening*” component of new direct payment scheme) and more generally within the agricultural policies.

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<sup>61</sup> More in detail, data refer to 2000 and 2008, respectively.

## 5.6 Wine

In Italy, grapevine cultivation is spread throughout a large part of the country. The peculiarities of climate conditions as well as historical, cultural and socio-economic factors have resulted in creation of diverse wine-production systems, each of which is characterized by specific conditions. If we look at the average economic size of farms in the business of grape and wine production, a large fragmentation of production systems becomes evident. In fact, the average value of farm production is about 10,900 euros, a figure that is less than half of that of the total produced by all Italian farms.

The business structure of agricultural production influences the rest of the supply chain. Most of the Italian wine production refers to geographical indication products (63% in 2009)<sup>62</sup>. In July 2011, there were 511 geographical indication wines in Italy, including 392 PDO – Protected Designation of Origin – wines (10 of which involve more than one region) and 119 PGI – Protected Geographical Indication – wines (10 of them involve more than one region)<sup>63</sup>. These wines are widespread in every regions and their production involves all types of firms (cooperatives and investor-owned firms). Regions with the higher number of geographical indications are, in following order, Piemonte (57), Toscana (52), Veneto (48) and Lombardia (41), while the main regions in terms of weight of PDO and PGI wines on the whole regional wine production are, respectively, Trentino Alto Adige (99%) Toscana (88%), Friuli Venezia Giulia (84%), Piemonte, Veneto, Marche and Lombardia (83% in each of the last four regions).

In the transformation phase there are diverse business models: (1) industrial businesses that produce wine from grapes cultivated by others and which have a complex production and organisation profile; (2) Producer-oriented organisations, such as cooperatives, on which many farmer-members rely on for wine production, and which, in the past years, have excelled in downstream integration by adding new commercial or joint-stock companies under the control of cooperatives; and (3) larger, integrated farms who engage in all phases of wine production from vineyard management to bottling.

Even though the Italian wine sector is distinguished by a strong fragmentation of production processes, the export propensity of the wine industry is quite high (around 33%) and is still growing due to both success of Italian wine on the international market and consumption trends. Wine consumption is growing in many developing countries, while in Italy it is decreasing (in quantity).

The great performance of the Italian wine industry in the 2000-2010 period was possible especially thanks to the qualitative improvement of products marketed. The latter is demonstrated by two simultaneous trends: 1) the important growth of the industry turnover even if sales in volume were significantly decreased (-13%); 2) the strong growth of the export of bottled wine (+ 53% in volume) and contextually the decrease of wine sold in bulk (-13% in volume).

From a geographic point of view, the main entities are located in the north even though some areas in the south have shown positive trends in the last decade.

Between 2007 and 2010, the prices of the most important varieties of wine were characterized by two distinct occurrences in the market: between the beginning of 2007 and the first months of 2008, prices increased, particularly for white and red table wines; however, after the first quarter of 2008, prices began to show a downward trend and dropped to a level lower than the original starting price. Only in the last months of 2010 did the negative trend reverse and prices rise to levels similar to those of 2007.

Large retail distributors account for about 2/3 of wine sales, a figure that is still lower than that held by the same for the total number of agricultural products (more than 70%) in Italy.

### Cooperatives and policies

Wine is the sector where the market share held by cooperatives is the highest; compared to the total Italian wine industry, cooperatives account for about half of the total sales revenue (Table 10),

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<sup>62</sup> Source: ISTAT.

<sup>63</sup> Source: MIPAAF.

although their weight is smaller in terms of number of businesses. In a highly fragmented sector, these figures emphasise the fact that the average size of cooperatives, in terms of turnover, is larger than those of investor-owned firms. Not by chance, the top three wine industry companies are cooperatives (Mediobanca, 2011).

The explanation of the importance and the diffusion of cooperative entities in the wine industry can be found in the historical surplus of wine production, compared to the national consumption, and contextually in the fragmentation of the agricultural phase. Moreover, considering the higher investments required compared to other sectors (especially those linked to annual crops), cooperatives were a way for farmers to partly cover their economic risk, as they guarantee the sale of agricultural products on the market. In this context, since the first decades of the past century, farmers decided to set up cooperatives to commercialize their products. Only in the second half of the past century wine cooperatives also started to focus on the improvement of their processing activities. In any case, for thousands of small farms, the concentration and processing activities of the cooperative firms were (and are even today) the only way to raise the value added of the products and their income from wine grape.

In respect to the geographical distribution of cooperatives producing wine, the main Italian Regions, in terms of number of cooperatives, are, respectively, Sicilia, Piemonte, Puglia, Emilia Romagna, Veneto and Trentino Alto Adige; however, this regional rank significantly changes shifting the focus from the number of cooperatives to their turnover. In the latter case, the most important regions are respectively Veneto (24% of the national wine cooperative sales revenue) Emilia Romagna (24%) and Trentino Alto Adige (17%); overall these three regions represent about 2/3 of the whole Italian wine cooperative turnover.

Focusing on the last decade (2000-2010), the turnover of cooperatives grew significantly, especially thanks to the performance of the largest ones. Their increase in size was often related mainly to merger operations undertaken to increase efficiency, bargaining power and investment capacity, and as a result, the possibility to raise prices paid to farmer members for products delivered. Moreover, in many cases these operations allowed to match the products assortment required by retailers, especially in the international markets.

In the 2000-2010 period, the major Italian wine cooperatives usually focused their investment in downstream stages of the production chain in order to develop branded products that were ready for final consumption. As result, nowadays, in the top cooperatives large part of the sales derive from marketing-branded products but there are still many cooperatives which mainly sell wine in bulk.

In spite of their good performance, in the same period the market share held by cooperatives seems to have slightly reduced (Table 10); indeed, the growth of cooperatives was lower than that of investor owned firms.

This is why the increase of the entire Italian wine industry was mainly pulled by foreign demand; in this context, the cooperatives seem to have only partially capitalized on international demand considering their lower export propensity in comparison to other companies (MIPAAF, 2011). The latter could be related to many reasons among which their higher rigidity in supply (due to strict bond with wine grapes withdrawn by farmer members) or the historical fact that low attention has been paid to intangible asset investment (first of all, those linked to commercial and marketing phases).

For the future development of the Italian cooperative movement in this sector, policies should encourage promotion on international markets, according to the structural trend of Italian (decreasing) and international (growing) demand.

Funds for “Promotion in Third Countries”, provided by the Common Market Organization (CMO) for wine in 2008, go in this direction. Indeed, the last CMO reform shifts the attention from distillation and enrichment subsidies focusing on how European wine production can match the demand. This new strategy seems to be consistent with the future competitiveness of the Italian industry and challenges that it has to face.



Before assessing how cooperatives are benefiting from these funds, it is necessary to point out that the effectiveness of “funds for promotion” has been limited in the case of Italian industry because of large dispersion of funds in too many regions and bureaucratic levels.

In this context, from 2008 to 2011, cooperatives benefited from funding with 18% of all “Promotion in Third Countries” projects (44 out of 247) and 36% of the overall allocated contributions (28 million out of 79 million euros)<sup>64</sup>. These figures show that the access of cooperatives to these funds is less widespread compared to investor-owned firms. At the meantime, the average value of investment project financed is about double for cooperatives in respect to other entities (the weight of cooperatives double shifting the focus from the number of the projects to their value). These statements suggest the presence of different behaviours within the wine cooperatives system. On one hand, large-sized cooperatives are often also engaged in international market using these funds for important promotion investments to strengthen their market share and enter in new markets; on the other hand, usually smaller cooperatives do not export their products and they focus on national or regional markets (differently, there are many small IOFs which are very focused on the external markets).

Another policy that influenced the wine cooperatives in recent years is the extirpation of vineyards promoted by the new CMO with the aim to support the market rebalancing demand and supply in the wine industry. This has had effect on Italian industry; since the introduction of the CMO’s reform (2008) in the last 3 years were extirpated 30,000 hectares of vineyards (around 4% of the total).

This reduction has mainly involved Italian geographical areas where wine quality is lower, causing a decrease in terms of cooperatives’ members and wine production. This is a major problem, above all, for many cooperatives of the south of Italy which were already working below their productive capacity. In fact, in the southern regions the wine production has significantly decreased in the last decades reducing the use of production plants; if the latter continues to drop, unit costs of production will rise even more, leading to a minor competitiveness of cooperatives and a lesser capacity to pay grape wines withdrawn by farmer members.

## 5.7 Dairy

The dairy sector is one the most important and less fragmented industries among the Italian food chains.

At farming level, the average value of agricultural production per business entity is almost triple that reported for agriculture as a whole (respectively 74,000 euros and 28,000 euros per firm). In the last decade, this stage of the dairy chain has experienced a dramatic restructuring: the number of farms has almost halved in the 2000-2010 period, nevertheless the total production has held steady. Nowadays, Italian dairy farms have reached a dimension in terms of livestock heads similar to other main EU partners, except the United Kingdom; instead, in terms of average milk yield, there is still a gap. Italian farmers receive a higher price for their milk than Germans and French, mainly due to the very relevant presence of PDO food chains and their higher quality requirements which also means higher production costs.

Domestic milk production amounts to about 120 million hectolitres. The major part of products made from cow’s milk comes from the north of Italy (79%), particularly in the Lombardy and Emilia-Romagna regions where the business leaders of the milk industry are located. Conversely, the major part of sheep/goat milk production is concentrated in the southern regions, particularly in Sardinia.

Shifting on to manufacturing phase, the dairy industry uses most domestically-sourced milk for the production of cheeses and other milk-derived products. The amount of raw milk destined for drinking consumption is around 20% while more than the 70% is destined to cheese production (the rest is used for other products like yogurt or butter).

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<sup>64</sup> These figures do not include cooperatives involved in temporary grouping of companies.

PDO cheeses represent around 38% of total Italian cheeses and they absorb 47% of total Italian milk. However, part of the milk processed through the dairy industry also comes from other countries, which indicates that the processing capacity of the dairy industry is at a level that is higher than the amount of raw materials currently available in Italy.

In 2010 the turnover of the dairy manufactures was around 14.8 billion euros, which is the highest within the food industries (12% of whole Italian food turnover). Although characterized by the presence of many small businesses (especially focused on PDO cheeses production), the dairy processing industry also has several big players; more than 40% of the sales revenue from the dairy industry is attributable to the top-10 companies of the supply chain. However, the average size of the dairies is still not very large: more than 78% of dairies collect 5,000 ton of milk or less while in Germany and France this type of firms is at 34% and 59% respectively. Differently from what occurred for farms of this sector, the number of companies involved in milk collecting and processing has not experienced a significant decrease over the last decade; indeed a deep process of restructuring had occurred in the '80s and '90s.

A large part of the final consumption of milk and dairy products passes through the distribution channels of large retail facilities, which carry about 12 billion euros worth of dairy products; other 7 billion euros are channelled by HORECA operators. The production supply of the sector's businesses also satisfies the needs of many foreign consumers in terms of cheeses and dairy products; export of these goods has grown considerably in the last few years, arriving at 1.9 billion euros in 2010. In the nearest future world consumption of dairy products is forecasted to growth both in developed countries and in emerging economies. In particular, the latter will be an important chance of growth.

In the last five years, the dairy sector has experienced (both at national and international level) a period of considerable turbulence that has resulted in extreme price volatility. The farmers affected by these conditions have known great difficulties. If this volatility becomes the standard, it is likely that the businesses in this industry will seek further to improve efficiency, which may result in a market exit acceleration of those who are less efficiently organized.

### **Cooperatives and policies**

The weight of cooperatives in the dairy sector is really important. Their market share is estimated to above 40% compared to the turnover of the entire manufacturing stage of the industry (Table 10). From an other point of view, this sector is particularly important for the entire cooperative movement as shown by the fact that five out of the top twenty agricultural cooperatives focus on this industry (Table 11).

The role of cooperatives in the dairy sector is linked to the low bargaining power of farmers in selling raw milk to manufacturing firms, which was already clear in the first years of 1900s. Not by chance, the dairy is one the first food sectors where cooperatives were developed. First cooperatives were built from the need and the willingness of farmers to increase income by integrating processing activities to obtain milk for drinking, butter and cheeses for final consumer market. Moreover, the high investments made by farmers in this sector (purchase of livestock) pushed for a guaranteed way to market raw milk; in this context, joining a cooperative could be the right choice, considering that this type of firms has to withdraw all the agricultural products delivered by farmer members.

Cooperatives are located mostly in the north of Italy (80%) and are specialized in both industrial, brand name products and the main PDO productions. To this later issue, the main exemplifications are the Parmigiano-Reggiano and Grana Padano products; in both cases, cooperatives represent at least 60% of the total production. The strong relationship between the manufacturing activities of the cooperatives and the raw milk production of members at farm level, favours covering the entire supply chain and the compliance with the PDO requirements (e.g. the presence of every agricultural and manufacturing activities in the same geographical area). In these productive segments (PDO) all kind of firms – large, medium and many small cooperatives – are involved. Differently, usually the production of milk for drinking, yogurt and other fresh dairy product derivatives primarily involves cooperatives of larger economic size, due to the importance of having economies of scale in this type of production.

Overall speaking, however it is interesting to underline that cooperatives working in the dairy sector register, on average, a business sales revenue that is higher than that of the investor owned firms (6.9 million € vs. 4.4 million €, respectively).

Focusing on the main dairy cooperatives, branded products represent most of the sales and the efforts to invest in this type of product have been raised over the last decade, considering that this is an obliged way to increase value added and farmer members' income. Anyway in the last years, cooperatives, along with investor owned firms, have been affected by the fast development of private label sales on milk for drinking and other dairy products. This has surely affected strategies and negatively affected performance of the cooperatives; indeed, in these market conditions (i.e. the fast growth of private label market share), also cooperatives with well-known branded products have been obliged to sell part of their production as undifferentiated products ready to be sold by GDO as own branded products.

In this critical scenario, cooperatives have held own market share on the whole manufacturing production of dairy products (above 40%; see Table 10) and thereby their competitive positioning versus investor owned firms. This was while the concentration level in the dairy cooperative movement raised, due to, among other, many acquisition operations (or starting up new companies controlled by cooperatives) which involved primarily top cooperatives. Thereby, the main critical matter for cooperatives involved in this industry refer to their decreasing bargaining power versus retailers; this find its explanation in both the fast increase of the private label in the dairy market and the more concentrated structure of retailer industry.

Another issue which could indirectly affect on performance of the dairy cooperatives in the future refers to the end of the EU milk quota system in 2015 and consequently the liberalization of the market. Up to now this regime has virtually held the national production steady within European Union member countries. From 2015, it will be very different; European Union farmers will have no productive restrictions and the most efficient breeders will be able to benefit from this new situation; it means that, concerning milk destined to products different from PDO, Italian farmers could be penalized due to their higher production costs compared to those of other european countries. Furthermore, if the business efficiency of farmers does not increase, Italian cooperatives could suffer more than other manufacturing firms, because of their tight relationship with farmer members which usually provide for a large part of milk cooperative procurement.

Summarizing, in the next future, high market volatility, bargaining power of retailers and EU quota regime phasing out, should push further towards an improvement of business efficiency, putting more farms out of market. At the same time, the market scenario in which cooperatives work will become even more critic and competitive.

Policies could limit the effects of these issues on dairy cooperatives; to this regard, some exemplifications of policies which could be useful refer to the possibility to introduce or extend: 1) agreements among firms along the dairy chain to fight high market volatility and give certainty in production and investments 2) the adoption of the fruit and vegetables PO's system and financial scheme in the dairy sector as well, to boost the concentration and organization of the supply; 3) the possibility of planning production for PDO cheeses in order to better manage the supply side.

## **5.8 Sheep meat**

The sheep breeding industry in Italy has a mixed productive specialization in which milk is the primary product and meat is the secondary one. The breeding system is primarily extensive, with animals always at pasture and with night shelter in a stall, whereas intensive breeding systems, with caged or enclosed settings for animals are not widespread.

In terms of structure and organisation, the supply chain of sheep products is characterized by the high number of fragmentation of businesses in the sector. In some regions, the contribution of sheep breeding to the socio-economic development of the area is very significant. One such example is

provided by Sardinia, where the economic relevance of the sheep industry (for milk) is superior to all others.

Almost all sheep meat is sold directly on the domestic market and there is no significant flow of exports.

### **Cooperatives and policies**

Agricultural cooperatives with members who breed sheep generally engage in the transformation of sheep milk into dairy products. Large business cooperatives dealing primarily in the slaughtering and sale of sheep meat do not exist. The sale of sheep meat in most cases is done directly through farmer members without going through the cooperative; it is estimated that 15% to 30% of animals slaughtered are done so in this manner, that is, outside of official channels. Alternatively, there are also non-cooperative slaughterhouses.

## **5.9 Pig meat**

The pig industry is characterized by a strong concentration in the northern area of the country, particularly, in the four regions located in the Po Valley (Emilia-Romagna, Veneto, Lombardy, Piedmont) where more than 75% of national assets (number of livestock) are located.

The pig breeders mainly produce livestock in the weight category of 150-160 kg (heavy pigs), which are destined for the processing industry. The heavy pig is used for production of processed PDO meats; almost 70% of pigs slaughtered in Italy are part of this category (8.8 out of 12.9 million).

The Italian system of farming, because of its focus on the production of fat or “heavy” pigs, is more affected by rising pressure on costs than the other European breeding systems – the production costs of the pig meat in Italy are the highest among the main world producer countries (Interpig, 2009) –, especially with the international (and national) downward prices trend.

If in the next few years the decline of business profitability continues, the sector might further restructure its assets in the pig-breeding industry. This will include a reduction in the overall number of breeding farms despite the fact that this sector is already the least segmented of all the agricultural sectors in Italy. Already in the last decade there was a decisive improvement in efficiency in this area; many slaughterhouses that were not in compliance with EU sanitary regulations were forced out of the market. This process has caused an increase in the average number of livestock per slaughterhouse.

In the Po Valley in particular, the pig-breeding industry now comprises millions of livestock. This influences farming strategies relative to the production of crops present in that territory (corn, oilseeds, etc), which are used as feed for pigs. In these areas the breeders are in direct contact with both the industrial businesses (i.e., slaughterhouses and meat processing firms) and the final market (i.e., large urban centres).

In the pig-meat industry, Italy has a degree of self-sufficiency equal to 66% of total resources, the remainder of which is imported foreign livestock. However, the products exported from Italy to the international market are primarily those that have been produced entirely in Italy. These are usually PDO products that boast foreign sales revenues of several hundred million euros (e.g., Prosciutto di Parma, Prosciutto San Daniele, etc).

### **Cooperatives and policies**

Development of the cooperative movement in this industry is more recent compared to other sectors, such as wine or dairy; most of the main cooperatives which work in the pig sector were founded only in the 1980s or later. In some cases, this could negatively affect the equity ratio and thereby investment capabilities of these cooperatives; in fact, considering the Italian fiscal framework (see section 5.3), usually most of the cooperative equity is based on net proceeds reserved in precedent years and therefore it depends on the life-length of the cooperatives.

The need to get involved with the downstream phases of the supply chain (slaughtering and meat processing) and to increase bargaining power and competitive position versus other food chain players, has forced breeders to join in a business cooperative.

In Italy, no specific form of monitoring focuses on the pig meat cooperatives; indeed, the “Italian agricultural cooperation Observatory” analyses and monitors the meat sector without differentiating segments, such as poultry, beef, sheep or pig (see Tables 5 and 10). However, the presence of cooperatives in the pig sector does not seem to be marginal when looking among the top 30 agricultural cooperatives: 4 of them work in this specific industry (Table 11). In any case, the role of cooperatives in the pork sector is much less important than main “cooperative” sectors, i.e. wine, dairy and fruit and vegetables.

Cooperatives of the pig sector are present especially in the first processing level (meat slaughtering) while just a small part of cooperatives focus on the production of cold meats. Consistently, in most cases they send their products to other industrial entities for other processing activities, while rarely most of their sales refer to branded products (the latter strategy seems to be possible just in case of cold meats).

Focusing on the governance issues, it should be noted that the legal obligation of members to deliver all their products to the cooperative is less widespread than in other food sectors (like fruit and vegetables or wine), at least focusing on the larger companies; in some cases this could represent a matter in the marketing and processing planning of cooperatives.

In the 2000-2010, the top cooperatives of the pig industry have tried to improve their position in the downstream phase of the chain, sometimes also through merger and acquisition processes. However, much work could still be done in this direction to improve the competitive position.

Given worsening market conditions and continuous rising production through years, policies should probably favour the re-balance of demand and supply. To this aim, perhaps it would be useful to extend planning production in PDO (Protected Designation of Origin), as it was done in the Italian dairy sector. Furthermore, agreements among the actors of the food chain could help to reach the same goal. In both cases, the cooperative firms would play a central role thanks to the structural integration of agricultural and manufacturing phases of the food chain.

## 6 Overview of policy measures

### 6.1 Regulatory framework

The performance of cooperatives (including producer organisations) is influenced by the regulatory framework in a country. This framework is multi-level: EU regulations, national laws and –in some countries - even regional policies influence the way cooperatives can operate. In this chapter we look especially at the regulatory framework that influences the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector).

These competitive positions are influenced within the regulatory framework by much more than the law that establishes the rules for running a cooperative (business organisation law). Well known other examples include agricultural policy, fiscal policies and competition policies. There are different types of policy measures in the regulatory framework (McDonnell and Elmore (1987):

POLICY MEASURE TYPE	DEFINITION
Mandates	Rules governing the actions of individuals and agencies
Inducements	Transfer money to individuals in return for certain actions
Capacity Building	Spending of time and money for the purpose of investment in material, intellectual, or human resources (this includes research, speeches, extension, etc.)
System Changing	Transfer official authority (rather than money) among individuals and agencies in order to alter the system by which public goods and services are delivered

The objective of this project / report is to identify support measures that have proved to be useful to support farmers' cooperatives. In section 5.2 the relevant policy measures and their potential impact in Italy are identified. In section 5.3 a number of other legal issues are addressed.

### 6.2 Policy measures

The Table below identifies the policy measures that influence the competitive position of cooperative versus investor-owned firms (IOFs) or the competitive position of cooperative versus other players in the food chain (e.g. the retail sector).

Focusing on the period 2000-2010, Table 16 reports policies that have affected the development of Italian farmers' cooperatives. Among these, there are different kinds of policies but generally they refer to framework laws and regulations, market regulation and competition or inducement policies.

In this context, many measures undertaken in the 2000-2010 period have had a positive influence on farmers' cooperatives framework. Some important examples are the Legislative Decree no. 228/2001 and the Legislative Decree no. 6/2003 (reform of the company law, for the part focused on cooperatives). Both of these regulation actions (especially the first one that put the cooperatives as key players in future strategies for agricultural sector) make the institutional environment in which cooperatives work clearer. These laws recognize the importance of farmers' cooperatives within the Italian agri-food sector and promote the integration among the processing and marketing activities of the cooperatives and the agricultural activities of members.

A favourable impact on farmers' cooperative also came from EU's Common Market Organisation (CMO) that deals with Producer Organisations (POs) in the fruits and vegetables sector. This

regulation stimulated the Italian sector to concentrate supply and improve the competitive position of farmers and processing/marketing firms vis-à-vis retailers. In this framework, cooperatives have been the main actors in the agri-food chain, thanks to the “natural” compliance to the requirements of the CMO Regulation (e.g. in terms of Producer Organisations governance).

Another policy that, in a different way, has improved the commercial relations of cooperatives versus retailers refers to law no 231 / 2005. This one regulates the possibility of production planning in PDO (Protected Designation of Origin) cheeses. Many cooperatives, often small-sized and located in disadvantaged areas, work in this segment of the Italian dairy sector. In that way, under certain conditions, firms producing PDO cheeses could direct production according to the market trend, in order to avoid crisis-related fluctuations in producer income and a drop in PDO quality requirements.

There are many other policies that have positively influenced the competitive position of cooperatives vis-à-vis investor-owned firms (IOF) or versus other players in the food chain. In many cases this fact deals with the strong integration of processing and marketing cooperatives with the upstream activities of members at the farm level. For instance, for a mainly mutual cooperative, it is easier to be in compliance with the requirements introduced by law no 4/2011 (and previous other laws focused on specific products) on obligatory labelling of place of origin of food products. For the same reasons, farmers’ cooperatives had a practical advantage in accessing funds reserved for “supply chain contracts”, introduced by law no 289/ 2002. Therefore, when policies promote integration of firms working in Italian food supply chain, cooperatives benefit because of their features.

Meanwhile, during the examined period (200-2010) some policies have had a negative influence on farmers’ cooperatives.

Among these, there is the law no 99/2009 in the part dedicated to “*Agricultural Consortia*”, a specific type of cooperative operating in the cereals sector and in providing input to farmers (along with many other cooperatives). The law recognises a public function of *Agricultural Consortia* and a dispensation from their compliance to the requirement of prevalence of mutual exchange with farmer members, defined by Civil Code for mainly mutual cooperatives. Therefore, regardless of respecting this requirement, *Agricultural Consortia* take advantage of the civil and tax benefits available to mainly mutual cooperatives, differently from all other farmer cooperatives (that have to fulfil this requirement). As result, in this sector there are agricultural cooperatives that operate within a different regulatory framework; this causes a negative impact on members’ participation in the cooperative movement and on the competition arena.

It is also stressed that the grant exclusion of large-sized cooperatives from European Agricultural Fund for Rural Development (Reg. CE 1698/2005) does not deal with the aim of encouraging the concentration of supply of farm production and the income level of farmers. The large size of cooperative depends also on the high number of farmer members that are indirectly penalized by the exclusion from grants of these cooperatives (prices paid for products delivered by farmer members depend on the cooperative performance). Thereby this policy could discourage the cooperatives’ growth and concentration of supply; this is where the concentration of supply in Italy is far below the levels reported in other European countries.

A policy applicable to business in general, that indirectly affects the competitive position of farmers’ cooperatives, refers to standard rating systems for economic and financial assessment of firms. In fact, in the financial statements, the income of an agricultural cooperative is almost always low and linked to its future investments; this is because the larger majority of margin is accounted for as a cost considering that it represents the value shared among members on the basis of mutual exchanges. As result, the rating of a cooperative is underestimated, with negative consequences on costs and availability of capital. This could negatively affect business investments in the phases of the food chain with higher value added (processing and marketing).

Table 15 – Policy Measures Description

Policy Measure Name	Policy Measure Type	Regulatory Objective	Policy target	Expert comment on effects on development of the cooperative
Legislative Decree No 228 of 18 May 2001. <i>Guidance law and modernization of the agricultural sector</i>	1.1. Cooperative legislation / incorporation law	1. Correction of market or regulatory failures 2. Attainment of equity or social goals	Specific to agricultural sector with a focus to farmers' cooperatives	Agricultural cooperatives become key players in the outlining processes of future policies for Italian agriculture, in terms of recognition of its role in increasing value of agricultural products, and as a fiscal/legal entity with benefits. The latter refer to cooperatives' specific legal form and their belonging to agricultural sector. This law also encourages developments in the downstream phases of the agri-food chain.
Legislative Decree No 6 of 17 January 2003 ( <i>Reform of Company Law</i> )	1.1. Cooperative legislation / incorporation law	1. Correction of market or regulatory failures	Applicable to business in general with a focus to cooperatives	Overall, the Company Law Reform clarifies the regulatory framework in which farmers' cooperatives operate (introducing two different types of cooperatives) and the method of determination of the mutual exchange level. This stimulates the integration among the processing and marketing activities of the cooperatives and the agricultural activities of members (indirectly also the sharing off business strategies). Even if it introduces some innovation regarding cooperatives governance, the effect has been limited to this subject.
Law No 311 of 30 December 2004 ( <i>The 2005 Italian Budget Law</i> )	2.1 Financial and other incentives	1. Correction of market or regulatory failures	Applicable to business in general with a focus to cooperatives	According to the new regulatory framework introduced by the 2003 Company Law Reform, this measure introduces a new fiscal framework. Its financial impact on agricultural cooperatives has been limited because of the low level of cooperatives' income in the financial statements (see the following section). The effects in term of governance structure point towards same direction as seen in the previous measure.
Council Regulation (EC) No 1234 of 22 October 2007 ( <i>Single CMO Regulation – parts focused on fruits and vegetables</i> )	1.2 Market regulation and competition policies	1. Correction of market or regulatory failures 2. Attainment of equity or social goals	2. Specific to an agricultural sub-sector	This regulation has encouraged Italian fruits and vegetables sector (fresh and processed) to concentrate the supply and to improve its commercial relations versus retailers. Cooperatives took advantage of this framework compared to other firms in the food chain, because of their natural compliance to the requirements of the CMO Regulation (e.g. in terms of Producer Organisations governance).
Legislative Decree No 102 of 27 May 2005. <i>Regulation of agri-food markets</i>	1.2 Market regulation and competition policies	1. Correction of market or regulatory failures 2. Attainment of equity or social goals	Specific to agricultural sector	This measure turned out to be only a theoretical attempt to regulate the functioning of the agro-food chains; in practice it has never become operational
Law No 289 of 27 December 2002 ( <i>The 2003 Italian Budget Law</i> )	2.1 Financial and other incentives	1. Correction of market or regulatory failures 2. Attainment of equity or social goals	Applicable to business in the food chain	The measure favoured the vertical integration of food supply chain and the stability of the relations (and incomes) among farmers, processing and marketing firms and retailers. The agricultural cooperatives was the main beneficiaries thanks to the entire coverage of the food supply chain through their processing and marketing activities and the agricultural production at farm level of their members.
Law No 99 of 23 July 2009. Measures for the development, energy and internationalization of firms ( <i>Part focused on the regulation of "Agricultural Consortia"</i> )	1.1. Cooperative legislation / incorporation law	1. Correction of market or regulatory failures	Specific to a part of cooperatives in an agricultural sub-sector (cereals)	In the sector of collecting, storage and marketing of cereals (in addition to provide input to farmers) this measure recognizes the existence of different legal frameworks for cooperatives. This disparity has negative effects on the members' participation in the cooperative movement and on the arena of competition.
Legislative Decree No 102 of 29 March 2004. <i>Financial measures for farms</i>	2.1 Financial and other incentives	1. Correction of market or regulatory failures 2. Attainment of equity or social goals	Specific to agricultural sector	This inducement policy promotes insurance instruments covering damage to agricultural produce caused by natural disasters or other calamities. The benefit of the measure involves mostly farmers; at the same time the agricultural cooperatives develop their role in terms of (insurance) services for their members.



Council Regulation (EC) No 479 of 29 April 2008 ( <i>on the common organisation of the market in wine</i> ) Council Regulation (EC) No 1580 of 21 December 2007 ( <i>fruit and vegetable sector</i> )	2.1 Financial and other incentives	1. Correction of market or regulatory failures	2. Specific to two agricultural sub-sectors	The Regulations can be considered a fundamental basis, because the decrease in income related to the crisis of the market is being dealt with for the first time. Nevertheless, from an operational point of view, the regulations involve neither the funding regulations nor operating regulations. Moreover the support is linked just to the administrative costs of the Fund.
Council Regulation (EC) No 1698 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)	2.1 Financial and other incentives	1. Correction of market or regulatory failures 2. Attainment of equity or social goals	2. Specific to agricultural sector	In a specific section, the Regulation provides the exclusion of large-sized cooperatives from the EAFRD grants. This hampers the concentrating product supply within the larger cooperatives, which usually perform better than small-sized cooperatives (in terms of value added to agricultural products) and thereby guarantee higher income levels to farmer members.
Law No 4 of 3 February 2011 (and previous laws on labelling of food products). Measures relating to labelling and quality of food products	1.2 Market regulation and competition policies	1. Correction of market or regulatory failures	2. Specific to agricultural sector	This law is the logical continuation of a series of legislative acts that in the past decade introduced the obligation to indicate the place of farming on the label of many important foods. In this framework cooperatives take advantages compared to other firms, in terms of product traceability (assured by this form of firms) and marketing communication where consumers are interested in the origin at farm level of food products (most of the Italian cooperatives mainly use the raw material of agricultural members for processing activities).
Law No 231 of 11 November 2005. <i>Production Plans for Protected Designation of Origin cheeses</i>	1.2 Market regulation and competition policies	1. Correction of market or regulatory failures	2. Specific to an agricultural sub-sector	This law regulates the possibility of production planning in the POD (Protected Designation of Origin) cheeses. Overall, this has been useful to link the supply to changes in demand to prevent the imbalance between supply and demand. Consequently it avoided a decrease of minimum quality standards of PDO cheeses and a drop of the income of members' cooperatives. Indeed, most of the firms in this sector are cooperatives.
Basil II Agreement (2004). ( <i>Credit Assessment and financial rating of firms</i> )	5. Other	Financial markets stability and improvement of financial resources allocation	3. Applicable to business in general	As the rating systems to assess financial profile are standard, farmer cooperatives are negatively affected because of their feature in accounting terms. Indeed, their rating is usually underestimated (the profitability shown by their financial statements is lower than the actual one; see section 5.3). As result, compared to investor-owned firms, the access to debt capital could be more disadvantageous (especially in the small-sized cooperatives). This could negatively affect business investments in the higher value added phases of the food chain with (processing and marketing).

## 6.3 Other legal issues

In this section a number of other issues are addressed; in many case there may be an overlap with policy measures reported in Table 16. In any case, we can go into more depth, clustering these issues in the following parts:

- Governance

Cooperative governance is based on the principle of “one man, one vote”. However, the national law permits a partial departure from this principle in the following cases:

- In secondary farmers' cooperatives, each legal person-member (i.e. other cooperatives or farms) can have a maximum of five votes, in proportion to the amount of capital provided or the number of members (if members are cooperatives as well).
- Co-operator members (with whom cooperative has a mutual exchange) can own multiple voting right in proportion to the volume/value of farm products delivered to the cooperative.

There are two limits: each member can have a maximum of 1/10 of General Assembly votes and the whole group of these members can have a maximum of 1/3 of the General Assembly votes.

- Investor members (with whom cooperative do not have a mutual exchange) can own multiple voting rights in proportion to the amount of capital provided. There are two limits: every investor member can have a maximum of five votes and the whole group of these members can have maximum of 1/3 of the General Assembly votes.

There is a limit with respect to the combination of exceptions above mentioned to the same entities.

Regarding the governance structure, the 2003 company law reform introduced the chance to adopt the two-tier board structure (as an alternative to the one-tier board structure) in Italian companies. In any case, nowadays just a few cooperatives (and firms in general) have adopted this company structure.

The mandatory corporate bodies are: the General Assembly, the Board of Director, an auditor (in cooperatives that make reference to a joint stock company), the Board of Statutory auditors and, in case of a two-tier board structure, the Supervisory Board.

Generally speaking, in the 2000-2010 period, usually the governance has not significantly changed in Italian farmers' cooperatives; indeed, the innovations introduced by the 2003 company law reform (e.g., the abovementioned chance to adopt the two-tier board structure, the departure from the principle of "one man, one vote" for co-operator members etc.), have only been adopted by a small minority of farmers' cooperatives up to now.

- Financing

Italian farmers' cooperative can raise equity in three ways:

- Admittance of new members (investor members – under specific law limits – or co-operator members)
- Member participation in equity raising
- Reservation of net proceeds in a general reserve, usually an indivisible reserve

The latter is the most common way among Italian agricultural cooperatives. In fact, usually the equity of cooperatives refers mostly to indivisible reserves.

In this regard, the structure of cooperative equity is consistent with the laws on distribution of profits and, therefore, with specific provisions of the law, the so-called mutual clauses. The latter refer to the prohibition of profit distribution and remuneration of financial instruments beyond a certain level, prohibition of indivisible reserves distribution, obligation to transfer the equity to Mutual Funds<sup>65</sup> in case of dissolution.

Assessing how this legal framework affects the cooperatives' efforts to attract equity is a rather complex topic.

The fiscal and legal frameworks encourage cooperatives to reserve income in indivisible reserves; this is an incentive for cooperatives to increase equity level. Nevertheless, this context discourages co-operator members (with whom there is a mutual exchange) to provide equity. However this particular context is consistent with the specificities of this type of business model and its mutual aim.

Focusing on investor members, the 2003 company law reform introduced the possibility to constitute divisible reserves available to this type of members, while preserving specific limits. This attempt to

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<sup>65</sup> According to article 11, law 59/1992, Mutual Funds are established and managed by the representative Associations of the cooperative movement with the aim of promoting and financing development of cooperatives in various manners, e.g. through participation in their capital. All cooperatives must allocate 3% of total annual profits to the Mutual Funds. Also, in the event of dissolution of a mainly mutual cooperative, its residual assets have to be allocated to these Funds. These are measures directed to strengthen solidarity among cooperatives.

expand the presence of investors has only partially worked and it has not been perceived as very attractive yet. As result, generally nowadays most of financial instrument holders refer to the farmer members with whom the cooperatives have a mutual exchange (co-operator members). This fact could be related to many reasons among which:

- investor members' lack of knowledge of these recently introduced instruments
- a systemic problem of market access for small and medium-sized enterprises

- Fiscal aspect

The Italian law provides a tax advantage framework for farmers' cooperatives, depending on both the cooperative legal form and the sector of activity (agriculture).

In any case, the benefits depend on the type of cooperative, namely, mainly mutual cooperatives or others cooperatives.

Focusing on corporate income tax (IRES – *Imposta sui redditi delle società*), mainly mutual cooperatives must subject 20% of their income to this tax. The remaining 80% of the income is tax-free, if allocated to a legal or statutory indivisible reserve fund. Other cooperatives, instead, must subject 70% of income to the IRES. The remaining 30% of profit is tax-free, if it is allocated to a legal or statutory indivisible reserve fund.

These indivisible reserves may never be distributed to members, and in case of dissolution of the cooperative, proceeds reserved to indivisible funds must be transferred to Mutual Funds. For these reasons, legally speaking, the partial exemption from corporate tax income can not be considered an aid.

In conclusion, regardless of income allocation, there is a minimum level of profit subjected to corporate income tax that can not drop below 20%.

The minimum levels of profit subject to corporate income tax have been introduced by law no. 311/2004, subsequent to the 2003 company law reform. Previously there weren't any laws defining minimum levels of profit subject to income tax and so all the income, if allocated to indivisible reserve fund, was exempt from income taxation.

However, it is important to underline that this measure has only had a limited impact. In fact, usually the income of farmers' cooperatives is low and linked to its future investments. The majority of the margin is accounted for as a cost (among the costs for inputs) because it represents the value shared among members on the basis of mutual exchanges. This value must be considered as a cost of the cooperative activity and its mutual purpose.

Shifting the focus from income tax, the law provides other types of benefits linked to agricultural activities (and not to legal form of the firm), which mainly mutual farmers' cooperatives, as well as farms, can apply. Among these fiscal advantages, some of the most important refer to a favourable tax rate on IRAP (*Imposta Regionale sulle attività produttive*<sup>66</sup>) and to the exemption from ICI (*Imposta Comunale sugli Immobili*<sup>67</sup>) on rural building.

- Competition law aspect

Cooperatives are subject to competition law regulations on the same footing as investor-owned firms and there are no exemptions especially formulated for cooperatives.

Up to now, no cooperative has been punished for violating the EU or national competition laws, e.g., because of its dominant market share. Italian farmers' cooperatives that could be included in these cases are very few.

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<sup>66</sup> Regional Tax on Industrial Activities.

<sup>67</sup> Local Council Property Tax.

## 7 Assessment of developments and role of policy measures

This chapter provides a concluding assessment on the development of cooperatives in Italy. In chapter 2 the basic statistics on agriculture and farmers' cooperatives were provided. In chapter 3 data on individual cooperatives were reported, especially concerning their internal governance, their position in the food chain and the institutional environment in which they operate.

This led to first impressions in section 3.5 on the performance of cooperatives in Italy in relation to their internal governance, institutional environment and position in the food chain.

In chapter 4 the data gathering and analysis was broadened by looking at the differences between the sectors and the influence of sectorial issues on the performance of the cooperatives. Chapter 5 looked much more into detail on how the regulatory framework influences the competitive position of the cooperatives in the food chain and vis-à-vis the investor-owned firms.

This final chapter assesses the (performance) development of cooperatives and how they can be explained in terms of the building blocks (institutional environment, position in the food chain including sector specifics, and internal governance). Section 6.1 focuses on the explanation of the performance of cooperatives in terms of their internal governance, their position in the food chain (including sector specificities) and the institutional environment (including the regulatory framework). In section 6.2 an assessment is given on policy measures that seem to benefit the cooperatives, as well as those having a constraining influence.

### 7.1 Explaining the performance of cooperatives

As testimony to the role that the cooperative system plays in the national economy, the Italian law provides specific regulations for the type of enterprises which also have a constitutional relevance.

In 2000-2010 period, new framework laws clarify the institutional environment in which farmers' cooperatives work, confirming and underlining specificities of the cooperative business model according to mutual purposes pursued and their full recognition as a farm when carrying out agriculture-related activities (e.g. collecting, storage, processing and marketing of farm products, etc.) mainly for the benefit of their farmer-members. For these reasons "*mainly mutual farmers' cooperatives*" (the large majority of Italian agricultural cooperatives) take advantage of specific civil and fiscal frameworks related to the cooperative legal form and the agricultural sector.

Over the years, this regulatory framework (clarified in the last decade, although its origins are in the past century) has encouraged the association of farmers in cooperative enterprises, initially only to improve the commercialization of their farm products and, subsequently, to expand into first and secondary processing activities.

However, development of Italian agricultural cooperatives has not been homogeneous.

This is linked to different variables, such as the specific sub-sector in which a cooperative works. Indeed, a vast part of cooperatives and their turnover refers just to some specific sub-sectors of Italian agri-food chains; first of all wine, fresh and processed fruits and vegetables, meat and dairy sectors.

The focus of the cooperative movement on these sectors seems strictly linked to the main Italian products and activities at the farming level, such as wine grapes, fruits and vegetables, breeding, olives. The large availability of these agricultural products forced farmers to develop processing and marketing activities. Because of the structural characteristics of Italian farms (among which, small size and the high age of farmers), the cooperative business model has been the main way to concentrate supply and invest in the integration of downstream stages of food chains in order to increase farmers' income.

However, development paths of agricultural cooperation have been affected by other factors as well. One of them is the localization of cooperatives and farmer-members.

Looking into the olive-oil sector, the lower development level reached by cooperatives, compared to what happened in other sectors, seems to be linked to the geographic focus of olive oil production in the south of Italy. Here, firms are generally smaller and the institutional and cultural environment has not favoured the development of the cooperative business model. Otherwise, better performance of cooperatives is found in sub-sectors (wine, meat, dairy, fruits and vegetables) where cooperatives and members refer (at least in terms of turnover) mainly to the north and, to a lesser degree, the centre of the country.

Another discussion should be devoted to the cereal sector, in which cooperatives primarily work with collecting and marketing of farm products (in addition to supply farm inputs to farmers) without first or secondary processing of cereals. In this latter regard, it is likely that the minimum prices guaranteed by the Common Agricultural Policy on cereals, for decades, has provided a financial aid that has made it less urgent for farmers to undertake processing of agricultural products through cooperative firms.

Regardless of geographical and sector-related differences, we have already underlined the importance of the regulatory framework for the development of farmers' cooperatives.

At the meantime, over the years, this framework has influenced cooperatives' governance by provisions and clauses consistent with their mutual purpose, such as the general principle of "one man-one vote", the prohibition of profit distribution and remuneration of financial instruments beyond a certain level, the prohibition of distribution of indivisible reserves built from tax-free income, etc. Moreover, the majority of benefits provided for agricultural cooperatives are reserved exclusively for "*mainly mutual cooperatives*" that can prove the prevalence of mutual exchange with farmer members.

As result, the governance of cooperative is characterized by a strong integration among cooperatives and members, not only with regard to sharing strategic decisions, but also with respect to the activities of cooperatives and member-farms. Indeed, agricultural products processed and marketed by cooperatives usually come from farmer-members (in most cases well beyond the legally required levels for fiscal benefits).

From a strictly economic point of view, the consequences on performance can be very different. On one hand, cooperatives can take advantage of covering the entire supply chain (from farm to fork) by doing a successful marketing communication of this feature, when the origin of product guarantees a premium price. On the other hand, limited flexibility of supply in volume and quality (due to the strong integration among the activities of cooperatives and farmer members) could be a limit for the cooperative performance in case of fast changes in demand; for instance, in case of a downward demand trend, agricultural cooperatives could be forced to lower prices to be able to market all products withdrawn by farmer members.

Over the years, there has been a gradual process of delegation of operational decisions to cooperative management or the management of subsidiaries that focus on processing and marketing of final consumer products. These developments have been observed mostly in medium-sized and larger cooperatives.

In any case, sharing of strategies with farmer members remains a central trait of cooperative governance. The distribution of votes among members in the General Assembly is mainly based on the general principle of "*one man – one vote*", even if there are some deviations from this principle.

These deviations from the principle of "*one man – one vote*" have been slightly reinforced by the 2003 corporate law reform, with the goal to improve the involvement of larger farms and investor members. However, generally speaking, these attempts have not led to major changes up to now. In particular, with regard to investor members, nowadays, their presence is still rare and limited to a few large companies. Moreover, the financial market involving cooperatives is still very much domestic; indeed, in most cases the investors are also farmer members of the cooperative.

This is consistent with ownership and capital structure of Italian farmers' cooperatives, where equity is generally indivisible (as seen, the fiscal framework promotes this kind of reservation) and at the

same time, it is largely subscribed to farmer-members. With these features, asset and investment capacity could depend on the “sense of cooperative belonging” of members and the length of the entity (considering that the major part of equity refers to proceeds reserved over the years for indivisible reserves).

Generally speaking, agricultural cooperatives are characterized by an average equity ratio lower than that of investor-owned firms in the same sub-sector. Moreover, the accounting specificities of agricultural cooperatives and their impact on standard rating methods of the financial system, could affect the access to debt capital and its cost, especially for small cooperatives. This framework could negatively affect business investments and thereby the competitive position of cooperatives vis-à-vis investor-owned firms.

Overall, cooperative governance is more complex and costly if compared to what happens in other business models, but this is consistent with the whole regulatory framework in which cooperatives work and with their mutual aim.

The position of cooperatives in the food chain usually focuses on processing and marketing activities. In this scenario, the type of products marketed can change significantly, based on the firm size and according to the specific sub-sector.

As shown in the report, both the performance and development of cooperatives are particularly positive in those sectors where final, consumer products are produced (i.e. wine, dairy products, fresh and processed fruits and vegetables, meat); in these contexts, farmers’ cooperatives have reached the higher market share and the better competitive position compared to investor-owned firms. On the other hand, as suggested by the studies on this issue, firm size is a key driver of growth in Italian agricultural cooperatives.

Given that, much information comes from the performance of top 5 cooperatives in the 8 sectors examined in this report, which represent a wide part of the respective sectors. In the decade of 2000-2010, the sales of these cooperatives grew significantly in all of the sectors examined. In most cases, the increase in size was primarily related to merger and acquisition operations that the cooperatives used in order to achieve different strategic goals consistent with the final aim of increasing member satisfaction in terms of producer prices.

In particular, mergers were undertaken as a means to achieving better control of the supply and improving bargaining power vis-à-vis powerful retailers.

Alternatively, acquisition of companies usually follows diverse strategic goals, like vertical integration of downstream activities, entrance into new markets or channels, or differentiation of products and brands in order to improve the competitive position of cooperatives.

Consistently with the abovementioned growth paths, the marketing strategies followed by the main farmers’ cooperatives follow differentiation or focus strategies, considering the limits of cost leadership strategy in this kind of business model.

## **7.2 Effects of policy measures on the competitive position of cooperatives**

The performance of cooperatives is affected by the general institutional environment and specificities related to cooperative governance.

Another important boost to the development of agricultural cooperatives came from specific policy measures introduced in the 2000-2010 period, which usually refer to market regulation and competition goals or inducement policies. Most of them have had a positive impact on Italian farmers’ cooperatives. In this regard, policies – national and European – more favourable to Italian agricultural cooperatives deal with the two main characteristic of these entities:

- The “*natural*” function in organising product supply of the farmer-members and channel agricultural production of members to the final market.

- The vertical integration in the food supply chain, which is guaranteed by the intense relations between the processing and marketing activities of cooperatives and the agricultural production of their farmer-members.

Therefore, when policies promote the concentration of farm products and vertical integration in the supply chain, Italian agricultural cooperatives benefit more than other firms, because of their features and the consistence with their business and social aims.

Regarding the aim to concentrate the supply, the best policy during the examined period is the Producer Organisations regulation in the fruits and vegetables sector within the CMO Regulation. Shifting the strategic focus from production to market, these regulations has stimulated the Italian sector to aggregate supply and improve the competitive position of farmers and processing/marketing firms in the food chain vis-à-vis retailers. In this framework cooperatives are the main players among agri-food firms thanks to their “natural” compliance to the requirements of the CMO Regulation (e.g. in terms of Producer Organisations governance); not by chance, 76% of the POs operating in the Italian fruits and vegetables sector are cooperatives.

The CMO regulation in the fruit and vegetable sector has had good results thanks to its well functioning system and financing scheme: it provides for the co-financing of a special Operational Fund aimed at the full implementation of an Operational Programme by POs. This programme focuses on carrying out certain actions, especially within the product marketing support.

The success of this policy is confirmed by the better performance of POs in the Italian fruit and vegetable sector compared to the performance of those in other agri-food sectors.

In the fruits and vegetables sector the value of the products marketed by POs with respect to the total national agricultural output is about 33%, meanwhile the POs’ share in the other sectors is about 4%.

In sectors different from fruits and vegetables, in fact, the POs are regulated by the national law and up to now did not benefit from the same financial support<sup>68</sup> provided for PO’s operating in the fruits and vegetables sector.

To sum up, in order to encourage concentrating supply and thereby supporting farmers’ income via agricultural producer organisations, it is important to insist with the scheme adopted for the fruits and vegetables sector.

In specific productive segments (PDO products), another “*best practice*” that could be extended to support the bargaining power of farmers and avoid crisis-related fluctuations in producer income, refers to the possibility introduced and regulated by the national law no 231/2005. The latter regulates the possibility of production planning in the PDO (Protected Designation of Origin) cheeses, where many cooperatives work, in order to avoid crisis-related fluctuations in producer income and a drop in PDO quality requirements. This measure has shown good results regarding the impact on stability of market and farmers’ income.

On the other hand, agricultural cooperatives have also been positively affected by national laws that aim at enhancing vertical integration along the food supply chain.

We especially refer to the law no 4/2011 (and previous laws regarding specific products) and the law no 289/2002. In both cases, processing and marketing cooperatives benefit from operational (and mutual) exchanges with their members at farm level; indeed, this latter feature makes it easier to: 1) be in compliance with the new requirements on obligatory labelling of place of origin of food products (introduced by law no 4/2011 and by previous laws regarding specific products); 2) access funds reserved for “supply chain contracts” (introduced by law no 289/ 2002).

In the same period 2000-2010, some policies have negatively influenced the development of agricultural cooperatives. In some cases, that is linked to a lack of consideration of the unique aspects of these business entities: this is the case of standard rating systems for financial assessment of firms,

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<sup>68</sup> In this case, the Regions are responsible for the recognition of POs, the control of activities as well as any financial allocations and they have rarely activated co-financing resources.

or the case of larger cooperatives exclusion from the European Agricultural Fund for Rural Development grants. These policies consider cooperatives as any other business entities, rather than taking in consideration cooperative specificities (e.g. accounting features that affect financial assessment, ownership structure, etc.).

Finally, focusing on the cereal sector, the law no 99/2009 recognises a public function of *Agricultural Consortia* and consequently a dispensation from their compliance to the requirement of prevalence of mutual exchange with farmer members, defined by Civil Code for mainly mutual cooperatives. Thereby, regardless of respecting this requirement, *Agricultural Consortia* take advantage of the civil and tax benefits available to mainly mutual cooperatives, differently from all other farmer cooperatives (that have to fulfil the above-mentioned requirement). This regulatory act seems to be questionable considering that *Agricultural Consortia* and other cooperatives working in this sector actually carry out the same activities. As result, in this sector there are agricultural cooperatives that operate within a different regulatory framework; this causes a negative impact on members' participation in the cooperative movement and on the competition arena.



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