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Italy

Fresh Deciduous Fruit

Italian Fresh Produce in Trouble – demand falls and competition rises

2005

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Report Highlights:

~~Italian farmers lament that the country's horticultural sector is going through its worst crisis~~ since World War II. Sluggish demand, both domestic and international, has led to declining prices, increasing production costs, and Italian produce is losing competitiveness in the global marketplace. Both the EU and the national government are studying solutions to alleviate these problems, but with little success so far. Some have suggested that excessive EU standards could be an issue to address.

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Domestic market trends: decreasing consumption and discontent with pricing

According to official data provided by Ismea (a public research institute controlled by the Italian Ministry of Agriculture) household consumption of fruit and vegetables in Italy declined by 17% between 2000 and 2004, from 6.5 mln tons to 5.4 mln tons. This is an average annual decline of 4.5%. One of the reasons for this trend could be the increase in non-household (i.e. HRI) consumption. According to a recent official estimate HRI consumption of all food products increased by 31% over the last decade, but no specific data are available for fruit and vegetables. The sharp decrease in household consumption of products in the 2000/2004 period seems to be related to the retail cost of the products.

The retail value of Italian household consumption of fruits and vegetables decreased in the same 2000/2004 period by 6% from 7.6 billion euros to 7.2 billion euros. The reduction in value is about one third of the drop in consumption in volume, which reflects a steep increase in the unit value of products. The Ismea consumer price index for the 2001/2005 period shows an increase of about 30% for fresh fruit and of 23% for fresh vegetables. The reasons for such an increase are various and apparently go beyond inflation and production costs. According to all of the major consumer organizations, the introduction in 2002 of the euro currency gave distributors the opportunity to increase prices. Although no evidence of such speculation appears on Istat (the official statistical office) official statistics, a large number of Italian consumers seem to believe it happened. Whatever caused the price increases, Italian consumers have been limiting their fruit and vegetable consumption.

Farmers and their organizations complain that the steep increase in consumer prices has not been reflected at all in farm gate prices, which remained steady or even declined as a consequence of the reduced demand. Table grapes are a commonly cited example. In 2005 the farm gate price for this fruit was about 0.2 euros/kilo, while the consumer price was in most cases well above 1 euro/kilo, about five times higher. Farmers argue that such a spread between farm and consumer price is not justified by transportation expenses and distribution margin, and accuse distribution chains of unfair speculation. Farmers inevitably do not believe that middlemen earn their money, but it's just one part of the story.

Long and articulated distribution chains

According to recent AC Nielsen reports for Ismea, the distribution channels for fruit and vegetables are quite different from other food products. Households purchase about 47% of their fruit and vegetables in supermarkets and hypermarkets, but local markets, farmers' markets and traditional shops still account for about 43%. Discount and self-service outlets account for the remaining 10%. The shift of household purchases from traditional shops and local markets to supermarkets has been much slower for fruit and vegetables than for other food items.

Small retailers (local shops and markets) purchase fruit and vegetables from local or national wholesale markets, directly from large producers or from wholesale traders and importers. Most HRI buyers purchase from wholesale markets. Small farmers supply a large portion of the country's production of horticultural products, but they don't supply directly to wholesale markets. They usually sell most of their production to fruit traders, or deliver it to cooperatives. While it is not unusual to find direct on-farm sale, this does not involve large volumes and it is often problematic for the farmer to ensure variety and consistency of offer.

Large producers also buy from other producers more of the same or other products to strengthen and vary their offer. This situation is typical in table grapes. Many small producers sell their product to large producers/traders, who then sell on wholesale markets or enter into contracts with retail chains. The farmers look at the number of intermediary transactions and believe these push the retail price up and tend to reduce the margins of small producers who have very little power to set prices.

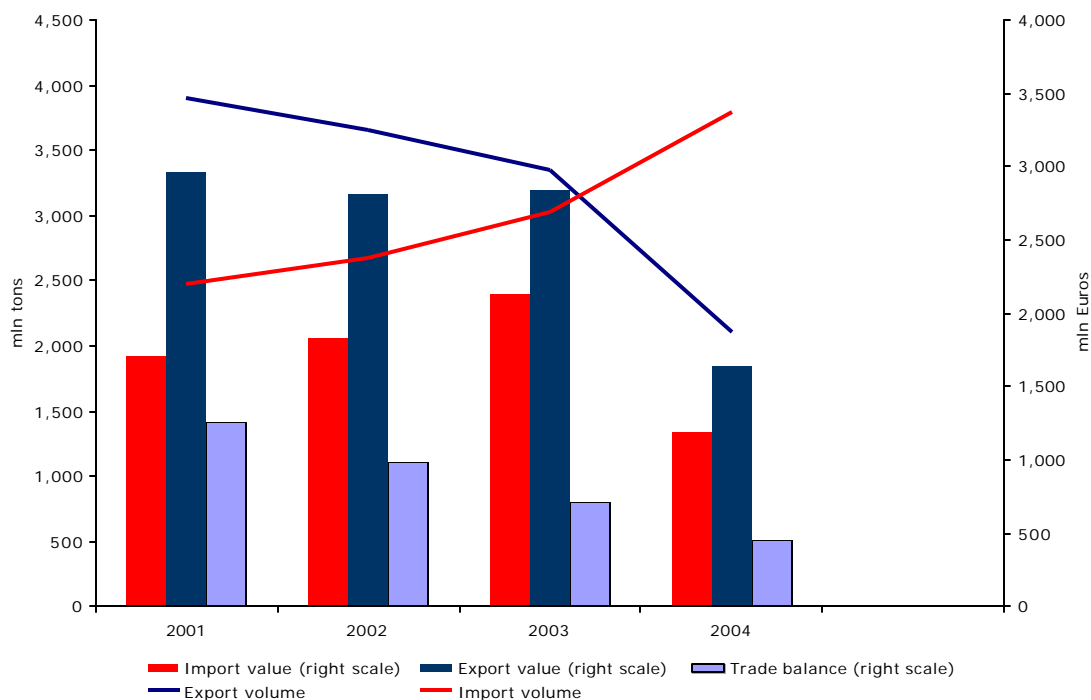
The EU has financed projects aimed at addressing this situation through its Common Market Organization (CMO) measures for fruit and vegetables. Farmers had the option of joining in Producers' Organizations for the purpose of concentrating the offer and collective bargaining with buyers, as well developing common marketing strategies. The operations of Producers' Organizations can be co-financed with EU funds. Such measures did not prove very effective, mainly because of the heavy bureaucratic burden that they pose and Italian farmers' independent attitude. Today Producers' Associations aggregate a much more limited share of the horticultural production in Italy than in other EU countries.

Cooperatives are very important in some key horticultural regions of the country, especially in the Center and North, while their popularity is much more limited in the South. They have played, and still play today, an important role in concentrating and marketing the offer of small producers, especially for peaches, nectarines and kiwifrut. Some argue that the main competitive limitation of cooperatives is in their complex decisional structure that involves a lot of bureaucracy and is not always ready with a timely response to market circumstances. The slow planting of new peach varieties, whose market is largely controlled by cooperatives, is a typical example.

Shrinking share of international trade

The International trade outlook is not more encouraging than domestic consumption for Italian fruit producers. Exports by volume in 2004 were down to about half that of 2001, with a decrease in value of almost 45%. The main reason for this export decline is price competition from other EU (mainly Spain and Greece) and non-EU (mainly Morocco, Turkey, and Latin American) countries. According to Italian industry representatives, many of these countries have greatly improved the quality of their production and marketing while remaining price competitive.

Graph 1. Trends of Italy's international fruit trade



These factors combined have enabled these countries to gain increasing market share in northern Europe, and especially in Germany, to the detriment of Italian exporters for whom the German market is very important. Italian fruit exporters have also seen declining food

expenditure in some key destination countries in northern Europe, including Germany. This negative export trend involves some key Italian products, such as table grapes, peaches and nectarines, kiwifruit, cherries and citrus.

On the import side, volumes have been fluctuating between 2001 and 2004, but value has been rising. The main reason is Italian consumers' increasing appetite for tropical fruit and counter-seasonal fruits, as well as early-season products

Italian fruit producers are trying, with the support of the national government, to protect the country's fruit trade surplus through different strategies. One of them is to seek access to new markets in Asia (mainly China and Korea) and to develop better marketing strategies for northern European markets, mainly focusing on the perceived high quality of "Made in Italy" products.

Yet the import opportunities are attractive. Some key Italian groups (including some cooperatives) in the fresh fruit sector are developing projects in northern African and Mediterranean countries with a look ahead to the creation in 2010 of Euromed, the Free Trade Area of Mediterranean Countries. These projects include investments in these countries, smoother shipping procedures through so-called "green corridors" agreements, seasonal integration of production, and even marketing under shared umbrella brands.

Summer 2005: government intervention and supermarket chains

Summer 2005 sees farmers' discontent surfacing as generally good yields for most horticultural products and sluggish demand further depress farm gate prices. In addition, all of the major farmer organizations are protesting against some supermarket chains that are selling fruit products at a price below their wholesale purchase price as loss-leaders to attract customers and to increase sales of other products. This strategy, farmers say, undermines consumers' perception of the "real" value of fruit and creates competitive distortions in the sector.

Circumstances are difficult enough, at least politically, for the Ministry of Agriculture to attempt to design a system of public intervention in the event of a market crisis, independent from a similar project in discussion at the EU level. The proposed Italian system was to authorize producer organizations to withdraw agricultural products from the market when prices fell by more than 30% from the previous 3-years average. Farmers would be paid for the withdrawn products using funds from the natural disaster reserve. The EU Commission raised some questions about the legitimacy of the proposed Italian system. However the issue was never discussed in Brussels, because the Italian antitrust authority intervened first and ruled against the market crisis law as trade distorting.

Farmers have organized sit-ins in Rome and other cities to make the public aware of the current market situation of horticultural products. Some of them managed to meet with EU Commission DG Agri officials to explain their point of view, but the outcome of these meetings has not been made public.

Some suggest the root of the problem could be in overwhelming standards

The market crisis of horticultural products was recently discussed in the Italian Parliament. A member of the governing coalition, the Honorable Raffaele Costa of the Forza Italia party, called on the Ministers of Agriculture and European Affairs to report to the parliament on EU standards for fruit and vegetables. Costa suggests that Italy should intervene at the EU level to support less strict and bureaucratic standards with the objective of promoting "modern forms of trade and not absurd and often inapplicable controls". He went on to quote a number of EU standards considered absurd for trade purposes, such as Reg 1292/1981 on eggplant minimum size, Reg 899/1987 on strawberry standards, Reg 46/2003 on cucumber weight, among others.

Comments

The globalization of markets brings great advantages to those who are able to cope with an increasing level of competition, but it also poses serious threats to those who for various reasons cannot. The Italian horticultural sector is highly fragmented. Farmers are offered little incentive to be innovative and to change what they produce. Distribution chains are rather long and price-making mechanisms are not always transparent. Some products (like apples) and some companies provide very good exceptions to these circumstances and are often taken as an example by others. It will be increasingly hard for Italian farmers to compete in the global marketplace without substantial sector reforms that involve varieties, farm size, distribution and marketing.

For the moment, public policy and the philosophy of farmer organizations is to hang the future of the sector on the perceived superiority of "Italian quality" – an attempt to produce elite products for a mass market. Some products will do very well; others will be overtaken by less expensive substitutes.